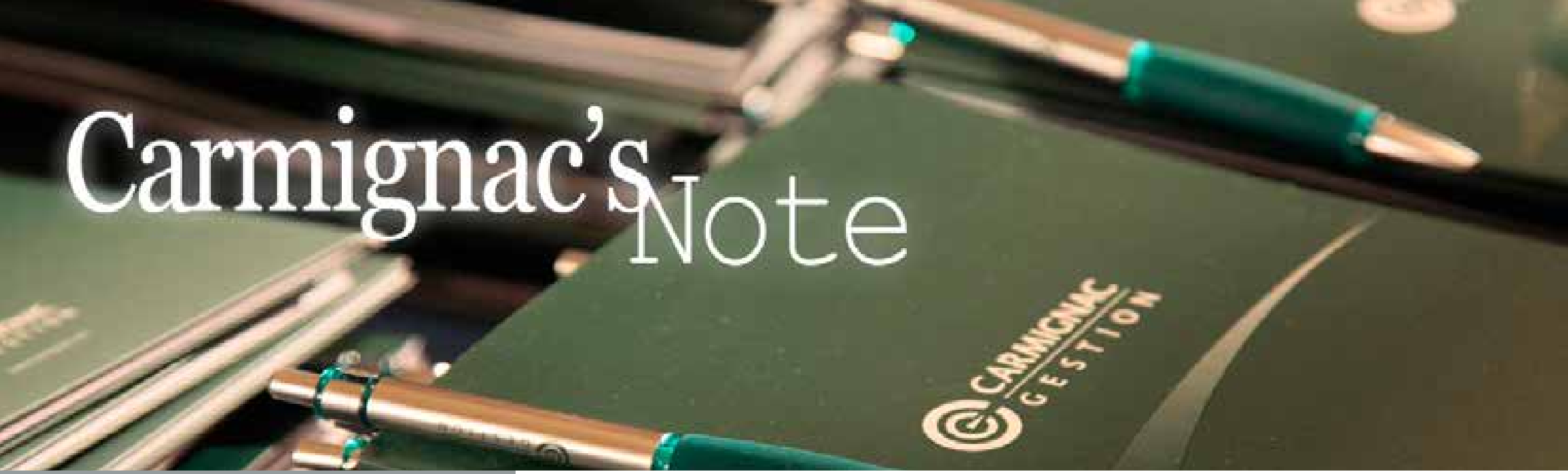

Carmignac's Note

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When central bankers worry, investors rejoice

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There was nothing particularly unusual about equity markets' yo-yoing this summer. As has now become the norm, the initial fall due to various threats (in this instance greater geopolitical unease and disappointing European growth) was followed by a confident rally, fuelled by the main central bankers' unwavering support which was confirmed at their annual get-together in the popular tourist destination Jackson Hole in Wyoming. The more central bankers show that they are clear about the challenges ahead, as was particularly true of ECB president Mario Draghi, the more investors figure that whatever needs to be done will be done and that everything will work out fine. **In this Panglossian world in which deflationary pressures in Europe are generally seen as good news for all fixed income products, how should long-term investors interpret the global situation?**

> *"The US economy remains on the road to recovery but at a faltering pace, which is even better news."*

The verdict on the United States is relatively straightforward as its economic progress is palpable. Not that economic statistics are without ambiguity: disrupted by the bad weather, official Q1 GDP growth forecasts were revised up to three times, leading each time to very different conclusions. However, companies' economic performance speaks volumes: analysts have once again had to raise their estimates for the year after large firms posted average revenue growth of 4.4% in the second quarter with a 9.3% rise in earnings. The situation is dramatically different in Europe with analysts having to lower their annual earnings forecasts in the second quarter for the fourth consecutive year. The US economy remains on the road to recovery albeit at a faltering pace, which is probably even better news. As, fortunately for fixed income markets, consumer spending is struggling to pick up, the housing market is slow and, although unemployment has fallen back towards 6%, wage growth is still weak. This explains that, in her speech at Jackson Hole, Janet Yellen justifiably reaffirmed her pragmatic approach of carefully adjusting the pace of monetary normalisation in line with the economic recovery. Bear in mind that the challenge for Janet Yellen is to safely wean the United States off the cash injections that her predecessor Ben Bernanke had introduced to tackle the crisis at the end of 2008 (Fed Funds rate reduced to 0.25% followed by three rounds of quantitative easing). **The difficulty of faultlessly carrying out this endeavour over the next 12 months must not be underestimated and is keeping us alert to volatility risk over the coming quarters.** Fundamentally, though, the US equity market – underpinned by a healthy real economy – remains one of our global favourites.

The same cannot be said for Europe. The cataleptic level to which eurozone growth has fallen will now force European countries, having failed to act earlier, to take drastic measures. These began when reformist prime minister Matteo Renzi grasped power in Italy this February,

and continued with the pro-liberal purge of French prime minister Manuel Valls' government in August. Under pressure from growing deflationary threats, the next shock will be the announcement of unorthodox monetary stimulus by Mario Draghi in the coming weeks. European markets are suffering from the jerking of a sick economy receiving electroshock therapy. And while the series of targeted treatment has raised some hope, the overall prognosis remains very uncertain. **Simply put, the financial sector – a vital organ that the European Central Bank always jumps in to save first – is now showing the best signs of stabilising** whether in terms of peripheral sovereign debt or the banking industry in the form of equities and corporate bonds. We are positioned in this sector though we have already reduced our risk profile. **Also, the divergence between the US and European economies at last supports the view that the euro will materially weaken against the dollar.** We are positioned accordingly. However, let's make no mistake: as the disappointing progress made by the Japanese recovery now confirms, **currency depreciation alone will not be enough to kick-start European economic growth.** Its impact on exports is dependent on global demand, and by making imports more expensive its effect on domestic demand may even be recessionary if it does not coincide with pay rises (a distant prospect in Europe with underemployment doggedly high).

"The cataleptic level to which the eurozone has fallen will force European countries to take drastic measures having failed to act earlier."

In Japan, the impact of the Abenomics programme launched at the end of 2012 has worn off and requires a timely booster shot. This could take the form of increased support from Bank of Japan chairman Haruhiko Kuroda and, as we saw in France, could be supplemented by a cabinet reshuffle to breathe new life into the reform drive. Such stimulus is necessary to ensure that the next VAT hike in October 2015 passes off smoothly and that fiscal reforms as a whole remain coherent. We would then have to reconsider our Japanese exposure, which we have been gradually reducing over the year.

In the emerging world, the pressing need for structural reforms continues to define the investment horizon but fortunately economic conditions are helping. This applies to China where the weakness of the property market and the negative impact of regulatory reforms on lending are keeping monetary authorities accommodative. Albeit differently, it also applies to India and Mexico where eagerly awaited structural reforms are finally under way and are benefiting from an upturn in the economic cycle. In Brazil, the market has already started to factor in a change of government for the better but the now probable victory of Marina Silva in October's presidential elections – which seemed highly unlikely at the beginning of the summer – could raise new prospects for this struggling economy. It is also clear that confirmation of global liquidity remaining abundant provides an additional boost to emerging market assets.

The conclusion to this is that deflationary pressures are allowing central bankers to continue shoring up the markets, which is in the best interests of equity and bond investors alike. However, we should be fully aware of the limitations of this "best of all possible worlds" scenario because even heavier deflationary pressures would sooner or later see their devastating effects on the real economy felt on equity markets, while a sharp upturn in the global economic cycle would see interest rates return to normal quite quickly. **Against their will, the credibility of central bankers is encouraging investors to take risks, but we should not forget that there is only so much they can do.**

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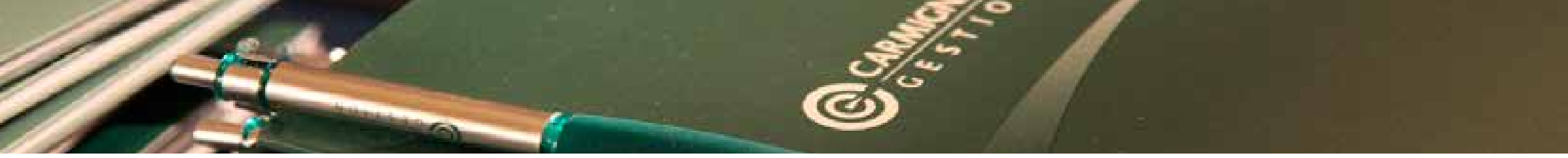

INVESTMENT STRATEGY

CURRENCIES

The disconnect between the US Federal Reserve's balanced comments (justified by an economy following a healthy trajectory) and the European Central Bank's more aggressive response to growing deflationary pressures saw the US dollar climb a lot higher against the euro in August. Our active currency management was able to harness this trend with an allocation to the greenback of 70% for Carmignac Investissement and 54% for Carmignac Patrimoine at the end of the month.

RATES

Global sovereign bond yields fell sharply in August. Caused by the steeper decline in eurozone inflation and highly flexible monetary policies being maintained, this trend was more pronounced in the eurozone's periphery with Italian and Spanish 10-year yields losing nearly 30 basis points over the month to drop below 2.5%. The prospect of stronger intervention from the ECB with the introduction of quantitative easing drove this development. Our positions in Italian, Spanish, Portuguese and Greek sovereign debt made a solid contribution to the performance of Carmignac Patrimoine in August. Our positions in European corporate bonds in the financial sector also fared well. The collapse of Portuguese bank BES due to specific problems related to internal malpractice did not shake the market, supporting our belief that the European financial industry is more robust and that inherent systemic risk has been reduced. However, we are remaining highly selective with our bond positions, taking into account risk premiums and liquidity levels in each segment. This has resulted in modest modified duration for all of our funds: +2.6 for Carmignac Patrimoine, +2.5 for Carmignac Portfolio Emerging Patrimoine, +2.8 for Carmignac Portfolio Global Bond, +1.3 for Carmignac Sécurité and +1.1 for Carmignac Portfolio Capital Plus at the end of the month.

EQUITIES

Equity markets rallied in August, driven mainly by the United States and emerging countries. In the emerging world, Brazil made very good progress after polls showed incumbent president Dilma Rousseff losing the next election, raising the possibility of more effective economic policies. With this in mind, we tactically strengthened our positions in the Brazilian market at the beginning of the month through index futures. The Bank of Japan's current wait-and-see approach has resulted in the stabilisation of the yen. In this context, we continued to reduce our positions in this country, selling our exporters such as Toyota and focusing on domestic growth stocks. We also continued to add to our global leader holdings by introducing a position in the US healthcare group Johnson & Johnson, while taking some profits on our financial stocks. Our global leaders' robust balance sheets, high cash flows and pricing power should allow them to stand out against a backdrop of modest growth and deflationary pressures. The same conditions that allow monetary policies to remain accommodative justify our persistently high level of equity exposure: 50% for Carmignac Patrimoine and 44% for Carmignac Portfolio Emerging Patrimoine at the end of the month.

COMMODITIES

Carmignac Portfolio Commodities turned in a positive performance for the seventh month in a row, going back to February. The Fund's performance stemmed mainly from our selection of companies whose fundamentals should enable them to deliver attractive returns regardless of the global economic conditions. This is especially the case with Cenovus Energy and Devon Energy, two North American exploration-production stocks recently added to the portfolio.

FUNDS OF FUNDS

Our funds of funds turned in a positive performance over the month. Central bankers' unfaltering commitment has established conditions justifying an offensive stance, which has resulted in equity exposure being close to its maximum levels: 94%, 67% and 48% for Carmignac Profil Réactif 100, 75 and 50 respectively at the end of the month. Carmignac Investissement Latitude's equity exposure stands at 107%.

FUND PERFORMANCE

	NAV	2014	1 year	3 years	5 years
Carmignac Investissement F GBP acc Hdg	**109.04**	**3.95%**	**14.21%**	**16.93%**	**-**
MSCI AC World NR (Eur)	-	*12.75%*	*21.12%*	*43.66%*	-
Carmignac Portfolio Grande Europe F GBP acc Hdg	**112.43**	**9.42%**	**17.72%**	**30.49%**	**-**
Stoxx 600 NR (Eur)	-	*6.95%*	*18.17%*	*38.25%*	-
Carmignac Emergents F GBP acc Hdg	**100.15**	**10.60%**	**17.87%**	**11.01%**	**-**
MSCI Emerging Markets NR (Eur)	-	*16.11%*	*20.11%*	*9.79%*	-
Carmignac Portfolio Emerging Discovery F GBP acc Hdg	**100.92**	**16.52%**	**21.65%**	**21.97%**	**-**
50% MSCI EM SmallCaps NR (Eur) + 50% MSCI EM MidCaps NR (Eur)	-	*17.06%*	*20.57%*	*8.85%*	-
Carmignac Portfolio Commodities F GBP acc Hdg	**71.43**	**15.75%**	**18.26%**	**-16.90%**	**-**
*Carmignac Commodities Index**	-	*13.38%*	*16.61%*	*1.66%*	-
Carmignac Patrimoine F GBP acc Hdg	**107.33**	**6.05%**	**11.59%**	**8.30%**	**-**
50% MSCI AC World NR (Eur) + 50% Citigroup WGBI (Eur)	-	*11.14%*	*13.66%*	*20.81%*	-
Carmignac Portfolio Emerging Patrimoine F GBP acc Hdg	**99.48**	**10.63%**	**10.53%**	**0.98%**	**-**
50% MSCI EM NR (Eur) + 50% JP Morgan GBI EM Global diversified	-	*13.26%*	*14.22%*	*5.63%*	-
Carmignac Portfolio Global Bond F GBP acc Hdg	**114.85**	**9.74%**	**10.07%**	**15.07%**	**-**
JP Morgan Global Government Bond (Eur)	-	*9.76%*	*5.47%*	*-0.31%*	-
Carmignac Portfolio Capital Plus F GBP acc Hdg	**1,110.46**	**2.23%**	**3.83%**	**12.29%**	**-**
Eonia compounded	-	*0.10%*	*0.14%*	*0.72%*	-

** 45% MSCI ACWF Oil and Gas NR (Eur), 5% MSCI ACWF Energy Equipment NR (Eur), 40% MSCI ACWF Metal and Mining NR (Eur), 5% MSCI ACWF Paper and Forest NR (Eur) and 5% MSCI ACWI Chemicals NR (Eur) as from 01/07/2013. Annually rebalanced as from 01/01/2012.*

Source: Carmignac Gestion as at 29/08/2014.
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