



Carmignac Sécurité: Letter from the Portfolio Manager



Author(s)
Marie-Anne Allier

Published
February 2, 2021

Len

Carmignac Sécurité generated a positive performance in 2020 (+2.05%)*, but also enabled the fund to outperform its reference indicator, EuroMTS 1-3 year EUR (-0.15%).

The Bond Market

Contrary to expectation, 2020 proved to be an extremely chaotic year. The ups and downs in the pandemic kept fixed-income markets on a roller-coaster ride and in utter uncertainty – until central banks and governments stepped in to give them crucial support, or rather life support. Despite recording significant declines when market liquidity dried up, closing off all avenues other than cash investments. When the time was ripe, we regained exposure first to quality corporate issuers who had experienced unwarranted selloffs, and subsequently to sovereign bonds from the eurozone periphery, particularly from Italy. The outlook for the latter has radically improved as a result of the epoch-making EU Recovery Fund and the ECB's massive intervention. Our highly targeted exposure to specific corporate issuers in sectors badly battered by the pandemic also paid off.

In the fourth quarter, with the announced arrival of Covid-19 vaccines, risk assets continued to perform well in what turned out to be a less depressed economy than many had feared back in March (those fears being what motivated such huge fiscal and monetary stimulus programmes).

Likewise, large-scale central-bank intervention kept core interest rates from surging at an inopportune time

Germany's 10-year yield stayed within a 14 basis-point range, from between $-0.48\%^*$ and $-0.64\%^*$, before ending the quarter virtually unchanged at $-0.55\%^*$.

In contrast, Italy's 10-year yield eased practically without interruption, shrinking from $0.87\%^*$ to $0.57\%^*$. Portuguese, Greek and Spanish yields followed a similar pattern. Hopes for an economic upturn also led to a sharp increase in inflation expectations, though the realised inflation rate has strikingly failed to pick up. That increase, combined with what are still extremely low nominal yields, has driven real yields down and given rise in turn to hopes for resurgent GDP growth.

Though corporate credit experienced a mild swoon in October, it resumed its upward trajectory as spreads continued to narrow. The iTraxx Crossover Index fell from 345 to 238 basis points in the course of the fourth quarter. For now, **the absence of large-scale bankruptcies and the average yields on corporate credit suggest that the public-health crisis hasn't had, and won't have, much economic impact, though that may be an overly sunny picture.**

*Source: Carmignac, Bloomberg as of 31/12/2020. Performance of the A EUR acc share class

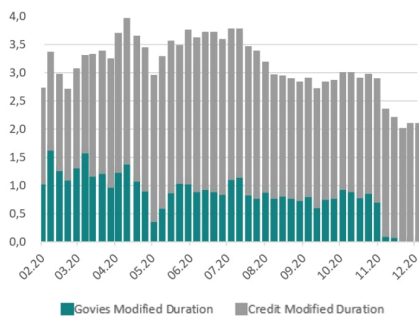
Portfolio Management

The movements we made in our portfolio during the fourth quarter were **mainly driven by a desire to reduce risk**. First of all, we scaled back the Fund's overall modified duration by taking profits on UK gilts and shorting long-term US Treasuries (as the United States is once again a step ahead of Europe on the road to economic recovery). Second of all, we shorted countries with deeply negative real yields and whose central banks will likely be among the first to have to lift key rates – i.e., Norway, Poland and the Czech Republic.

We also reduced risk by taking profits on bonds from the eurozone periphery as credit spreads tightened. In Italy and Cyprus, we mainly wound down our holdings of long-dated paper.

Last of all, we reduced our overall credit allocation both by dialling back a few of our stronger convictions (e.g., Pemex, Ford and Carnival) and by buying protection.

Asset class evolution in duration (with derivatives)



Source: Carmignac, 31/12/2020

Investment Outlook

The Fund ended 2020 with total modified duration of 2 years, due almost exclusively to our corporate credit holdings as our short positions on core sovereign bonds cancelled out our long positions on the eurozone periphery.

Our portfolio construction rests on the conviction that central banks will continue to expand their balance sheets, even if that expansion proves to be less dramatic than in 2020. With interest rates now rock-bottom, expanding the balance sheet is the only effective tool left to central banks. That said, bond markets tend to be more responsive to expectations of liquidity injections than to the injections themselves. This means that they probably have already priced in such monetary stimulus to a large extent. We therefore expect that, barring new developments, our portfolio will be characterised by fairly low duration, and made up primarily of short and medium-term maturities.

In corporate credit, technical factors admittedly still weigh heavily. The fact that **the ECB holds 8.5% of Europe's IG market has compelled investors to switch to lower-rated issues**; volatility has subsided since Joe Biden's victory and the end of the Brexit saga; and central banks continue to provide unfailing support. And even if the dispersion observed in the credit markets still offers many investment opportunities, the current combination of negative yields and already tight credit spreads makes it particularly challenging. In addition, the resumption of lockdowns in Europe gives us little reason to expect a near-term end to the crisis which has led us to **scale back our allocation and buying credit protection** until we have more visibility on the evolution of the virus and the vaccination campaign.

Discover the Fund's webpage:

Carmignac Sécurité

Reference indicator : EuroMTS 1-3 years index (EUR). Performance of the A EUR acc share class. 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 KIID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. A EUR Acc share class ISIN code: FR0010149120.

Carmignac Sécurité AW EUR Ydis

ISIN: FR0011269083

Recommended minimum investment horizon



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.

This document is intended for professional clients. This is an advertising document. This document may not be reproduced, in whole or in part, without prior authorisation from the management company. This document does not constitute a subscription offer, nor does it constitute investment advice. The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in French, English, German, Dutch, Spanish, Italian on the following link: https://www.carmignac.com/en_US. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The Funds are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. The French investment funds (fonds commun de placement or FCP) are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. Access to the Fund may be subject to restrictions with regard to certain persons or countries. The Fund is not registered in North America, in South America, in Asia nor is it registered in Japan. The Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Fund has not been registered under the US Securities Act of 1933. The Fund may not be offered or sold, directly or indirectly, for the benefit or on behalf of a "U.S. person", according to the definition of the US Regulation S and/or FATCA. The Fund presents a risk of loss of capital. The risks and fees are described in the KIID (Key Investor Information Document). The Fund's prospectus, KIIDs and annual reports are available at www.carmignac.com, or upon request to the Management Company. The KIID must be made available to the subscriber prior to subscription. - In Switzerland, the Fund's respective prospectuses, KIIDs and annual reports 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, Paris, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. - In the United Kingdom, the Funds' respective prospectuses, KIIDs and annual reports are available at www.carmignac.co.uk, or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This material was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013). - In Spain: Carmignac Patrimoine is registered with Comisión Nacional del Mercado de Valores de España (CNMV) under number 386, Carmignac Investissement under number 385, Carmignac Sécurité under number 395, Carmignac Emergents under number 387 and Carmignac Portfolio under number 392.