BEYOND THE PLATE - WHY WE FAVOUR PERSONAL CARE OVER FOOD COMPANIES

24/02/2025 | MARK DENHAM

Mark Denham, fund manager of the Carmignac Portfolio Grande Europe Fund, explains the fund's allocation to Consumer Staples and where his focus is.

As a quality manager, consistency of revenue is one of the most sought-after characteristics of a winning compounding stock. And nothing is more consistent than high quality consumer stocks.

The Carmignac Portfolio Grande Europe Fund has around 17% exposure to consumer stocks split relatively evenly between staples and luxury. We have written previously about luxury names like Hermes, which continues to demonstrate its incredibly resilient business model.

While staples are generally considered bullet proof defensive stocks, it is important to understand that not all staples are the same. As a bottom-up stock picker, we are looking to identify the highest quality companies across this complex that demonstrate the twin traits of long-term profitability and commitment to reinvesting for the future.

Within this space, there are areas where we will not invest given our focus on ESG and then we home in on the areas we like and separate those that we don't like – primarily on valuation and fundamental grounds. An easy area to rule out is tobacco. At Carmignac we have a strict exclusion policy to tobacco within our funds since our creation in 1989.

A harder area is food products. Traditional staples should be "staples" in a high-quality compounding strategy, right? Not necessarily, when you scratch beneath the surface and link together the trends in healthcare right now. We prefer personal products and currently see the opportunity for strong, organic earnings accretion together with good entry points.

THE CHANGE OF APPETITE FOR FOOD

Food habits may be set to change across the globe as humanity becomes more aware of their health, given the focus in the media and the widespread use of gyms and health tracking devices. However ultra-processed food still accounts for 60% of the average American's daily calorie intake. This rate is 30 to 50% lower in Europe, but it is still increasing[1]. And ultra-processed foods[2] tend to be associated with an increase in obesity, type 2 diabetes, cardiovascular disease, and risk of cancer.

The World Health Organisation (WHO) identified that ultra processed foods, together with tobacco, fossil fuels and alcohol are responsible for 2.7 million deaths per year in Europe[3].

Could we see potential headwinds for the food sector? There are low expectations for growth in the long-term – estimates are for sales in the agri-food sector to grow at an average of +2.5% per annum - the advent of new-generation appetite-suppressant medical treatments (also known as GLP-1) have led to concerns over the evolution of consumer behaviour as they lean towards healthier options. Some studies indicate up to 30% reduced spending at grocery stores for GLP-1 users[4] and a staggering 70% decrease in fast food, confectionery, or soda.

Some well-known food producers have already made greater efforts to address the fat, salt and sugar content of their products and will continue to engage with investors on this topic. Danone and Unilever notably tend to rank better at addressing malnutrition in all its forms. But even though this is positive, the reality is that the bulk of revenues for the big food producers come from a handful of product lines.

For example, a company like Nestle, 80% of total sales are generated from around 10% of product lines and there is a long product tail that doesn't significantly impact the bottom line. Therefore, while efforts are being made, much more needs to be done to adapt product lines and develop new ones.

Also, while demand is unlikely to change in the short term, the evolving and tougher regulatory environment and cultural shift towards health-consciousness is likely to be a negative factor for companies in the sector over the long-term, and this will affect the discount rate and we don't think this is reflected in valuations.

The historic winners in the food and drink sector now face multiple headwinds and we prefer to stay away from food and distribution stocks in favour of consumer staples companies with exposure to household and personal care products.

BEAUTY AND HEALTH ARE THE OPPORTUNITY FOR WEALTH

We believe that personal care offers a more compelling investment case. We see strong organic growth rates which will drive operating margin improvements and lead to valuation re-ratings. In Europe specifically, we have global leaders in the pure play personal care sector that have been around since the late 19th century and have continually adapted to customer needs by developing new products.

Our analysis, supported by a sell-side consensus[5] on the MSCI World Staples sub industries, sees personal products having a 5.4% organic sales growth estimate for 2025 – significantly higher than food & products, beverages, or household products. We can also see this trend in operating margin where YoY growth is estimated at 1.8% for household and Personal products versus -0.3% for Food, beverages & tobacco. This results in an attractive EPS growth estimate of 10.3% for household & personal products versus 2.8% for food, beverage & tobacco, a significant gap against history.

There are some companies in personal products that we really like and rightly carry the label of a quality staple that is reinvesting for future growth. These companies should have products with strong brand positioning and consumer awareness; products that are used frequently and loyally, maybe even described as weekly or daily subscription models; and a portfolio of products that are diversified and distributed to the mass market. We favour those companies who are embracing the demand trends - dermatology focused, premium lines and innovating across the spectrum of products and lines to adapt to client needs. Indeed, innovation is essential in these companies to differentiate versus peers, to create more brand loyalty and enable "premiumisation." As consumers get wealthier, they trade up to more premium products and demand becomes more price inelastic? which is a similar play to luxury goods. Thus, as we look for opportunities, we believe that within this segment of consumer staples, their traits are very much in line with companies we like to invest in, strong competitive advantage and market position, an evolving industry and breadth for future evolution driven by research and development (R&D) and corporate strategy.

HOW WE PLAY IT

Within our Carmignac Portfolio Grande Europe Fund, we see personal care as a core theme and focus on defensive growth through two names in particular:

BEIERSDORF

With strong brands like Nivea, Eucerin and La Prairie, we see Beiersdorf as a company with continued growth that can deliver steady margin expansion. Management has successfully turned around their historical Nivea brand, their largest chunk of revenues, which had lost its appeal over the years, and which has been reinvigorated since 2021. Growth in their Dermatology segment with clinically proven ingredients is an area of long term structural growth in line with current consumer trends and where most of the innovation is coming from. Each year they conduct 800 studies through external quality-controlled institutes, for their product development teams to bridge the gap between their skin researchers and the consumer.

L'ORÉAL

The global leader in beauty has a large product mix to effectively serve the many different segments of beauty. The luxury segment has been disappointing over the past couple of years, but L'Oreal has significant growth potential going forward, coupled with higher margins, driven by the portfolio with brands such as CeraVe, a successful dermatology specialist. Innovation is at the forefront of their strategy, unveiling their personalized skin analysis tech device at the CES tech showcase in Las Vegas and demonstrating how they aim to innovate in skin care solutions, and leverage their R&D strength. Furthermore, their low net debt to EBITDA points towards potential acquisitions and more spending in artificial intelligence (AI).

While performance in both names has been muted due to the China pullback, we maintain these two companies as core long-term holdings in the portfolio. We see little variation in the growth outlook versus other staple sectors and there has been a noticeable normalization of the global beauty market growth over the past year. Besides L'Oreal, for instance, with a 2025 PE of 25x, is trading at the low end of its past 5-year valuation band.

In conclusion, food may give investors indigestion given the headwinds in consumer trends and regulation whereas personal products continue to offer attractive and resilient earnings in the future. We look to staples to stabilize and defend our equity returns, and coupled with our investment in luxury, are comfortable that our 20% position in the consumer sector will underpin investment returns through the market cycle.

[1]BMJ Group, 2023.

[2]Ultra-processed foods are generally made up of 5 or more ingredients, not typically found in ones' kitchen, and produced using an industrial manufacturing process.

[3]Just four industries cause 2.7 million deaths in the European Region every year, WHO, June 2024.

[4]KPMG in a 2024 report.

[5]Bloomberg, Dec 2024.

CARMIGNAC PORTFOLIO GRANDE EUROPE A EUR ACC

(ISIN: LU0099161993)

SFDR - Fund Classification** :

Article 9

LOWEST RISK HIGHEST RISK

1	2	3	4*	5	6	7

Recommended minimum investment horizon 5 YEARS

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.

*Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. **The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : 4,00% of the amount you pay in when entering this investment. This is the most you will be charged. Carmignac Gestion doesn't charge any entry fee. The person selling you the product will inform you of the actual charge.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 1,80% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,64% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

PERFORMANCE (ISIN: LU0099161993)

Calendar Year Performance (as %)	2016	2017	2018	2019	2020
Carmignac Portfolio Grande Europe	**+5.1 %**	**+10.4 %**	**-9.6 %**	**+34.8 %**	**+14.5 %**
Indicateur de référence	+1.7 %	+10.6 %	-10.8 %	+26.8 %	-2.0 %

Calendar Year Performance (as %)	2021	2022	2023	2024	2025 (YTD)
Carmignac Portfolio Grande Europe	**+21.7 %**	**-21.1 %**	**+14.8 %**	**+11.3 %**	**-4.3 %**
Indicateur de référence	+24.9 %	-10.6 %	+15.8 %	+8.8 %	+5.9 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Grande Europe	**+3.3 %**	**+9.5 %**	**+5.5 %**
Indicateur de référence	+8.2 %	+13.5 %	+5.7 %

Source: Carmignac at Mar 31, 2025.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

MARKETING COMMUNICATION

Carmignac Gestion, 24, place Vendôme - 75001 Paris. Investment management company approved by the AMF. Public limited company with share capital of € 13,500,000 - RCS Paris B 349 501 676.
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