CARMIGNAC P. CREDIT: LETTER FROM THE FUND MANAGERS

11/10/2023 | PIERRE VERLÉ, ALEXANDRE DENEUVILLE

+1.74%

Carmignac P. Credit's performance in the 3rd quarter of 2023 for the A EUR Share class.

+0.64%

Reference indicator's performance in the 3rd quarter of 2023 for the 75% ICE BofA Euro Corporate Index et 25% ICE BofA Euro High Yield Index.

+4.29%

Of annualized performance since launch of the fund (31/07/2017), compared to -0.27% for its reference indicator[1].

Carmignac Portfolio Credit was up +1.74% during Q3 2023, versus +0.64% for its reference indicator[1]. Since the beginning of the year, the fund is up +4.69% vs. +3.27% for its reference indicator, outperforming by 1.42%.

OVERVIEW OF CURRENT CREDIT MARKETS

After the volatile episodes surrounding the demise of Silicon Valley Bank and Credit Suisse, we saw a return to calm in May and June which persisted during the third quarter of 2023. **Primary markets were well functioning and very active in most corners of our investment universe, offering attractive new investment opportunities**, especially in high yield in developed and emerging markets.

Now that fixed income investors enjoy low risk investment options that offer meaningful positive return (such as short-term treasuries), they feel much less need to stretch across the risk spectrum to reach for yield than they used to. This has re-established the balance between supply and demand for credit risk in favour of investors. For example, as the primary market reopened widely in the past months, we have seen plain vanilla BB issuers in the primary market financing themselves at spreads 20 to 30% higher than in 2019 or 2021, all things being equal. **We believe investors are now well compensated in the high yield space, even taking into account an expected pickup in defaults.**Complex situations attract even higher remunerations compared to the past, which is illustrated by the generous spreads on offer in the "collateralized loan obligation" space (CLO tranches have been the largest contributor to performance of the fund so far this year).

POSITIONING

As a result, the fund offers now a yield superior to 9% while maintaining a solid credit quality (with an average BB+ rating) and a high level of diversification. This is despite maintaining c. 10% of hedges through CDS on HY indices. **This high level of carry offers meaningful protection against the impact of potential credit incidents or the widening of spreads.** In addition, our exposure to (floating) CLO tranches and inflation friendly sectors such as natural resources and financials should mitigate the impact of interest rate volatility on performance going forward.

OUTLOOK

As we discussed in our last letter, this return of value for the credit markets as well as the presence of wide complexity premia available to bond pickers is very exciting for the future performance of Carmignac Portfolio Credit. Additionally, **we expect this higher cost of financing across the board will restore an environment for credit defaults, similar to what we had for the first three decades of the high yield market, and hence attractive opportunities for high alpha distressed debt investments.**

[1] Source: Carmignac, Bloomberg, 30/09/2023

CARMIGNAC
INVESTING IN YOUR INTEREST