QUARTERLY REPORT

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Carmignac Portfolio Grande Europe: Letter from the Fund Manager

Author(s)

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+3.91%

Carmignac Portfolio Grande Europe's performance

in the 2nd quarter of 2023 for the A EUR Acc Share class

+2.27%

Reference indicator's performance*

in the 2nd quarter of 2023

+8.91%

Annualised performance

of the Fund since Mark Denham** vs +7.48% for the reference indicator

*During the second quarter of 2023, **Carmignac Portfolio Grande Europe** (A EUR Acc share class) rose 3.91%, providing a return above the reference indicator which rose 2.27%.*

Market environment during the period

After the strong performance of the previous two quarters, given many conflicting factors, European markets rose modestly in Q2 2023, trading in a tight range for the entire period. On one side, encouragingly, inflation everywhere is easing – albeit more slowly than we had hoped – and central banks are still expected to raise rates so to maintain its downward trajectory, before weaker inflation prints will be reflected in bond yields. On the other side, underlying economic data has clearly deteriorated, with declining manufacturing and economic sentiment indicators in contractionary levels, pointing to Europe soon being in recession.

Performance commentary / What you have done in this context?

In the period, sectoral performances were mixed. Travel & Leisure, Retail, and many Auto stocks were strong buoyed by higher-than-expected personal consumption despite the rising cost of living, as consumers ate into savings built during the Covid crisis. At the same time, Financials rebounded as Banks regained their poise from the funding crisis experienced only few months ago. Although we have little exposure to these areas of strength, we are well represented in **Technology, another sector that did well in the period**. In this space, our long standing/high conviction holding in software name SAP rose after results underlined the progress made towards transitioning to a cloud-based model. While upgrading their mid-term targets, the company confirmed Cloud based revenues are rising more than 20% annually, comprising more than 40% group results already. To note, while in Europe we do not have direct exposure to the explosive opportunity in artificial intelligence (AI) highlighted by results among US names, the theme will lead to strong demand for silicon chip manufacturing equipment worldwide. As a result, our holdings in ASML and ASM International, both rose in the period.

Conversely, reflecting the increasingly uncertain economic backdrop, **Energy and Basic Materials performed poorly, both falling in the period**. As both areas do not meet our strict threshold for financial quality or sustainability, the impact to the portfolio is limited.

To note, **Healthcare was not particularly strong in the period, but some of our names did well**, such as medical device manufacturers, Straumann (dental implants) and Alcon (ocular and contact lenses). The latter, which has been a laggard until recently, was one of the stocks we added to our Fund during 2022 volatility caused by rising interest rates. Thanks to recent product launches in both surgical and consumer segments, the company upgraded both medium term sales and profit targets. Novo Nordisk – the leading player in diabetes and obesity drugs – remains our largest holding. While only rising mildly after a strong prior period, in the first quarter results the company continued to impress and even upgraded their full year guidance, which now models a spectacular 24-30% growth in sales, driven by explosive demand for their leading products. Zealand Pharma – another drug company exposed to obesity drugs – registered a good performance ahead of strong clinical data. Finally, our smallest healthcare name, the biotech Merus, enjoyed a stunning rally as investors – including us – look forward to updates regarding all three of their leading clinical candidates' drugs for treating various cancers.

In recent years, our holdings in the renewables space have struggled. Ever since the spectacular sprint enjoyed on the back of President Biden's election, the sector has been adversely affected by multiple factors: rising bond yields depressing valuation, uncertainty on future regulation (until the Inflation Reduction Act - US) and, most significantly, the huge Covid led disruption to supply chains which caused rising input costs and difficulty keeping projects profitable. As if all these concerns were not enough, our main holding here, utility Orsted, also had company specific project execution issues. **Nevertheless**, their last two quarters results have reassured investors that **the worst of these problems have passed** and that, thanks to a more beneficial treatment of tax credits on US projects, profitability will be achieved thanks to current wind farms and projects already under or close to development. At their recent Capital Markets Day, management also outlined the drivers of growth until 2030 and gave us enough comfort to significantly increase our holding size in the name as a result.

What is our outlook for the coming months?

Having added numerous names to the Fund in 2022, when we picked up many high-quality names oversold in the volatility caused by rising rates, we have made no large changes to the portfolio so far this year. Nevertheless, we have already seen the benefits of last year's activity (ie: Straumann and Alcon) and expect to continue reaping further rewards in the second half of 2023 and beyond. While we are primarily bottom up focused on high quality, sustainable businesses, with a long-term view, we would expect our Fund to benefit from the peak and subsequent fall in interest rates and bond yields warranted by the current economic environment. **The superior profit growth and visibility of sales and profits of our names is likely to be reflected in better performance – especially against an uncertain economic backdrop. However, we are not reliant on that. We have an investment horizon of 5 years, and we stick to our process focused on profitable companies with high returns on capital, reinvesting for growth. We believe these companies will continue to deliver attractive long-term returns for investors**.

*Reference indicator: Stoxx Europe 600 (NR, EUR). From 01/01/2013 the reference indicator is calculated net of dividends reinvested. ** Mark Denham took over the Fund on the 17/11/2016. Source: Company website, Bloomberg, Carmignac, 30 June 2023.

Carmignac Portfolio Grande Europe

A high conviction, sustainable European equity strategy

Discover the fund page

Carmignac Portfolio Grande Europe A EUR Acc

ISIN: LU0099161993

Recommended minimum investment horizon

Lower risk Higher risk

1	2	3	4*	5	6	7

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.

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.