CARMIGNAC PORTFOLIO GRANDE EUROPE: LETTER FROM THE FUND MANAGER

11/10/2024 | MARK DENHAM

+2.10%

Carmignac P. Grande Europe's performance in the 3rd quarter of 2024 for the A EUR Share class.

+2.63%

Reference indicator's performance in the 3rd quarter of 2024 for Stoxx 600 (Reinvested net dividends) (EUR).

+14.96%

Carmignac P. Grande Europe's performance YTD 2024 for the A EUR Share class versus +11.72% for the Stoxx 600 (Reinvested net dividends) (EUR) over the period.

*During the third quarter of 2024, the return of **Carmignac Portfolio Grande Europe** (A share class) was a positive return of +2.1%, providing a return below the reference indicator which rose +2.6%. This brought the fund performance for the year to date to +15.0%, versus +11.7% for the reference indicator.*

QUARTERLY PERFORMANCE REVIEW

In the third quarter markets rose modestly, struggling to make sustainable progress. Nevertheless, there was substantial volatility from week to week and the period was marked by violent sectoral rotations. Throughout the period, economic data such as manufacturing surveys and inflation prints were consistent with slowing economies in Europe and supportive of continuing falling interest rates. Q2 company reporting was mixed, with notable weakness and commentary from consumer facing names in autos, and luxury goods among others. Consequently, earnings estimates for the full year continued their downward trajectory. Having started 2024 anticipating c.9% profits growth for European companies, consensus had fallen to only 3% by the quarter end. When the US employment report for July reported a dramatic slowing in employment markets, global markets fell dramatically led by Technology names that had been strong so far in 2024. However markets recovered after Federal Reserve Chair, Powell stated rate cuts were on their way, which was subsequently confirmed by a 0.5% cut to US rates in September. This stock price recovery was led by economically sensitive cyclical stocks, anticipating future recovery. This revised leadership continued until quarter end.

As the market leadership was taken up by cyclical sectors, previously strong areas of the market, notably Healthcare and Technology lagged. This was detrimental to our fund as we typically have large long-term exposures to these sectors. Conversely for the long term we avoid sectors such as Financials which were strong. Offsetting these effects, our stock selection within our areas of focus was strong, allowing us to keep up with the market over the period.

HOW IS THE FUND POSITIONED?

The Healthcare sector remains the largest area of exposure for the fund but this quarter we saw mixed contributions from our main holdings. Novo Nordisk, the leader in the emerging space of obesity drugs, reported mixed second quarter results impacted by ongoing supply constraints but also higher price declines than anticipated. While supply is set to rise rapidly and we still expect the obesity market to be dominated in volume terms by Novo and competitor Eli Lilly, competition is coming, including many different types drug/modes of action increasing uncertainty over our medium-term forecasts. Also, pricing of drugs is under more scrutiny and at risk of developing less favourably. Reflecting these trends and acknowledging the asymmetric risk of a forthcoming drug trial readout for their next generation drug in November, Novo fell 20% in the third quarter, impacting our performance. During this period, we reduced our exposure somewhat to reflect the various risks too, although we still believe in the long-term investment case.

On a positive note, dental implant company Straumann shares rose 27% after delivering strong second quarter results including 15% organic sales growth, confounding expectations of a cyclical slowdown. Full year guidance was also upgraded to low double-digit growth, and already anticipates some macroeconomic weakness. Another positive came from BioNTech, a recent addition to the fund, and a name in our biotech sleeve. The company had been a beneficiary of Covid in 2020 – providing the Pfizer vaccine – leading to a peak share price of $440. As demand for vaccines has dwindled and the hype has come out of the name, the share fell to c.90 USD. This was our opportunity to start a holding. We like the fact that the company has 32 projects in development for a range of illnesses, mainly cancer, using its innovative mRNA technology, of which by the end of the year they expect 10 to be advanced phase and therefore valuable. Their previous vaccine success means they can fund their projects internally using the large cash reserves they have built up from Covid vaccines. They also still benefit from baseline level vaccine sales of about 3bn$ p.a. For all these reasons we identified BioNTech as a good opportunity. Since we initiated our position, one of their projects showed decent data at the European cancer congress ESMO, and the stock responded well rising 41% since our initial purchase.

Technology names are also a large exposure for us. SAP the German software company is the largest holding in the fund currently at c.7%, and after rising 8% in the quarter it was a significant contributor to performance, again. The company has flawlessly executed on its medium-term plan to convert existing on-premise software clients to a cloud version, as well as signing new clients. Their backlog of cloud business is growing more than 25% p.a. This has led to consistent revenue upgrades and a continuing pathway of margin expansion. Despite rising 48% YTD we maintain the name as the funds current largest holding. However, we have made significant change to our other main holding in the sector, ASML. For the first 5 months of the year this was one of our largest holdings at c.8% of the fund, but ahead of Q2 reporting we reduced it to 3%. We were concerned stocks in the semiconductor sector had done well and looked technically extended, and that they were increasingly correlated to US names like Nvidia where expectations were almost impossible to surpass in the short run. It transpires we were right as the stock sold off post Q2 numbers underperforming c.30%, despite a solid print, although there was some concern over sustainability of Chinese demand where US restrictions are being tightened. Nevertheless, now at 26x next year's profits, and at the bottom of historic trading ranges, we have increased our weighting back to c.5%.

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

We maintain our focus on stocks and sectors with strong visibility on sales and profits.

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 %)	2014	2015	2016	2017	2018
Carmignac Portfolio Grande Europe	**+10.3 %**	**-1.4 %**	**+5.1 %**	**+10.4 %**	**-9.6 %**
Indicateur de référence	+7.2 %	+9.6 %	+1.7 %	+10.6 %	-10.8 %

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Portfolio Grande Europe	**+34.8 %**	**+14.5 %**	**+21.7 %**	**-21.1 %**	**+14.8 %**
Indicateur de référence	+26.8 %	-2.0 %	+24.9 %	-10.6 %	+15.8 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Grande Europe	**+0.4 %**	**+8.3 %**	**+7.2 %**
Indicateur de référence	+4.7 %	+7.5 %	+6.9 %

Source: Carmignac at 31 Oct 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).