CARMIGNAC PORTFOLIO LONG-SHORT EUROPEAN EQUITIES: LETTER FROM THE FUND MANAGER

13/02/2024 | MALTE HEININGER

Dear Investors,

Overall, we had a good fourth quarter with the fund being up +2.71%, net of fees*. Our strategy has delivered positive returns for six months in a row.

During 2023, **our Core Long book generated a positive performance, driven by our large convictions in the Tech and Healthcare sectors, while our Alpha Shorts suffered from the Beta and Momentum driven market rally.**

2023 ATTRIBUTION BY BUCKET	
CORE LONGS	+4.04
TRADING LONGS	+2.30
RELATIVE VALUE/ SPECIAL SIT	+0.20
ALPHA SHORTS	-4.30
HEDGING	-1.25

We had discussed in the last letter why the strategy struggled between October 2022 and June 2023, due to the delayed effect of the Covid-19 Pandemic which dis-synchronized the normal economic cycle and had profound impacts on companies' profits, cashflows and pricing power. **In the last quarter, we felt things were finally starting to return to normal, with a recovery of our hit rate back into the historically high range. We are happy to confirm that statement and we feel good about the process and flow of new ideas.**We have added a new analyst who joined us in October from Blackstone and we are in the process of hiring an additional analyst to expand our analytical bandwidth.

The fourth quarter can be split into two phases. During the first phase, both sentiment and positioning troughed in October with US yields touching 5% and European markets coming down 10% from the July highs. Concerns on the huge supply of US government debt to finance the enormous government deficit, together with waning natural demand, put pressure on asset prices. **The Quarterly Refunding Announcement ("QRA") at the end of October marked the turning point for that concern and the beginning of the second phase, as the Treasury reacted towards the weaker demand for coupon issuance by reducing the amount of issuance to $348bn vs ~$396-460bn expected with the remaining 58% bills.**This obviously did not address the underlying problem of a rising deficit and a shrinking buyer group, but in the short term it was positive for liquidity and loosened the financial conditions (undoing the Federal Reserve's work of the quantitative tightening and rising rates). Together with very negative positioning, lower inflation and positive seasonality, this led to a huge asset rally into year end.

Going into 2024, the outlook for stocks is mixed as margins are likely to come under pressure. Volumes continue to be lackluster for most sectors, as most visible in the depressed state of the chemical industry. **And while there is a lot of enthusiasm about inflation coming down and supply chains normalizing, pricing was a huge tailwind for corporates in 2023. With Core PCE, as a proxy for corporate pricing, coming down rapidly, there will be little pricing tailwind in 2024 which, together with lackluster volumes, gives a very muted outlook for topline growth.**

On the other hand, wage inflation is still coming through with a lag, putting pressure on SG&A, while higher interest rates are coming also through with a lag, as hedges run out and refinancings loom. **To sum up, we have a flat topline, rising wages, rising interest expenses, and margin and profits coming down.**Just anecdotally, recent headlines in the German press illustrate that dynamic – with the German PPI deflation deepening to -8.6% in December from -7.9% in November, while the German construction union is demanding a pay raise of more than 20% for the sector's 930k workers. As the gap between wage costs and PCE widen and margins get squeezed, the normal reaction from corporates is to lay off people to protect margins, resulting in concerns about job security, lower consumption and eventually recession. So far, the labour market has been very resilient but unemployment is a lagging indicator and there seems to be a lot of cost cuts being announced more recently in sectors from automotive to banking to tech, so we will closely monitor any cracks that appear in the labour market. **We're not making a recession call at this point, while we have a fairly high conviction on the margin squeeze.**

While the outlook for the average company is mixed as explained, artificial intelligence (AI) is having a profound impact on the tech sector and the semiconductor industry in particular. **While the semi cycle was troughing anyhow in 2023, AI has the potential to significantly increase the magnitude of the next upcycle and we are still very constructive on the semi cap outlook for the next 2-3 years.**Overall, we feel AI will further widen the gap between structural winners and losers, both directly and indirectly, and provide ample opportunities on both the long and the short side.

We also became more constructive on the life science industry. While we were mostly active on the short side throughout 2023, as the industry was suffering from the excesses of the pandemic with overcapacity and huge inventory destocking, this dynamic has started troughing while expectations have come down and stocks have de-rated. **The structural outlook for the industry remains very attractive, so we have started to build positions during the fourth quarter.**

We are also very excited about our largest position Prada. While the backdrop for luxury was tough in the 2nd half of 2023 and the shares were dragged down by the negative sector dynamics, the underlying performance of company remained very strong. Having gone through huge changes from both a brand positioning as well as from an organizational/governance perspective, the company is in a fantastic position to benefit from that in the coming years in the form of higher sales and higher margins through increased store productivity.

Overall, we feel very good about the portfolio and our ideas flow and are excited about the prospects of 2024.

Wishing you a great Winter!

The European Long/Short Equity Team

*Source: Carmignac, 31/12/2023. * Performance of the F EUR Acc share class ISIN code: LU0992627298. Past performance is not necessarily indicative of future performance.*

SFDR - Fund Classification** :

Article 8

LOWEST RISK						HIGHEST RISK
1	2	3*	4	5	6	7

Recommended minimum investment horizon: 3 YEARS

MAIN RISKS OF THE FUND

RISK ASSOCIATED WITH THE LONG/SHORT STRATEGY: This risk is linked to long and/or short positions designed to adjust net market exposure. The Fund may suffer high losses if its long and short positions undergo simultaneous unfavourable development in opposite directions. **EQUITY**: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization. **INTEREST RATE**: Interest rate risk results in a decline in the net asset value in the event of changes in interest rates. **CURRENCY**: Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments.

The Fund presents a risk of loss of capital.

* *Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.
**The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : We do not charge an entry fee.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 1,16% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% max. of the outperformance if the performance is positive and the net asset value exceeds the high-water mark. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,83% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

ANNUALISED PERFORMANCE (ISIN: LU0992627298)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Portfolio Long-Short European Equities	+2.3 %	-7.7 %	+10.0 %	+16.7 %	+5.1 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Portfolio Long-Short European Equities	+0.3 %	+7.4 %	+13.6 %	-5.7 %	+0.7 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Long-Short European Equities	+4.6 %	+5.6 %	+4.9 %

Source: Carmignac at 30 Apr 2024.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).