



Carmignac Portfolio Grande Europe: Letter from the Fund Manager



Author(s)
Mark Denham

Published
October 17, 2022

Len

-3.9%

Carmignac Portfolio Grande Europe's performance

in the 3rd quarter of 2022 for the A EUR Acc Share class

-4.3%

Reference indicator's performance

in the 3rd quarter of 2022

+6.3%

Annualised performance of the Fund

since Mark Denham started managing it (17/11/2016) versus +4.9% for the reference indicator

During the third quarter of 2022, the return of Carmignac Portfolio Grande Europe (A EUR Acc share class) was a decline of -3.9%, however, this was above the reference indicator which fell -4.3%.

Quarterly Performance Review

Throughout the quarter, European markets continued to face several headwinds. On the one side, inflation remains resilient at a level much higher than central banks' targets, resulting in upward pressure on interest rates and rising bond yields. On the other side, the war in Ukraine – and the resulting suspension of Russian gas supplies to the region – has kept energy prices high and increases the likelihood of rationing in 2023. Both these dynamics are likely to place a material burden on consumers and companies in Europe, resulting in downside risks to profit forecasts for next year (a deeper deceleration from that already factored in).

Additionally, at least in the first half of 2023, we also expect negative GDP growth. Nevertheless, it is true that fiscal actions are mitigating some of these headwinds (i.e. energy price caps), but they require funding which, in turn, limits governments' ability to maneuver and boost growth. A dramatic example of this was the new UK government's U-turn in recent days on their own proposed tax cuts.

How is the fund positioned?

In July, markets initially rose on the false hopes of a fast decline in US inflation. These prospects were firstly dashed by hawkish commentary from policymakers, and successively by strong employment reports and higher inflation prints. These data confirmed the persistent strength in the labour market and so-called core inflation (which excludes energy and food). Nonetheless, as of today, we still expect the dominant headwind to change soon as **investors' focus will shift from valuation multiple compression, due to rising rates, to growing fear over the impact of rising costs on economies and companies' profits. This transition will create an environment more conducive to the kind of stocks we have in our portfolio: companies with higher visibility and sustainability of sales and profits which are thus less economically sensitive.** Q2 reporting season in Europe was broadly uneventful, with an unusually high proportion of companies beating estimates. Full year forecasts were broadly maintained, as the impact of the above-mentioned headwinds were yet to materialise. However, investors considered these numbers to be backward looking as the risks remain ahead of us.

In the last three months, all sectors performed negatively with energy and commodities more muted. This backdrop weighed on the fund as our exposure to these two sectors is virtually zero. However, our stock selection was positive, and helped us to modestly beat the reference indicator. Support came from our Healthcare allocation which, in recent months, we have increased. This area is now a strong focus of the fund as we like the visibility that many of the underlying names provide in a tough environment. Additionally, we believe that these stocks have been unduly punished by valuation compression due to rising interest rates. As well as having added new names earlier in the year such as Alcon (ocular lenses), Genmab (biotech) and Straumann (dental), in Q3 we also added Lonza, a contract drug manufacturer. Latest results – and the company business model – has shown particularly visible profit streams owing to the long-term nature of its contracts, as well as growth in demand primarily driven by the use of biologic drugs, and gene and cell therapies such as RNA mechanisms. Having lost significant value this year, we took advantage of an excellent entry point. **Novo Nordisk, our largest holding, has been volatile in the period** After reacting badly this summer to news that recommencement of the supply of their weight loss drug, Wegovy, was to be deferred again to the end of Q4, the name recouped value quickly after a pipeline product delivered market leading efficacy on weight loss. Quarterly numbers were also strong, and the company increased full year guidance, primarily due to the relentless growth in their leading once-weekly diabetes injectable, Ozempic. The product has been on the market for a few years already, but growth has followed an exponential trajectory owing to strong efficacy and convenience, with prescriptions in the US rising more than 80% in the quarter versus the previous year.

Good performance came from contract caterer Compass Group whose stock rose in Q3 as they continued to recoup their losses, including those due to the pandemic. This reopening name has made steady progress, rising significantly since we added it at the start of the Covid crisis. As a result, it has now reached our target price and we have cut the holding down to almost zero. **LVMH – the luxury goods company – has also been a strong performer** on the back of Q2 reporting numbers which underlined the strength of their brands (organic growth and no signs of slowdown). Again, we have cut this holding back after strong relative performance as we currently prefer competitor Hermes. We initiated in the latter in July after a significant fall created a wonderful entry opportunity. Since then, the name has already recovered some of the value lost. **On the negative side, we saw a pronounced weakness in names with higher sensitivity to economic activity, such as Puma (sportswear) and Kingspan (building materials). Wind energy players Orsted and Vestas were also weak** after quarterly results confirmed the tough operating environment caused by volatile energy prices, supply chain disruption, and logistic cost pressure. We have added to Orsted, as the long-term outlook is favourable on the back of high growth in installed wind farms for decades to come.

What is our outlook for the coming months?

All year, the market environment has been a difficult one for us, both in absolute terms and relative to our reference indicator. However, **we have an investment horizon of 5 years, and we will stick to our process of focusing on profitable companies with high returns on capital, reinvesting for future growth.** We believe these companies will continue to deliver the most attractive long-term returns for investors. This is why the dramatic pullbacks in prices of these types of companies are opportunities for us: they provide excellent entry points in great businesses – as shown by the examples mentioned above.

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



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.

Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. This material does not constitute a subscription offer, nor does it constitute investment advice. This material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. This material has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any securities or interests referred to herein or for any other purposes. The information contained in this material may be partial information and may be modified without prior notice. They are expressed as of the date of writing and are derived from proprietary and non-proprietary sources deemed by Carmignac to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Carmignac, its officers, employees or agents.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged.

Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.

Morningstar Rating™ : © Morningstar, Inc. All Rights Reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Access to the Funds may be subject to restrictions regarding certain persons or countries. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the material or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not access this material. Taxation depends on the situation of the individual. The Funds are not registered for retail distribution in Asia, in Japan, in North America, nor are they registered in South America. Carmignac Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Funds have not been registered under the US Securities Act of 1933. The Funds may not be offered or sold, directly or indirectly, for the benefit or on behalf of a «U.S. person», according to the definition of the US Regulation S and FATCA. The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital.

The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management Company. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

In France, Luxembourg, Sweden: The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management Company.

In the United Kingdom: the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.

In Switzerland: the prospectus, KIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in English on the following links: [UK](#) ; [Switzerland](#) ; [France](#) ; [Luxembourg](#) ; [Sweden](#).