Carmignac Portfolio Emergents : Letter from the Fund Managers

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+20%

Relative performance of Carmignac Portfolio Emergents F EUR Acc over 5 years

vs its reference indicator MSCI Emerging Markets NR Index[1].

1st

quartile within its Morningstar category

Carmignac P. Emergents is ranked 1st quartile within its Morningstar category (Global EM Equity) for its return, Sortino and Information ratio over 3 and 5 years.

100%

of the Fund's equity investments have a positive impact on the environment and/or society

(excluding cash) through the products and services they produce (measured with the alignment to UN Sustainable Development Goals)[2].

Carmignac Portfolio Emergents[1] was up 5.00% in the first quarter of 2023, against a 2.10% increase in its reference indicator[3]. This gain came against a backdrop of further underperformance by emerging-market equities, which are still being dragged down by US-China tensions and high interest rates.

Overview of Q1 2023

Our portfolio benefitted from the rebound in tech stocks during the quarter. Two of our holdings did particularly well: **Sea Ltd** and **MercadoLibre**, leading online retailers in southeast Asia and Latin America, respectively. Our underweight position in India (7.0% of the Fund's assets, vs 13.3% of the reference indicator) also lifted our return. We had scaled back our exposure to Indian stocks after their solid run in 2022, since their valuations had become stretched in our view, and instead invested in more attractive markets and sectors like South Korea and semiconductors. Another contributor to Q1 performance was our exposure to commodities-exporting countries. We had rotated our portfolio away from the Middle East and towards Latin America; Mexico (5.5% of the Fund's assets) was the best-performing large emerging market in Q1, thanks primarily to nearshoring, or the trend by multinational companies to build production plants in Mexico so that goods can be exported more readily to the US. Middle Eastern stocks (0% of the Fund's assets, vs 7.6% of the reference indicator) put in a disappointing quarter, which similarly reflected stretched valuations in the wake of the invasion of Ukraine.

China's reopening

The main event of the first three months of the year was China's reopening after the government announced a U-turn on its zero-Covid policy in November 2022. That initially caused the disease to spread rapidly, which created chaos in the country's hospitals in December but also allowed people living in large cities to quickly build up herd immunity. Then in January the government lifted almost all restrictions on people's movement, kick-starting the country's economy and especially its services sector. Our Fund management team was able to travel to China in early March; we visited Hong Kong, Beijing, and several smaller cities in order to get a better feel for the societal changes under way and the dynamics of the country's economy as a whole. We came away from the trip slightly less optimistic about China's GDP growth potential, given the disastrous state of its property market and the very low consumer confidence following Beijing's poor handling of the pandemic. We nevertheless built up our holdings in Chinese equities, as we believe they're in for a good year. Corporate earnings are expected grow at an annual rate of roughly 20% for the next two years[4]. China isn't experiencing the same inflationary pressure as the developed world and its jobs market currently lies in employers' favour. What's more, China's central bank is injecting liquidity into the system and lowering interest rates, at a time when stock prices have been driven down by years of underperformance.

Positioning as of 31/03/2023

We added a new Chinese company to our portfolio:**Meituan**, the country's leading consumer services company with two main business lines: home delivery and retail services. Meituan has a dominant market share in both these businesses and forms a duopoly with Alibaba in the former and ByteDance – TikTok's parent company – in the latter. Meituan was impacted by Beijing's regulatory crackdown on tech companies in 2021–2022, but that crackdown is now over and Meituan stands to benefit from the reopening of China's economy.

In Brazil, we sold our stake in B3 – an operator of stock, bond, and derivative exchanges in the country. Like most exchange operators, B3 has a de facto monopoly in its market, but Brazil's central bank has said it wants to promote competition, suggesting the company's earnings could come under pressure. We invested the proceeds from the sale of B3 in **Equatorial**, a new addition to our portfolio. Equatorial has power distribution agreements in several Brazilian states and has recently diversified into sanitation services, where the yields on concession agreements offer sizeable spreads over the yields on sovereign bonds. Our exposure to Brazil's utilities sector now amounts to 7.0% of the Fund's assets (as of 31 March 2023). The real yield on Brazilian sovereign bonds is over 6%, and these utilities companies offer spreads of more than 6 percentage points on average – and even 9 points for **Eletrobras** owing to the associated political risk[5].

We now have a highly concentrated portfolio with 35 holdings, and the ten biggest holdings make up 51.3% of the Fund's assets. This high concentration reflects our heightened focus on our strongest convictions in a market climate that's more uncertain than ever. We believe the high quality of our portfolio companies' balance sheets protects us against further rises in interest rates. For instance, seven of our ten biggest holdings have a net cash position, and the only bank on that list – **Grupo Banorte** (Mexico) – has a 22.9% capital adequacy ratio.[6]

Sources : Carmignac, Bloomberg, FactSet, BoAML, EM Advisors Group, company data, as of 31/03/2023

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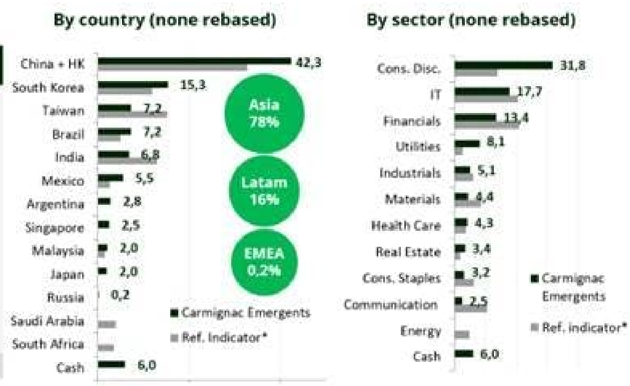
Positioning as of 31/03/2023[7]

Top 10 – main positions of the Fund

	Stock	Country	%Assets	MSCI ESG	START Rating
1	SAMSUNG ELECTRONICS	S. Korea	8,1%	A	B
2	TAIWAN SEMICONDUCTOR	Taiwan	7,2%	AAA	A
3	GRUPO BANORTE	Mexico	5,5%	AA	B
4	JD.COM	China	4,8%	BBB	B
5	ELETROBRAS	Brazil	4,8%	BB	A
6	ANTA SPORTS	China	4,7%	BB	B
7	MINISO	China	4,6%	BBB	B
8	LG CHEM	Korea	4,4%	AA	B
9	HK EXCHANGE & CLEARING	Hong Kong	4,2%	AA	B
10	BEIKE	China	3,4%	BB	A
	TOTAL		51,7%		



[1]Carmignac Portfolio Emergents F EUR Acc (ISIN : LU0992626480). Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.). Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor). Performance in euros as of 31/03/2023

[2]Sources: Carmignac FactSet, as of 31/03/2023

[3]Reference indicator: MSCI EM (USD) (Reinvested net dividends)

[4]Sources : Bloomberg, BoAML Research, market consensus data as of 31/03/2023

[5]Sources : Bloomberg, BoAML Research, company data as of 31/03/2023

[6]Sources : Bloomberg, company data as of 31/03/2023

[7]The proprietary ESG system START combines and aggregates market leading data providers ESG indicators. Given the lack of standardisation and reporting of some ESG indicators by public companies, not all relevant indicators can be taken into consideration. START provides a centralised system whereby Carmignac's proprietary analysis and insights related to each company are expressed, irrespective of the aggregated external data should it be incomplete. For more information, please refer to our website.
Sources : Carmignac, Bloomberg, FactSet, BoAML, EM Advisors Group, company data, as of 31/03/2023

Carmignac Portfolio Emergents

Grasping the most promising opportunities within the emerging universe

Discover the fund page

Carmignac Portfolio Emergents F EUR Acc

ISIN: LU0992626480

Recommended minimum investment horizon

Lower risk Higher risk

1	2	3	4*	5	6	7

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.

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

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.

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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.
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