



# Carmignac Portfolio Patrimoine Europe: Letter from the Fund Manager

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Length  
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-4.9 %

Performance of the Fund  
over the quarter for the A  
EUR Share class.

-4.4 %

Performance of the  
reference indicator (1)  
over the quarter.

-4.9 %

Max Drawdown of the  
Fund  
vs -6.8% for its reference  
indicator over the quarter.

Carmignac Portfolio Patrimoine Europe A EUR Acc lost -4.86% in the first quarter of 2022, below the -4.43% of its reference indicator<sup>1</sup>.

## Quarterly Performance Review

The beginning of 2022 witnessed a shift in equity/bond correlation. With the deceleration of global growth, threats of persistent inflation, and the more hawkish stance adopted by developed Central banks, government/corporate bonds and equity markets have entered a bearish momentum simultaneously. Under these circumstances, bonds are no longer as effective a hedge for equities as they have been over the past 20 years. The disinflationary environment where central banks could expand money supply without any consequences seems over, this is what the markets have been showing us since the beginning of the year, even before Russia invaded Ukraine.

In this context, Carmignac Patrimoine Europe started the year with a conservative portfolio. The exposure to risky assets was low, with 25% net exposure to equities and 5% to credit, and the level of cash was already over 40%. However, despite a prudent positioning, the first few weeks of the year were challenging. The underperformance of our underlying stock picking was due to a prolonged factor rotation in the market, away from high quality but highly rated names that we own, into lower quality so-called value stocks in the bank and commodity sectors where we have no exposure. Investors appeared obsessed by inflation while they refused to look at the decelerating growth expectations and didn't make much of strong earnings. While contributing positively to returns our factor risk mitigation strategies did not allow to fully compensate historical gaps between value & growth, cyclical & defensives, commodities & visibility. At the end of January, given 1) the high level of uncertainties, 2) the growing stagflation risk which was not priced by the market, 3) a context where both the ECB and the Fed were focusing mainly on the upside inflation risks: the portfolio managers decided to adopt a very defensive approach. They drastically reduced the exposure to equities, added credit market protections, while actively managing the modified duration of the fund. They also initiated a position in gold for portfolio construction purposes and for its safe-haven status while maintaining a large amount of cash in the portfolio. This switch to "capital preservation" mode allowed us, similarly to 2018 and March 2020, to resist the new sell-off in both bond and stock markets.

Conversely, in the second half of March, the fund maintained its defensive positioning despite a more positive backdrop for European equities on the back of signs of 'progress' in Russia-Ukraine talks. Russia's invasion of Ukraine has been unsettling markets and adding to lingering concerns about persistently rising inflation and global economic growth. There is a sense of hope in the market that a resolution is near and therefore could remove some of the worst-case scenarios. Nevertheless, we think that the resolution will not solve the fundamental problem that caused a decline in the markets at the beginning of the year - namely high inflation, central bank response or possibly a coming recession - which is why we have remained cautious in our positioning.



## Our Positioning and Outlook

While we expect headline inflation to come down over the next months, we expect core inflation (driven by wage growth and housing) in the US to continue to be stubbornly high, leading to an ongoing hawkish perspective of the Federal Reserve. Likewise, the willingness to reduce reliance on historical trading partners and energy sources will come at a higher cost. Covid lockdowns could also further affect international trade, as was recently the case with the identification of new cases in Shenzhen, the world's fourth largest container port and China's fourth largest airport for cargo. Meanwhile, growth which was already slowing is expected to slow even further, notably in Europe, where the high energy-driven inflation is considerably weighing on consumers' willingness to spend and company's margins. The dynamics at play, associated with the Russo-Ukrainian conflict and sanctions, pose the risk of a stagflation - i.e. an economic slowdown coupled with high inflation - and even a risk of recession.

In the short term we remain prudent, considering the extraordinary amount of volatility, but believe this level of dispersion in the market will provide good opportunities. We see this current environment as very challenging and clearly painful from a performance standpoint, but also a big driver of upcoming opportunities for our strategy with names losing more than 20% since the beginning of the year while the fundamentals remain very attractive. Consequently, we remain committed to our core equity holdings, which are winners in their respective fields. Given the context, we added/increased our defensive exposure which is still focused on quality names particularly within Health Care, such as Novo Nordisk or Roche, so to, at least partially, address the current environment. Additionally, earlier in the year, we had reduced more extreme growth names (exited Delivery Hero, reduced some recent IPOs). A continuous monitoring of the portfolio and focus on risk management are also fundamentals tools when dealing with European equities.

Over the long-term, the prospects are more hopeful. Fiscal support could alleviate the worst of energy-price inflation, and over a medium-term horizon we expect inflation to fall back to a level that's higher than pre-pandemic levels but not beyond the tipping point that makes it negative for equities. As rising rates and rising costs put pressure on consumer budgets and companies margins worldwide over the coming months, the best place to be is in proven quality secular growth stocks that have a better ability to sustain profitability and growth. Similarly, we took advantage of the dislocation of credit and equities markets to cherry-pick some idiosyncratic stories and build the future return potential of the portfolio. Thanks to the macro overlay and risk management strategies, we could build exposure to these promising sectors without increasing the short-term risk level of the fund.

Carmignac Portfolio Patrimoine Europe

# Fund built to take advantage of Europe's many sectors and opportunities.

[Discover the fund page](#)



Carmignac Portfolio Patrimoine Europe A EUR Acc

ISIN: LU1744628287

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.



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