CARMIGNAC INVESTISSEMENT: SAILING THE POST-BREXIT SEAS

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Central banks activism should in the short term keep supporting equity markets, but there is still ample potential for economic or political situations to go awry.

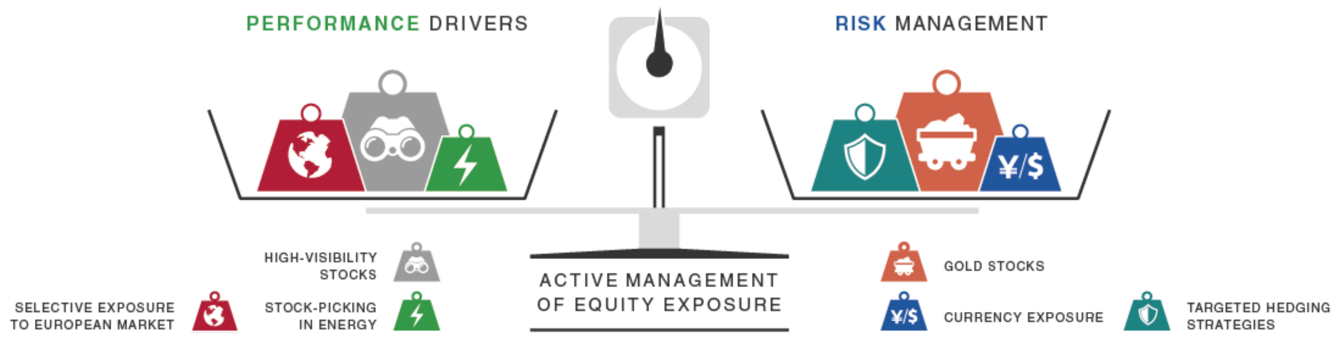
Key Takeaways:

- A balanced equity portfolio that has passed the Brexit "stress test"
- Performance drivers distributed between high visibility stocks and tactical opportunities within broken asset classes
- Active management of equity exposure to benefit from intermediate market movements
- Rigorous risk management through currencies, gold exposure and derivatives

The mounting risk of a global economic slowdown has led us to keep the overall structure of our equity portfolio as it is. We are maintaining both our geographical diversification and our balance among high visibility stocks, energy exposure, gold stocks and safe-haven currencies- a mix that worked well when the stock market took a dive on 24 June. Our performance drivers are distributed between high visibility stocks and tactical opportunities.

After the Brexit, the increasing support to global activity, first from Central banks and soon from more daring budgetary policies (UK and Japan first, and then probably the US) should create a favourable environment for equities and more specifically growth stocks & gold mines.

Balanced portfolio construction



Performance drivers

High visibility stocks

Today's uncertain economic and political climate has increased the appeal of non-cyclical stocks with good earnings visibility.

This investment theme also showed resilience during the recent market stress following the British referendum.

- **Longevity - 27.1% of Carmignac Investissement** *

After taking a blow at the start of the year when prescription drug prices emerged as a key issue in the US presidential election campaign, our healthcare holdings admirably played their defensive role at supporting the portfolio during the recent Brexit-related turmoil.

Our stock-picking in the healthcare sector is focused on highly innovative companies with a unique positioning in the most promising forms of treatment. One of our main healthcare conviction - and the first holding in our portfolio - is still the leader in insulin-based diabetes care.

During the second quarter of 2016, we initiated a position in leading maker of drugs and household cleaning products in order to benefit from its defensive status.

- **Millennials - 19.5% of Carmignac Investissement** *

The Technology and Internet sector now has more of a "winner takes all" dynamic where the dominant players are able to capture a very large share of the market opportunity. This strong polarization of the IT sector requires a rigorous stock picking but creates great new opportunities.

Carmignac's investments within the sector focus on companies able to create additional long term growth drivers by reaching out beyond their legacy business to new areas with high growth potential. Secular growers like Amazon and Facebook are good examples of firms able to deliver long term performance and to navigate in a weak global growth environment. Both companies continue to be disruptive in their legacy businesses (Facebook's original site and Amazon's Retail activity) as well as through new initiatives (Instagram/Messenger/Virtual Reality for Facebook and Cloud Infrastructure for Amazon).

Another major growth story offered by the Internet sector relates to the potential to leverage user data- and that's exactly where our LinkedIn stock fits in. Attracted by the opportunities arising from the social network's database of professionals, Microsoft made a buyout offer in mid-June.

Tactical Opportunities

Today's volatile markets are a source of new opportunities. This is particularly true of the energy industry, where plunging prices have offered an excellent point of entry.

- **Energy stocks - 8.7% of Carmignac Investissement** *

We developed this investment theme early in the year as crude oil prices hit what we considered unsustainable levels given the production drop in the US and other producer countries (e.g., Angola and Colombia). That choice paid off in the first half of 2016. In the second quarter, we initiated a position in Noble Energy in order to increase our exposure to oil exploration high quality companies.

Risk management

We take a rigorous approach to risk management, using currencies, gold stocks and derivatives.

Gold stocks

The current macroeconomic environment has been supportive to this asset class. Our gold stocks should continue to benefit from both negative real interest rates and a moderate uptick in US inflation fuelled by rising oil prices and rents. Furthermore, market instability has reinforced gold's role as a safe haven.

Currency exposure

Tactical management of our currency exposure also helps balance the risks in our portfolio. We are maintaining our short Yuan position to protect the portfolio against downside risk in China. Due to its safe-haven status, the Yen remains a good hedge against risk aversion.

Exposure management

The market instability of the past few months has corroborated our strategy of actively managing our level of equity exposure so as to extract maximum value from intermediate market movements.

Our active risk management approach involves maintaining our performance drivers, and hedging them or not, according to where we see the market risk curve evolving.

Source: 15/07/2016

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