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Carmignac Portfolio Patrimoine Europe

Covid-19: Europe struggling to bounce back

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Environment and Risk Management

European markets are now facing **counterbalancing risks**: deflationary and default on one side - following the current Coronavirus shock and its effect on the real economy - and reflationary on the other - thanks to Central Banks and Governments' agendas aimed to get consumers and corporates through this uncertain period, providing stimulus in different shapes and forms. However, we still have **concerns that market's sentiment is somehow too optimistic**, especially when assessing the strength of the rebound (the actual state of the real economy, the level of activity and, particularly, earnings' forecasts for 2021). For example, when it comes to the Eurostoxx 50, 2021 consensus earnings were indeed in line with 2019 levels.

With this backdrop, our conviction is that **markets will trade in wide, volatile ranges** in the coming months. Therefore, we are adapting our asset allocation in order to be **more liquid** and **more flexible**.

As of lately, we have been actively managing the equity exposure while keeping a **moderate level** of equity investments (around 30%), focused on quality/growth stocks. However, currently, to reduce the equity exposure, we tend to have a preference for perfect hedges via derivatives, instead of selling short index futures - as we generally do - so to avoid any unwanted bias at the same time. In parallel, we also **decided to take more risk through an active management of our credit exposure**. We believe, in fact, that our credit component offers attractive valuation levels relative to fundamental risk.

The medium-term outlook remains very uncertain. There is a path in the western world for more of the same, thus taking the Japanese route: low growth, low interest rates for the foreseeable future, and ample liquidity supply. If this is the case, equity indices trade sideways, but high-quality growth stocks will keep outperforming. This is also our base case scenario and justifies our stock picking. But the macro risk in our opinion is to the downside, as economists might overestimate the recovery beyond the initial short-term relief, so that we are in fact heading for a prolonged recession. In such circumstances, the capacity of Central Banks to keep managing the environment would be challenged, and markets could be seriously destabilized once again. This risk asymmetry explains the reason why we maintain our overall cautious stance, despite the market rally. We therefore also decided to **keep a higher than usual proportion of cash & cash equivalent**

Core Positioning

Equity: stick to our roadmap

Our investment process is tilted towards **quality/growth stocks**, which we believe are **well suited to navigate this uncertain environment**. The ideas identified by our process are high-quality names in innovative fields like - among others - **healthcare**, **biotech** and selected **industrials**. To give context, it is interesting to note the increasing focus on the healthcare sector amidst the current pandemic. Even if its role within the current social structure has been only strengthened by the Covid-19 scare, in reality - within our equity pocket - it has been one of our long-term conviction and currently is the biggest sector exposure we have.

After making minor changes in the first quarter, we used this highly volatile and fragile environment to **top up** our positions on specific holdings, while **adding some high-quality growth franchises** that have suffered the selloff.

Bond: safety first

We maintain a **low modified duration** alongside an **opportunistic credit portfolio**:

Government Debt: the Fund is invested mainly in **German sovereign debt** (nominal rates and inflation-linked bonds). In comparison with US treasuries, which are trading close to their lows, German rates are in fact trading at higher levels. Moreover, we **no longer have exposure to peripheral sovereign debt**, given their debt and GDP ratios are deteriorating.

Credit: we continue to **find opportunities within the credit universe following sharp dislocations in the asset class**, both in the primary and secondary markets.

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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.

INTEREST RATE: Interest rate risk results in a decline in the net asset value in the event of changes in interest rates.

CREDIT: Credit risk is the risk that the issuer may default.

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. The Fund presents a risk of loss of capital.

Recommended minimum investment horizon: 3 years

* A EUR Acc share class ISIN code: LU1744628287. Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.

Source: Carmignac, 15/05/2020.