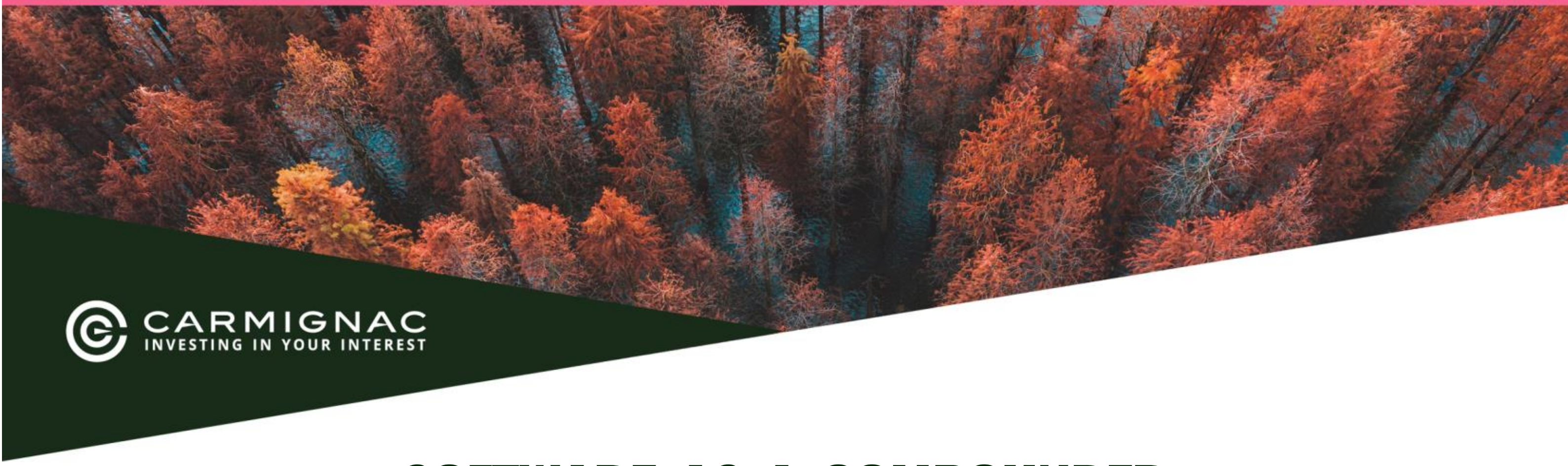


SOFTWARE-AS-A-COMPOUNDER

Technology remains a core, long term holding with Carmignac's Global Equity Compounders strategy and fund manager Obe Ejikeme explains why we favour Software within this fast moving global sector.

Historically, technological revolutions have followed a predictable pattern: they begin with breakthroughs in infrastructure, particularly hardware, before progressing to software applications. In her seminal work, *Technological Revolutions and Financial Capital*, Carlota Perez argues that each technological revolution initiates a paradigm shift, creating a "new economy" driven by clusters of innovation. These clusters generate unprecedented opportunities but are often accompanied by speculative bubbles before stabilizing into long-term growth. In the early 1980s, **IBM** and **Apple** pioneered the personal computing revolution with groundbreaking hardware leading IBM to become the largest company in the world in 1986. When the software company **Microsoft** went public, with a market capitalization equal to just 1% of IBM's at the time. There's no need to remind you who emerged as the long-term winner...

Today, we are seeing such an innovation cycle transition unfold in the artificial intelligence (AI) space. Close to a trillion dollars has been invested so far in AI infrastructure and new players like Deepseek and Mistral AI, along with ongoing advancements in efficiency, are significantly reducing the costs of AI inference. Investors are now looking for use cases that might generate a return on investment. Software companies — such as those held in the portfolio of FP Carmignac Global Equity Compounders — that control data and workflows seem very well placed to bring AI into real-world business applications.

SOFTWARE BUSINESS MODEL : THE ULTIMATE COMPOUNDING MACHINE

A. RECURRING REVENUE ENGINE: FOUNDATION OF COMPOUNDING

At the heart of software's compounding power lies the transition from perpetual licenses to subscription-based recurring models. This shift to SaaS (Software-as-a-Service) subscriptions has fundamentally transformed the economic DNA of those companies. Unlike traditional license models that required continuous sales efforts to secure one-time payments as licenses expire, SaaS platforms generate annuity-like cash flows through automatic renewals and usage-based pricing. When customers transition from one-time purchases to ongoing subscriptions, they effectively prepay future product value while giving vendors continuous visibility into revenue streams.

The financial mechanics are stark: if a SaaS company retains 90% of its customers and grows new bookings by 30% annually, it can triple its revenue within five years. This contrasts sharply with industrial sectors, where similar growth would necessitate massive CAPEX expenditures. FP Carmignac Global Equity Compounders' portfolio holding **Adobe** exemplifies this principle— their transition from selling Creative Suite licenses to Adobe Creative Cloud has been very successful. From 2004 to 2014, under a license-based model, Adobe's revenue growth was approximately 9.5% annualized. After introducing Creative Cloud, revenue growth nearly doubled, reaching 18% annualized over the next decade. During this period, Adobe Creative Cloud came to account for more than 90% of their revenue[1]. This transition demonstrates the power of the SaaS model in driving sustained growth and increasing customer lifetime value.

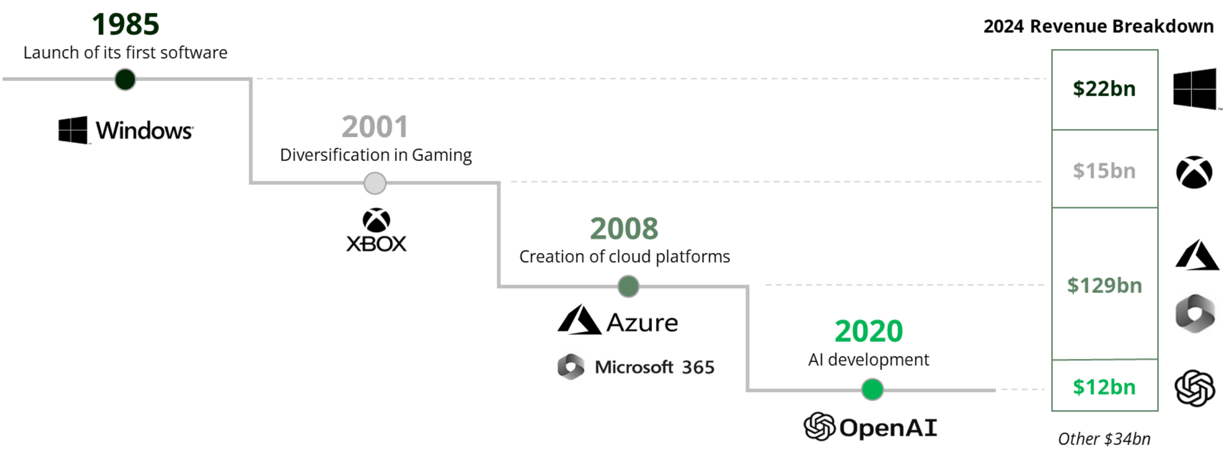
B. ZERO MARGINAL COST SCALABILITY

Software's unique cost structure—high fixed research and development (R&D) costs but near-zero marginal distribution costs—creates operating leverage unmatched in other industries. Once R&D costs are sunk, each incremental software dollar flows disproportionately to the bottom line. For investors, this translates to durable compounding, insulated from inflationary and cyclical pressures plaguing asset-heavy sectors.

When an enterprise software provider like **SAP** decides to transition to a cloud-first approach, the restructuring can involve billions of dollars and affect thousands of employees. However, as this major transformation project reaches critical mass, each additional customer served will further improve margins. Today, SAP's success of transitioning to a cloud-based software solution is evident with cloud software growth exceeding 25% and operating profit has risen by 28%[2]. This increase in profit is due to investments in cloud products made several years ago, demonstrating the compounding benefits of scale. As the tech landscape continues to evolve, particularly with the emergence of AI, it will be intriguing to see if similar patterns of transformation and growth unfold.

C. REINVESTMENT FLYWHEELS IN PLATFORM ECOSYSTEMS

Leading software companies deploy retained earnings into adjacent markets, creating concentric growth rings (like tree rings) and therefore margin expansions through reinvestment cycles. That's why we are focusing on companies that reinvest significantly. **Microsoft**'s $19 billion annual R&D budget funds initiatives from AI copilots in Office 365 to quantum computing — each innovation reinforcing the ecosystem lock-in. This "reinvestment cascade" transforms software platforms into durable compounding engines as illustrated by Microsoft, the ultimate software compounder:



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THE DISRUPTIVE IMPACTS OF AI

Before ChatGPT and more broadly GenAI emerged, SaaS was among the fastest-growing business models. During the 2010s, SaaS businesses experienced explosive revenue growth, surging by over 300% – a rate five times faster than S&P 500 revenues in the same period. This remarkable trajectory has set the stage for a pivotal debate: will AI disrupt software business models, or will it usher in an era of unprecedented innovation and growth for them?

As **SAP** CEO Christian Klein notes following the recent Deepseek news: "You see the progress also with regard to the performance of these large language models or the chips. So it becomes cheaper. And this is where we are benefiting from, because we are sitting at the top, infusing AI, creating high-value use cases for businesses[3] ". And this is one of our convictions, that AI-driven productivity gains will benefit software companies. All the more so as these companies are already using these advances. **ServiceNow**'s foray into AI, for example, began in 2017 with the introduction of Predictive Intelligence, a tool designed to enhance IT service management. By analyzing historical incident data, the platform automated categorization and routing, achieving precision rates exceeding 99% for hardware-related issues. This capability reduced manual intervention and enabled faster resolution times, setting a precedent for AI's role in workflow optimization.

One of the most promising AI use case is what we called Agentic AI. Unlike generative AI, which focuses on content, Agentic AI emphasizes autonomous decision-making and action, enabling systems to adapt, reason, and execute tasks independently without human supervision. This paradigm shift is poised to revolutionize industries by automating complex workflows, optimizing business processes, and driving scalability. We believe that software will benefit from this trend due to the real-time data access and recording required for AI agents, as well as the potential efficiency and profitability gains for software companies utilizing agents. AI innovation is expected to usher in a new wave of automation, projected to generate $500 bn annually in incremental revenue for the enterprise software industry by 2035[4].

SOFTWARE : WE CAN'T DO WITHOUT IT

As enterprises plan to allocate more than 50% of 2025 IT budgets to cloud/SaaS today (vs. 10% in 2015[5]), software vendors have become a bit like the cash machine of the digital economy - aggregating recurring cash flows and compounding shareholder value through platform effects. They offer the rare combination of visibility (90%+ recurring revenue), durability (high client retention rates), and optionality (AI monetization) required for exponential compounding. These are attractive stock characteristics for an active manager seeking long term Quality investment opportunities and explains why these businesses are the cornerstone of our tech exposure in the Global Equity Compounders strategy. Technology names continue to be the largest exposure in the portfolio at 29%.

The Fund deliberately includes a diverse range of software solutions, such as engineering software (**Ansys**, **Cadence Design**, **Autodesk**), cloud computing platforms (**Microsoft**, **ServiceNow**), enterprise resource planning software (**SAP**, **Oracle**), and specialized software for specific needs, including cybersecurity (**Palo Alto Networks**) and financial management (**Intuit**). We are confident that these software companies will continue to sustain and expand their revenue growth as these are supported by structural trends, with independent forecasts indicating that earnings should compound at approx 13.7% CAGR through 2030[6].

[1] *Adobe company data, Source : Bloomberg as of 20/02/2025.*
[2] *SAP financial results Q4 and FY 2024, Source: SAP.com*
[3] *Investor's business daily, 28/01/2025 : https://www.investors.com/news/technology/deepseek-ai-enterprise-software-sap-nvidia/*
[4] *Redburn Atlantic, Enterprise software call my agent, 19/02/2025*
[5] *Gartner research, as of 9/02/2025*
[6] *Grand View Research, Software As A Service Market Size, Industry Report, 2030*

Source : Carmignac, Bloomberg, As of 28/02/2025

Recommended minimum investment horizon: 5 YEARS

1 2 3 4 5 **6** 7

Lowest risk — Highest risk

KID (Key Information Document) risk scale. Risk 1 does not mean a risk-free investment. This indicator may change over time.

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. **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. **LIQUIDITY:** Temporary market distortions may have an impact on the pricing conditions under which the Fund might be caused to liquidate, initiate or modify its positions..
The Fund presents a risk of loss of capital.

DISCLAIMER

CARMIGNAC GESTION 24, place Vendôme - F - 75001 Paris Tel: (+33) 01 42 86 53 35 Portfolio management company approved by the AMF. SA with capital of €13,500,000 - RCS Paris B 349 501 676
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