QUARTERLY REPORT

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Carmignac P. Credit: Letter from the Fund Managers

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Length

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-0.72%

Carmignac P. Credit's performance

in the 3rd quarter of 2022 for the A EUR Share class

-2.55%

Reference indicator's performance

in the 3rd quarter of 2022 for the 75% ICE BofA Euro Corporate Index et 25% ICE BofA Euro High Yield Index

+1.84%

Outperformance of the Fund on the quarter

versus the reference indicator

Carmignac Portfolio Credit was down (15.39)% year-to-date at the end of September versus (15.14)% for its reference indicator[1], underperforming by (0.25)%. Although the relative performance of the fund since the beginning of the year is still impacted by the mark-to-market losses on the Russian bonds we were holding before the start of the Ukraine invasion, the past quarter has seen the fund down (0.72)% versus (2.55)% for the reference indicator[1], for an outperformance of +1.84%.

How is the fund positioned?

The fund's positioning was instrumental to the outperformance in Q3. **We once again took advantage of the compelling yields on offer in global credit markets, picking bonds from issuers that are well insulated against the shocks rippling through the economy.** We maintained our focus on the natural resources and energy sector, which accounts for over 25% of our portfolio. We also kept our large exposure to CLO tranches offering very attractive spreads along with limited fundamental risk, and we maintained our floating-rate structure that protects the portfolio against rising interest rates. We reduced our hedges on high-yield indices during the quarter, since these indices widened to the point where they're starting to discount extremely severe recession scenarios. **We've also kept a significant hedging position in order to preserve optionality in volatile markets.**

Although our Russian book is still trading far below its fundamental value, it recovered somewhat in the third quarter. The mark-to-market loss on these holdings fell from (3.27)% to (2.24)%. As we wrote in previous quarterly reports, our strategy is to protect our investors' interests and wait until these bonds' prices converge towards a conservative assessment of their underlying fundamental value. During the quarter, a large Russian oil producer, whose bonds we owned, tendered its entire bond stack at a price of more than 70 cents on the dollar – up substantially from the 40 cents on the dollar the bonds traded at in the aftermath of the invasion. We decided to sold our bonds during the tender. While the tender price was relatively cheap given the issuer's credit quality, it was much closer to a fair price for the underlying risk. **We reinvested the tender proceeds in attractive opportunities elsewhere with similar risk-return profiles. We'll manage the rest of our Russian holdings in a similar manner going forward.**

The Bond Market Today

Looking at the bigger picture, we believe credit markets now offer outstanding value. **Fixed income is by far the asset class that's been the most affected by central banks' aggressive tightening moves. Corporate bonds in particular have experienced a bear market the likes of which haven't been seen in decades.** The steep decline in our reference indicator this year wiped out more than seven years of a cumulative positive return (the indicator's return since August 2017, when we launched Carmignac Portfolio Credit, is well into negative territory, while our fund is up by over 20% thanks to our cumulative outperformance). We'll probably see more volatility in the coming months, yet conditions for further outperformance by our fund have rarely been as promising as they are today, based on the two-year minimum investment horizon that we recommend. **Today's credit markets generally offer yields far in excess of the potential cost of future defaults, even if you factor in a sharp increase in default rates in the coming years.**

What is our outlook for the coming months?

As we mentioned above, our fund is positioned on companies and debt instruments that are well suited to the current economic climate. **Our fund's carry was well above 9% at end-September, and this doesn't include the effects of convexity, which we estimate will lift our return by a few more percentage points.** In addition, we believe the average credit quality of our portfolio is excellent. This elevated carry should help us mitigate market volatility in the near term and set the stage for a once-in-a-generation recovery later on, as the flipside to this unprecedented bear market.

Carmignac Portfolio Credit

Access the entire credit spectrum for maximum flexibility

Discover the fund page

Carmignac Portfolio Credit A EUR Acc

ISIN: LU1623762843

Recommended minimum investment horizon

Lower risk — Higher risk

1	2	3*	4	5	6	7

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.