



Carmignac Investissement: Letter from the Fund Manager



Author(s)
David Older

Published
October 14, 2022

Len

-1.56%

Carmignac Investissement's performance
in the 3rd quarter of 2022
for the A EUR Share class

-0.56%

Reference indicator's performance
in the 3rd quarter of 2022

+5.55%

3-year annualized performance of the Fund
versus +7.50% for the reference indicator

Over the period, Carmignac Investissement recorded a performance of -1.56%, below its reference indicator¹ (-0.56%).

Market environment

The global macroeconomic backdrop is worse today than it was at the beginning of the third quarter. Worldwide, an increasing share of economies are going into contraction, as inflation begins to pressure margins as well as purchasing power, and tighter financial conditions weigh on demand.

The deteriorating growth outlook first led markets to anticipate an earlier than expected return to accommodative policies, resulting in a sharp rebound in risky assets over July/August as well as lower rates, likely supported by investors' negative positioning (a "bear market rally"). However, central banks, chief among them the Federal Reserve, have been steadfast in their hawkish posture, reiterating the intention to bring inflation down "whatever the cost". China remains an exception, maintaining accommodative policies to support faltering growth, worsened by the ongoing "zero covid policy".

Sharp tightening by Central banks and markets' disillusion stirred chaos, with volatile moves across asset classes. The yield on the US 10-year bond first dropped 1 percentage point to 2.5% before rallying to 4% over the period. The MSCI World rallied 20% from its low, then corrected 16% from its August high. Oil prices increased by \$10 before losing \$20 to \$90 a barrel. Finally, the Dollar rallied 9% against a basket of currencies.

How did we fare in this context?

In this challenging backdrop, our equity strategy recorded a decline over the period led by the underperformance of growth stocks in the portfolio. While we actively rebalanced the portfolio towards profitable growth companies this year, these companies still trade at elevated multiples and are thus sensitive to the interest rate related multiple compression that we have seen this year. Among the detractors to the performance, our consumer discretionary stocks suffered from an overweight position in JD.com, a China proxy for domestic demand that is still constrained by Covid-related health measures. We remain positive on the stock given the gradual lifting of these restrictions which we expect to accelerate into the end of the year. On the positive side, our stock picking within the industrials sector supported the overall performance; our position in Sunrun, an American provider of residential solar energy generation and battery storage, recorded a decent return on the back of the Inflation Reduction Act (IRA) signed by the Biden administration that commits \$369 billion to clean energy and greenhouse gas reduction. Uber Technologies, which reported solid Q2 earnings and is now free cash flow positive, also contributed positively.



Outlook

Central bank hawkishness since the beginning of the year has led to a contraction of market multiples. As of the end of 3Q, the MSCI World was trading at 14x forward earnings, down from 20x at the beginning of the year, one of the steepest contractions on record. As we expect rates to plateau somewhat from here, we see the risk of further sharp multiple compression to be limited. However, we do anticipate a recessionary backdrop as we enter 2023 and therefore see downside risk to forward earnings expectations. The bright side is that this process of cutting forward earnings estimates has begun in recent weeks and should only accelerate over 3Q earnings releases in November, creating a more favorable backdrop for forward returns.

In this context, our strategy consists of building a portfolio incorporating reasonably valued visible growth companies that we believe will outperform the market as economic growth slows and rates plateau, defensive profiles that outperform in a recessionary environment like the Healthcare and Staples sectors, and companies levered to the supply/demand imbalance in the energy sector.

Over the quarter we trimmed or exited names that we found vulnerable to earnings' disappointment with our current outlook, despite the attractiveness of their business models. This is the case in the digital advertising space, where advertising growth is challenged by slowing economic activity and rising competition for advertising dollars, leading us to reduce our position in Alphabet and exit Meta. We have also reduced our exposure to the semi-conductor space (ASML, Taiwan Semiconductor, Marvell Technology) which, despite being a solid long-term play on digitization, remains exposed to volatility related to the normalization of supply changes and the excess Covid-related demand trends that led to overordering. We have also taken profits on some of our consumer staples names like Constellation Brands and Costco as they have been significant outperformers versus the overall market, while maintaining our staples exposure by adding L'Oreal on its inter-quarter correction. In Healthcare, we increased our exposure to Novo Nordisk, that is seeing incredible forward demand for its Wegovy obesity treatment and added AstraZeneca. It is important to note that when looking for defensive exposure in the Staples or Healthcare sectors, we focus on companies where we can develop a variant view versus the consensus (for example around a new product launch), and thus remain aligned with our investment process.

Within our visible growth exposure, we have taken advantage of significant multiple compression to increase our holding in Amazon, which now represents over 4% of assets, and Palo Alto, a major player in cybersecurity. In a recessionary environment, IT security is one of the few expenditure items that companies are either maintaining or increasing, no longer representing an option but a necessity. We've also increased our investment in the online company Booking.com, as we believe the market is too bearish on forward travel trends in Europe, reflected in a valuation at a discount to the market with much better fundamentals. We have also initiated a new position in Stryker, a US company specialized in robotic surgery and a big winner for us in 2020 and 2021. We see elective surgery procedures finally begin to normalize after Covid-era headwinds.

We start off this new quarter with a highly diversified portfolio in terms of sector, geography, style, and biases. 36% of our holdings trade at below 20x forward PE, and 40% of our portfolio has a beta below 1. The core of our portfolio is comprised of quality growth names (39%), which we balance out with an allocation to the energy sector (10%) and high growth names (11%) which valuation has substantially contracted. Finally, we hold 9% in cash, which we will steadily redeploy throughout the next quarter.

Carmignac Investissement

The Power of Sustainable Thematic Investing

[Discover the fund page](#)



Carmignac Investissement A EUR Acc

ISIN: FR0010148981

Recommended
minimum
investment horizon



Main risks of the Fund

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.

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.

DISCRETIONARY MANAGEMENT: Anticipations of financial market changes made by the Management Company have a direct effect on the Fund's performance, which depends on the stocks selected.

The Fund presents a risk of loss of capital.



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, KIDs 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](#).