QUARTERLY REPORT

25.04.2023

Carmignac Portfolio Family Governed: Letter from the Fund Manager

Author(s)

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Published

April 25, 2023

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+5.48%

Carmignac Portfolio Family Governed performance in the 1st quarter of 2023 for the A EUR Acc share class

+5.41%

Reference indicator's performance in the 1st quarter of 2023 for MSCI AC World Index Net Return (EUR)

During the first quarter of 2023, the return of ***Carmignac Portfolio Family Governed*** *(A share class) was +5.48%, above its reference indicator* [1]*, which rose 5.41%.*

Quarterly Performance Review

Global equity markets performed well in the quarter, driven, initially, by increased confidence in the economic outlook for the year, due to resilient consumer spending in US, falling energy prices in Europe and excitement at the prospect of China re-opening from lockdowns. Expectations of falling headline inflation were also positive as that would imply the worst of the interest rate rises is behind us. In March however, sentiment was dented by the collapse of 3 US banks and the forced acquisition of Credit Suisse by UBS, as tightening financial conditions start to take their toll. Although the market recovered as the month progressed, this was led by the less economically sensitive names reflecting heightened concern over the future trajectory of economic growth and corporate profit growth in second half 2023 and into 2024.

The market rally was led by the information technology sector, where we do not usually find many family-controlled businesses that also meet our stringent financial criteria. However, among the names that do, security software provider Fortinet delivered a particularly strong return rising +33% after delivering a strong set of results for the previous quarter and guiding for more than 20% revenue and order growth in 2023, even factoring in an assumed economic slowing in the second half of the year. We see this sub sector as seeing sustainable growth for the foreseeable future and notwithstanding the strong performance maintain the stock as one of the larger holdings in the fund. Veeva, the specialist provider of software for the healthcare sector was also among the better performers, rising 12%, buoyed by management giving growth and profitability targets for the next 2 years underlining the favourable trend of increased use of standardised software across the health sector.

In contrast, the healthcare sector itself, where we have a large exposure at about 40% of the fund, delivered a much more mixed set of returns. On the positive side, Straumann, the dental implant maker, rose 28% after guiding for better than hoped sales growth this year of high single digits, as patient demand worldwide continues to grow post covid, and the company penetrates further into the lower priced market segment and into the clear aligner, teeth straightening, market. Demant the hearing aid manufacturer rose 21% as results confirm they are taking market share away from the other major providers due to recent product launches. Furthermore, after poor performance last year the stock had fallen to a historically low price to earnings ratio of about 17x which did not adequately reflect the group's growth prospects or profitability. There is also merger speculation in the air. The foundation that controls Demant increased its voting stake in struggling hearing aid company GN Store Nord to above 10%, raising the prospect of the foundation creating a Danish powerhouse in the sector.

On the negative side in healthcare the worst performing name in the fund was diagnostics company Diasorin whose shares fell -26% after disappointing full year results driven by a faster drop in covid-related revenues and cost inflation. To make matters worse they are delaying the roll-out of 2 new platforms, which are instrumental for future growth, owing to supply chain difficulties. Despite these difficulties we expect the firm to benefit from these new innovations as well as stable underlying operations excluding covid-related business. Swiss giant Roche was also weak, falling -8%, as investors continue to worry about a potential lack of sales growth over the medium term owing to a perceived lack of R&D productivity and few dial-changing pipeline catalysts in 2023. However, we believe valuation at below 14x earnings at quarter end does not reflect the potential for either pipeline surprises or the potential for management using M&A to supplement future sales and profits.

The consumer sector was the best one for us in the period, with cosmetics company L'Oreal rising +23%, and luxury companies Hermes and LVMH rising +29% and +24% respectively. All names benefited from several factors: strong earnings reports for the final quarter of 2022, a less bleak outlook for consumers worldwide than thought several months ago as recession risks have abated, but also expectations that they will be prime beneficiaries of the reopening of the Chinese market.

How is the fund positioned?

In contrast to the prior quarter, we have been much less active in 2023 so far. The main changes have been to significantly increase US pharmaceutical name Eli Lilly, where the weakness in the stock in the period gave us the opportunity to gain more exposure to the vast growth opportunity their diabetes and obesity medication Mounjaro will surely enjoy. To fund this, we have reduced some of the US focused economically sensitive names such as payroll service name Paychex, uniform provider Cintas, as well as Marriott Hotels.

What is our outlook for the coming months?

Although the macroeconomic outlook has softened somewhat through the quarter, we maintain our methodical and long-term investment 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.

[1]Sources: Carmignac, Bloomberg, 31/03/2023. ¹MSCI AC World Index Net Return (EUR).**Performance of the A EUR acc share class. Past performance is not a reliable indicator of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor).**

Carmignac Portfolio Family Governed

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

Discover the fund page

Carmignac Portfolio Family Governed A EUR Acc

ISIN: LU1966630706

Recommended minimum investment horizon

Lower risk Higher risk

1	2	3	4*	5	6	7

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.

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For Carmignac Portfolio Long-Short European Equities: Carmignac Gestion Luxembourg SA in its capacity as the Management Company for Carmignac Portfolio, has delegated the investment management of this Sub-Fund to White Creek Capital LLP (Registered in England and Wales with number OCC447169) from 2nd May 2024. White Creek Capital LLP is authorised and regulated by the Financial Conduct Authority with FRN : 998349.

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