

CARMIGNAC PORTFOLIO FAMILY GOVERNED: LETTER FROM THE FUND MANAGER

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+6.64%

Carmignac Portfolio Family Governed performance in the 2nd quarter of 2023 for the A EUR Acc share class

+5.73%

Reference indicator's performance in the 2nd quarter of 2023 for MSCI AC World Index Net Return (EUR)

+12.49%

Performance of the Fund Year to date versus +11.45% for the reference indicator

*During the second quarter of 2023, the return of **Carmignac Portfolio Family Governed** (A share class) was +6.64%, above its reference indicator¹, which rose 5.73%. The Fund posted a performance of +12.49% year to date, versus its reference indicator¹ +11.45%.*

QUARTERLY PERFORMANCE REVIEW

Global equity markets performed well in the quarter, continuing their positive run which started in October last year. Whereas the initial catalyst for the positive momentum had been a realisation that with headline inflation falling a cessation of interest rate rises in the coming months was possible, latterly the driver was the ongoing resilience of the US economy where expectations of recession starting in the third quarter were pushed out to later this year or even into 2024.

Consequently, the better sectors over the period were those reflecting some economic optimism, including Industrials, Consumer Discretionary, as well as Financials who regained a solid footing as the previous quarters sector crisis was well contained to just a small handful of names. The best sector was Technology rising more than 15%, propelled by the fervour around artificial intelligence (AI). However, this was not helpful for our fund as there are no family-controlled firms among the direct beneficiaries in this area. An additional drawback for us was the fact that our preferred sectors of Healthcare and Consumer staples lagged this market recovery. Nonetheless our stock selection was more than good enough to offset this.

HOW IS THE FUND POSITIONED?

Healthcare remains our largest exposure at almost 40% of the fund by value. However, this is spread across several diverse holdings with very different characteristics. Our largest holding here remains Eli Lilly representing 7% of the fund, which rose more than 36% as a result of two events. First, the stock responded, belatedly, to the ongoing positive momentum in prescriptions of the class of GLP-1 peptide drugs to treat diabetes and obesity, where Eli Lilly is global leader, together with another of the fund's core holdings Novo Nordisk. Secondly, the company announced positive trial results for their Alzheimer's drug donanemab where patients on the drug saw a slowdown in cognitive and functional decline. We expect both projects to continue driving upwards revisions to future sales and profits estimates. The performance of Eli Lilly was even more gratifying as it was a name we had materially increased on inexplicable underperformance in the previous quarter, underlining the opportunities for the active investor. Hearing aid leader Demant was also a strong contributor, rising 20%, as first quarter results showed them gaining market share owing to recent rejuvenation of their product suite, generating a stunning 26% growth in their aid division and precipitating an upgrade to their guidance for growth in the whole year.

Nevertheless, not all names in the healthcare sector had such a smooth run. Life science equipment provider Sartorius fell 19% and saw slower sales growth in Q1 due to higher than expected stocks of products at their existing customers, built during covid, leading to lower demand. Danaher a more broad-based supplier of equipment and services was similarly troubled but fell by a more modest 5%. We believe that while inventories at customers are taking longer to work down than expected, it is a matter of when, and not if, this happens, thus we stick with both names. Medium term demand for life science products is set to resume its high single digit growth rate and is relatively unaffected by fluctuations in general economic activity.

It was also a case of contrasting fortunes among our consumer names. Recently added distribution company Coca Cola Consolidated rose 18%. The company manufactures and distributes non-alcoholic drinks from Coca Cola and other companies totalling about 300 brands across 15 states in the US. Growth is usually low single digit % each year reflecting the stable and saturated market, however the first quarter results benefited from a 12% sales growth driven by significant price uplift which they were able to implement owing to the strength of the brand portfolio. While a welcome windfall, we don't think this is a sustainable level and expect a return to the low growth but dependable profile that our investment thesis is targeting. In contrast, another consumer name was our worst performer. Estee Lauder shares fell 20% as their commentary around their third quarter results to March outlined that the recovery post pandemic in Asia is not evolving as they planned and is more volatile and slower. Inventory levels in key tourist areas of China such as Hainan remain high and spending in the region is not yet high enough to reduce them leading to fewer new orders. South Korea was another area of slower than expected recovery. Despite these disappointments and the attendant downgrades to near term expectations, the business is intact and the long-term attractions of superior long-term growth of prestige cosmetics remain.

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

While the risk of recession in the US has been deferred, we do not think it is gone, thus we continued to reduce some of the US focused economically sensitive names such as the payroll service name Paychex, uniform provider Cintas, as well as Marriott Hotels. We used the funds released to introduce a new position in Wuxi Biologics, a China based contract manufacturer of drugs for the pharmaceutical industry. The Hong Kong listed stock has fallen back in line with the Chinese market and now trades on little over 20x 2024 earnings despite an attractive growth profile of 25% or more compound profit growth over the coming years. These drivers are growth in prevalence of new biologic drugs in healthcare treatment, demand from so-called biosimilar drugs once patented molecules go off patent, as well as more outsourcing of manufacturing by drug companies.

We maintain our systematic 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.

¹Reference indicator: MSCI ACWI (USD) (Reinvested net dividends).

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Para España : Los Fondos se encuentran registrados ante la Comisión Nacional del Mercado de Valores de España, con los números : Carmignac Sécurité 395, Carmignac Portfolio 392, Carmignac Patrimoine 386, Carmignac Long-short European Equities 398, Carmignac Investissement 385, Carmignac Emergents 387, Carmignac Credit 2025 1947, Carmignac Euro-Entrepreneurs 396, Carmignac Court Terme 1111.

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