

CARMIGNAC PORTFOLIO GRANDCHILDREN: REINVESTING TO REINVENT OURSELVES

18/12/2024

Just as investors need to rethink and optimise their long-term investment strategies in response to societal issues and changing lifestyles, so too do companies need to be able to reinvent themselves in order to cope with changes in the business cycle, so that they can prosper and thrive over time. This is where the idea of reinvestment comes in.

By reinvesting in their businesses, companies can nurture their capacity to innovate and develop so that they can maintain their competitive advantage over the years – and hence their profit margins. In this way, reinvestment is also an effective indicator when it comes to selecting stocks and building a solid equity portfolio over the long term. **Carmignac Portfolio Grandchildren** seeks to leverage this by focusing on characteristics that we believe are essential for companies to prosper over time.

REINVESTMENT: A GROWTH CATALYST FOR COMPANIES

Reinvestment: Reinvestment means allocating net income or profits to fund new projects, acquisitions or improvements, rather than keeping, spending, or distributing the income or profits.

First, it's important to note that profit generation is a prerequisite for any kind of reinvestment. Second, the decision of how to allocate profits is a major strategic one: should **profits be retained to meet future challenges, paid out to shareholders, or reinvested to strengthen the company's growth prospects?**

Why choose reinvestment?

Improved profitability

Reinvesting helps to **improve a company's profitability**, particularly through the productivity gains resulting from productive investment. This can include automating processes and raising employee training standards, which tend to boost competitiveness in the long term.

Stronger organic growth

Reinvesting also **strengthens a company's organic growth**. Whether the funds are spent on R&D, prospecting to penetrate new markets, or marketing to raise brand awareness, this can ultimately lead to higher revenues.

Self-financing as a priority

Reinvesting profits indicates **that a company prefers self-financing** over the use of external financing, such as loans or share issues, in order to ensure a certain degree of financial independence or even to make counter-cyclical investments. In addition, the more restrictive monetary policies pursued in the US and Europe since 2022 have increased the cost of external financing, further justifying the choice of self-financing.

This non-exhaustive list of the benefits of reinvestment illustrates that companies adopting this strategy are more flexible and resilient and better able to explore new avenues of development in order to evolve and reinvent themselves, regardless of the business cycle and long-term market conditions. Furthermore, deciding to reinvest demonstrates that the company's management is confident about its business strategy. These are valued qualities and enable a company to remain competitive over time, steadily establishing itself as a market leader and attracting more investors over the long term.

REINVESTMENT: THE KEY TO A SOLID PORTFOLIO

Investing in companies that prefer to reinvest a large proportion of their profits has many advantages when it comes to enhancing the quality of equity portfolios. Companies with high reinvestment rates have shown to outperform the stock market over the long term thanks to characteristics that are unique to them.

Valuation premium

Reinvesting profits rather than simply paying them out can help to create lasting value. This often results in companies with higher valuation multiples that reward management's long-term vision.

Long-term vision

A company that reinvests cares about its future and looks ahead to future challenges. This approach enables sustainable growth. Portfolios invested in these companies have a certain degree of resilience against changing market conditions.

Sustainability

A long-term vision generally comes hand in hand with a sustainable approach, offering solutions that ensure a company's financial health. Such a vision is often accompanied by positive social impacts, such as through the creation of jobs to support business growth and consequently generate income.

Companies that reinvest their profits not only create value, but are also more resilient to economic challenges. Focusing on these companies can generate solid portfolio performance over the long term.

CAPITALISING ON LEADERS WITH A SOLID PAST AND PROMISING FUTURE

In the light of these undeniable advantages, Carmignac has forged solid convictions in companies that reinvest. One such company is **Hermès**, which was part of our **Carmignac Portfolio Grandchildren** portfolio at end-November 2024. Hermès was founded 187 years ago and has consistently risen to challenges, enabling it to endure over time.

Hermès, a French craftsman keeping up with the times

"Hermès creations are designed to last, to be repaired, and to be passed on."

Hermès, founded in 1837, is a French luxury goods firm that initially specialised in the manufacture of harnesses and saddles. Today, it's renowned for its top-of-the-range handcrafted creations, such as Birkin bags and silk squares. Its success is based on a prestigious heritage, but also on a visionary reinvestment strategy. Unlike some companies in the sector that focus on rapid growth, Hermès has chosen to consistently reinvest its profits in innovation, craftsmanship, and sustainable development.

DIVERSIFIED EXPERTISE

The French firm has expanded its range of businesses over time. In 1922, it diversified into other leather goods. From 1978 onwards, it explored new fields including watchmaking, shoe manufacturing, and goldsmithing. In 2020, Hermès added beauty as a new area of expertise, bringing the total number of business lines to 16. These initiatives reflect the firm's determination to diversify in order to meet the challenges of the time.

STRONG VERTICAL INTEGRATION

Over the years, Hermès has grown and acquired new businesses in order to preserve its know-how and guarantee the highest standards of craftsmanship. The firm has regularly expanded its production facilities to meet growing demand. Hermès opened two leather goods workshops in 2023 alone, and four other projects are under way across France. In terms of acquisitions, Hermès purchased Tanneries d'Annonay in 2013 in order to ensure a certain degree of independence in its production. Today, the firm is in talks with a Swiss luxury watchmaker – an acquisition that we expect to be confirmed shortly. Internalising production through solid vertical integration gives the firm better control over its value chain and reinforces its image of excellence. Today, nearly 55% of its products are manufactured entirely in-house.

JOB CREATION TO SUPPORT GROWTH

The opening of new workshops creates a significant number of jobs, especially through the hiring of craftsmen to pass on the firm's original know-how. At the same time, the acquisition of outside businesses helps to keep jobs in regions that may seem to be in decline, as was the case with the Tanneries du Puy-en-Velay acquisition in 2015. Hermès hired 2,400 new employees in 2023, bringing its workforce to 22,040 worldwide, including 13,700 in France. The firm has introduced training initiatives to demonstrate its commitment to a model of craftsmanship and has spent €13.4 million on training. The Hermès School of Craftsmanship was opened in 2021 as part of this commitment. Today, Hermès has 21 *Meilleurs Ouvriers de France* in its ranks.

PENETRATING NEW MARKETS

In 1978, Jean-Louis Dumas took over the management of Hermès with an ambitious vision. The firm strengthened its presence around the world through an active policy of boutique openings: it opened one in New York in 2000, followed by Tokyo in 2001 and Seoul in 2006. Hermès now has almost 300 shops in 45 countries.

MARKETING

Hermès has rolled out unconventional marketing campaigns. "*Hermès in the Making*", for example, gives consumers an opportunity to meet with Hermès craftsmen and managers and learn about its sustainable business model. The firm also produced a short film called *On the Wings of Hermès* to illustrate the breadth of its expertise.

A COMMITMENT TO SUSTAINABILITY

Through its desire to preserve and pass on its know-how, Hermès has demonstrated a real conviction in terms of both social and environmental responsibility. The firm pays particular attention to its environmental impact. It has introduced quantitative objectives, such as for reducing its greenhouse gas emissions, and in 2010 launched an upcycling initiative (called *Petit h*) whereby unused materials including production offcuts and defective items from its business lines are turned into unique, poetic creations. Hermès' efforts to preserve and pass on its craftsmanship in the face of economic, social, and environmental challenges are what has enabled it to offer sustainable solutions and make a positive contribution to the future.

Over the years, Hermès has established itself as a world leader in high-end craftsmanship, making its workshops a place of innovation and lasting heritage.

Source: Hermès, financial and business reports as of 25/07/2024.

CARMIGNAC PORTFOLIO GRANDCHILDREN: REINVESTING TO CREATE A LASTING LEGACY

Leveraging the benefits of companies that reinvest is a cornerstone of the **Carmignac Portfolio Grandchildren** investment process.

Carmignac Portfolio Grandchildren is an international equity fund focused on developed markets. It invests in what we consider to be quality stocks – i.e. companies with high, sustainable profit margins that reinvest their profits. The Fund applies strict sustainability standards, enabling it to be classified as an SFDR Article 9¹ fund. Stock selection is based on two key criteria: companies must have **high, stable profit margins** and a **propensity to reinvest their profits**. This framework has proven the effectiveness of these metrics for an equity market investment strategy over 20+ years, as reflected in the solid return that **Carmignac Portfolio Grandchildren** has delivered since inception.

106%

of return since inception
(31/05/2019), compared with
114% for its benchmark

71

years average age for
portfolio companies

27

years average experience for
the investment team

For investors looking for a long-term investment solution, **Carmignac Portfolio Grandchildren** stands out for its distinctive approach. It's not simply a matter of investing in promising trends, but also of identifying the companies that shaped those trends – both in the past and out into the future.

¹Sustainable Finance Disclosure Regulation (SFDR) 2019/2088. For more information, visit:
<https://eur-lex.europa.eu/eli/reg/2019/2088/oj?locale=en>.

CARMIGNAC PORTFOLIO GRANDCHILDREN A EUR ACC

(ISIN: LU1966631001)

SFDR - Fund Classification** :

Article **9**



Recommended
minimum
investment horizon



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.

PERFORMANCE (ISIN: LU1966631001)

| Calendar Year Performance (as %) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Carmignac Portfolio Grandchildren | +15.5 % | +20.3 % | +28.4 % | -24.2 % | +23.0 % | +21.9 % |
| Indicateur de référence | +15.5 % | +6.3 % | +31.1 % | -12.8 % | +19.6 % | +26.6 % |

| Annualised Performance | 3 Years | 5 Years | Since launch |
|--|---------------|----------------|----------------|
| Carmignac Portfolio Grandchildren | +4.4 % | +11.9 % | +13.5 % |
| Indicateur de référence | +9.7 % | +13.0 % | +14.4 % |

Source: Carmignac at Dec 31, 2024.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

Marketing communication. Please refer to the KID/prospectus of the Fund before making any final investment decisions.

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- **In Switzerland:** the prospectus, KIDs and annual report are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland), S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Montrouge, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. CARMIGNAC GESTION 24, place Vendôme - F-75001 Paris - Tél : (+33) 01 42 86 53 35 Investment management company approved by the AMF Public limited company with share capital of € 13,500,000 - RCS Paris B 349 501 676.

CARMIGNAC GESTION Luxembourg - City Link - 7, rue de la Chapelle - L-1325 Luxembourg - Tel : (+352) 46 70 60 1 Subsidiary of Carmignac Gestion - Investment fund management company approved by the CSSF.

Public limited company with share capital of € 23,000,000 - RC Luxembourg B 67 549.