CARMIGNAC PORTFOLIO HUMAN XPERIENCE: LETTER FROM THE FUND MANAGER

Third quarter 2023

23/10/2023 | OBE EJIKEME

+0.96% Carmignac Portfolio Human Xperience performance in the 3rd quarter of 2023 for the A EUR Share class	**-0.46%** Reference indicator's[1] performance in the 3rd quarter of 2023	**+15.63%** Performance of the Fund Year to date versus +10.94% for the reference indicator

During the third quarter of 2023, the return of **Carmignac Portfolio Human Xperience** (A share class) was +0.96%, whilst its reference indicator fell -0.46% during this period. The fund posted a performance of +15.63% year to date, compared to +10.94% for its reference indicator.

QUARTERLY PERFORMANCE REVIEW

The third quarter was a period dominated by rising bond yields and generally hawkish commentary from the US Federal Reserve outlining the need for policy interest rates to remain high throughout 2024, longer than previously anticipated, owing to a stronger domestic US economy and labour market. This created downward pressure on relatively highly rated stocks in the technology and consumer staple sector, as well as heightened concern for highly indebted companies such as those in the utility and real estate sectors. In aggregate we were under exposed to these areas, which was supportive. On the negative side the best performing sector was the energy sector, where we had no exposure, rising 14% in tandem with the commodity price. Over the quarter of topical note was the United Auto Workers strike involving automobile workers of the three major unionized automakers – Ford Motor Company, General Motors and Stellantis. Whilst we have no direct exposure to this sector or these issuers, it highlighted how the subject of employee welfare and labour practices do and can influence not only the function but also the bottom-line of very high-profile organisations.

The best performer in the quarter was Technology driven by extremely bullish statements from Nvidia the semiconductor graphics chip specialist around the impact on future chips sales to their datacentre customers to satisfy demand for future artificial intelligence applications (AI). Specifically, they guided for an immediately visible and large impact coming in their next fiscal quarter with a guidance of $11bn in sales, some 57% ahead of prior expectations. The scale of the impact and the fact it is happening now, caught everyone by surprise, and drove stocks most exposed to the AI theme higher. Nvidia itself rose 51% in the period, having already climbed more than 90% in Q1. Nvidia was a top 10 holding due to its strong Carmignac Human Xperience scores so we used the opportunity to take profits in the name. Microsoft was also seen as a major beneficiary – not just because of its stake in OpenAI the owner of ChatGPT a major AI program, but because its current software should benefit from AI functionality becoming embedded in future years cementing their competitive position and their pricing. Their Azure infrastructure business should also benefit from higher volume of activity. Microsoft remains a top 10 holding.

The other mega-trend we are benefiting from is the opportunity in drugs to treat obesity. Danish company Novo Nordisk and US Eli Lilly are best placed for this theme, as the dominate the fast-growing market of GLP-1 drugs for treating diabetes and obesity. We see this as a trend likely to last for decades. Both companies are seeing strong growth from their leading products, with Novo upgrading FY sales and profits growth to levels around 30%, despite being unable to fully satisfy strong demand with existing capacity until new plants come on stream in the second half of 2024. Current analyst forecasts of a rapid slowing in growth next year and beyond look far too cautious, because even modest projections of only single digit percentage treatment penetration of the likely $100bn+ market opportunity would imply both names can sustain growth for much longer. In addition, both companies demonstrated strong data at recent industry conferences for their follow-on products in development, thus likely keeping competition at bay for many years to come. Both names have strong customer and employee related metrics and hence in total account for 7% of the maximum 8% that within our process we can distribute across 2 separate positions.

At the end of the quarter, our exposure remains tactically balanced, allocating 38% to both Consumer Discretionary and Consumer Staples, leveraging the potential of an improving consumer backdrop. Additionally, we maintained a strategic 28% investment in the Technology sector, underpinning our belief in its capacity to deliver high-demand products and retain top talent for long-term competitiveness.

Over the quarter we took advantage of the significant rise in US treasury yields to add and increase our exposure to the more defensive areas of the equity market via two new holdings Unilever and Colgate. Both exist in the consumer goods space with the focus on beauty and wellbeing and personal care. Both have very high levels of customer satisfaction which will prove to be important with macro risks to the downside rising. Both could benefit from an investment perspective as 1) they have been neglected by the market thus far in 2023 and 2) their earnings tend to be more resilient in times of uncertainty and volatility.

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

We continue to remain cautious about economically sensitive sectors, maintaining an underweight position in Energy, Materials, Industrials, and Financials/Banks. We believe this prudent strategy will contribute to performance in the final quarter of the year.