


Carmignac Portfolio Human Xperience: Letter from the Fund Manager



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-1.84%

Carmignac Portfolio
Human Xperience's
performance

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

-0.56%

Reference indicator's
performance

in the 2nd quarter of 2022
for MSCI ACWI

-14.78%

Performance of the Fund
over 12 months versus -
6.14% for the reference
indicator

During the third quarter of 2022, the return of Carmignac Portfolio Human Xperience (A share class) was -1.84%. This compares to a return on the funds reference indicator¹ of -0.56% over the same period.

Quarterly Performance Review

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. 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 AC World rallied sharply 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.

During Q3, **Consumer Cyclical**s were an area of weakness for the fund, led by Adidas and Puma. Adidas and Puma fell by 30% and 24% respectively as both companies battled with excess inventories and discounting, a trend which is affecting the whole industry. The fall in demand in major Western markets as well as the traffic-drop in China have created some near-term uncertainties and subsequent downgrades to outlooks. We remain modestly positioned in both names and are looking to increase exposure on signs that 1) the inventory overhang is behind us and 2) the outlook for demand starts to improve.

Elsewhere, **we saw weakness in the Technology space**. Nvidia fell by 14% in the quarter as Q2 numbers confirmed that their gaming chip activity is in decline with sales falling of 33%. This is explained by a decline in end demand and the inventory winding down of old models ahead of new launches in the coming months. In addition, 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 attractive prospects in virtual reality applications, artificial intelligence, data centre architecture developments and more advanced gaming solutions.

Amongst the strong performers in Q3 were both Hilton Worldwide Holdings (+15%) and Marriott International (+10%). Both companies have been hit by the covid crisis and subsequent lockdowns limiting tourism and business travel. In the case of Marriott, occupancy has since recovered to almost 70% with room rates at a level 7% above pre-covid rates. News flow wise, Hilton was recently ranked no2 in the 'Fortune 100 Best Companies To Work For', the 4th consecutive year that the hotel group has retained a top 3 spot. Both investments remain significant holdings within the fund.

Fund Positioning

We ended the quarter with 40% of the fund in both Health Care and Consumer Staples stocks (20% in each of the sectors). Both sectors have a more defensive tilt and should prove to be resilient vs. the more economically sensitive sectors as we enter a period of economic uncertainty.

In the **healthcare sector**, whilst Danaher and Roche contributed positively over the quarter +8% and +5% respectively, the negative price action of many of large cap European pharmaceutical names largely fuelled by concerns about upcoming multi-district litigation in the United States over heartburn drug Zantac also affected our Sanofi holding. We reduced this holding during the quarter as we assess the medium-term implications and have added Pfizer the maker of Centrum and the joint developer of the covid vaccine. Pfizer was ranked 29 out of 800 in the recent Forbes 'World's Best Employers' list up from 68 last year and continues to have some of the highest customer satisfaction scores across its range of products making it a long-term attractive story for the fund.

Within Consumer Staples, General Mills and Diageo the maker of Bailey's Irish cream both rose +8% and +5% respectively during the quarter. General Mills the maker of Cheerios reported robust revenue growth of +4% in Q2 and profits that were up +13% on the previous year when adjusted for currency effects. This was followed by a raise in outlook for the year of 2023 highlighting how they continue to execute well despite the current challenging macro environment. Both companies appear to be benefiting from adjusting consumer behaviours. Whilst consumer spending might be falling the increase in at-home dining vs. eating out has been a positive for these stocks.

Some of the other better relative performers in the quarter included:



Paypal	Specialty Finance and Services Retail	+31%
Sodexo	Hospitality Services	+15%
Amazon.com	Food and Staples Retail	+14%
Lululemon	Consumer Retail	+9%
Intuit	Software and Consulting	+7%

Outlook

Our focus remains on identifying and owning companies which exhibit strong customer and employee characteristics that we believe have the best prospects for a 5 year or longer time horizon. With inflation fears potentially abating as seen recently in asset classes such as commodities, and consumer confidence around the world near record low levels, we see the set up for the next 6 – 12 months as a positive one from an investment perspective. The market year-to-date has created a unique set of opportunities that we will look to capitalise on.

Carmignac Portfolio Human Xperience

A thematic fund focused on customer and employee experience

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