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EDOUARD CARMIGNAC'S LETTER

Edouard Carmignac writes on current economic, political and social issues each quarter.

Paris, April 14, 2016

Dear Investor,

Perhaps you are as fond as I am of the fabulous Peter Pan tale. Conjuring up fantasies of eternal youth, his story encourages us to think that as long as we believe we can fly, fly we will.

Global equity markets have also been defying gravity for the past several months. Over five years of monetary easing in the advanced world – with each central bank seemingly outdoing the previous one – combined with vigorous GDP growth in China have certainly warded off a severe worldwide recession.

But those monetary policies are beginning to look less and less effective. In Japan, economic growth is flat and inflation close to zero despite a vast bond-buying programme –reaching 70% of GNP – and the introduction of negative interest rates. In the euro area, a similar policy instituted by Mario Draghi has failed as yet to jump-start lending or rekindle inflation. Sensing that the ECB and

the Bank of Japan no longer have much leeway, markets have responded to their latest quantitative easing programmes by paradoxically driving up the yen and the euro, thereby undermining the feeble economic recovery those programmes helped to engender.

At the same time, Chinese growth, a crucial driver of the global economy, is picking up, but in response to life support from an umpteenth stimulus package that is worsening the country's already concerning imbalances. So now that less help can be expected from the Chinese powerhouse and monetary easing – the two primary sources of support for global growth – a highly prudent asset management is required.

But can enviable performance be attained in such unfavourable circumstances? Although no Peter Pan, I do believe so. A weaker Dollar – a trend likely to continue given the Federal Reserve's room for monetary easing – is a boon to US companies. In particular, it means greater market value for our Web giant holdings. Likewise, a more uncertain outlook works to the advantage of companies with good visibility, including the drug and biotech firms that have considerable weight in our portfolios. With the probable exception of China, emerging markets also stand to gain from lastingly low interest rates and a weaker dollar. Oil companies, meanwhile, should see their share prices appreciate further as crude oil prices pick up from what are fairly unsustainable levels for the medium term. And as to gold mines… We definitely have no lack of opportunities.

Yours truly,

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