QUARTERLY REPORT

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Carmignac Portfolio Family Governed: Letter from the Fund Manager

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+0.10%

Carmignac Portfolio Family Governed performance

in the 3rd quarter of 2022 for the A EUR Acc share class

-0.56%

Reference indicator's performance

in the 3rd quarter of 2022

-19.59%

Performance of the Fund year to date

versus -13.66% for the reference indicator

During the third quarter of 2022, the return of**Carmignac Portfolio Family Governed** (A share class) was +0.10%, above its reference indicator, which fell by -0.56%.

Global Equity Market

The dominant themes impacting markets in the third quarter were macroeconomic considerations including persistent inflationary pressures and increasingly hawkish commentary from central banks especially the Federal reserve in the US, as well as the rising prospect of weakening economic growth and recession in 2023. This precipitated further market weakness and we saw continued rotation away from relatively highly valued quality stocks particularly in technology and healthcare sectors. We expect this sector preference to reverse once investors start to focus on risks to profits of the other more economically sensitive areas of the market in 2023, and when visibility of quality companies will be preferred. In any event notwithstanding a headwind to the types of businesses we prefer, our fund outperformed its benchmark through strong performances of some of our individual family or founder led businesses, underlining the fact we are primarily a bottom-up stock picking fund.

Portfolio Management

The most significant positive contributors to fund performance in the third quarter were all businesses that are most exposed to the ongoing strong economic activity of "main street" in the United States. Large global corporations may be seeing clouds on the horizon, but small and medium sized companies in the US and workers there are not. This was reflected in ongoing strong performances from Paychex, a provider of payroll services to small businesses whose stock rose 6%, and Cintas a workwear and industrial supplies company who rose 11%. Both are seeing ongoing low double-digit growth in sales and profits reflecting strong end market demand and growing market share and both maintained forecasts of continued momentum into the year end. In a similar vein Brown & Brown, the 6th largest insurance brokerage network in US operating across 45 states, saw double digit sales growth driven by end demand and pricing improvements, contributing to their stock rising 11% in the period.

Another strong performer last quarter was Marriott the hotel chain, where their stock rose 11%. Having been hit by the covid crisis and subsequent lockdowns limiting tourism and business travel, occupancy has since recovered to almost 70% with room rates at a level 7% above pre covid rates. Management guide for ongoing improvements in the coming period. Finally recent addition to the fund, Eli Lilly, the pharmaceutical company, saw shares rise 7%, driven by a spectacular take up of its new diabetes drug, Mounjaro, which has the additional benefit of weight loss. The trajectory of prescriptions for the new product are far exceeding those of previous launches and analyst expectations.

On the negative side we saw some stock specific issues in addition to the style and sectoral headwinds mentioned above. Wuxi Biologic the Hong Kong listed, Chinese owned contract manufacturer of drugs for the global sector, fell back a dramatic -30% on news of US government plans to prioritise domestic manufacturing capacity for biologic drugs in an attempt to reduce reliance on Chinese firms, as part of the tension between the two countries. We believe the sell off is an overreaction and have modestly increased our holding. Extra capacity will take many years to develop if it happens, will be higher cost and so less competitive, and also, Wuxi profitability is protected by the long-term nature of its current contracts. Furthermore, more recently we have had news that US equipment suppliers have the all clear to supply Wuxi, as it has recently been removed from the so-called unverified list – another US restriction.

Another large negative contributor was also in the healthcare sector. Hearing Aid maker Demant fell 29% on disappointing Q2 results showing deceleration in end market demand for hearing aids among consumers, playing into fears that as economies slow down and consumers get squeezed by rising costs, then purchases of such items will be deferred. Despite the setback we maintain our modest holding in this name. Long term demographic and innovative trends remain and should drive sustainable long-term growth in a market that remains divided between only 5-6 players.

Outlook

Overall, our activity was modest in Q3. We did sell out of our remaining holding in Adyen, the Dutch leading electronic payment processing provider. This had nothing to do with the underlying business or the prospects of the stock, but rather because the name no longer satisfies the criteria of being a founder or family business as the founder holders share ownership had fallen below our minimum 10% threshold. A new addition in the third quarter was Sartorius the family-controlled manufacturer of equipment and consumables used in drug manufacturing industry where growth in manufacturing of biologic drugs should drive sales growth for the foreseeable future.

Notwithstanding the sectoral rotation mentioned at the start of this review, and some marginal adjustments we made to accommodate it, we stick to our long-term 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.

Source: Company website, Bloomberg, Carmignac, September 2022

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.

Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged.

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