QUARTERLY REPORT

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Carmignac Portfolio Patrimoine Europe: Letter from the Fund Manager

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+1.60%

Carmignac Portfolio Patrimoine Europe's performance

in the 4th quarter of 2022 for the A EUR Share class.

+3.39%

Reference indicator[1]'s performance

in the 4th quarter of 2022.

+22.92%

Performance of the Fund over 5 years

vs **+11.21%** for the reference indicator *(A EUR Share class)*.

***Carmignac Portfolio Patrimoine Europe** A EUR Acc gained +1.60% in the fourth quarter of 2022, underperforming the +3.39% rise of its reference indicator[1]*

European Markets Review

In line with this year, the fourth quarter was marked by significant volatility in both European equity and fixed income markets.

At the beginning of the period, **European equities experienced a significant rebound, with the Stoxx 600 Europe increasing by 15% within two months**. This was largely due to investor anticipation of less restrictive monetary policy from central bankers amid concerns about economic growth, leading to an increase in risky assets and a stabilization in interest rates.

However, **inflation continued to rise and reached a record high of 10.6% in Eurozone**, a level not seen since the 1980s. In response to this unprecedented challenge, **Christine Lagarde maintained her monetary tightening stance** and implemented two interest rate hikes (+125 bps over the quarter) **and reaffirmed her commitment to combat inflation**. This communication, aligned with the statements of the Fed, **put an end to the fall rebound**. Consequently, growth stocks suffered while core rates reached new highs in Europe, closing the quarter at their peak in over 10 years.

Quarterly Performance Review

In this context, **the Fund maintained a conservative portfolio construction during the quarter by being prudently exposed to equities while actively managing interest rate exposures. If this positioning helped to reduce the volatility, it prevented the Fund from fully participating in the strong rebound at the beginning of the quarter.**[12]

Despite this relative underperformance, **our underlying equity portfolio performed positively during the quarter led by the healthcare sector.** The adjustments we made to the portfolio, including increasing our holdings in Novo Nordisk and Genmab, seem to be paying off as these stocks achieved double digit returns in a slightly more favorable environment. **On the credit side, the Fund suffered both from its protection on the high yield segment and from its bond selection** that has been affected by idiosyncratic events.

Outlook

Following a year characterised by the resurgence of inflation, **we anticipate that the markets will face two uncertainties in 2023**:

- **Will there be further increases in interest rates?**
- **How will monetary policies affect economic growth and company earnings?**

Our view at the moment is that **European growth will slow down in 2023**, with a mild decline during the first half of the year followed by a slight increase later on. However, the latest economic data hint towards a more resilient growth than expected at least for Q4 2022. At the same time, headline inflation figures in Europe may be difficult to accurately determine due to the varied support plans for governments, but it is expected that **core inflation will remain high**, around 5%. These 2 aspects could support the ECB in pursuing its stance at least during the first semester to curb inflation. **In terms of company profits, we believe that the forecasted flat earnings growth next year is still optimistic and carries downside risk**, particularly in economically sensitive sectors. Conversely, **fixed income is by far the asset class that's been the most affected by central banks' aggressive tightening actions**, making it more appealing.

In this context, the fund's performance drivers are as follows:

- In 2022, equity markets have already seen a significant contraction in valuation multiples hurting our stock selection, but they are still far from fully considering the potential impact of a recession on earnings. **As a result, we favor high-quality companies which are likely to capitalize on their robust fundamentals to surpass the average rate of earnings growth**. We focus our portfolio on companies and sectors best able to withstand a slowdown as **healthcare** or **consumer staples** and we benefited from price dislocation this year to add new names at attractive price such as Genmab or Lonza.
- Unlike equity markets, **corporate bond current valuations are mostly reflecting poor growth sentiment, providing a great income profile** with a lot of bad news already priced in. We see value in credit markets but advocate an actively managed approach. As such, we begin the year with a 10% exposure to this asset class before gradually increasing it.
- As we have not yet fully emerged from the challenges of economic growth and inflation, **volatility in stocks and bonds is likely to remain high and will require short-term tactical adjustments to exploit these movements** via active modified duration management and equity hedging.

While gloomy on the surface, the market environment has never been so full of both risks and opportunities. The end of extraordinary monetary policies means the end of indiscriminate market increases, and the potential of true alpha generation thanks to selective and active management. The end of negative interest rates and asset class correlation as we know it reinforces the importance of a flexible allocation to optimize performance. Finally, the return of volatility means the need for an active management of risks, to protect the book's long-term opportunities.

Source: Carmignac, Bloomberg, 31/12/2022. Performance of the A EUR Acc share class ISIN code: LU1744628287. [1]Reference Indicator: 40% STOXX Europe 600 (Reinvested Net Dividends) + 40% ICE BofA All Maturity All Euro Government + 20% ESTER capitalized. Quarterly Rebalanced. Until 31/12/2021, the reference indicator was 50% STOXX Europe 600, 50% BofA Merrill Lynch All Maturity All Euro Government Index. The performances are presented using the chaining method. Risk Scale from the KID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. *Launch date: 29/12/2017.

Carmignac Portfolio Patrimoine Europe

An all-weather European Fund

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Carmignac Portfolio Patrimoine Europe A EUR Acc

ISIN: LU1744628287

Lower risk Higher risk

1	2	3*	4	5	6	7

Recommended minimum investment horizon

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.