

Carmignac Second Only to Gross After Epiphany Yields 42.6%

By Anne-Sylvaine Chassany



April 21 (Bloomberg) -- On Sunday March 8, 2009, fund manager **Edouard Carmignac** was wandering in a paddy field near Chiang Mai, Thailand as equity markets were tumbling to their lowest point in 13 years when he decided to bet on stocks again.

In the days after, his firm, **Carmignac Gestion**, bought more than 5 billion euros (\$6.7 billion) of stocks and indexes, the maximum it could invest. A week later, he purchased U.S. banking stocks, including **JPMorgan Chase & Co.** and **Wells Fargo & Co.**

"Markets were in absolute despair," Carmignac, 62, said in an interview in his office overlooking the Place Vendome in Paris, between jewellers Van Cleef & Arpels and Boucheron. "The weekend newspapers were predicting the end of stocks. It was too good to be true."

The firm captured the market rebound, which started that very Monday, and more. **Carmignac Investissement**, his all-equity, 6.9 billion-euro fund, posted a 42.6 percent return at the end of the year compared with 27.4 percent for the MSCI AC World Index. The firm's biggest fund, the 19.8 billion-euro **Carmignac Patrimoine**, which mixes stocks and bonds, ended up 17.6 percent, after avoiding a loss in 2008, the worst year for financial markets since 1937.

That performance helped Patrimoine to collect more money last year from investors than any fund except **Bill Gross's** PIMCO Total Return, according to New York-based Strategic Insight Mutual Fund Research & Consulting LLC. The firm has tripled its assets under management since December 2008 to 40 billion euros and expects to reach 50 billion euros this year.

Top Morningstar Rating

"Edouard Carmignac is not only experienced, he's very talented," said Thomas Lancereau, an analyst at Chicago-based mutual fund analyst **Morningstar Inc.**, which in February named him European manager of the year for international stocks. Morningstar rates Carmignac's Patrimoine and Investissement funds "elite," its highest rating.

The French fund manager was there at the right time with the right products, as investors went back to basics and turned to independent managers after suffering big losses with larger asset managers in 2008, Strategic Insight consultant Daniel Enskat said.

"Carmignac is the Cinderella story of the fund management industry," Enskat said. "He'd remained relatively small for 15 years, but with the credit crisis, everything came together and there has been a massive snowball effect."

Favored Stocks

The French fund manager is now buying emerging markets stocks and commodities, which make up 52 percent of the firm's holdings and will drive growth this year, he said. The rest is mostly invested in U.S. stocks, which should benefit from the country's recovery, he said. Europe accounts for 10 percent of the firm's portfolio.

Carmignac's preferred stock is U.S. gold mining company **Freeport McMoran Copper & Gold Inc.**, which doubled in the past 12 months. He has boosted his stakes in China Construction Bank Corp., All America Latina Logistica SA, Brazil's biggest railroad operator, and MasterCard Inc. He sold Barclays Plc because growth in Europe will trail both the U.S. and emerging markets, he said. Wells Fargo and JPMorgan, the two banks he bought, rose 98 percent and 55 percent in the last year.

In principle, the decision to buy stocks that day in March 2009, when he was finishing a two-week Asian trip visiting companies, didn't surprise Carmignac's 148 employees. The magnitude did.

'Balls and Brains'

"An average manager would have taken a gradual approach," said Rose Ouahba, head of bonds at Carmignac and who co-manages Patrimoine with Carmignac. "Edouard doesn't do things half-heartedly."

"It takes balls and brains to be good at this job," Carmignac said.

In the week leading to the decision, the dozen indicators the firm was monitoring such as Korean exports and copper stocks started recovering, said **Frederic Leroux**, fund manager in charge of risk management at Carmignac.

"I had urged Edouard to gradually increase our exposure to stocks, but he would say, 'Not yet, not yet,'" Leroux said.

The weekend newspapers' headlines convinced Carmignac markets had reached the bottom.

Carmignac, who as a child was educated in a British school in Peru, has stuck to the same top-down approach of focusing on broad investment themes and making big, concentrated bets he developed when he started his firm in 1989. His stock-picking takes its roots in the same trend he spotted 21 years ago: emerging markets will drive growth and commodities prices up.

Warren Buffett

"The world has always been my natural playground," said Carmignac, who has a master's of business administration from Columbia University in New York. "Of course, if we don't understand, we stay away. But unlike **Warren Buffett**, we try to do more than razors and Coke."

Patrimoine has climbed 32.4 percent in the three years through March, beating the 5.3 percent gain in its benchmark, a combination of the MSCI AC World and Citigroup WGBI indexes, according to Morningstar. The fund is up 60.2 percent over five years, against 21 percent for the benchmark.

Carmignac says his other key strategy is to use derivatives to hedge his holdings in difficult times and change gears quickly in rebounds. The instruments, which Leroux oversees for Carmignac, have been critical to protect clients' money during the past two recessions.

Hedging Plans

The firm started using them after the Sept. 11 terrorist attacks in the U.S. led to a 26 percent loss for Investissement and a 3.6 percent loss for Patrimoine in 2001, **Eric Le Coz**, head of strategy, said.

In 2002, Investissement posted a 3.7 percent gain, compared with a 32.6 percent loss for the MSCI AC World. Patrimoine ended up 5 percent while its

comparable index lost 15.6 percent. The following year, the firm more than doubled its assets under management to 1.8 billion euros.

"Not losing money during downturns is priceless for clients," Le Coz said.

Leroux set up hedges for Patrimoine, including short sales of the S&P 500 and EuroStoxx indexes, after the fund lost money in September 2008, when Lehman Brothers Holdings Inc. filed for bankruptcy. The hedges generated a 20 percent gain, offsetting a 20 percent loss on the portfolio, which the firm had also redirected to defensive stocks, Leroux said.

"When Lehman happens, nothing makes sense anymore," Carmignac said.

"There's no good or bad investment theme. You've got to admit to it and set up hedges."

'Tomorrow's Blow-ups'

The challenge for Carmignac in the coming years will be to maintain its historic performance, while assets under management balloon, said Strategic Insight's Enskat.

"Today's blockbusters could be tomorrow's blow-ups, there have been examples in the past and Carmignac knows it," Enskat said.

The fund manager's investment philosophy is naturally going to be tested because he has to move more assets, **Geoffrey Bobroff**, president of Rhode Island-based Bobroff Consulting Inc., which follows the mutual fund industry, said.

"It's going to be more difficult to find the diamonds in the rough," Bobroff said.

The firm has proven in the past it could manage big bursts of growth, Morningstar's Lancereau said. "They should do OK, as most of their holdings are companies with large, hence liquid, market capitalizations," Paris-based Lancereau said.

Art Collection

The French fund manager, who also collects contemporary art and participates in the Queen's Cup polo tournament in the U.K. every year, said that "we're not asset gatherers" and "what interests us is absolute performance." Yet, growth has its advantages, like being better served by brokers and getting access to top management of big companies, he said.

Morningstar says Carmignac's expense ratio is above the median. He dismisses it, saying he wants his firm to be "the Hermes of the fund management business." The minimum investment for individuals is 300,000 euros.

Carmignac, who owns about 70 percent of his firm's shares and who has "almost all" his liquid assets invested in Investissement, said he wants to emulate Boston-based **Fidelity Investments**, the world's largest mutual-fund company with \$1.5 trillion under management, which has remained closely held. That's why his daughter Maxime, 30, joined the firm this year as fund manager after an experience at New York-based hedge fund Visium Asset Management LLC, he said.

Artwork by **Roy Lichtenstein** or **Keith Haring** pushes Carmignac to think out of the box, he said. The paintings, which hang on almost every wall, including Jean-Michel Basquiat's **Falling Angel**, also help him and the firm's 20 fund managers and analysts stay grounded.

"Lenin and Mao are here to remind me," Carmignac said, looking at the giant portraits of the Soviet and Chinese leaders by **Andy Warhol** hanging on both sides of his desk. "Never take anything for granted."