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Carmignac Portfolio Credit : Letter from the Fund Managers

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+1.55%

Carmignac Portfolio Credit's performance
in the 2nd quarter of 2021 for the A EUR Acc share class.

+0.57%

Reference indicator's performance
in the 2nd quarter of 2021 for 75% ICE BofA Euro Corporate Index and 25% ICE BofA Euro High Yield Index.

+2.82%

Performance of the Fund Year-to-Date
versus +0.43% for the reference indicator

Quarterly performance review

The second quarter of 2021 was similar to the first three months of the year in many respects. Credit market valuations remained expensive overall. Apart from the fact that headline spreads are low on average, our markets are still characterised by **considerable segmentation between situations that appear safe and are bid for at prices that sometimes verge on the absurd and situations that appear more complex and are often left aside.**

The source of this segmentation is the consistent use of central-bank liquidity as the primary response to economic shocks in the past decade. Investors in search of income – increasingly scarce in all financial markets – have been driven to favour credit as an asset class. This pushes valuations to levels so low that most investors feel they can no longer afford defaults in their portfolios: once fees are subtracted from the meagre credit spreads on offer, a single default can indeed wipe out several years of performance for a benchmarked fund.

As a result, and somehow paradoxically, elevated risk aversion coexists with a frantic hunt for yield. The subset of the market that displays greater complexity and needs extensive analytical work is left unloved, and thus offers pockets of value.

The upshot is that value in credit markets is less and less to be found in “beta”, or broad exposure to the wider market, and increasingly in “alpha” – that is, in bond-picking and shrewd selection of issuers that offer an attractive risk/reward profile. There is nothing new under the sun here. The market has been operating in this mode for extensive periods of time since the Great Financial Crisis.

> We designed Carmignac Portfolio Credit specifically to give us the flexibility to harvest alpha across a wide investment universe, while being simultaneously able to reduce our exposure when the opportunity set does not justify our being fully deployed.

How is the fund positioned?

This is the playbook we have been following so far in 2021. In these segmented credit markets, we reduce our net exposure to prudent levels through hedging and our cash buffer. At the same time, **we regularly find interesting risk/rewards we can add to the Fund and our overall portfolio maintains an attractive carry, net of the cost of hedging and any cash drag.**

In conclusion, we want to address one issue raised by many investors over the past months, which pertains to the risks to the Fund of inflationary pressure and increased interest-rate volatility. It is true that these factors have impacted the performance of many of our competitors since the beginning of the year, but Carmignac Portfolio Credit has been largely insulated from them.

We see two main explanations for this. First, we naturally have a lower duration than our reference indicator – and most of our peers – because we have large gross exposure to high-yield bonds (hedging keeps our net exposure at a much lower level). We are also well-invested in structured credit, which is floating-rate and carries no interest-rate risk. And second, **we focus on issuers that tend to be sensitive to the economic cycle and profit from inflation, for example in the energy sector, or companies buoyed by the post-pandemic re-opening trade.** When interest rates rise, credit spreads tighten and largely offset the impact. We therefore believe our reported duration significantly overstates our actual sensitivity to interest rates.

This has been a driver of Carmignac Portfolio Credit's outperformance since the beginning of the year and, far from seeing it as a risk, we believe that, all other things being equal, we can maintain our absolute and relative performance if inflationary pressures persist.

Carmignac Portfolio Credit A EUR Acc

ISIN: LU1623762843

	2017	2018	2019	2020	2021 (YTD)
Carmignac Portfolio Credit A EUR Acc	+1.79 %	+1.69 %	+20.93 %	+10.39 %	+3.42 %
Reference Indicator	+1.13 %	-1.74 %	+7.50 %	+2.80 %	+0.65 %

	3 years	5 years	10 years
Carmignac Portfolio Credit A EUR Acc	+10.71 %	-	-
Reference Indicator	+3.14 %	-	-

Source : Carmignac at 30/09/2021

Carmignac Portfolio Credit A EUR Acc

ISIN: LU1623762843

Lower risk Higher risk

Potentially lower return Potentially higher return

Recommended minimum investment horizon

1
2
3
4*
5
6
7

n risks of the Fund

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

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

RISK OF CAPITAL LOSS: The portfolio does not guarantee or protect the capital invested. Capital loss occurs when a unit is sold at a lower price than that paid at the time of purchase.

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.

The Fund presents a risk of loss of capital.

[1]Reference indicator: 75% BofA Merrill Lynch Euro Corporate Index, 25% BofA Merrill Lynch Euro High Yield Index.
[2]31/07/2017.