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Carmignac Portfolio Family Governed: Letter from the Fund Manager

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-10.20%

Carmignac Portfolio Family Governed performance

in the 2nd quarter of 2022 for the A EUR Acc share class

-10.24%

Reference indicator's performance

in the 2nd quarter of 2022

-19.67%

Performance of the Fund year to date

versus -13.18% for the reference indicator

During the second quarter of 2022, the return of Carmignac Portfolio Family Governed (A share class) was -10.20%, in line with its reference indicator, which fell by -10.24%.

Global Equity Market

As the second quarter progressed, global markets continued to fall. However, whereas earlier in the year the market fell owing to rising cost pressures from energy and raw materials, and rising interest rates, during the second quarter the dominant concern became the impact of these pressures on economic growth and company profits. Consequently, the better performing areas of the market were defensive ones in the form of consumer staples, utilities and healthcare which barely fell, and the worst included technology and consumer discretionary. This rotation was more or less neutral for our fund as we have large exposure across all of these areas.

Portfolio Management

Over the period, few changes have been done to the portfolio. Some of our strong convictions have demonstrated good performance. For instance, among our best performing names was pharmaceutical name Novo Nordisk, boosted by relentlessly strong demand for their innovative and effective diabetes drugs. Estee Lauder the cosmetics maker was also rewarded for the visibility of its future sales and profits with a stable stock price against a tough market backdrop. Veeva Systems, a specialist software supplier to the healthcare sector only fell 1%. There was also some positive sentiment for Chinese contract drug manufacturer Wuxi Biologic which rose in euro terms on expectations of a resolution to the current impasse over US regulations. The US has placed Wuxi on a so-called "unverified list" until inspections are performed to check equipment is being used correctly, but the stock started to anticipate the prospect of imminent inspections in July. We have increased our exposure to many existing healthcare names including pharmaceutical name Roche and dental leader Straumann. The latter saw its stock price fall in Q2 after a weak first quarter, presenting a great opportunity to increase our exposure to the long-term secular growth trends of dental implant penetration and explosive growth in clear aligners as a tooth straightening solution.

Our more economically sensitive consumer discretionary names were among the weakest areas, despite all of them delivering solid earnings reports during the period. Marriott hotels group was the biggest negative impact as this large holding of the fund fell 18%, despite ongoing improvement in occupancy rates as the world emerges from covid. Consumer names Hermes (luxury), EssilorLuxottica (eyewear) and Amazon all fell substantially on ongoing fears over the economy. As a result, we have reduced their sizing during the quarter.

The most significant change we have made to the fund in the period was a large new position in US pharmaceutical name Eli Lilly. The company is diversified across many therapeutic areas including oncology and immunology and has best in class growth, but the key attraction is their leading position in the very fast-growing segments of diabetes and obesity treatment using innovative so-called GLP-1 class of drugs. Their latest product, Mounjaro, was approved recently and we expect it to take a commanding market share in coming years. The company also has drugs in development for Alzheimer's disease, the largest untreated illness globally, which provides additional potential upside. This stock is well suited for our family business theme as the company was founded in 1867 by Colonel Eli Lilly, and today the foundation, The Lilly Endowment, is the largest shareholder at more than 10%. As well as using its financial returns from investing in Lilly shares to pursue many philanthropic activities, the endowment helps preserve the long-term thinking that has made the company so innovative and successful. Of course, where possible we also want to earn great short-term returns, and we are off to a good start here. We bought a large c3% holding and already the name was the largest positive contributor to fund performance.

Towards the end of the quarter the founder of Luxottica, and chairman of EssilorLuxottica, Leonardo Del Vecchio, died aged 87. He has left his wealth to his children who will take over the family holding company Delfin, which has a 31% stake in EssilorLuxottica. While he was an influential figure and driving force between cementing the merger between Essilor and Luxottica, our engagement with the company since this event has been reassuring. Mr Del Vecchio had made clear succession plans and we expect the family to continue to leave the management of the business to the executive team led by CEO Mr Milleri who will also assume the role of chairman. While this makes practical sense short-term, ideally, we prefer the two roles to be split and will continue engaging with the company to push for this, or the appointment of a lead independent director, to ensure strong governance.

Outlook

Overall, our activity was modest in Q2. Notwithstanding the cyclical rotation mentioned above, and the marginal adjustments we made to accommodate it, we stick to our long-term process. We invest in fundamentally high-quality companies which also have a significant family or founder shareholder to guide the company and enable long-term strategic decisions. Detailed corporate governance analysis is essential to identify the most beneficial names among this group.

As active managers, we have used the dramatic pullbacks in stock prices seen in the previous months, to add to some of our existing positions as well as opportunistically add new names to the Fund. With an investment horizon of more than five years, we have the confidence that investing in family lead businesses with strong quality characteristics will support the fund's performance.

Source: Company website, Bloomberg, Carmignac, June 2022

Carmignac Portfolio Family Governed

A global, high-conviction equity fund that invests in family companies

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