CARMIGNAC P. CREDIT: LETTER FROM THE FUND MANAGERS

10/04/2024 | PIERRE VERLÉ, ALEXANDRE DENEUVILLE

+2.51%
Carmignac P. Credit's performance in Q1 2024 for the A EUR Share class.

+0.70%
Reference indicator's performance in Q1 2024 for the 75% ICE BofA Euro Corporate Index et 25% ICE BofA Euro High Yield Index.

+5.21%
Of annualized performance since launch of the fund (31/07/2017)[2], compared to +0.67% for its reference indicator[1].

***Carmignac Portfolio Credit** was up +2.51% during Q1 2024, versus +0.70% for its reference indicator[1], or an outperformance of +1.81%.*

REVIEW OF Q1 2024 PERFORMANCE

Most of our performance drivers contributed positively to the quarter's return. The only detractor was our equity bucket which represented c. 3.22% of the portfolio at the end of March and is composed of two equity positions that we received following distressed debt investments. Emerging equities usually take a few months to be re-embraced by the sell-side and buy-side communities and we see a clear path of catalysts for value appreciation during 2024 for these investments.

Following this good start of the year, we are excited for potential performance over the coming quarters - yet we have been reducing our net exposure over the past weeks.

OUTLOOK

Current credit markets are still an exciting playground for bond picking. With risk-free rates at healthy levels, investors demand meaningful compensation to fund the unusual, the new, the out-of-benchmark, the complex? even though these situations sometimes turn out to be materially less risky than plain vanilla credits. This has always been our bread and butter and current times are particularly fertile, thanks to which the bond portfolio of Carmignac Portfolio Credit sports a c. 7.7% gross yield at time of writing for a BB+ average rating.

On the other hand, the significant increase in the cost of capital that has happened since the Ukraine invasion two years ago is starting to bite at the weakest balance sheets in the high yield universe. A number of issuers, among which some of the largest of the European credit markets, have recently announced to their creditors, with more or less subtility, that they would most likely need their contribution to deleverage? It's worth noting that those restructurings were not announced because of disappointing operational results, but as an acknowledgement that their capital structures, fragile in the previous rate environment, were simply not sustainable when debt has a cost. More will come and in our opinion many investors are far from prepared for anticipating and managing those situations.

This is very exciting for us. Defaults can be the source of excellent opportunities and a heightened fear of defaults in the market usually translate into better risk-rewards available for bond pickers. This said, market credit spreads have stayed at rich levels despite the build-up of stress and multiplication of accidents. In this context, we have taken advantage of the low cost of high yield protection to increase our hedging. We have also sold some appreciated positions where risk rewards had become less interesting. Our gross HY exposure is now c. 45% and our net HY exposure c. 24% for an overall net exposure of c. 75%. We continue to maintain a high level of diversification (more than 250 positions and 150 different issuers), limiting the potential impact of isolated credit accidents and keeping the fund very liquid.

In conclusion, we are in a great environment for alpha generation in credit. If anything, opportunities for bond picking should improve in the coming months and we would be disappointed if the fund does not return a mid to high single digit annualized return over the next two to three years.

Sources: *Carmignac, 31/03/2024. Performance of the A EUR acc share class ISIN code: LU1623762843.* [1]*Reference indicator: 75% BofA Merrill Lynch Euro Corporate Index, 25% BofA Merrill Lynch Euro High Yield Index.* [2]*31/07/2017.* ***Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding possible entrance fees charged by the distributor)***. **Marketing communication**. Please refer to the KID/prospectus of the fund before making any final investment decisions.

SFDR - Fund Classification** :

Article 6

LOWEST RISK — HIGHEST RISK

1	2	3*	4	5	6	7

Recommended minimum investment horizon: 3 YEARS

MAIN RISKS OF THE FUND

CREDIT: 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. **LIQUIDITY**: Temporary market distortions may have an impact on the pricing conditions under which the Fund might be caused to liquidate, initiate or modify its positions.
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 KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.
**The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : 2,00% of the amount you pay in when entering this investment. This is the most you will be charged. Carmignac Gestion doesn't charge any entry fee. The person selling you the product will inform you of the actual charge.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 1,20% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,43% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

ANNUALISED PERFORMANCE (ISIN: LU1623762843)

Calendar Year Performance (as %)	2017	2018	2019	2020
Carmignac Portfolio Credit	**+1.8 %**	**+1.7 %**	**+20.9 %**	**+10.4 %**
Indicateur de référence	+1.1 %	-1.7 %	+7.5 %	+2.8 %

Calendar Year Performance (as %)	2021	2022	2023
Carmignac Portfolio Credit	**+3.0 %**	**-13.0 %**	**+10.6 %**
Indicateur de référence	+0.1 %	-13.3 %	+9.0 %

Annualised Performance	3 Years	5 Years	Since launch
Carmignac Portfolio Credit	**+0.1 %**	**+4.9 %**	**+5.2 %**
Indicateur de référence	+1.8 %	+0.0 %	+0.6 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

CARMIGNAC
INVESTING IN YOUR INTEREST