

CARMIGNAC SÉCURITÉ: LETTER FROM THE FUND MANAGER

13/10/2023 | MARIE-ANNE ALLIER, AYMERIC GUEDY

+0.57%

Carmignac Sécurité's performance in the third quarter of 2023 for the A EUR Share class.

+0.56%

Reference indicator's performance in the third quarter of 2023 for ICE BofA ML 1-3 years Euro All Government Index (EUR).

1%

Of its Morningstar category over 1 year Morningstar category: EUR Diversified Bond - Short Term.

Carmignac Sécurité gained +0.57% in the third quarter of 2023, compared with a performance of +0.56% in its reference indicator¹.

THE BOND MARKETS TODAY

European bond yields across all maturities – from 1-day to 30-year – rose again in the third quarter, with the notable exception of the 2-year German yield. The yield curve flattened in the segment between the overnight rate and the 2-year rate and steepened considerably for longer maturities. So far, economic output has withstood the sharp climb in interest rates. This resilience clearly doesn't mean the economy has become immune to higher borrowing costs, although it is true that several indicators are less worrying today than a year ago:

- Energy and especially gas prices are much lower than in 2022, and reserves appear to be high enough to make it through the coming winter;
- Food prices are no longer a concern;
- The kinks are gradually being worked out of supply chains;
- As a result, disinflation appears to be well under way – proof that the monetary-policy tightening is working.

This suggests that, following the ECB's two rate hikes in Q3, the short-dated segment of the yield curve should now level off.

But there's still a way to go before inflation falls to central banks' target of 2%. And the robust pace of GDP growth isn't helping. For one thing, the job market is still running hot – not just in the US but, perhaps more surprisingly, also in Europe. And for another, households are still sitting on a large cushion of excess savings, which is fuelling demand for both goods and services. More problematically, the long-awaited slowdown in inflation is starting to boost households' real incomes, supporting GDP growth in the process. The rate cuts that would justify a highly inverted yield curve have therefore become less certain and less urgent, and the elevated level of long-term yields reflects the fact that central banks will likely keep their policy rates "high for longer" (as opposed to the "higher for longer" mantra heard in previous quarters). Looking at the German yield curve, the rate on 10-year paper rose 44 bp in Q3 while that on 2-year paper was flat.

Other segments of the fixed-income market were weighed down in the third quarter not so much by recessionary fears, but rather by the central-bank rate hikes (and thus the resilient economic growth). The higher rates pushed up credit spreads on non-core sovereign bonds in particular. The spreads on Italian over German yields have been widening since mid-August – partly because they're coming off a particularly narrow base, but also due to communication missteps by the Italian government (such as with the windfall tax on banks), Italy's lofty fiscal deficit, and the broad-based climb in interest rates. This is despite the fact that Italian savers generally treasure their government bonds – the BTP Valore issue in June raised over €18 billion among retail investors. The spread on Italian 10-year bonds ended the quarter at nearly 200 bp.

In corporate credit, the typical "summer carry trade" was a no-show this year. The spread on high-yield bonds hovered between 387 bp and 443 bp in Q3 and closed at around 427 bp (as measured by the iTraxx Crossover index).

PERFORMANCE

Our return in the third quarter was driven mainly by our carry strategies, coupled with an average yield-to-maturity of over 5% – the highest it's been since the sovereign debt crisis. Carry strategies should remain our primary performance driver in the coming months. That said, our portfolio was impacted by the September rise in long-term yields and, to a lesser extent, by the widening of spreads on Italian sovereign bonds.

POSITIONING

Our modified duration was largely flat in Q3, staying in a range of 3.0–3.2. But the components of this duration changed substantially.

- Once investors had fully priced in a 4% terminal rate, we concentrated our portfolio on <5-year maturities, mostly in the 0 to 3.5-year segment. We either sold or hedged our long-term holdings and replaced them with short-dated paper.
- In a more marginal move, we shifted some assets out of German Bunds and into non-core sovereigns, as the latter seem well-protected in the short-dated segment considering the current level of yields and spreads.
- Our corporate credit book, which accounts for around one-third of our interest-rate exposure, was mostly unchanged in the quarter and is still focused primarily on short-term debt. Financials, the energy sector, and CLOs remain our three strongest convictions in this market segment.
- We increased our allocation to money-market instruments to nearly 25% of our portfolio. They offer the low volatility and attractive absolute interest rates that are a key feature of Carmignac Sécurité.

We believe that carry strategies will remain our primary performance driver in the coming months and that the central-bank tightening has peaked, meaning we shouldn't be impacted by additional rate hikes (like we were in the previous 18 months). Our yield-to-maturity at end-September was 5.4%, and our portfolio had an A– average rating.

Source: Carmignac, 30/09/2023. Performance of the AW EUR acc share class ISIN code: FR0010149120.

¹Reference indicator: ICE BofA ML 1-3 ans All Euro Government Index. 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).



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.

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.

* *Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time.

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FEES

Entry costs : 1,00% 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 : 1,11% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : There is no performance fee for this product.

Transaction Cost : 0,24% 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: FR0010149120)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Sécurité	+1.7 %	+1.1 %	+2.1 %	+0.0 %	-3.0 %
Indicateur de référence	+1.8 %	+0.7 %	+0.3 %	-0.4 %	-0.3 %

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).

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Sécurité	+3.6 %	+2.0 %	+0.2 %	-4.8 %	+4.1 %
Indicateur de référence	+0.1 %	-0.2 %	-0.7 %	-4.8 %	+3.4 %
Annualised Performance	3 Years	5 Years	10 Years		
Carmignac Sécurité	+0.1 %	+1.1 %	+0.7 %		
Indicateur de référence	+0.8 %	+0.5 %	+0.1 %		

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).

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.

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The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

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- **In Switzerland:** the prospectus, KIDs and annual report 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, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

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