Carmignac Portfolio Grande Europe: Letter from the Fund Manager

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+8.66%

Carmignac Portfolio Grande Europe's performance

in the 1st quarter of 2023 for the A EUR Acc Share class

+8.39%

Reference indicator's performance*

in the 1st quarter of 2023

+8.62%

Annualised performance of the Fund since Mark Denham**

vs +7.41% for the reference indicator

*In the first quarter of 2023, **Carmignac Portfolio Grande Europe** gained +8.66%, while its reference indicator* gained +8.39%. The Fund cumulated a performance of +69.36% since November 2016**, compared to + 57.63% for its reference indicator over the same period.*

Market environment during the period

2023 started strongly on the continuation of the trends seen late last year: i) fading recession worries thanks to fiscal support for consumers, falling gas prices, and a rapid Chinese reopening, **and ii) resilient investors' mood** albeit stubborn inflation, hawkish rhetoric from central banks, and continued interest rate rises. In January and February, economically sensitive sectors were strong, however, March was different. With the collapse of Silicon Valley Bank in the US, followed by fears over Credit Suisse leading to its acquisition by fellow Swiss giant UBS, the Banking sector lost all its year-to-date gains, before partly recovering towards the end of the period. More defensive areas of the market instead performed well. **At the end of the quarter, the market regained its poise buoyed by weakening headline inflation worldwide, which reinforced anticipations of an end to future rate hikes.**

Performance commentary / What you have done in this context?

Initially, the sectoral mix was unfavourable to our strategy given our traditionally little exposure to the more cyclical sectors of the market (Retail, Autos, and Banks especially). However, March volatility allowed us to catch up and finish the period in line with our reference indicator. Although we do not expect a recession in Europe in the coming quarters – perhaps not even in 2023 – we do expect the relentless tightening of monetary policy worldwide to impact economic strength with a lag. In this environment, companies which typically have more visible and reliable sales and profits streams – like the names which are part of our portfolio – should perform well, aided by ongoing easing of bond yields.

Over the quarter, our Technology names delivered a strong positive contribution to the Fund's returns. SAP rose after delivering solid full year numbers and demonstrating ongoing momentum in the cloud business where sales and margins increased, and any uncertainty over the outlook was dispelled as management confirmed expectations for the full year. Semiconductor equipment maker ASML was also strong, benefitting from rising market expectations in a recovery of the sector's end-demand, starting H2 2023.

Uncharacteristically, our Healthcare names provided a more mixed contribution in the period. On the positive side our long-standing largest holding in Novo Nordisk rose as the US relaunch of their sought-after obesity drug Wegovy has hugely beaten expectations. Lonza, which also gained significant value in the period, published solid full year results, and encouraging forward guidance. A name we added to the Fund last year after it was sold off in the rotation away from quality companies as interest rates rose, Lonza is now one of our largest holdings. As a contract drug manufacturing company providing a range of services to the pharmaceutical industry, Lonza has a very dependable and secure future growth, backed by long term contracts. On a negative note, **our biotech names lagged in the period.** Argenx fell slightly as investors are becoming apprehensive of a key late-stage drug trial read-out in the coming quarter. While we have halved the position to de-risk this event a little, we believe the company has many other interesting projects to come. Genmab simply fell given the lack of 2023 strong catalysts, an unusual circumstance for the company.

How is the portfolio prepared for the following months?

As we are cautious when it comes to the outlook, we prefer to stick with relatively defensive plays in the Technology sector – SAP and ASML (the latter for example is protected by a 2-year order book for their machines) – **and Healthcare space. Nevertheless, it is important to stress the variety of businesses that we have in this area – belonging to multiple different subsectors** (ie: pharmaceuticals, biotech, medical devices, and contract services) **– which remains the largest sectoral exposure of the Fund, at about 35%.** During the first quarter of 2023, our Industrial names also recorded a positive performance. Assa Abloy and Schneider full year results were strong and commentary regarding current trading, generally reassuring. **However, bearing in mind the looming risk of weakening economic data, we have tweaked down our size in the industrial space, notwithstanding the favourable longer-term trends our names benefit from.**

Having added numerous names to the Fund in 2022, as high-quality opportunities presented themselves on the back of the volatility caused by rising rates, **we made no major changes to the portfolio so far this year. As always, we look forward to reaping the rewards of those additions in 2023 and beyond.** Given more muted upward pressure on both interest rates and inflation, we still believe we will not see once again the same rotation away from high quality names we have seen in 2022. **With an ideal investment horizon of 3 to 5 years, and an unwavering trust in our process focused on profitable companies with high returns on capital, reinvesting for future growth, we believe we offer investors attractive long-term returns in European equities.**

*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, 31 March 2023

Carmignac Portfolio Grande Europe

A high conviction, sustainable European equity strategy

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Carmignac Portfolio Grande Europe A EUR Acc

ISIN: LU0099161993

Lower risk Higher risk

Potentially lower return Potentially higher return

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.