

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 widens 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**



Recommended
minimum
investment horizon



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).

Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. This material does not constitute a subscription offer, nor does it constitute investment advice. This material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. This material has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any securities or interests referred to herein or for any other purposes. The information contained in this material may be partial information and may be modified without prior notice. They are expressed as of the date of writing and are derived from proprietary and non-proprietary sources deemed by Carmignac to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Carmignac, its officers, employees or agents.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged.

Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.

Morningstar Rating™ : © Morningstar, Inc. All Rights Reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Access to the Funds may be subject to restrictions regarding certain persons or countries. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the material or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not access this material. Taxation depends on the situation of the individual. The Funds are not registered for retail distribution in Asia, in Japan, in North America, nor are they registered in South America. Carmignac Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Funds have not been registered under the US Securities Act of 1933. The Funds may not be offered or sold, directly or indirectly, for the benefit or on behalf of a «U.S. person», according to the definition of the US Regulation S and FATCA.

The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital.

The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management Company. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

- **In France, Luxembourg, Sweden:** The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management Company.
- **In the United Kingdom:** the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.
- **In Switzerland:** the prospectus, KIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

The Management Company can cease promotion in your country anytime.

Investors have access to a summary of their rights in English on the following links: [UK](#) ; [Switzerland](#) ; [France](#) ; [Luxembourg](#) ; [Sweden](#).