CARMIGNAC SÉCURITÉ: LETTER FROM THE FUND MANAGERS

12/04/2024 | MARIE-ANNE ALLIER, AYMERIC GUEDY

+1.41% Performance of the Fund in the first quarter vs -0.12% for its reference indicator[1] (AW EUR Acc Share class).	**+5.66%** Performance of the Fund over 1 year vs +2.57% for its reference indicator[1] (AW EUR Acc Share class).	**1%** Of its Morningstar category over 1, 5 years and 10 years Morningstar category: EUR Diversified Bond – Short Term. (AW EUR Acc Share class).

*In the first quarter of 2024, **Carmignac Sécurité** gained 1.41%, while its reference indicator[1] fell by 0.12%.*

WHAT HAPPENED ON THE FIXED INCOME MARKETS DURING THE QUARTER?

The euphoria surrounding sovereign interest rates at the end of the year was short-lived. In the first few weeks of January, the resilience of economic activity, especially in the United States where growth continues to levitate above its potential, the surge in risky assets driven by the acceleration of the artificial intelligence theme, and record bond issuances to finance public deficits that are only gradually being normalised, brought global yields up to levels close to those recorded on average for the year 2023. But it was above all the hopes of disinflation, raised by the strong progress made in the second half of 2023, that were clearly dashed by the upward surprises in consumer price indices in January and February in the United States, and to a lesser extent in Europe. Against this disinflationary backdrop, the markets, which were anticipating more than six rate cuts by the US Federal Reserve and the European Central Bank in 2024, are now incorporating only 2.5 and 3.5 cuts respectively. The German 2-year rate jumped from 2.40% to 2.85% over the quarter, and the German 10-year rate from 2.02% to 2.30%. Similarly, the US 10-year rate rose from 3.88% to 4.20%.

On the other hand, the environment was more favourable for risky assets. Economic activity, although slowed in Europe by tighter financial conditions and the energy shock, is showing signs of resilience and should even pick up slightly in the second half of the year, supported by the rebound in real wages and the deployment of European funds. And market volatility has fallen sharply, particularly on interest rates, thanks to the central banks, which have explicitly indicated that they have reached the peak of their monetary tightening. As a result, high-yield credit spreads in Europe are now below the floor of 300 basis points, a low point since the invasion of Ukraine, after having tightened against German bonds by more than 25 basis points. Spreads on Italian sovereign bonds were similarly squeezed, despite a deficit that continues to surprise on the upside, impacted by the cost of the property 'superbonus', which is difficult to curb.

PERFORMANCE

Against this backdrop, three factors can explain Carmignac Sécurité's absolute and relative outperformance. Firstly, the Fund is ideally positioned to benefit from carry strategies, which, following the historic rise in European interest rates and the inversion of yield curves, have made a comeback, particularly on the shortest maturities. As a result, Carmignac Sécurité has a yield to maturity of almost 5%, one of the highest levels of carry since the sovereign debt crisis. This is mainly due to an increased allocation to credit markets (nearly 60% of assets), mainly focused on good quality, short maturity bonds, as well as an allocation to money markets (nearly 18% of assets). Secondly, the Fund benefited significantly from the compression of credit margins in its three current preferred segments: financial subordinated debt (8.4% of outstandings), the energy sector (10.8% of outstandings) and CLOs (9.2% of outstandings). Finally, after having been a key performance driver in the last quarter of 2023, modified duration has been sharply reduced, falling from 3 in November to almost 1.5 in January, and stabilising at around 2 in the last part of the quarter. The duration come mainly from the portfolio's corporate bonds and inflation-linked bonds, which also tempered the impact of rising rates on the portfolio.

OUTLOOK & POSITIONING

Finally, we are approaching the second quarter as we did 2024: confident about the Fund's performance potential. After more than 18 months of historic drawdown on the fixed income markets, the asset class harbours many opportunities. Just look at the portfolio's yield to maturity. Hovering between 4.5% and 5%, this will once again be the main driver of performance over the coming quarters. On the interest rate front, the Fund's sensitivity remains at moderate levels, close to 2. The market seems to us to have incorporated a scenario close to that of the ECB and ours, namely a first cut in June, for a total of 3 to 4 cuts this year. We are maintaining our upward positions on inflation, as the market seems to be claiming victory a little too quickly, particularly given the geopolitical risks and the failure to reduce deficits. We also initiated a position to steepen the yield curves, which remain at record inversion levels. Finally, on the credit side, we are maintaining a significant allocation, close to 2/3 of the portfolio, concentrated on highly rated and short dated bonds, providing the bulk of the Fund's carry. Financials, the energy sector and CLOs remain our 3 strongest convictions in this market segment. We also have tactical protection via the iTraxx Xover index, which is trading at its lowest point since the invasion of Ukraine, despite a rise in credit events, particularly affecting large caps such as Altice, Atos and Intrum.

[1]ICE BofA ML 1-3 Y Euro All Government Index (EUR).

Source: Carmignac, Bloomberg as at 28 Mar 2024.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

SFDR - Fund Classification** :

Article 8

LOWEST RISK						HIGHEST RISK
1	2*	3	4	5	6	7

Recommended minimum investment horizon 2 YEARS

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.
**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 : 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).