Carmignac Portfolio Green Gold : Letter from the Fund Manager

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Published
July 26, 2022

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Carmignac Portfolio Green Gold[1] lost –9.61% in the second quarter of 2022, compared with a –10.24% decline in its reference indicator[2]. This brings the Fund's year-to-date return to –12.7%, versus –8.2% for its reference indicator. The military intervention on Europe's doorstep that shook the continent in the first part of the year continued into the spring and summer, with the food and energy price shock in Q1 giving way to worries in Q2 about a severe global economic slowdown or even a recession.

What exactly happened in the markets in Q2 2022?

The inflationary impact of the war in Ukraine persisted in the second quarter, to no surprise. Oil and gas prices in particular stayed high. Europe responded to Russia's aggression with an array of retaliatory measures, including cuts in crude-oil imports from the country, a decrease in the purchase of refined petroleum products, and an embargo on Russian coal. What's more, oil prices look set to stay elevated owing to a combination of relatively strong demand, scant reserves following years of underinvestment, and a drop in production from Russia. Moscow responded to Europe's sanctions with retaliatory measures of its own. It once again deployed its main geopolitical weapon against Europe: cuts in natural gas exports. Moscow deliberately scaled back exports to Germany; the daily flow rate through the Nord Stream 1 pipeline was cut by nearly a factor of three in June. Germany and the rest of Europe have tried to procure liquefied natural gas in order to make up for the shortfall, but the situation remains critical. With winter just a few months away, it's possible that Europe won't have enough natural gas reserves to keep homes and offices heated and factories running. Brussels has no choice but to start thinking up rationing schemes in order to prevent a worst-case scenario. These energy-supply problems, coupled with signs of a slowing economy and persistent inflation, weighed on the prices of certain European assets.

These assets include the stocks of industrials.**Schneider Electric** and **Kingspan** fell by –25% and –35% (in EUR), respectively, in Q2. The unprecedented developments in recent months made it painfully clear that Europe must absolutely reduce its energy dependence and completely overhaul its energy strategy. The new strategy should be focused on renewable energy, and Brussels is taking steps in this direction. Our investments in European wind-power companies held up relatively well in the quarter as a result, with **Orsted** and **Vestas** losing –13% and –25% (in EUR), respectively.

The grass isn't much greener in the United States. The government's fiscal and monetary policy largesse over the past few years, combined with ongoing supply-chain disruptions in the wake of Covid outbreaks in China, have caused a steep increase in consumer prices. The US Federal Reserve must now belatedly tighten its monetary policy at a fast clip – just as many segments of the American economy are showing signs of softness. Fed Chairman Jerome Powell must walk a fine line in order to avoid plunging his country into a painful recession. Meanwhile, President Biden is struggling to get his Build Back Better Plan, which involves large-scale fiscal stimulus and hefty investments to fight climate change, passed ahead of the upcoming midterm elections. Talks between Democratic and Republican senators have broken down, and the hundreds of billions of dollars that Biden had initially earmarked for renewable energy seem to be on hold for now. That said, the higher prices of US fossil fuels (oil and gas) should bring congressional policymakers back to the table and eventually lead to a climate strategy along the lines of Biden's initial vision. The renewable energy industry has also found itself caught up in the geostrategic confrontation between the US and China, to the point where President Biden invoked his executive powers in an attempt to revive trade in solar panels.

Fund performance and current positioning

These tensions and uncertainties created a number of opportunities in Q2 which we took advantage of. We added **NextEra Energy** to our portfolio; NextEra is a leading American renewable-energy and power-generation company with assets in Florida that are considered benchmarks in the US industry.

The almost synchronised global slowdown has impacted the prices of industrial metals, viewed as a barometer of the health of the economy. Copper was hit the hardest, dropping –21.7% (in USD) in the second quarter. The high volatility in metals prices along with the increasingly hostile stance by governments (especially in Latin America) towards mining companies is discouraging the kind of capital investment needed to produce the metals that will be essential for building power grids capable of running on intermittent energy sources. This will serve to keep prices at lofty levels for years to come.

After a volatile start to 2022 for emerging market stocks, we believe that renewable energy companies in those regions are well positioned to rebound, especially since these companies have reached very attractive valuations – the most affordable we've seen since the 2008 financial crisis. Here we can point to two South Korean names in our portfolio: **Samsung Electronics** and **LG Chem.** These are global leaders in their lucrative markets of semiconductors and electric-vehicle batteries, yet are trading at low P/E ratios.

We're confident that the stocks in our portfolio hold promising growth prospects in today's uncertain macroeconomic and geopolitical climate, and that our Fund is currently positioned to seize the growth opportunities arising from the energy transition.

Sources: Carmignac, Bloomberg, IEA, BNEF, 30/06/2022

Reminder of the strategy: A sustainable equity fund acting for climate mitigation and energy transition

At a time when governments need to step up their efforts to enable the energy transition, we believe a diversified approach is necessary to gain exposure to the full range of companies whose core businesses address the issue of climate change and that are poised to benefit from such structural shifts. These companies make up the majority of **Carmignac P. Green Gold**, an Article 9 Fund (under the EU SFDR) which invests in climate change mitigation and the energy transition.

Our Fund is a thematic international equities fund offering selective exposure to all these trends:

- **Our investment objective is to seize growth opportunities among innovative businesses along the entire renewable-energy value chain and among key players in the energy transition.** Wind turbines require steel for their structures and copper for transmitting the power they produce to urban grids. Taking these factors into account, we analyse and invest in companies throughout the clean energy supply chain. We also invest in companies we believe have the greatest potential for reducing carbon emissions and that can contribute to efforts to achieve carbon neutrality by 2050.
- **Classified as Article 9 under EU SFDR,** the strategy invests at least 60% of assets in companies whose activity contribute to climate change mitigation and climate change adaption according to EU taxonomy standards[3] .
- **Another key point of the Fund: engagement and active shareholder rights.** We want to use our active shareholder rights to work with companies to transition and therefore use this strategy to make a real impact, authentic, meaningful, that can really help the world transition to a lower carbon economy. These companies devote dozens of billions of dollars to developing new sources of oil and gas. We, as shareholders, need to call for capital reallocation towards cleaner avenues of energy. This enormous pool of capital and its allocation in the years to come will be critical in achieving carbon neutrality. Carbon neutrality will not happen without those players being committed and investors engaging with them to drive this change and achieve these decarbonization goals.

The fund has 3 investment pillars that are also key performance drivers for months to come:

Green energy providers

Companies providing products, services or solutions that are low carbon like renewable energies or electric vehicles

Green Solution enablers

Companies offering products, services or solutions that directly or indirectly enable other companies to cut their carbon emissions or enhance their energy efficiency (facilitators of solutions); for example, semiconductor companies that provide key components for electric vehicles.

Key players of energy transition

Companies that contribute the most to the energy transition and the reduction in global carbon emissions, for example, some large integrated mining or oil companies that have adopted drastic policies to shrink their carbon footprint and are expanding their commitment into renewables.

[1]Carmignac P. Green Gold Part A EUR Acc – ISIN LU0164455502. Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor), where applicable. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. Annualized performance as of 30/06/2022.

[2]Reference indicator: MSCI ACWI (USD) (Reinvested net dividends) On 15/05/2020 the reference indicator changed to MSCI AC WORLD NR (USD) index net dividends reinvested. Performances are presented using the chaining method. The Fund's name was changed from Carmignac Portfolio Commodities to Carmignac Portfolio Green Gold. Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor), where applicable. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged.

[3] According to EU taxonomy standards. Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.
Sources : Carmignac, Bloomberg, company data, 30/06/2022

Carmignac Portfolio Green Gold

A sustainable equity fund acting for climate change mitigation

Discover the fund page

Carmignac Portfolio Climate Transition A EUR Acc

ISIN: LU0164455502

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.

COMMODITIES: Changes in commodity prices and the volatility of the sector may cause the net asset value to fall.

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.