QUARTERLY REPORT

19.01.2023

Carmignac Portfolio Grande Europe: Letter from the Fund Manager

Author(s)
Mark Denham

Published
January 19, 2023

Len

+8.87%

Carmignac Portfolio Grande Europe performance

in the 4th quarter of 2022 for the A EUR Share class

+9.84%

Reference indicator* performance

in the 4th quarter of 2022

+7.52%

Annualised performance of the Fund

since Mark Denham** vs +6.31% for the reference indicator

In the fourth quarter of 2022, ***Carmignac Portfolio Grande Europe*** *gained +8.87%, while its reference indicator* rose 9.84%. The Fund posted a performance of -21.09% over the year, compared with a decline of -10.64% for its reference indicator.*

Quarterly Performance Review

Market environment during the period

Having had an extremely poor first 9 months, European markets rallied at the beginning of 4Q. This was in expectation of an easing in US headline inflation which, once materialised in November, supported an even higher climb in anticipation of a Fed slowdown. A widespread effect despite the same set up was not characterising the Eurozone. Nonetheless, news flow that China was reopening allowed stock prices to rally, despite huge uncertainty over what higher rates will mean for economic growth and European company profits in 2023.

Fund Positioning

What you have done in this context / performance commentary

Regardless of the change in market direction, the better performing sectors continued to be Financials, Energy, and Commodities, as they have been during the whole year. Having little exposure in these areas – we believe they do not exhibit either the high-quality financial characteristics to generate long-term value, or sustainability criteria – we suffered performance wise not only in Q4, but during the entirety of 2022. **Despite this dynamic, we maintained our focus on quality, secular growth companies**and have continued to add new names to the Fund meeting our criteria, including life science equipment maker Sartorius, and pharma stock Zealand Pharma. Additionally, we used any weakness to reinforce other new names added during the year, such as contract drug manufacturer Lonza and contact lens company Alcon.

As much as we had a sectoral headwind, many of our individual larger holdings had good returns in the quarter. Healthcare especially remained a source of positive contribution for the Fund. Novo Nordisk rose as they confirmed ongoing strong growth of their diabetes franchise and the fact that Wegovy – their new obesity product – would be again available in the US market by year end. Novo remains one of our larger holdings as we think there is more potential growth in both these business areas going forward. Genmab also rose as sales of their cancer product Darzalex – which is partnered with J&J – exceeded expectations as well as due to investors' turning their attention to a rich pipeline of new cancer treatments. In Technology, SAP rose as momentum in their new cloud offering has been sustained despite economic uncertainty on the back of clients' need for better visibility on supply chains globally and access to real time ESG data. The company is more than halfway through a transition of its core ERP product to the cloud, which we believe means we should see it reflected on profit growth from 2023. As a result, the name remains a high conviction holding in our portfolio.

The luxury goods sector rose in the quarter, partly on optimism on resumed demand from Chinese consumers post their protracted lockdowns. Hermes, a name we added last summer after it suffered a large pull back, enjoyed a strong performance and exceeded our long-term fair value. A trigger for us to sell. Over 2022 we have been reducing many of the reopening names that we purchased 2 years ago when the Covid crisis hit, such as Compass Group, the contract caterer, which we eventually exited in Q4. We also sold a remaining small holding in Teleperformance – after progressively taking profits over the year on the back of a good performance – given negative news flow in November.

Outlook

How your portfolio is prepared for the following months?

As 2022 came to an end, it is clear how difficult the market environment has been for our strategy, in absolute and relative terms. However, **having an investment horizon of 5 years, we stick to our process and focus on profitable companies with high returns on capital, reinvesting for growth. We believe these companies can continue to deliver long-term returns for investors, and so the dramatic pullbacks in prices of these types of companies in 2022 have provided us with entry points in great businesses we had on our watchlist for a while. Additionally, as we move into 2023, we continue to reinforce our alignment to sustainable investments, in line with our Outcomes Framework based on the United Nations Sustainable Developments Goals.**

Going forward, we do not expect to see again such rotation away from high quality, in fact, in any case, 2022 magnitude cannot be replicate in an environment characterised by less upward pressure on interest rates and inflation. Instead, we believe that the superior profit growth and visibility of sales and profits of our holdings is likely to be reflected in more resilient performance – especially against an uncertain economic background.

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, December 2022

Carmignac Portfolio Grande Europe

A high conviction, sustainable European equity strategy

Discover the fund page

Carmignac Portfolio Grande Europe A EUR Acc

ISIN: LU0099161993

Lower risk Higher risk

Recommended minimum investment horizon

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.