



Carmignac Portfolio Human Xperience: Letter from the Fund Manager



Auteur(s)
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-12%

Carmignac Portfolio Human Xperience's performance

in the 2nd quarter of 2022 for the A EUR Share class

-10.2%

Reference indicator's performance

in the 2nd quarter of 2022 for MSCI ACWI

-11.57%

Performance of the Fund over 12 months

versus -4.43% for the reference indicator

During the second quarter of 2022, the return of Carmignac Portfolio Human Xperience (A share class) was -12.0%. This compares to a return on the funds reference indicator¹ of -10.2% over the same period.

Quarterly Performance Review

In the second quarter, global markets continued to reflect the macroeconomic factors that drove returns in the previous quarter, in that concerns over rising interest rates led to persistent downward pressure on the valuations of relatively highly rated stocks (in our proprietary social database), despite the underlying quality of the companies. This was exacerbated, as the quarter proceeded, by growing concerns over the impact of rising interest rates and the energy crisis on future economic growth and corporate profits. Consequently, Technology and Consumer Discretionary stocks where we have high weightings continued to be under pressure, and despite consumer staples and healthcare names holding up well where we have had significant exposure, this led to the fund lagging its reference indicator in the period.

Among the weakest names were Semiconductor leaders Nvidia (-40%). Nvidia delivered solid fiscal Q1 results with ongoing strong demand for their advanced chips in datacentres although they also guided that they expect consumer-related demand for their graphics chips (GPUs) to be impacted in the second quarter by Chinese lockdowns and the Ukrainian war. We also anticipate some headwind from weaker demand for their GPUs by crypto currency mining activity. However, the 50% fall in the stock this year anticipates many negative news flow already, and at this level the stock is poised to perform better, driven by its leading technology exposure to megatrends of datacentre growth and artificial intelligence.

Elsewhere Paypal (-36%) was also weak during the quarter. The digital payments platform whose products include PayPal, PayPal Credit and Braintree fell due to their lowered outlook on slower economic growth and macro uncertainty. We continue to hold as a long-term investment given PayPal's potential for compounding earnings growth, margin expansion, and brand strength, despite near-term pressures. Paypal continues to be a best-in-class employer ranked #29 out of 750 on the recent Forbes World's Best Employer rankings and has been consistently in the top 20% of companies based on customer satisfaction metrics.

On a positive note, General Mills, the maker of Cheerios and Old El Paso rose by 19% over the quarter showing some welcome resilience during a period where cost pressures were seen as a major concern. Fourth quarter profits came in well ahead of market expectations and the subsequent dividend guidance increase was welcome. As one of our largest holdings as well as being a leader in the employee-related space, we believe General Mills is a company which has the characteristics that can hold up well in a challenging macro environment.

More specifically, in the social arena, in a recent survey by Seramount, General Mills alongside L'Oréal and Zoetis (also current investments) were ranked in the top 10 of 75 companies for executive women. The survey was based on companies' responses to more than 200 questions on topics pertinent to female representation in the workplace, with a focus on corporate officers and profit-and-loss leadership ranks.



How is the fund positioned?

In the healthcare sector, returns were mixed. Sanofi-Aventis the maker of Doliprane paracetamol and Gold Bond the skincare brand was amongst our best performing names as it rallied +8%. Novo Nordisk (+5%) was boosted by relentlessly strong demand for their innovative and effective diabetes drugs. On the flipside, Lonza, the Swiss multinational manufacturing company for the pharmaceutical, biotechnology and nutrition sectors was down -22% over the month but we see this weakness as an opportunity to add to given the company's bond proxy characteristics. Our exposure to the sector overall remains sizeable at 21% and in fact increased with the addition of Pfizer which featured in Glassdoor US top 100 places to work. As a sector we believe that Health care can provide some shelter and visibility during a testing macro environment.

Elsewhere whilst the near-term backdrop of higher fuel prices and challenging consumer headwinds remain present, the recent addition of Southwest Airlines to the fund highlights the type of company we believe embodies the Human Xperience spirit. During the quarter, Southwest Airlines which was recently awarded the 2022 J.D. Power Award for Highest Customer Satisfaction, announced that they would spend \$2 billion as part of their plan to bring the next generation of customer experience to their customers. Their planned initiatives are designed to enhance and simplify customers' journeys, from booking trips, to traveling through airports, and while inflight delivering an even more enjoyable and productive customer experience. Whilst the cyclical backdrop for airlines and businesses within the broader industrials sector might be somewhat challenging, Southwest Airlines is the type of investment that we will be looking to add to as and when the broader macro environment becomes clearer.

Other notable headlines during the quarter saw Accenture among LinkedIn's top 25 best workplaces in Ireland. Hilton was awarded the 'Best Workplace for Women in Greater China' for the third consecutive year and Microsoft enhanced its customer privacy credentials by adding a free built-in VPN to its Edge browser.

What is our outlook for the coming months?

As a reminder, this is an equity fund focused on stock-picking across Global markets. It is a thematic fund invested in companies that demonstrate strong customer and employee satisfaction. This strategy is sector and region agnostic as it seeks to select best-in-class companies with attractive scores based on our proprietary database. The fund aims to outperform its benchmark over five years and is designed for investors looking to have a positive impact on society.

Our focus remains on identifying and owning companies which exhibit strong customer and employee characteristics that we believe have the best prospects for a 5 year or longer time horizon.

With inflation fears potentially abating as seen recently in asset classes such as commodities, and consumer confidence around the world near record low levels, we see the set up for the next 6 – 12 months as a positive one from an investment perspective. The market pullback in Q2 and year to date has created a unique set of opportunities that we will look to capitalise on.

¹<https://seramount.com/best-companies/2022-top-companies-for-executive-women-winners/>



Carmignac Portfolio Human Xperience

A thematic fund focused on customer and employee experience

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The Importance of Customer Satisfaction to Corporate Success

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