CARMIGNAC PORTFOLIO GRANDCHILDREN: LETTER FROM THE FUND MANAGERS

10/01/2024 | MARK DENHAM, OBE EJIKEME

+6.19%	+23.04%	+11.75%
Performance in the 4th quarter of 2023 for the A EUR share class vs +6.79% for the reference indicator.	Performance in 2023 vs +19.60% for the reference indicator.	Annualized performance since launch (31/05/2019) vs +11.97% for the reference indicator.

*Over the quarter, **Carmignac Portfolio Grandchildren** posted a positive performance of +6.19% (A EUR share), slightly below its reference indicator (+6.79%). The fund ended the year with a performance of +23.04%, outperforming its reference indicator[1] (+19.60%).*

MARKET ENVIRONMENT

Global financial markets experienced a roller coaster ride in 2023, driven by monetary policies, strong economic data, and geopolitical events. In this context, the equity markets of developed countries rallied both in the United States (+24% for the S&P500) and in Europe (+16% for the Stoxx Europe 600) mainly drive by valuation multiple climbing. Easing inflation, a resilient US economy and the prospect of lower interest rates buoyed investors, as illustrated by the first semester or the last 2 months of the year.

In the US, the broader market's gains were driven largely by the so-called Magnificent 7 companies, which includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla. The group of stocks at the forefront of technological changes accounted for about two-thirds of the gains in the S&P 500 this year, following a significant jump in their earnings. More specifically, the surge in equity markets in the first semester has primarily been driven by the flourishing artificial intelligence investment theme, with the Magnificent 7 significantly outperforming the rest of the market despite tighter financial conditions. Although there was a bearish rally towards the end of the summer due to an unexpected rise in yields, falling inflation prompted central bankers to halt their monetary tightening, which boosted valuations. Investor optimism regarding potential rate cuts in 2024 benefits at the end of the year for growth companies. Overall, the performance of these stocks in 2023 was impressive, particularly with the Nasdaq delivering an outstanding 43% return, while defensive sectors such as Utilities, Staples or Healthcare posted close to negative returns, as did Energy.

HOW DID WE FARE IN THIS CONTEXT?

In this context, the Fund generated a positive return in 2023 and outperformed its reference indicator, mainly thanks to our rigorous stock selection despite high dispersion among quality companies. Within our portfolio, two themes significantly contributed to the Fund's performance: artificial intelligence and obesity treatments. We are particularly pleased with these outcomes as they were long-standing convictions, illustrated by our ownership of Nvidia and Novo Nordisk since the Fund's inception in 2019.

The launch of ChatGPT has brought significant attention to the entire artificial intelligence ecosystem. In the portfolio, many companies benefited from this trend, particularly those involved in AI infrastructure like Nvidia, a semiconductor manufacturer that experienced a remarkable 237% growth over the year. Additionally, companies offering AI related services such as cloud computing and cybersecurity, like Microsoft and Palo Alto, have also witnessed substantial gains of 52% and 102% respectively.

The other mega-trend we are benefiting from is the opportunity in drugs to treat obesity. Danish company Novo Nordisk (+50%) and US Eli Lilly (+61%) are best placed for this theme, as they dominate the fast-growing market of GLP-1 drugs. We see this as a trend likely to last for decades, and were massively invested into these 2 companies (it represented in average 12% of the Fund over the year). Our investments in these two companies largely compensated our large overweight in a lagging healthcare sector. Indeed, a large majority of healthcare stocks underperformed over the period, as evidenced by our portfolio holdings in Lonza, Thermo Fisher and Masimo.

Finally, the remaining portion of our portfolio exhibited a mixed performance. On a positive note, our long-term holdings, including SAP, L'Oréal, Assa Abloy and Kingspan, delivered strong results driven by robust fundamentals. Conversely, our defensive holdings, such as the consumer staples sector with companies like Colgate and Procter & Gamble, did not perform as well as expected when compared to the overall market.

OUTLOOK 2024

After the strong performance of markets in 2023, we are more attentive than ever to where downside risks and opportunities may be. As we look ahead to 2024, the question arises whether the economy will experience a soft landing, as consensus currently expects, and whether companies achieve the strong earnings growth expectations in a slowing economy. We expect relative leadership to broaden and include more defensive-oriented names that have been underperformers this past year. We believe high quality, secular growers, with better than average visibility on sales and profits will perform well in an environment of falling inflation and interest rates, and generally weak economic activity indicators.

More specifically in the portfolio, we continue to favour the healthcare sector which remains the top sector in the fund. Despite the past two years of strong performance in the obesity theme, we believe Novo Nordisk and Eli Lilly will continue to thrive. Analyst forecasts have not fully accounted for the ongoing momentum in diabetes prescriptions and the significant increase in the supply of drugs for obesity, which will meet the growing demand in 2024. In addition to these names, we kept our positioning in sub-sectors that underperformed last year, such as life science tools and services providers like Lonza or suppliers such as Thermo Fisher. We also maintain core holdings in medical device companies Stryker and Intuitive Surgical, where the names have recovered from unjustified concerns relating to potentially lower demand due to obesity drugs reducing patient need for some surgeries.

In the other main sector, Technology, we proceed to some adjustment regarding 2023 performance. We maintain our large holding in Microsoft. With its core drivers of Microsoft 365 and Azure cloud computing platform performing well, and the potential upside revenue driver of their AI co-pilot for Office products which has recently launched, we believe the name is well placed in 2024 to deliver stable growth. In contrast, we have materially reduced our size in Nvidia and have added a position in chip competitor AMD who are well placed to take market share from Nvidia with their entry into GPUs. Elsewhere we also maintain holdings in business software providers SAP and Oracle where for several quarters now the core nature and utility of their productivity improving products have delivered resilient customer demand despite some economic uncertainty. Conversely, we have taken profits in some of the higher growth software names such as Salesforce.com, ServiceNow and Intuit, after strong performance in 2023.

Finally, in the rest of the portfolio , we increased our weighting in our staples holding P&G and Colgate. These companies lagged in 2023 despite the fact that operationally they have delivered as expected and are on course for stable high single digit profit growth for 2023. We believed they will keep this visibility and resilience as we head into 2024. Additionally, we have increased our exposure to Estee Lauder, a cosmetics company that has been adversely hit by their large exposure to the Chinese market. Nonetheless the quality of the brand remains very strong, and we anticipate an improvement in Asian markets from Q2 2024 onwards.

Source: Carmignac, 31/12/2023. Performance of the A EUR acc share class ISIN code: LU1966631001. [1]Reference indicator: MSCI WORLD (USD, Reinvested net dividends). ***Past performance is not necessarily indicative 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).***

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 : 1,70% 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 : 0,26% 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.

ANNUALISED PERFORMANCE (ISIN: LU1966631001)

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Portfolio Grandchildren	**+15.5 %**	**+20.3 %**	**+28.4 %**	**-24.2 %**	**+23.0 %**
Indicateur de référence	+15.5 %	+6.3 %	+31.1 %	-12.8 %	+19.6 %

Annualised Performance	1 Year	3 Years	Since launch
Carmignac Portfolio Grandchildren	**+21.1 %**	**+7.7 %**	**+13.5 %**
Indicateur de référence	+22.2 %	+9.9 %	+12.9 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

CARMIGNAC
INVESTING IN YOUR INTEREST