QUARTERLY REPORT

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FP Carmignac European Leaders: Letter from the Fund Manager

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Length
4 minute(s

-11.2%
FP Carmignac European Leaders’ performance in the 1st quarter of 2022 for the A GBP Acc Share class

-7.4%
Comparator benchmark*’s performance in the 1st quarter of 2022

* Comparator benchmark: MSCI Europe Ex UK Net Total Return USD, converted to GBP end of day. Risk Scale from the KIID (Key Investor Information Document).

FP Carmignac European Leaders A GBP Acc lost -11.2% in the first quarter of 2022, versus -7.4% of its comparator benchmark, mainly on the back of the sectorial rotation characterizing the market in the period.

European Equity Market Review

The first quarter of the year was an eventful one. In the period, the dominant factor affecting European equities was the response of monetary authorities in US and Europe to rising inflation. This activity led to interest rate increases, tapering planning, and withdrawal of quantitative easing measures introduced during the Covid crisis. Although economies worldwide are emerging from Covid lockdowns, many bottlenecks affecting supply chains, logistics, and the labour market are still characterising the environment. This backdrop, which is compounded by high energy prices exacerbated by the Russian invasion of Ukraine, precipitated a sharp market rotation into so-called “value” sectors such as Oils and Commodities. In the first few months of the year, these segments were among the few areas of the market delivering a positive return; however, given they do not meet our financial criteria which is based on high levels of profit and reinvestment, we have virtually no exposure to them. Conversely, higher quality companies and sectors such as Technology, Industrials, and Consumer Goods - where we are focused, and which have relatively higher multiples - came under the most pressure from the rising interest rates environment. This rotation experienced in the market accounts for all the performance disparity in the quarter between the Fund and its comparator benchmark. To note, we had no direct exposure to Russia or Ukraine and, even if many holdings have some sales in those countries, the overall Fund’s indirect exposure there is proportionally small.

Portfolio Management

At the end of last year, we anticipated the risk of a painful rotation due to inflationary pressure by reducing exposure in the portfolio to what we thought were the most vulnerable areas such as: recently listed companies through IPOs, loss making companies among innovative sectors like biotech and food delivery, as well as the highest multiple stocks. While we cannot control the rotation, we can make sure that the targeted 35-40 companies we own in the Fund are maintaining their profit trajectory. Consequently, as during the full year reporting season all but one of our names met or beat our expectations, we only divested from the one exception, namely Delivery Hero - a food delivery company - where profitability was once again deferred by management. Nevertheless, for the most part, our companies were able to offset rising cost pressure and deliver good results, so we took any weakness as an opportunity to add to some of the names such as: Adyen (electronics payments), Assa Abloy (locks), and LVMH (luxury goods).

Among the sector led movements, there were some highlights. Our pharmaceutical names were relatively strong. Novo Nordisk - a portfolio long-term holding - saw demand for their GLP-1 treatments, for both diabetes and new indication obesity, accelerating and consequently set encouraging growth ambition for 2022. Roche - which instead was added in mid-2021 - is another player in the Health Care industry which enhances the Fund's somehow more defensive bias, a stance called by the current environment. Visibility of revenues and diversified growth drivers leveraging newly launched drugs are in fact important attributes to our investment thesis around the name. Another highlight in the quarter were our renewable energy stocks Vestas (wind turbines) and Orsted (wind farm development), both of which outperformed the market. High and rising energy price levels worldwide were initially caused by supply chain disruption and subsequently exacerbated by the Russian invasion of Ukraine. As a result, economics of renewable energy are becoming relatively more attractive. Additionally, Europe's concerns around energy supply and its accessibility have accelerated discussions for energy independence. This has pushed both the European Union at an aggregate level and local governments to plan the increase of sovereign energy supply. In this context, renewable energy forms are critical and will become even more attractive for investors. In particular, even if current results for both Orsted and Vestas are being adversely impacted by input cost pressure, we believe market participants will review their medium and long-term outlooks, thus we continue to reinforce this area of the Fund, on any price weakness.

The market rotation we have seen in the period, an extreme downward stock prices movement among high quality / highly valued names, have also created opportunities for us. This generalised downward volatility allowed us to add new names that we believed were previously too expensive, despite being attractive fundamentally. An example is Swiss listed dental equipment company Straumann, market leader in dental implants. While continuing to grow through innovation within the implant division, the company is also building a growing market share in the promising clear aligners segment. Cleared aligners are more fashionable and discrete options used as an alternative to wires, for straightening teeth. We started a position in the name after a more than 30% drop in the stock share price. Another opportunity was Genmab, a Danish biotech company with several products already on the market.

Outlook & Strategy Reminder

With few additions/deletions to the Fund in the period, we head into the remaining part of 2022 with the broad structure of the portfolio unchanged but representing an attractive entry point for investors, having fallen 30% from its recent peak in November 2021. The Fund remains a consequence of our bottom-up stock picking process which focuses on SRI and quality companies, defined by their profitability and high return on capital.

FP Carmignac European Leaders

A high-conviction, bottom-up European Ex-UK Equity strategy

Find out more

FP Carmignac European Leaders A GBP ACC

ISIN: GB00BJHPHZ49

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.