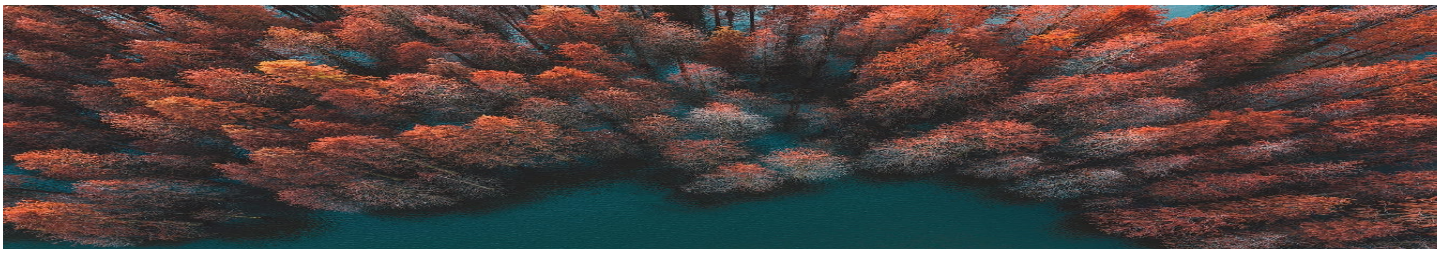

Carmignac Portfolio Grandchildren: Letter from the Fund Manager

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-3.5%

Carmignac Portfolio Grandchildren's performance

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

+0.1%

Reference indicator's performance

in the 3rd quarter of 2022

+6.8%

Annualised performance of the Fund over 3 years

versus +8.3% for the reference indicator

During the third quarter of 2022, the total return of Carmignac Portfolio Grandchildren A EUR Acc was -3.5%. This compares to a return on the funds reference indicator of +0.1% over the same period.

Market Environment

In the third quarter, global markets continued to reflect the themes that have driven returns in the first half, in that concern over rising interest rates led to persistent downward pressure on the valuations of relatively highly rated stocks, despite the underlying quality of the companies. This has been exacerbated, all year, by growing concerns over the impact of rising interest rates and the energy crisis on future economic growth and corporate profit growth. **In July equity markets rose on hopes of fast declines in inflation in the US, but these hopes and the July rally came to nought as we have seen a succession of stronger than expected employment and inflation reports,** as well as consistently hawkish commentary from policymakers such as the US Federal Reserve.

Sharp tightening by Central banks and markets' disillusion stirred chaos, with volatile moves across asset classes. The yield on the US 10-year bond first dropped 1 percentage point to 2.5% before rallying to 4% over the period. The MSCI World rallied 20% from its low, then corrected 16% from its August high. Oil prices increased by $10 before losing $20 to $90 a barrel. Finally, the Dollar rallied 9% against a basket of currencies.

Quarterly Performance Review

Our investment approach is to focus on high quality, proven businesses, and these have temporarily been the stocks most adversely affected by rising rates, and so the fund continued to perform worse than the reference indicator last quarter. **Another detractor to our performance was the lack of oil and gas companies,** which do not meet our strong financial or sustainability criteria, but which were among the stronger sectors last quarter, rising 5%, adding to their strong relative returns for the year. **These trends were by far the dominant impacts on our fund.** Bottom-up results for most of our names and indeed across the market were more or less as expected but were seen as backward looking.

In more details, technology stocks were an area of weakness for the fund, led by Nvidia. The stock fell -14% in the quarter for two main reasons. First Q2 numbers confirmed that their Gaming chip activity is in decline with sales falling -33% due to falling end demand and winding down of inventory of old models ahead of new launches in the coming months. Encouragingly the larger datacentre chip division saw continued strong demand, with sales +61%, as cloud computing growth remains high. In addition, though, the US government restricted the sale of leading-edge artificial intelligence application chips to China in September, where Nvidia has exposure to the tune of about 7% of sales. **We maintain our exposure to this name which is at the forefront of chip development** and where notwithstanding these temporary setbacks future growth should be underpinned by growth in virtual reality applications, artificial intelligence, data centre architecture developments and more advanced gaming solutions.

Other technology names also underperformed on interest rate led valuation pressure and some slight economic impact on growth rates on reported numbers. However, the impacted names such as Microsoft, Adobe and ServiceNow still delivered between mid-teen to low 20's percentage growth, which is far above market averages, and **their respective investment theses over the midterm are unchanged. We have added to several of our names in the sector on weakness.**

On a brighter side, several of our names have been able to offset the top-down interest rate led weakness in growth stocks through relentless delivery of good sales and profits growth. LVMH the luxury goods company saw its shares rise 5% as demand for its fashion and leather brands such as Louis Vuitton and Christian Dior continue to grow in United States and in Europe reflecting underlying volume demand and pricing power. While technology companies exposed to multinational spending have seen some slowing in demand, Intuit, the small business accounting software maker, is seeing no slowing in demand from Main Street. Intuit stock rose 7% in the quarter as Q2 results underlined their dominant position, growing more than 20% annually and guiding for group revenues to grow mid-teens.

We also enjoyed a rebound from oversold levels in two of our largest medical technology names in Resmed the leading manufacturer of breathing equipment to treat sleep apnoea rising +11%, and Masimo the leader in equipment to monitor oxygen levels in hospital patients blood rising 15%. Both companies had seen global supply chain disruption caused by covid in Q1 but reported noticeable improvements in Q2, reassuring the market.

Portfolio Changes & Outlook

You will recall that in 2020 we reinforced names in the fund that had been oversold due to businesses being hugely negatively hit by the covid crisis and lockdowns. The leading holding, where we added, was UK listed contract caterer **Compass Group.** Since hugely increasing exposure to the name in March 2020, when its end markets had collapsed and they raised capital to protect their balance sheet, the company has seen revenues consistently improve quarter by quarter to a level now which is above where they entered the covid crisis. **As this stock has recovered nicely, including a 6% increase last quarter, and reached our share price target, we have sold out of most of our exposure.**

The other main change to the structure of the fund last quarter was in the healthcare sector. **We added pharmaceutical giant Eli Lilly,** where we believe market expectations for their recently approved weight loss product Mounjaro are still too low despite a very fast sales ramp post launch in the summer. **Increasingly obesity is being recognised as a genuine illness and we are fully exposed to the two main players in this nascent and vast market: Novo Nordisk and now Eli Lilly.**

Central bank hawkishness since the beginning of the year has led to a contraction of market multiples. As of the end of 3Q, the MSCI World was trading at 14x forward earnings, down from 20x at the beginning of the year, one of the steepest contractions on record. As we expect rates to plateau somewhat from here, we see the risk of further sharp multiple compression to be limited. **Consequently, we still expect the dominant headwind to change from valuation multiple compression due to rising rates, to growing fear over the impact of rising costs on economies and company profits.** This transition should work in favour of our stocks which have higher visibility and sustainability of profits than the average company and certainly compared with more economically sensitive sectors. So, despite the fund lagging the reference indicator so far this year we are optimistic that this is a great time to be reinforcing positions where we have conviction, as we have done.

Reference indicator: MSCI AC WORLD (USD, Reinvested net dividends) Source: Company website, Bloomberg, Carmignac, 30 September 2022

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

Lower risk Higher risk

1	2	3	4	5*	6	7

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.