



Carmignac Portfolio Grandchildren: Letter from the Fund Manager

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-12.3%

Carmignac Portfolio Grandchildren performance in the 2nd quarter of 2022 for the A EUR Acc share class

-10.8%

Reference indicator's performance in the 2nd quarter of 2022

+38.2%

Performance of the Fund since launch¹ versus +39.2% for the reference indicator

During the second quarter of 2022, Carmignac Portfolio Grandchildren (A EUR Acc share class) declined -12.3%, providing a return below its reference indicator which fell -10.8% over the same period.

Global Markets

In the second quarter, little has changed, and global markets continued to reflect the themes that drove returns in the previous three months of the year. More precisely, concerns over rising interest rates led to persistent downward pressure on the valuations of relatively highly rated stocks despite the underlying quality of such companies. This dynamic was exacerbated, as the quarter proceeded, by growing concerns over the impact of rising interest rates and the energy crisis on both future economic and corporate profit growth.

Portfolio Management

As a result, Technology and Industrial stocks – where we have high weightings – continued to be under pressure and, despite our Consumer Staples and Healthcare names holding up well, this backdrop led to the Fund lagging its reference indicator in the period.

Among the weakest names were Semiconductor leaders Nvidia and ASML. While Nvidia delivered solid fiscal Q1 results, they expect consumer related demand for their graphics chips (GPUs) to be impacted in the second quarter due to Chinese lockdowns and the Ukrainian war. Looking far ahead, we remain positive about the prospects of its leading technology exposure to megatrends such as datacentre's growth and artificial intelligence. It's the same long-term horizon for ASML, a name which recently we have slowly been adding to. The company, in fact, has a dominant position in lithography within the semiconductor manufacturing chain and has a large order backlog for their machines driven by increased penetration of the latest cutting edge EUV technology, both factors substantiating our investment thesis.

In the period, Kingspan had the worst performance among our Industrial names. While delivering a strong Q1 report, the insulation material company announced recent declines in order activity. Contrary to what we usually do when there is weakness in a name for which we have strong conviction, we have not taken the opportunity to increase exposure here. It is true that we remain committed to Kingspan on the back of better building insulation standards and regulation, and the widespread desire for energy efficient buildings but, the Fund's macroeconomic overlay – a unique characteristic of the strategy – has guided us to reduce cyclicity in recent months. Furthermore, we have sold other more cyclical names such as Netflix, PayPal, and Walt Disney, but added holdings among the Consumer Staples such as Colgate-Palmolive and Procter & Gamble. This area of the market is characterised by resilient demand as consumers redirect spending to essentials in difficult economic environments. Additionally, on the back of the companies' strength and desirability of brands, they are in good position to pass on to consumers cost increases of raw materials.

On the positive side, **most of our names have delivered resilient fundamental results up to now.** Examples include core stalwarts like Microsoft, Palo Alto and Intuit. The latter even increased full year guidance driven by their core small business accounting software suite.

Our Healthcare stocks have seen mixed fortunes recently. On the one side, Novo Nordisk continues to rise driven by accelerating demand for its diabetes and obesity drugs, Thermo Fisher has been rewarded on the back of its relative stability and visibility of core revenue, and Elevance Health (formerly known as Anthem), the US healthcare medical insurance company, gained value thanks to announced costs control measures. On the negative side, Intuitive Surgical and Stryker fell due to concerns over the strength of future hospital spending, as well as supply chain constraints. Align Technology (owner of the Invisalign brand) significantly fell on the slowing down of growth expectations. Nevertheless, we remain committed to these names and have added to them.

Further name of note is EA Sports, one of the better contributors in Q1 which we sold on strength as we see its industry vulnerable in a downturn. Conversely, we added ServiceNow – a player in the software sector – on weakness, as we are optimistic on the sustainability of the growth of their automated workflow management tool which has become an essential corporate application post-pandemic

Outlook

Other than the above-mentioned changes, activity has been contained. As one would expect from an investment process that focuses entirely on businesses that have proven ability to sustain high levels of profitability, most of our holdings have not disappointed to date.

Our focus remains on identifying and owning profitable companies with high return on capital. These companies, we believe, are in a good position to deliver results over a five year or longer time horizon.

Carmignac Portfolio Grandchildren

A global, high-conviction equity fund for long-term investors

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