



## Carmignac P. Credit: Letter from the Fund Managers

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4

### +1.57%

Carmignac P. Credit's performance

in the 2<sup>nd</sup> quarter of 2023  
for the A EUR Share class

### +0.76%

Reference indicator's performance

in the 2<sup>nd</sup> quarter of 2023  
for the 75% ICE BofA Euro  
Corporate Index et 25% ICE  
BofA Euro High Yield Index

### +4.17%

Of annualized performance  
since launch of the fund  
(31/07/2017), compared to -  
0.39% for its reference  
indicator<sup>1</sup>.

***Carmignac Portfolio Credit** was up 1.57% in the second quarter, versus 0.76% for its reference indicator. This brings its year-to-date performance to 2.89%, versus 2.62% for its reference indicator<sup>1</sup>.*

## Quick overview of Q2 2023

Credit markets performed positively over the past three months as the stress created by the idiosyncratic incidents involving Silicon Valley Bank and Credit Suisse abated. In our last letter, in April, our view was that these issues were specific to the banks concerned and not of a systemic nature. And the record banking profits recorded in the first quarter, even adjusted for the rescue windfalls, corroborated our stance. Trouble always manifests in unexpected places when central banks restrict liquidity, but we remain very comfortable with the state of affairs for most large banks in Europe and the United States. Regulators have pushed – and continue to push – for sound liquidity and capital positions and have proven to be pragmatic and responsive in restoring confidence when needed. In addition, **the return of positive interest rates is generally favourable for the longer-term profitability of financial institutions**. As a testimony to the resumption of calm among investors, BBVA issued a new AT1 in June at a very attractive, but far from punitive, yield – reopening a market many had left for dead just a few weeks ago.

Beyond BBVA, Q2 saw a broad thawing of the primary high-yield market in the developed world. During the previous twelve months, high-yield issuance had been modest and was focused on companies that had engaged in dealmaking before Russia's invasion of Ukraine, providing bridge loans that could be recycled later on the bond market. Most other companies generally had good liquidity after ten years of accommodative financing and were reluctant to crystallize higher financing costs unless they had no choice. But in May and June, these companies came to accept that their cost of debt will be higher going forward, and they're refinancing upcoming maturities under these new conditions. The upshot is extremely promising circumstances for us. In fixed income, where investors don't need to be desperate for yield anymore (because they can now park cash in short-term treasuries at comfortable yields), plain-vanilla BB risk is rewarded at spreads 20% to 30% higher than in 2019. **Spreads are even higher in the more complex situations – we recently come across a number of opportunities where we can expect double-digit yields and where we estimate that the underlying fundamental cost of risk is a small fraction of that.**

**Now that value is returning to credit markets, and wide complexity spreads are available to judicious bond pickers, we see this as very exciting for the future performance of Carmignac Portfolio Credit.** Additionally, we expect the higher borrowing costs across the board to restore a credit-default environment similar to the one experienced in the first three decades of the high-yield market. This will create attractive opportunities for high-alpha distressed-debt investments. Our fund already has a small position in a compelling distressed-debt situation that has performed very well since the beginning of the year.

## Outlook

We currently have a **very diversified portfolio with more than 200 lines and a yield of over 9% at quarter-end**. We suspect this yield will climb meaningfully higher thanks to the early refinancing we expect to see on a number of our investments. The best risk-reward profiles in our fund lie in our structured credit book, where select collateralized loan obligation (CLO) tranches offer – in addition to floating rates – very generous spreads relative to their fundamental risk. **We also still see meaningful value and generally improving credit quality in the finance and commodities industries.**

You can rest assured that we won't sit on our laurels after several weeks of solid returns. We're well aware that liquidity remains tight, which will trigger further default incidents, and that volatility may well bounce back in the coming quarters. But if it does, that will usher in new opportunities, and the yield on our portfolio will largely mitigate the downside risk.

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



### 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.

**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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