



Carmignac Portfolio Emerging Discovery: Letter from the Fund Managers

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Carmignac Portfolio Emerging Discovery (A EUR ACC share class, ISIN LU0336083810¹) was up +3.91% during the third quarter versus -1,20% for its reference indicator², making up for around half of the under-performance accumulated by the fund since the beginning of the year, which, as a reminder, was largely due to its Russian exposure. Since the beginning of the year, the fund returned -18.29% versus -12.65% for its composite reference indicator.

Performance explanation

The past quarter's strong performance was mainly due to India. Two things played in our favor. Firstly, the fund had a significant overweight position in India, with an average exposure of 24% over the quarter to be compared with 18% for its reference indicator. And secondly, we were rewarded by our stock picking. Our Indian portfolio was up 31.9% over the quarter vs 17.6% for our reference indicator¹.

More specifically, our consumer names **Sapphire Foods** and **Varun Beverages** were the top two contributors to the fund during the quarter. While most Asian countries are seeing their economic activity collapse as a consequence of weakening exports, India, on the other hand, is experiencing an uptick in domestic credit and investments. This is supporting domestic demand and consumption. Our Indian healthcare names also performed very well, especially Max Healthcare which was added to the fund during the summer. We bought a very large position in August when the company raised Equity.

Max Healthcare is the second largest hospital chain in India, with 17 facilities and a current capacity of 3,400 beds which is rising rapidly. The company acquired land with the intention to add 1,000 beds in Greenfield hospitals in highly attractive regions where penetration is low. Max Healthcare is a profitable business despite a very aggressive growth plan unveiled in the past three years that allowed its EBITDA to grow more than 50% per year. Max Healthcare has been displaying one of the best standards of clinical excellence and patient care among its peers, which is of prime importance in a country where there is little availability of quality healthcare. Note that Max Healthcare accounts for 8.2% of the fund, an illustration of our willingness to reduce the number of positions and have a more concentrated portfolio that focuses on our strongest convictions. Our top 10 positions account for 48% of the fund, the highest number in years.

During the quarter, we also added **Salik**, a toll road operator in Dubai. The macro backdrop in the UAE (United Arab Emirates) looks very positive, thanks to the obvious support of higher oil prices, but also to the Government's successful initiatives to attract business. Salik's traffic is driven by the demographics of the country, which is dynamic thanks to Dubai's popularity as a tourist and business hub. The Government put in place the Golden Visa program for retired people and remote workers, it decided to host more than 400 global events per year by 2025 to attract more visitors and launched the 2040 Urban Master Plan to develop and invest in five main urban centers, three of which will be connected to existing toll gates. This plan is expected to increase the population of Dubai to 5.8mn by 2040 from the current 3.4mn. Being a monopolistic State-Owned enterprise, we believe that Salik's business does not have a material regulatory risk and the valuation exercise is made easier by the automatic inflation adjustment to toll prices. We decided to buy in the IPO of the company because our analysis indicated an attractive Equity risk premium to sovereign yields, which we believe does not make sense with regards to the risk profile of the business.

Outlook for the next months

Taking into account the much higher long term real yields in the US curve, we have decided to have a conservative approach, which is why we have put in place a hedging strategy on our Indian portfolio on both the currency and the Equity market for around 10% of the fund.

While we clearly like the names that we own in India, we acknowledge that Indian Equities have been holding up very well in relative terms, which brings the risk of a sudden draw-down which would affect the fund. We would like to take the opportunity to remind our investors that our hedging strategies are limited in both magnitude and time. They are used in exceptional circumstances for a limited amount of time when we believe that it is in the interest of the fund to use derivatives which are liquid and cost-free rather than move the portfolio directly. We have also reduced the risk of the fund by trimming some of our cyclical positions, especially in Korea and Taiwan, in the semi-conductor space for instance, which are deep cyclical names.

However, as we head into the 4th quarter, we are seeing some signs of capitulation in the market, usually an opportunity to re-expose the fund, which is why we are becoming more and more confident for 2023 and we believe our next moves will be bullish ones.

Sources: Carmignac, Bloomberg, 30/09/2022

[1] Performance of the A EUR acc share class ISIN code: LU0336083810. Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor). From 01/01/2013 the equity index reference indicators are calculated net dividends reinvested.

[2] 50% MSCI EM SmallCap (EUR) + 50% MSCI EM MidCap (EUR) (Reinvested net dividends rebalanced quarterly).
Bloomberg, 30/09/2022

Crossing frontiers to discover small and mid-cap gems

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Carmignac Portfolio Emerging Discovery A EUR Acc

ISIN: LU0336083810

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.

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest.

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.

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.



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