# SHINING A LIGHT ON THE……
# FP Carmignac Emerging Markets Fund

**AT A GLANCE**

| **Investment Objective** |
|---|
| The investment objective of the Fund is to achieve capital growth over a period of at least five years. The Fund seeks to achieve its investment objective by investing, either directly or indirectly through collective investment schemes that it holds, in shares of companies whose registered office or core business is located in emerging countries (as defined in this prospectus), with no particular emphasis on business sector or company size. The Fund will typically invest between 80% – 95% in shares (as outlined above), however, on rare occasions, such as when the markets are experiencing heavy turmoil, the Fund may decrease its exposure to company shares to no less than 51% and invest a greater proportion (up to 40%) in debt instruments. |

| | |
|---|---|
| **Fund Factsheet Link** | https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000013IVJ |

| **Management** | |
|---|---|
| **Manager Name** | **Start Date** |
| Xavier Hovasse | 15th February 2019 |
| Haiyan Li-Labbe | 1st January 2021 |

**FUND PERFORMANCE**
**(Based on Carmignac Emergents Xavier fund manager since 25th February 2015)**

Performance from 1st January 2016 to 31st August 2021:

| | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
|---|---|---|---|---|---|---|
| **Carmignac Emergents Fund (European Fund)** | 17.43% | 23.58% | -17.69% | 17.74% | 52.82% | -7.92% |
| **FP Carmignac Emerging Markets Fund** | - | - | - | - | 63.05% | -8.27% |
| **MSCI EM** | 33.12% | 25.83% | -8.92% | 14.31% | 15.02% | 0.37% |

Performance over 12 months, 3 years, 5 years and since fund manager inception:

| | **1 year** | **3 years** | **5 years** | **Since fund manager inception** | **Since launch of UK Fund** |
|---|---|---|---|---|---|
| **Carmignac Emergents Fund (European Fund)** | 12.73% | 59.97% | 60.34% | 87.68% | 57.28% |
| **FP Carmignac Emerging Markets Fund** | 15.34% | - | - | - | 69.82% |
| **MSCI EM** | 13.70% | 25.12% | 52.51% | 74.26% | 26.68% |

*You should note that past performance is not a reliable indicator of future returns, and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

| Tracking Error | Information Ratio | Active Share | Upside Capture Ratio | Downside Capture Ratio | Batting Average | Beta | Alpha | Equity Style |
|---|---|---|---|---|---|---|---|---|
| 6.29 | 1.46 | 90.35 | 131.21 | 94.54 | 66.67 | 1.03 | 8.47 | Blend/Large |

| Volatility Measurements | |
|---|---|
| **3-Yr Std Dev (volatility)** | 17.14% |
| **3-Yr Mean Return (average)** | 16.95% |

| Investment Style Details | |
|---|---|
| Giant | 46.27% |
| Large | 30.11% |
| Medium | 13.48% |
| Small | 0.00% |
| Micro | 0.00% |

| Top 5 Holdings – 48 Equity Holdings | | |
|---|---|---|
| Itausa Investimentos ITAU SA Par... | Financial Services | 4.08% |
| JOYY Inc ADR | Communication Services | 4.07% |
| NAVER Corp | Communication Services | 4.06% |
| Samsung Electronics Co Ltd Parti... | Technology | 3.91% |
| Samsung Electronics Co Ltd | Technology | 3.87% |

| Top 5 Sectors | |
|---|---|
| Consumer Cyclical | 19.66% |
| Financial Services | 17.05% |
| Technology | 16.95% |
| Communication Services | 16.16% |
| Consumer Defensive | 8.95% |

| Top 5 Regions | |
|---|---|
| China | 33.50% |
| South Korea | 21.28% |
| India | 11.21% |
| Brazil | 10.14% |
| Singapore | 6.28% |

**UPDATE….**

The fund investment philosophy is led by sustainable themes in a rapidly emerging world. These include digital revolution, tech innovation, green energy and mobility, healthcare and medical innovation, financial inclusion, improving living standards and consumption upgrade.

This is a high conviction strategy with a quality bias, although it has neither a growth nor value style (i.e., other than quality they are style agnostic). What makes this stand out is the low carbon approach, focus on exclusionary and SRI (Socially Responsible Investing). Protecting on the downside is also a key aspect of the strategy.

Investing in emerging markets is a long-term investment, and over the past decade it has underperformed the world index. However, investors tend to focus on the short-term, so they saw large flows into both the fund and EM last year as performance took off, but as performance has dropped away both in EM and the fund, so the money has come out. You can clearly see the frustration within the investment team.

In this update much of the update focused on China as the fund has a large part allocated to this region. Xavier started by explaining that the French, UK, and US press have a massive negative bias to China. Everything you read is anti-China and no-one is defending it. There is no clear reason for this. It could be that as China gets stronger, nations feel threatened, or it could be that the West believes that democracy is the only way. Xavier is not saying he is a fan of the Chinese government, the point is that with all the negativity, the opportunities are missed.

In terms of Ant, he explained that since 2017 the government had been de-leveraging the economy and this seemed to be in direct opposition to this, so made sense. In fact, he agrees with about 75% of the reforms. He doesn't agree on the education side and the fund had exposure to this, and this has hurt performance. If you step away from the western perception of China then you can see what they want to achieve. This includes acceleration of tech innovation, higher energy independence, greater currency independence, common prosperity, and rebalancing growth.

If you take a deep dive into China with an ESG lens, there are many positives; over 1 billion people have been lifted out of poverty, there are medical and social security reforms, environmental reforms, corporate governance, transparency is improving significantly, as is the drive towards common prosperity (not meaning equal wealth).

Evergrande is reflective of many things in China. The Chinese government can see that construction is 30% of GDP and they want this reduced. They have cracked down on shadow banking, they have reduced mortgage options and they see companies like Evergrande having too much leverage. However, Evergrande owns a lot of land, and the actual losses would be around $50 to $100 million or about 0.1% of total bank loans. The bigger concern is contagion, and this could place stress on the economy and slow growth, but unlike the West, China has tools in the financial toolbox where they could control any fall out.

Xavier believes that any increased volatility across the region just provides opportunities. They have been adding to China as many companies are now trading below net cash on the balance sheets. One example was Baidu. He believes he was a little early with this move, but this is starting to pay dividends.

He sees opportunities in Brazil, but is holding the current weighting as there is too much political instability. If there is a further sell-off and the political uncertainty starts to be priced in, then he may use this as an opportunity to invest more. They have done well in India and have started to take profits from this. They see Russia as offering opportunities and are overweight, ESG within Russian companies is strong compared to other regions, and they are benefiting from the energy crisis.

In summary, this is a very different approach to emerging markets, with the exclusionary and SRI overlay. China does form a large part of the portfolio and this has hurt performance this year. However, Xavier believes we need to look beyond the negative press and look at the opportunities. Russia is another area he is positive about, and Brazil may open opportunities. He believes there will be more volatility, but this just provides the opportunities to buy more. Fundamentally Emerging Markets is a long-term story with plenty of opportunities, and should not be seen as a short-term trade. He believes investors with a longer-term horizon will be rewarded, but the journey will not always be smooth.