

CARMIGNAC INVESTISSEMENT/ PATRIMOINE

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Portfolio Construction

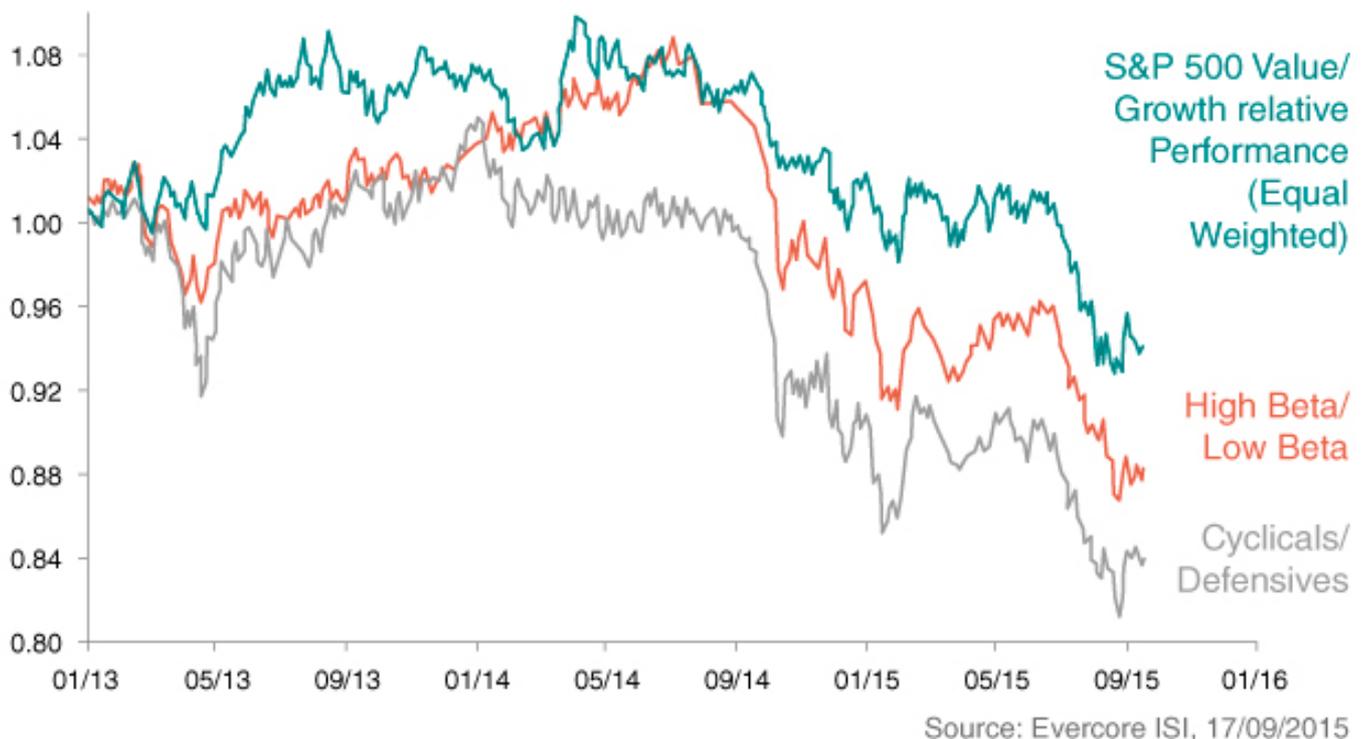
Despite six years of accommodative monetary policy, the global economy continues to suffer lackluster growth and an inexorable rise in total debt. In this context, we have built our convictions on companies able to prosper in a deflationary environment. Therefore, we focus on global leaders who can generate growth regardless of the economic cycle. In this scarce growth environment, our stock picking should benefit from strong earnings growth and from a premium valuation given to high visibility stocks at the expense of risky stocks.

Key takeaways :

- In an atonic environment, preponderance of high visibility stocks
- Our themes represent long term/multiyear or mega trends e.g. ageing population, obesity, innovation, e-commerce
- 4 main themes: longevity, millennials, emerging growth, technology

In this sluggish growth environment, we have reinforced our long term themes since Q3 2014. These changes have been fruitful. The market favours IT, health care and discretionary consumption sectors (two-thirds of our equity portfolio). Recently, growing uncertainties towards global growth have led to an underperformance of cyclical stocks.

Comparison of investment style performance



Our 4 main themes

Longevity: 30.6% of Carmignac Investissement / 13.0% of Carmignac Patrimoine *

The number of older people (60+) is expected to more than double from 841M in 2013 to 2bn+ by 2050E. Our two entry points into the “longevity economy” are pharma/healthcare and financials (through life insurance).

We are invested in companies offering a unique positioning in long term treatments for diseases that are now omnipresent in our developed and developing societies such as diabetes, cancer and obesity. Since 2011, the health sector has experienced a significant improvement in its fundamentals.

The end of patents’ expiration period, the numerous drugs in development and the low rate period have led, within the sector, to an average revenues’ growth enhancement as well as an improvement in earnings per share.

We have picked some stocks that have suffered from patents’ expiration period, and are now going to take advantage of their previous R&D investments. The recent weakness due to US democrats’ suggestions of higher regulation has given us good levels to reinforce some stocks.

Two examples of stocks within our portfolio:

- Celgene: unique treatments for cancer and chronic inflammatory diseases The company's management team has a strong « track-record ». In the coming years, the company's growth will be particularly based on the launch of new drugs, some being already in the process of obtaining final approval.
- Novo Nordisk: one of the leaders in insulin-based diabetes treatments Globally, 2.1bn people are overweight and 671mn people are obese – with the global economic impacts of obesity estimated at US\$2.0tn or 2.8% of global GDP. The insulin market, estimated at more than \$20 billion in 2015, is expected to reach 30 billion in 2025. Novo Nordisk, with a 47% market share in the insulin market, has a strong profitability and a new range of promising drugs. On the insulin market, its two leading products are "Levemir" with a 20% market share, and a new product "Tresiba" which has just been approved by the FDA. The insulin market has a 4-5% volume growth in the United States and the perspectives of the Chinese markets are huge.

« Millennials »: 21.9% of Carmignac Investissement / 9.0% of Carmignac Patrimoine *

« Millennials » are the 18-34 years-olds; they represent close to one third of the worldwide population. Our theme includes companies matching this generation's consumer habits, especially Internet players. The portfolio is positioned to seize opportunities related to e-commerce growth and mobile monetization.

It is clear from 2015 3Q results that Amazon, Alphabet (Google) and Facebook are taking a greater and greater share of returns in the Internet sector as they are showing the strongest growth and have the ability to invest at a massive scale. It is very difficult for the smaller Internet players to compete. With a tempered growth backdrop investors need exposure to these three companies.

Two examples of stocks in our equity portfolio:

- Facebook: towards greater mobile monetisation Facebook and Instagram together account for more than 20% of time spent on mobile in the US. Daily active users crossed the magic 1bn this quarter. Facebook is suitably positioned for the switch from fixed to mobile Internet (layout, video advertising formats, and targeted adverts). 73% of ad revenue now comes from mobile. Instagram should benefit from this greater monetisation from H2 2015, with Whatsapp following. Facebook can continue to grow its topline beyond 30% over the next few years, and growth scarcity justifies premium valuation. Therefore, even without further multiple expansion, stock can continue to deliver strong performance.
- Inditex, a global leader in « Fast Fashion » The company's model suits Millennials' consumption habits: frequent purchases through a constant renewal of collections at low prices and via Internet. Its global success is based on a balanced development between developed and emerging countries. Online and offline under-penetration and its leading position in a highly fragmented market (only 2% market share in the world) drive superior visibility.

Emerging growth: 19.4% of Carmignac Investissement / 8.0% of Carmignac Patrimoine *

Our rigorous stock picking is directly or indirectly linked to emerging consumer development. India remains one of our main weights at 7% of assets. The Indian market is benefiting from Modi's administration reform

program as well as persistently low commodities prices and interest rates.

Two examples of stocks in our equity portfolio:

- Hermès: a beneficiary of the huge outbound of Chinese travelers in the coming years Today, only 40% of revenues are realized through emerging market clientele on and off-shore. This exposure being lower than its competitors, there is a strong growth potential. High barriers to entry, unique pricing power, family ownership yet solid corporate governance are key advantages. Finally, its ability to create Kelly/Birkin bags' deliberate demand frustration and the in/off line under-penetration drive superior visibility.
- United Spirits, the largest spirits player in the world (in volume) In the long term, the company will benefit from the Indian demography and potential growth given the relative underpenetration of spirits in India today. By 2025, there will be 1 million Indians reaching the legal drinking age. In the short term, we expect a large margin expansion under Diageo's auspices.

*Technology: 16.9% of Carmignac Investissement / 7.5% of Carmignac Patrimoine **

In a context where the growth model driven by the relocation of production means comes to an end, this theme aims to seize growth opportunities related to innovation.

Our two main performance drivers are:

- Opportunities related to payment market innovation: Visa, Mastercard
- Cable operators: creation of infrastructure needed for innovative growth (Altice, Level 3 Communications etc.)

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