CARMIGNAC PORTFOLIO GRANDE EUROPE: LETTER FROM THE FUND MANAGER

04/07/2024 | MARK DENHAM

+1.3%	**+1.1%**	**+12.6%**
Carmignac P. Grande Europe's performance in the 2nd quarter of 2024 for the A EUR Share class.	Reference indicator's performance in the 2nd quarter of 2024 for Stoxx 600 (Reinvested net dividends) (EUR).	Carmignac P. Grande Europe's performance YTD 2024 for the A EUR Share class versus +8.9% for the Stoxx 600 (Reinvested net dividends) (EUR) over the period.

During the second quarter of 2024, ***Carmignac Portfolio Grande Europe*** *(A share class) rose +1.3%, providing a return above the reference indicator which rose +1.1%. This brought the fund performance for the year to date to +12.6%, versus +8.9% for the reference indicator.*

QUARTERLY PERFORMANCE REVIEW

After their strong performance in the first quarter, driven by the prospect of interest rate cuts, European markets stalled somewhat in the second quarter. Initially, this was caused by stronger than expected economic data and inflation falling slower than hoped, although as the period progressed this situation eased allowing some central banks, notably including the ECB, to start cutting rates. Latterly, though markets were roiled by political uncertainty on both sides of the Atlantic. Not only did President Biden faulter in a televised debate, but in Europe President Macron's decision to call elections in France post a strong performance from right wing parties in European elections, raised the prospect of victories for both far-right and far-left parties there, both of whom would be expected to be fiscally profligate and anti-European. Consequently, French bond yields rose, and European equities fell.

The theme of weakening economic growth and in particular consumer spending meant that the consumer discretionary sectors, such as Autos, Retail, Luxury Goods performed the worst during the period. We had little exposure here, but our holding in consumer staple, L'Oreal, fell 5%, despite a good first quarter report, because towards the end of the second quarter they announced a weakening in the Chinese market. Nonetheless, we expect them to hold up much better than other consumer names, as the beauty market is enjoying secular growth, and they are outperforming this trend.

Leadership among stocks and sectors constantly changed over the period and this was reflected in Energy and Financials as well as Healthcare and Technology being among the better performing sectors.

HOW IS THE FUND POSITIONED?

The Healthcare sector remains the largest area of exposure for the fund and was also the strongest performing sector in the second quarter, although we saw widely varying performances among our names. Novo Nordisk remains our largest holding and it rose 14% after a strong financial report but more importantly after confirming a quadrupling of supply of their previously capacity-constrained obesity drug Wegovy, where they are seeing insatiable demand. Even more spectacularly we saw Zealand Pharma rise 31%. This company is also developing drugs to treat obesity, and we saw extremely promising data for their most valuable asset, a so-called amylin analogue, which has a different mode of action from the GLP-1 product Novo provides. Zealand is in a strong position to negotiate with future partners who can commercialise their drug, and consequently we believe there is still large upside to the stock.

Our other biotech stock Argenx has had a tough period recently following drug development setbacks but was salvaged by US approval of their innovative drug Vyvgart in its second neurological indication CIDP. We believe the market is too cautious in its estimates of the sales opportunity here, as well as the nascent value of their extensive pipeline of other opportunities, and so we maintain the name among our top ten holdings.

Other healthcare names were less profitable. Sartorius the manufacturer of equipment to enable customers to manufacture drugs, fell 34%, when it became clear the company is still being hampered by excessive inventories of equipment at customers, who over-built stocks during the covid supply chain disruption. Nonetheless, we expect a normalisation of demand to recur in coming quarters. Finally, healthcare names with exposure to the consumer, Straumann (dental implants) and Demant (hearing aids), fell victim to fears over consumer strength worldwide, and saw their stocks fall 21% and 12% respectively, despite no evidence yet of any material impact on their results.

Technology names are also an area of large exposure for us. ASML, the semiconductor equipment company, rose 8% as the whole semiconductor sector continues to be swept along in the positive news flow around growing demand for artificial intelligence (AI) enabled chips. They also confirmed imminent favourable resolution of contract negotiations with key customers. Elsewhere, software giant SAP rose 6% as their customers continue to switch to their popular cloud-based product – a process they are only a quarter of the way through, and one which is proving immune to economic headwinds seen by other names in the sector.

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

As rate cuts seem a question of when, rather than if, as economies weaken, we are encouraged that markets should be able to ride out a period of weaker economic strength and some political headlines. Nonetheless, we maintain our focus on stocks and sectors with strong visibility on sales and profits and have de-emphasised some of our Industrial holdings.

We added no new names to the fund in the quarter and have made few large changes to the portfolio this year so far. We have an investment horizon of 5 years, and we stick to our process of focusing on profitable companies with high returns on capital, reinvesting for growth. We believe these companies will continue to deliver the best long-term returns for investors.

CARMIGNAC PORTFOLIO GRANDE EUROPE A EUR ACC

(ISIN: LU0099161993)

SFDR - Fund Classification** :

Article 9

LOWEST RISK						HIGHEST RISK
1	2	3	**4***	5	6	7

Recommended minimum investment horizon **5 YEARS**

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.

*Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. **The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : 4,00% of the amount you pay in when entering this investment. This is the most you will be charged. Carmignac Gestion doesn't charge any entry fee. The person selling you the product will inform you of the actual charge.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 1,80% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,41% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

PERFORMANCE (ISIN: LU0099161993)

Calendar Year Performance (as %)	2015	2016	2017	2018	2019
Carmignac Portfolio Grande Europe	**-1.4 %**	**+5.1 %**	**+10.4 %**	**-9.6 %**	**+34.8 %**
Indicateur de référence	+9.6 %	+1.7 %	+10.6 %	-10.8 %	+26.8 %

Calendar Year Performance (as %)	2020	2021	2022	2023	2024 (YTD)
Carmignac Portfolio Grande Europe	**+14.5 %**	**+21.7 %**	**-21.1 %**	**+14.8 %**	**+12.6 %**
Indicateur de référence	-2.0 %	+24.9 %	-10.6 %	+15.8 %	+8.9 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Grande Europe	**+3.7 %**	**+10.3 %**	**+7.2 %**
Indicateur de référence	+6.9 %	+8.5 %	+6.9 %

Source: Carmignac at 28 Jun 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).