FP CARMIGNAC EUROPEAN LEADERS: LETTER FROM THE FUND MANAGER

20/01/2025 | MARK DENHAM

-4.04% Performance of the fund (A GBP Acc share class) in the 4th quarter of 2024 vs -4.24% for its comparator benchmark (MSCI Europe Ex UK Net Total Return USD, converted to GBP).	**+6.75%** Performance of the fund (A GBP Acc share class) in 2024 vs +1.93% for its comparator benchmark.	**+77.26%** Performance of the fund (A GBP Acc share class) since launch (15/05/2019) vs 47.56% for its comparator benchmark.

During the fourth quarter of 2024, ***FP Carmignac European Leaders*** *(A GBP share class) produced a negative return of -4.04%, compared to the comparator benchmark which was down -4.24%. Nevertheless, the fund performance over the year was +6.75%, versus +1.93% for the comparator benchmark.*

MARKET ENVIRONMENT DURING THE PERIOD

The year started off in in the same vein as markets finished in 2023, led by optimism for interest rate cuts by central banks on both sides of the Atlantic. What was very encouraging was that this momentum persisted even when it became clear expectations for rate cuts were too high, owing to strength in the US economy and a slower decline in inflation.

In March we saw a broadening out of performance with cyclical sectors like banks and autos picking up steam. We saw a distinct change in the second quarter, caused by stronger than expected economic data and inflation falling slower than hoped, although as the period progressed this situation eased allowing some central banks, notably including the European Central Bank (ECB), to start cutting rates.

Sector rotations started to be seen, and volatility picked up during the third quarter with a reversal towards cyclical sectors.

The year ended on a poor final quarter for European stocks. The backdrop continued to be one with modest growth in profits, with only 3% growth expected for the full year. The prospect of, and reaction to, a Trump presidency and the attendant risk of tariff rises led to European stocks sharply lagging the rally that took place in the US. Also, consumer stocks exposed to China, saw fading excitement over the scale of domestic stimulus there. The macroeconomic picture was little better with manufacturing indicators firmly in contractionary territory, protracted conflict in the Middle East, political disruption, and budgetary uncertainty in France with corporate tax surcharges announced, and bond yields gradually increasing. The ECBs ongoing commitment to cutting interest rates was at least one positive for the region.

HOW DID WE FARE IN THIS CONTEXT?

The fund's performance over the year can be divided into two distinct phases. The first half of the year saw our fund supported by the Technology and Healthcare sectors. Yet again, Novo Nordisk was the strongest stock contributor, then. The consumer sectors were weak over the first half of the year driven by weakening economic growth and in particular consumer spending. The luxury good sector in particular suffered over these months. With the pullback seen on Hermes in January we saw an opportunity for long-term investors like us to start a position in a company whose products are at the apex of desirability, exclusivity and therefore also pricing power. With their full year results the company confirmed this profile with double digit growth and guided for further price increases of c8% underpinning our forecasts of 13% sales growth in 2024.

The second half of the year, driven by mixed company reporting and global markets falling led by tech names that were strong in the first half of 2024, was somewhat more difficult to navigate. The recovery was led by economically sensitive cyclical names anticipating future recovery, following the confirmed Federal Reserve (Fed) rate cut in September.

As the market leadership was taken up by cyclical sectors, previously strong areas of the market, notably Healthcare and Technology lagged. This was detrimental to our fund as we typically have large long-term exposures to these sectors. Conversely for the long term we avoid sectors such as Financials which were strong.

Several of our consumer names contributing negatively to our fund performance over the period, with L'Oreal the worst among them. Within the healthcare and Technology sectors, although our overweight was not supportive, our stock selection was a positive contributor.

In the third quarter, we reduced our weight to ASML significantly from c.8% to c.3%. We were concerned stocks in the semiconductor sector had done well and looked technically extended, and that they were increasingly correlated to US names like Nvidia where expectations were almost impossible to surpass in the short run. It transpires we were right as the stock sold off post Q2 numbers.

In the fourth quarter, we were increasingly cautious ahead of a late stage clinical trial read out of Novo Nordisk's next generation product cagri-sema where expectations were already extremely high for success. Consequently, we had reduced the size of our holding from as much as 9% at the start of the year to about 5% into the event. As it turned out while the drug delivered about 23% weight loss after a year, this was less than hoped and the stock fell dramatically by about 20%. After this drop though, which we see as an over-reaction, we have started to re-increase our exposure. We believe the company can grow profits of the order 20-25% p.a. in the medium term now that drug supply bottlenecks have been alleviated, enabling strong demand to be satisfied.

Over the second half of the year, we added two names in the healthcare sector. Firstly, BioNTech, within our biotech sleeve. The company had been a beneficiary of Covid in 2020. As demand for vaccines has dwindled and the hype has come out of the name, the share fell to c.90 USD. This was our opportunity to start a holding. We like the fact that the company has 32 projects in development for a range of illnesses. Their previous vaccine success means they can fund their projects internally using the large cash reserves they have built up from Covid vaccines. Secondly, Galderma. They are a specialist in dermatological products with health or cosmetic benefits, ranging from prescribed drugs for skin illnesses such as eczema or rashes, to aesthetic products used in cosmetic applications. The segments the company operates in are relatively fast growing and they are outgrowing this owing to innovation and strong commercial execution leading to high single digit organic growth. In addition, recent drug approvals offer exciting upside to medium term forecasts.

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

We maintain our focus on stocks and sectors with strong visibility on sales and profits. We have an investment horizon of 5 years, and we stick to our process of focusing on profitable companies with high returns on capital, reinvesting for growth. We believe these companies will continue to deliver the best long-term returns for investors. However, our tactical view is to position defensively. This is based on fact that ongoing earning downgrades will likely see market falls. Recent economic data supports that view, notwithstanding recently stickier inflation (at an absolute low level) and employment strength, and despite euphoria regarding Trump 2.0. Falling yields as inflationary pressures ease should start to be supportive. Our view remains that as growth slows, inflation will continue to subside allowing rates to drift lower again, as they have started to do. Hence, higher visibility should ultimately be rewarded, this is why we want to contain any net cyclicality/beta/momentum/illiquidity, which is reflected in our trading since the start of the year.

FP CARMIGNAC EUROPEAN LEADERS A GBP ACC

(ISIN: GB00BJHPHZ49)

SFDR - Fund Classification :

Article -

LOWEST RISK						HIGHEST RISK
1	2	3	4	5	6*	7

Recommended minimum investment horizon 5 YEARS

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.

*Risk Scale from the KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.

FEES

Maximum subscription fees paid to distributors : 0,00%

Redemption Fees : 0,00%

Conversion Fee : •

Ongoing Charges : 0.89%

Management Fees : 0,81% EXT

Performance Fees : •

PERFORMANCE (ISIN: GB00BJHPHZ49)

Calendar Year Performance (as %)	2019	2020	2021	2022	2023	2024
FP Carmignac European Leaders	**+18.2 %**	**+27.1 %**	**+13.9 %**	**-14.8 %**	**+13.9 %**	**+6.8 %**
Indicateur de référence	+8.8 %	+7.5 %	+16.7 %	-7.6 %	+14.8 %	+1.9 %

Annualised Performance	3 Years	5 Years	Since launch
FP Carmignac European Leaders	**+1.2 %**	**+8.4 %**	**+10.7 %**
Indicateur de référence	+2.6 %	+6.3 %	+7.1 %

Source: Carmignac at 31 Dec 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).