



Carmignac Portfolio Grandchildren: Letter from the Fund Managers

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Length
6

+7.28%

Carmignac Portfolio
Grandchildren's
performance
in the 2nd quarter of 2023
for the A EUR Share class

+6.38%

Reference indicator¹'s
performance
in the 2nd quarter of 2023

+20.25%

Performance of the Fund
since the beginning of the
year vs +12.58% for the
reference indicator

*In the second quarter of 2023, **Carmignac P. Grandchildren** rise by +7.3%, while its reference indicator¹ was up +6.4%.*

Market environment

Global equity markets continued in buoyant mood in the second quarter, with ongoing optimism that headline inflation will continue easing thereby reducing the need for central banks such as the Fed and ECB to increase rates much further, despite the knowledge that both banks have some further hikes to come. Furthermore, the underlying economy in US is proving more resilient than thought at the start of this year, with forecasts of recession deferred into fourth quarter or even next year. Consequently, cyclical sectors such as consumer discretionary and industrial names were relatively strong, and areas regarded as more defensive such as healthcare and staples lagged. Our view remains that eventually monetary tightening will diminish economic activity and forward activity and sentiment indicators point to that. As a result, using our macro-economic overlay we have continued to emphasise less economically sensitive areas off the existing holdings in the fund, as described below. Overall, though, our fund maintains its bottom-up and exclusive focus on high quality, visible, secular growth stocks. This approach happens to be particularly well placed for this environment.

Performance commentary

Notwithstanding a solid showing from other more cyclical sectors, the best performer in the quarter was Technology driven by extremely bullish statements from Nvidia the semiconductor graphics chip specialist around the impact on future chips sales to their datacentre customers to satisfy demand for future artificial intelligence applications (AI). Specifically, they guided for an immediately visible and large impact coming in their next fiscal quarter with a guidance of \$11bn in sales, some 57% ahead of prior expectations. The scale of the impact and the fact it is happening now, caught everyone by surprise, and drove stocks most exposed to the AI theme higher. Nvidia itself rose 51% in the period, having already climbed more than 90% in Q1. Microsoft is also seen as a major beneficiary – not just because of its stake in OpenAI the owner of ChatGPT a major AI program, but because its current software should benefit from AI functionality becoming embedded in future years cementing their competitive position and their pricing. We believe their Azure infrastructure business should also benefit from higher volume of activity. The Microsoft stock rose 18%. It remains our largest holding, and between the two names we have about 12% of the fund exposed directly to this promising theme.

The other mega-trend we are benefiting from is the opportunity in drugs to treat obesity. As described in previous quarterlies, Danish company Novo Nordisk and US Eli Lilly are best placed for this theme, as they dominate the fast-growing market of GLP-1 drugs for treating diabetes and obesity. We see this as a trend likely to last for decades. In the first quarter we had used some inexplicable weakness in Lilly to materially increase our holding, and this was rewarded last quarter with the name rising 36%. Both companies are seeing strong growth from their leading products, with Novo upgrading FY sales and profits growth to levels around 30%, despite being unable to fully satisfy strong demand with existing capacity until new plants come on stream in second half. Current analyst forecasts of a rapid slowing in growth next year and beyond look far too cautious, because even modest projections of only single digit percentage treatment penetration of the likely \$100bn+ market opportunity would imply both names can sustain growth for much longer. In addition, both companies demonstrated strong data at recent industry conferences for their follow-on products in development, thus likely keeping competition at bay for many years to come. As with AI, we have a strong foothold in this theme with about 12% of the fund invested across both names.

On the negative side we saw a pullback in other areas of healthcare with Thermo Fischer falling about 10% owing to concerns that inventory building at their life science customers will limit near term demand for their equipment, services, and consumable products. While we acknowledge this phenomenon, which is a hangover from the covid crisis, it should be rectified in coming quarters allowing the more normal steady, predictable high single digit sales growth to continue. Elsewhere Estee Lauder was the worst of our names falling about 20%. The cosmetic company failed to match their peer L'Oréal's impeccable execution, owing to excessive inventory build at Estee's Asian customers, and disappointing sales recovery in China and Korea, leading to weaker than hoped sales growth this year.

Portfolio adjustments

Trading in the quarter was modest but we have used the macro-economic overlay, which is in intrinsic part of our process, to continue to de-emphasise cyclicity and increase defensive or less economically sensitive stocks. This is owing to the increasing uncertainty over economic activity into second half 2023. As well as increasing Eli Lilly we continue to add to staples P&G and Colgate, medical device maker Resmed and contract drug manufacturer Lonza, while trimming technology names, especially the more highly rated software names like Adobe, Intuit, and Palo Alto. Our focus remains on identifying and owning the profitable companies with high return on capital companies we believe have the best prospects for a 5 year or longer time horizon and holding stocks over this time.

Source: Carmignac, Bloomberg, 30/06/2023. Performance of the A EUR acc share class ISIN code: LU1966631001. *Reference indicator: MSCI AC 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).



Carmignac Portfolio Grandchildren

A global, high-conviction equity fund for long-term investors

Discover the fund page

Carmignac Portfolio Grandchildren A EUR Acc

ISIN: LU1966631001

Recommended
minimum
investment horizon



Main risk 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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