CARMIGNAC PORTFOLIO GRANDE EUROPE: LETTER FROM THE FUND MANAGER

11/04/2024 | MARK DENHAM

+11.2% Carmignac P. Grande Europe's performance in the 1st quarter of 2024 for the A EUR Share class.	**+7.7%** Reference indicator's performance in the 1st quarter of 2024 for Stoxx 600 (Reinvested net dividends) (EUR).

*During the first quarter of 2024, **Carmignac Portfolio Grande Europe** (A share class) rose +11.2%, providing a return above the reference indicator which rose +7.7%.*

QUARTERLY PERFORMANCE REVIEW

European markets in the first quarter rose steadily throughout the period, initially continuing in the same vein as they finished 2023, led by optimism for interest rate cuts by central banks on both sides of the Atlantic. What was very encouraging was that this momentum persisted even when it became clear expectations for rate cuts were too high, owing to strength in the US economy and a slower decline in inflation. Investors have rightly focused on the fact that the direction of travel is for declines in rates, inflation is less than half where it was a year ago, and we have seen a tentative improvement in economic indicators such as PMI manufacturing data and sentiment indicators. This profile through the period initially meant the market was led by sectors/stocks exposed to secular themes such as artificial intelligence (AI) and obesity, but in March it broadened out to include strong performances from cyclical areas like banks and autos which ended up being the strongest sectors in the quarter rising 13% and 15% respectively.

FUND POSITIONING

This sectoral mix was initially supportive for our fund but created a small headwind for us in March. Nonetheless it was a strong quarter for the fund, owing to our stocks in the Technology and Healthcare sectors. Yet again Novo Nordisk was the strongest stock contributor for the fund rising 27% on the back of relentless momentum in sales and profits driven by strong demand for their GLP-1 drugs Ozempic and Wegovy to treat diabetes and obesity. We expect profits in 2024 to grow c30% this year again and maintain the name as our largest holding. Other names in the sector were strong too including our smaller biotech holdings, Zealand and Merus which rose 80% and 65%, respectively. Zealand is another name exposed to GLP-1 and has 4 obesity products in development. Merus has shown promising data in head and neck cancer for its lead antibody product.

In technology semiconductor equipment name ASML rose strongly up 30% boosted in part by their quarterly results which showed an explosive increase in their equipment order book, as clients are accelerating their commitment to the company's cutting edge EUV technology to be able to manufacture smaller and more powerful silicon chips, as well as cope with more complex chip design to accommodate AI. We believe this momentum will continue throughout 2024. SAP was also a great contributor to the fund, rising 29% as the company continued to relentlessly execute their strategy of converting their core software products to a cloud offering for clients. Not only is this cloud offering popular, with cloud backlogs growing 27% last quarter, but having taken the required investments upfront during the past 2 years, they are now enjoying operating leverage meaning profits can grow faster than sales, and at a low double digit percentage rate. We expect this process to continue for the coming years and so also maintain this name among our larger holdings.

While it was a strong quarter for the fund, our consumer names lagged with Puma the sportswear company falling 25% and being comfortably the biggest stock headwind. The company gave a very cautious outlook for 2024 which was considerably below our expectations citing cautious consumer activity and a tough economic backdrop. We are concerned about the company strategy of reliance on the wholesale distribution channel where we expect Adidas to be a growing competitive threat as they refocus their attention there. For these reasons we exited our holding in the company.

The luxury good sector has been under a cloud in recent quarters with companies like LVMH expected to see a normalisation of their sales growth from the strong 12% compound average growth they saw between 2019-23, driven by strong pricing during the covid-impacted period, towards a single digit level with 5% possible in 2024. This negative profile was underlined with profit warnings from Burberry and Gucci in the space recently also. The good news is that we have had no exposure to this trend until recently.

In January we saw a pullback in Hermes which we regarded as an opportunity for long-term investors like us to start a position in a company whose products are at the apex of desirability, exclusivity and therefore also pricing power. With their full year results the company confirmed this profile with double digit growth and guided for further price increases of c8% underpinning our forecasts of 13% sales growth in 2024. Happily, the name has performed well since our investment rising 28%.

OUTLOOK

Having added numerous names to the fund in 2022, when we picked up many high-quality names sold off in the volatility caused by rising rates, we made a few large changes to the portfolio in 2023 and year to date. Hermes is an example of a new entry in this quarter.

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.

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. **

FEES

Maximum subscription fees paid to distributors : 4,00%

Redemption Fees : 0,00%

Conversion Fee : 1%

Ongoing Charges : 1.80%

Management Fees : 1,50% MAX

Performance Fees : 20,00% of the outperformance to the reference indicator over the year. Performance fee is not charged until previous underperformance is offset

ANNUALISED 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 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Grande Europe	+3.3 %	+9.4 %	+7.1 %
Indicateur de référence	+7.6 %	+7.9 %	+6.9 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).