QUARTERLY REPORT

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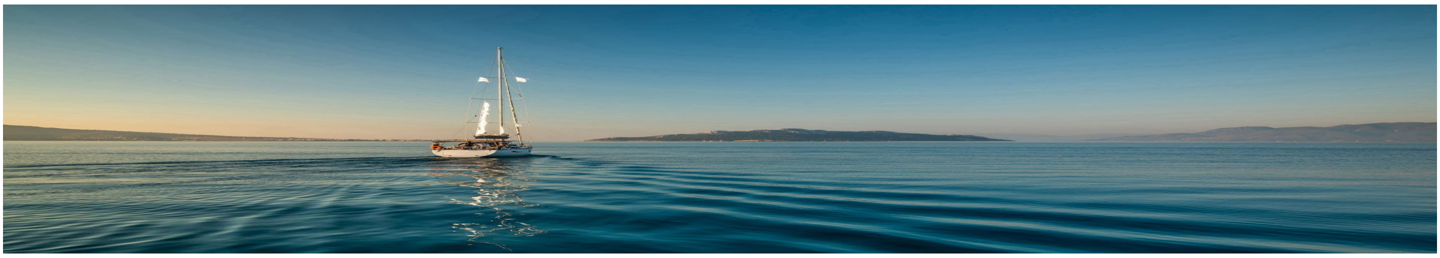

Carmignac P. Flexible Bond : Letter from the Fund Managers

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+0.77%

Carmignac P. Flexible Bond's performance

in the 1st quarter of 2023 for the A EUR Share class

+1.69%

Reference indicator's performance

in the 1st quarter of 2023 for ICE BofA ML Euro Broad index (EUR)

-0.92%

Relative performance of the Fund Year

to date versus its reference indicator

Carmignac Portfolio Flexible Bond *gained 0.77% (class A shares) in the first quarter of 2023, slightly underperforming its reference indicator (ICE BofA ML Euro Broad Index (EUR)), which added 1.69%.*

The Bond Market Today

Bond markets were highly volatile in Q1 2023 and moved in two distinct phases: first, they rallied early in the year on a stream of upbeat news, but then retreated as investors became more risk averse owing to higher-than-expected inflation readings and a rise in banking-sector risk.

In the first phase, which took place in January, investors were cheered by the encouraging combination of China's reopening, disinflation in Europe and the US, resilient economic data, and reassuring earnings releases from issuers. In addition, the accommodative tone adopted by both Jerome Powell and Christine Lagarde, based on their economies' disinflationary trajectories, also fuelled investors' risk appetite.

Unfortunately, that changed in February when data on GDP growth and inflation ran counter to hopes of improved visibility. Not only did inflation come in above analysts' forecasts in both Europe and the US, but the higher inflation was driven primarily by the services component. In the US, unemployment and retail-sales figures still pointed to a clearly overheating economy. While these data pushed out the timing for a possible US recession, they also fed worries that the US Federal Reserve would turn out to be less accommodative than expected. March delivered the final blow to the financial-market euphoria as the initial effects of monetary-policy tightening began to appear. For instance, banking-sector risk came back onto the scene when three US regional lending institutions went bankrupt during the month, triggering broad concern among market participants. What's more, contagion meant this concern spread to some of Europe's most speculative banks – including Switzerland's Credit Suisse, which experienced a bank run. The last-minute bailout of Credit Suisse by its compatriot UBS, coupled with the Federal Reserve's new Bank Term Funding Program, soothed investors' fears in the second part of the month.

Portfolio Allocation

We adjusted our asset allocation in Q1 in response to the changing market climate:

- **We increased the portfolio's modified duration.** We raised the duration starting at the beginning of the quarter, bringing it from 3 in early January to 5 at quarter-end. We plan to maintain duration at this level given the first signs of a turnaround in the economic growth dynamic, since such a turnaround could trigger a pivot by central banks.
- **We continued to increase our credit-market exposure.** Spreads on corporate debt currently factor in a default rate that we feel is overestimated, making the prices of this debt attractive. We've therefore reinforced our positions on the strongest convictions in our portfolio: European financial debt, high-yield corporate bonds, collateralised loan obligations, and emerging-market debt. We're maintaining a dynamic approach to asset allocation in order to tactically mitigate the impact of market downturns, like the one experienced during the banking-sector stress in March, when we fully hedged our high-yield book with hedges on the iTraxx Crossover index.

Outlook

We believe inflation will remain structurally above the 2% target in 2023 – notwithstanding the current disinflationary trend – which calls for a continued flexible approach to bond investments. We're cautious on the longest-dated segment of the yield curve given the trajectory of monetary tightening. Questions arose in March about whether the US might go into recession, meaning the turning point for central banks' monetary policy could be near. With regards to valuations, we believe a recession is already priced into spreads in some segments of the corporate bond market. For the near term, we plan to remain long on duration with a preference for European issuers. We also increased our long position on inflation-indexed bonds in Europe and the US to serve as a hedge against resilient core inflation and against a worsening geopolitical situation, as that could fuel a rebound in consumer-price growth. We closed out our short positions on short-dated sovereign paper in response to the economic slowdown.

Source: 31/03/2023, Carmignac, Bloomberg

Carmignac Portfolio Flexible Bond

A flexible solution aiming to capture bond opportunities globally

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Carmignac Portfolio Flexible Bond A EUR Acc

ISIN: LU0336084032

Recommended minimum investment horizon

Lower risk Higher risk

Potentially lower return Potentially higher return

1	2	3*	4	5	6	7

Main 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.

Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.