



Carmignac Portfolio Emerging Discovery: Letter from the Fund Managers

Author(s)

Xavier Hovasse, Amol Gogate

Published

February 1, 2023

Len



Carmignac Portfolio Emerging Discovery (A EUR ACC share class, ISIN LU0336083810¹) returned -5.01% during the fourth quarter versus +1,12% for its reference indicator² thus giving up slightly more than the relative gains it had generated in the previous quarter. For the full year 2022, the fund returned an overall -22.39% versus -11.67% for its reference indicator. Much of the relative underperformance in 2022 was driven by the write-down of the fund's holdings of Russian equities in the first quarter of 2022.

Performance explanation

As we entered the fourth quarter of 2022, the fund was positioned conservatively with lower exposure to cyclical sectors and countries (e.g. financials, South Korea etc). This positioning had helped the fund deliver strong relative gains in the third quarter. While we had begun adding to the out-of-favour countries and sectors, we missed capturing some of the large and rapid relative moves. Our exposure to Indian equities, which had been a strong positive contributor to returns through much of 2022, faced headwinds as the Indian Rupee depreciated ~10% against the Euro contrasted by, for example, the ~5% appreciation in the Korean Won against the Euro. Our holdings across China and South Korea and in cyclical sectors such as industrials, financials and real estate contributed positively to returns in the fourth quarter. During the quarter we also participated in a couple of IPOs of highly promising businesses in India which contributed positively to the fund's results.

As we look back at the full year 2022, the fund's results were helped by our holdings in India and Brazil. The Indian market was relatively unscathed during what was a very volatile and difficult year for most asset-classes globally. The fund benefited from its ownership of strong consumer franchises in India such as **Varun Beverages** and **Vedant Fashions** (Manyavar). In Brazil, the fund's main holding was the transmission utility **Alupar Investimento** which continues to deliver steady, predictable and market-beating returns. The main detractor for our funds was our massive over-weight position in Russia at the beginning of the year which had to be significantly written-down after the war started in Ukraine.

During the fourth quarter we initiated a position in **Cimory**, an innovative consumer foods company in Indonesia. Cimory was founded in 1993 by Bambang Sutantio and is now led by his son Farell Sutantio. Over the years, Cimory has established a track record of introducing innovative products at premium price points – from yoghurt drinks to 'kanzler' nuggets. Cimory's management team is quick to experiment with new brand-building and distribution strategies. For example, they have created a unique direct-to-consumer distribution channel called Miss Cimory. This channel consists of over 400 saleswomen who distribute products weekly to over 200,000 households who would have been difficult to reach otherwise. This is a great example of a business innovation that is greatly beneficial to the community.

We also added to existing holdings such as **TaskUs**, a business process outsourcing (BPO) company with significant presence in the Phillipines. TaskUs is unique amongst its BPO peers in that it is almost exclusively focused on supporting high-growth tech businesses in the developed markets. TaskUs was a big winner for the fund in 2021 and we had taken profits as multiple expanded during the 2021 rally. 2022 was the reverse as growth slowed and valuation multiples collapsed across the technology sector. The attractiveness of TaskUs, like many other BPOs, is that it is a profitable and highly cash generative business. We believe the extreme moves in TaskUs' stock price are not justified by the fundamentals of the business and have therefore used the sell-off to add to the fund's holdings of the company.

Outlook for 2023

After a strong 2021 but a very difficult 2022, we are excited about the outlook for 2023. We continue to identify businesses that have a long runway for growth ahead of them, whose business models deliver robust returns and can easily fund the growth, whose management teams we trust and who we believe contribute to sustainable development of the communities they operate in.

We are mindful of two major opposing factors that will likely shape the coming months and quarters. On one hand, we are cautious about the impact of the impending recession in the major Developed Markets. At the same time, there are early signs that the Emerging Markets asset class could be coming into its own after lagging global equities for over a decade. The fund's focus on small and mid-caps in Emerging Markets offers us a diversity of opportunities across themes in our major geographies – from leaders in export of services and resultant domestic consumption in India and ASEAN to goods export powerhouses of China and Vietnam and their domestic consumption; from advanced technology ecosystems in South Korea and Taiwan to economies enriched by critical commodities across Latin America, Middle East and Africa. We aim to continually strengthen the fund's portfolio by taking advantage of opportunities offered by dislocations in any specific geography or theme.

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).

Crossing frontiers to discover small and mid-cap gems

Discover the fund page

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.

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](#).