

Carmignac Sécurité: Q2 2020 overview

Author(s)
Marie-Anne Allier, Keith Ney

Published
July 30, 2020

Length
3

In the second quarter of 2020, Carmignac Sécurité increased by +3.10%, while its reference indicator increased by +0.26%. For the first half of the year, the Fund posted a performance of -1.40%, while its reference indicator was down -0.22%¹.

What happened?

The second quarter of 2020 saw an unprecedented effort by central banks and governments to try to limit the negative economic fallout from the Covid-19 pandemic.



It isn't so much the sheer amounts involved (nearly 20% of the GDP of developed countries injected by governments in fiscal stimulus or in loans and guarantees, to which must be added an increase in the balance sheets of central banks also of nearly 20% of GDP) as the **simultaneous action by monetary and fiscal authorities** that makes this response so striking.

There have been differing reactions from economic agents, depending on whether they are investors or issuers. Beginning in late March, companies were above all concerned with **building up enough of a cash buffer** to be able to weather weeks or even months of close to zero revenue. And to make sure that cash would be forthcoming, they were willing to pay much more to access it than they had prior to the crisis. Investors, meanwhile, interpreted the combined action of central banks and governments as a sort of licence to invest in risk assets like credit and equities – reasoning that they would be in the company of investors with unlimited resources.

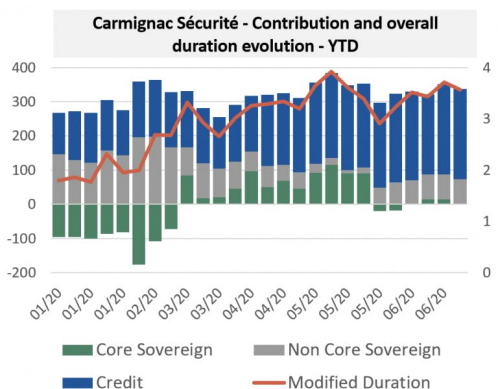
How did we manage the Fund?

At Carmignac Sécurité, we therefore shifted our holdings in April and May out of government paper and into corporate bonds.

A constant feature of our second-quarter portfolio was a **larger credit allocation**, initially driven by the sizeable spreads to be had in the primary market. But the new situation also opened up opportunities in sectors that were particularly hard-hit by the public health crisis. In response, the Fund made targeted investments in leisure industry providers, airlines and carmakers, where the bonds of companies suffering unwarranted selloffs in relation to their fundamentals could be snapped up at bargain prices. Carnival Cruise Lines, the air carrier Easyjet and Ford offered extremely good value for money through April and May, for example.

On the whole, we took advantage of the second quarter to step up our carry-trade strategy so as to **put in place adequate drivers of future returns**.

Corporate credit accounted for nearly 66% of our portfolio at the end of the quarter (with 9% going to speculative-grade bonds) and almost two thirds of our duration risk (2.6 out of a total modified duration of 3.7).



In terms of sovereign debt, the second quarter can be divided into two distinct periods. The first one, covering April and May, was devoted to **scaling back our allocation to issuers on the eurozone periphery**. Economic lockdown and the swift responses to it by national governments cast doubt on our previous case for overweighting those investments. By mid-May, we had closed virtually all of our positions in those geographies.

The second phase coincided with a transition from national to increasingly Europe-wide crisis-fighting measures, along with the ECB's announcement of highly favourable borrowing terms for banks. This convinced us to engineer a substantial return to short-dated eurozone peripheral sovereign bonds (mainly Italian and Portuguese). Our holdings in core countries (not only Germany, but also the United States and Australia) went in the opposite direction. As we started the quarter with the idea that the crisis would pull interest rates down, we steadily sold off those securities in order to **focus our exposure on corporates and eurozone peripheral sovereigns**.

Our performance in the second quarter was primarily attributable to a gradual tightening of credit spreads and the carry of the portfolio, which now accounts for 1.5%. **Core government bond rates ended the period near their April level, resulting in a near-neutral impact on our second-quarter return.**

We are therefore entering the third quarter with a portfolio heavily weighted towards investments offering much greater carry than at the beginning of the year, and buttressed by bottom-up analysis of specific issuers operating under special circumstances. Though volatility might pick up mildly going forward, our second-quarter performance drivers still hold out potential for spread compression and highly attractive carry.

Discover the Fund's webpage:

Carmignac Sécurité

	2009	2010	2011	2012	2013*	2014	2015	2016	2017	2018	2019	2020 (YTD)
Carmignac Sécurité A EUR Acc	+9.61%	+2.72%	+0.81%	+5.24%	+2.56%	+1.69%	+1.12%	+2.07%	+0.04%	-3.00%	+3.57%	-1.40%
Reference Indicator²	+4.46%	+0.60%	+0.54%	+4.53%	+1.76%	+1.83%	+0.72%	+0.30%	-0.39%	-0.29%	+0.07%	-0.22%

	3 years	5 years
Carmignac Sécurité A EUR Acc	-0.43%	+0.37%
Reference Indicator*	-0.16%	-0.03%

*Keith Ney arrival (22/01/2013).² EuroMTS 1-3 years index (EUR). Source: Carmignac, 30/06/2020. 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).

Carmignac Sécurité

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.

Recommended
minimum investment
horizon: 



*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.

Source: Carmignac, 30/06/2020.

¹ 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).

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.