



## Carmignac Portfolio Grande Europe: Letter from the Fund Manager



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### -13.8%

Carmignac Portfolio Grande Europe performance

in the 2<sup>nd</sup> quarter of 2022 for the A EUR Acc share class

### -9.5%

Reference indicator's performance

in the 2<sup>nd</sup> quarter of 2022

### -24.6%

Performance of the Fund year to date

versus -15.0% for the reference indicator

During the second quarter of 2022, Carmignac Portfolio Grande Europe (A EUR Acc share class) declined -13.8%, providing a return below its reference indicator which fell -9.5%.

### European Equity Market

**Little has changed in the last three months:** Q2 began in the same vein as Q1 ended, with markets juggling many concerns. On the one side, concerns about the impact of rising interest rates worldwide on stock price valuations and, on the other, concerns about disruption to companies and the economy from ongoing lockdowns in China and the war in Ukraine. The latter, which persistently fueled high energy and raw material prices, also placed additional burdens on companies and consumers. **As the quarter developed, we saw a shift from valuation multiple compression due to rising rates, to growing fear over the impact of rising costs on economies' profits.** Both dynamics had a detrimental effect on stock prices however, this transition, was the key factor affecting sectoral performance during the period. Cyclical/economically sensitive sectors such as Autos and Commodities – which had been more favourable in the previous quarter – dragged down the market and joined the already weak Construction, Industrials, and Technology names. Overall, the most resilient areas were all defensive including Telecommunications, Utilities, Consumer Staples, and Healthcare. The Energy sector was the exception, as it was sustained by the ongoing crisis with Russia.

## Portfolio Management

**By continuously assessing our portfolio, we see that this feared deterioration in company profits has yet to materialise among our companies, which have, by and large, delivered solid Q1 results and maintained full year targets.** The exceptions were Vestas Wind Systems and GN Store Nord, names which have been the most affected by global supply chain disruptions over recent quarters and had to lower their 2022 expectations. For the wider market, analysts' expectations for the year's profit growth remain decent at low double digits. However, this looks optimistic as we expect declining economic growth to impact sales and persistent cost pressure to eventually eat into profit margins. Nevertheless, to date, our names have managed to pass cost pressure on through higher prices.

**At this point, the question is: are future problems already discounted in the severe stock price decline seen in some of the most sensitive areas of the market? We suspect they are not.** This view is supported by what happened to Kingspan's stock price. Once the insulation material company announced that order volumes for their insulated panels used in commercial construction declined in May and June versus the same period last year, the stock fell more than 15% despite having already fallen ca 35% year to date. Investors are on the lookout for any news and ready to significantly penalise the negatives in an environment which has been detrimental to our Industrial stocks, namely Kingspan (insulation), Schneider (electricals), Sika (building materials), and Assa Abloy (locks). Still, we maintain these as core holdings as their investment thesis over the long-term holds up.

Although we have a large exposure to Health Care, it was not enough to offset the declines among our Industrial and Technology names in the period but, the underlying names have recorded good performance led by Novo Nordisk - our largest holding. Novo rose in Q2 driven by accelerating prescription growth of its key diabetes drug Ozempic as the so-called GLP-1 drug class continues to dominate and increase its share in treating the illness. Additionally, support came by the news that a manufacturing issue relating to a recently approved obesity product, Wegovy, is now resolved, and supply is set to resume in the second half of. This indication is a major part of our investment thesis as obesity is at least twice as prevalent as diabetes – according to the World Health Organization – and one where the use of successful drug treatments like Wegovy has only just started. Argenx, another name in the Health Care sector, was the best performer in the Fund over the period as the roll out of recently approved Vyvgart for the treatment of the rare disease Myasthenia Gravis exceeded analysts' expectations. This result underpinned the company's successful transition towards profitability and cash generation. We remain committed to both names.

## Outlook

**As active managers, we have used the dramatic pullbacks in stock prices seen in the previous months, to add new names to the Fund. With an investment horizon of more than five years, we have the confidence to bet against the market and seize opportunities.** Earlier in the year we added biotech Genmab and dental implant firm Straumann. In Q2 we continued to increase Genmab in size and added Alcon, producer of eye care products ranging from surgically implanted artificial lenses to contact lenses. The name delivers the reliable steady growth we are looking for in this environment, driven by favourable trends of ageing demographics, better diagnosis, and innovation.

**The Fund structure remains unchanged.** The recent environment has been a difficult one for us, in absolute terms, and relative to our reference indicator. However, as fears over economic growth continue, we expect the sound nature and visibility of our more high-quality stocks to be supportive to the Fund's performance. In any event, the portfolio is a consequence of our bottom-up stock picking process which focuses on profitable companies with high return on capital. Such companies, we believe, could deliver attractive long-term returns for investors.

Carmignac Portfolio Grande Europe

# A high conviction, sustainable European equity strategy

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## Carmignac Portfolio Grande Europe A EUR Acc

ISIN: LU0099161993

Aanbevolen  
minimale  
beleggingstermijn



### Voornaamste risico's van het Fonds

**AANDELEN:** Aandelenkoersschommelingen, waarvan de omvang afhangt van externe factoren, het kapitalisatieniveau van de markt en het volume van de verhandelde aandelen, kunnen het rendement van het Fonds beïnvloeden.

**WISSELKOERS:** Het wisselkoersrisico hangt samen met de blootstelling, via directe beleggingen of het gebruik van valutatermijncontracten, aan andere valuta's dan de waarderingsvaluta van het Fonds.

**DISCRETIONAIR BEHEER:** Het anticiperen op de ontwikkelingen op de financiële markten door de beheermaatschappij is van directe invloed op het rendement van het Fonds, dat afhankelijk is van de geselecteerde effecten.

Het fonds houdt een risico op kapitaalverlies in.