

CARMIGNAC P. UNCONSTRAINED EURO FIXED INCOME: THE FUND MANAGER'S THOUGHT

by Guillaume RIGEADE
- Fund Manager
Eliezer BEN ZIMRA
- Fund Manager
30.10.2020

Since March 10th, 2021, the new name of Carmignac Portfolio Unconstrained Euro Fixed Income is Carmignac Portfolio Flexible Bond.

The bond market today

After the disruption caused in the first half of the year by the Covid-19 outbreak, the third quarter seemed more placid. Yet it also saw quite a few developments with an impact on bond-market behaviour as almost all market segments booked substantial gains over the period.

“ **The Covid-19 pandemic so dramatically affected global economic activity that it drove government and monetary institutions across the board to provide large-scale support.** ”

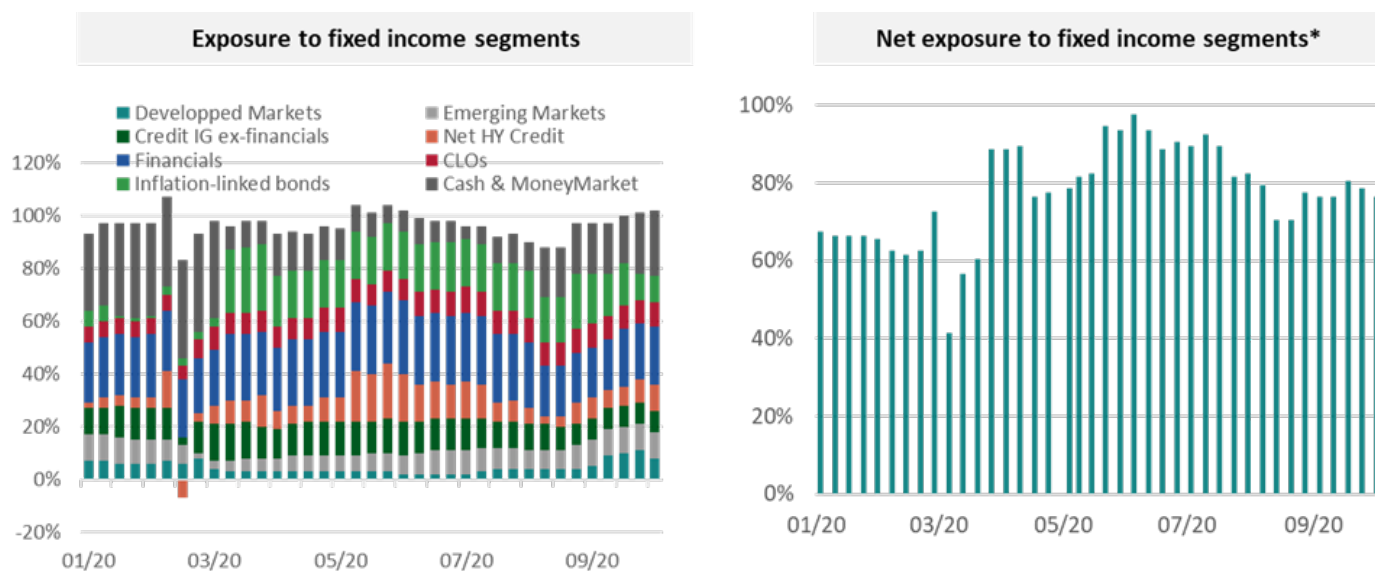
In July, for example, the EU at last agreed on a Recovery Fund that set the stage for ambitious fiscal stimulus programmes. With the number of persons infected by Covid-19 worldwide rising by the end of summer, governments began preparing for a probable second wave, adopting protective policies that would impact the economy, despite the publication of better than expected economic indicators and some progress on vaccines.

US fixed income has in particular felt the impact of the recent policy shift at the Federal Reserve. To help achieve his inflation and job-growth targets, **the Fed would now tolerate brief phases of economic overheating and therefore temporary increases in the inflation rate to over 2%.** This announcement was enough to steepen the yield curve and strongly support Inflation-linked securities.

Another factor affecting US fixed income has been **the country's feverish political climate** with no agreement reached on a new stimulus bill and no clear outlook on the upcoming presidential election. Emerging-world bond markets showed dispersion, but overall credit risk is on the mend being buoyed by US dollar depreciation and by the rebound in commodities.

Portfolio allocation

The effects of the economic downturn have been offset by stimulus policies introduced around the world, leading us to invest heavily during the second quarter in various parts of the credit space. By early July, corporate credit accounted for 64% of our fixed-income allocation. With central banks engaged in an increasingly pronounced economic support drive, we took inflation-linked bonds to 19% of our portfolio at the start of July to benefit from rising inflation expectations and falling real interest rates. **We thus entered the third quarter with 91% exposure to the fixed-income market and negligible cash holdings** – a sign of the many opportunities the market had to offer at that point.



*Investments – hedging via derivatives – cash & cash equivalents

Source: Carmignac, 09/10/2020

Buoyed by support from governments and central banks, high-risk credit spreads tightened fast, especially in high-yield (+3%) and subordinated financial debt (around +4%) markets. **This convinced us to take profits and scale back our exposure to high-yield credit** to an exposure at around 9% now.

We have nonetheless left **corporate bonds at nearly 50% of our portfolio** with two main convictions:

- Some issuers whose businesses took a direct battering from the Covid-19 outbreak (e.g., certain carmakers, aircraft manufacturers, etc.) with significant performance potential.

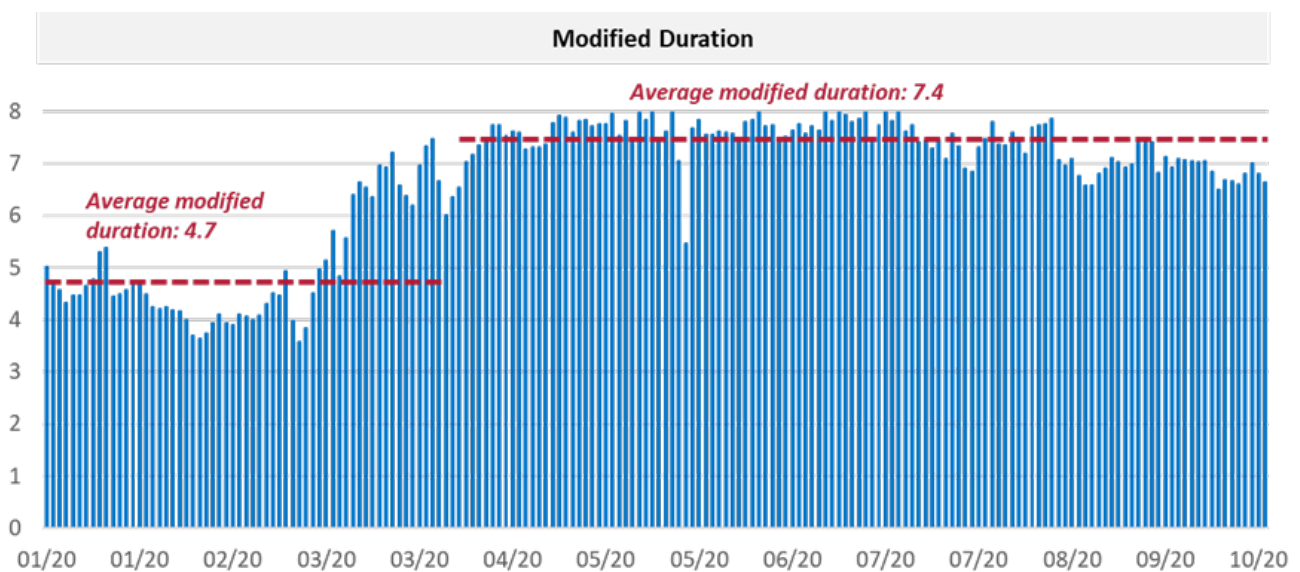
- Financial bonds, particularly the more junior issues, as they are receiving extremely generous support from central banks and are still benefiting from their efforts over the past several years to clean up their balance sheets.

This ongoing monetary policy easing should sustain low volatility in markets – a plus point for carry strategies. With that in mind, **we have made a large investment in Italian government paper (9%)**, given that political risk is now off the country’s medium-term agenda.

During the quarter, we raised our exposure to emerging-market bonds focusing now on what are the team’s major convictions: **the Mexican oil company Pemex, Romania and the Russian fuel and energy consortium**. We have been especially active in the market for inflation-linked bonds and have now a substantial 10% exposure to European and US inflation-linked bonds.

Portfolio duration

During the quarter, we maintained our very high duration between 6.5 and 8. In September, we began mildly reducing our overall modified duration, keeping it below 7 years.



Source: Carmignac, 30/09/2020

Past performance is not a reliable indicator of future performance. Performances are net of fees (excluding applicable entrance fee due to the distributor). The return may increase or decrease as a result of currency fluctuations).

We maintain a high duration via hold large positions on the US and eurozone yield curves, and to a lesser extent and for diversification purposes on Australian and UK gilt yield curves, to take advantage of extremely dovish monetary policies.

The second case for maintaining high duration is that **it allows us to protect a portfolio heavily**

invested in corporate bonds in case the economic landscape deteriorates. However, there are also yield curves on which we have opted for negative duration, for example in Hungary and the Czech Republic.

Fund performance

In the quarter, Carmignac Portfolio Unconstrained Euro Fixed Income returned +2.86% (A share class EUR Acc) versus +1.53% for its reference indicator (ICE BofA Euro Broad Index). **Practically all the strategies we pursued made a positive contribution to the Fund's performance**. Corporate credit – with differentiated positioning in high-yield, investment-grade and financial bonds – lifted our return by 187 basis points.

We also booked positive results in government bonds from both the developed world (Italy) and the emerging world (mainly Romania). We also gained performance from our exposure to US and European real rates. Regarding duration management, we have mainly benefitted from our Australian bonds.

Discover the Fund's webpage:

[Carmignac P. Unconstrained Euro Fixed Income](#)

	2016	2017	2018	2019	2020	2021 (YTD)
Carmignac Portfolio Flexible Bond A EUR Acc	+0.07 %	+1.65 %	-3.40 %	+4.99 %	+9.24 %	-0.15 %
Reference Indicator	-0.32 %	-0.36 %	-0.37 %	-2.45 %	+3.99 %	-1.98 %

	3 years	5 years	10 years
Carmignac Portfolio Flexible Bond A EUR Acc	+3.90 %	+2.61 %	+2.28 %
Reference Indicator	-0.47 %	-0.42 %	-0.13 %

Past performance is not a reliable indicator of future performance. Performances are net of fees (excluding applicable entrance fee due to the distributor). The return may increase or decrease as a result of currency fluctuations. A EUR share class. On 30/09/2019 the composition of the reference indicator changed: the ICE BofA ML Euro Broad Market Index coupons reinvested replaces the EONCAPL7. The Fund's name was changed from Carmignac Portfolio Capital Plus to Carmignac Portfolio Unconstrained Euro Fixed Income.

Carmignac Portfolio Flexible Bond

← Lower risk Higher risk
Potentially lower return Potentially higher return →

Recommended minimum investment horizon

1
2
3
4
5
6
7

in risks of the Fund

INTEREST RATE: Interest rate risk results in a decline in the net asset value in the event of changes in interest rates.

CREDIT: Credit risk is the risk that the issuer may default.

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.

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.

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. A EUR acc share class ISIN code: LU0336084032

This document is intended for professional clients. This is an advertising document. This document may not be reproduced, in whole or in part, without prior authorisation from the management company. This document does not constitute a subscription offer, nor does it constitute investment advice. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The Funds are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. The French investment funds (fonds commun de placement or FCP) are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. Access to the Fund may be subject to restrictions with regard to certain persons or countries. The Fund is not registered in North America, in South America, in Asia nor is it registered in Japan. The Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Fund has not been registered under the US Securities Act of 1933. The Fund may not be offered or sold, directly or indirectly, for the benefit or on behalf of a "U.S. person", according to the definition of the US Regulation S and/or FATCA. The Fund presents a risk of loss of capital. The risks and fees are described in the KIID (Key Investor Information Document). The Fund's prospectus, KIIDs and annual reports are available at www.carmignac.com, or upon request to the Management Company. The KIID must be made available to the subscriber prior to subscription. - In Switzerland, the Fund's respective prospectuses, KIIDs and annual reports are available at www.carmignac.ch, or through our representative in Switzerland, CACEIS (Switzerland) S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. - In the United Kingdom, the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This material was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013). - In Spain: Carmignac Patrimonio is registered with Comisión Nacional del Mercado de Valores de España (CNMV) under number 386, Carmignac Investissement under number 385, Carmignac Sécurité under number 395, Carmignac Emergents under number 387 and Carmignac Portfolio under number 392.

