CARMIGNAC
INVESTING IN YOUR INTEREST

CARMIGNAC P. CREDIT: LETTER FROM THE FUND MANAGERS

10/01/2024 | PIERRE VERLÉ, ALEXANDRE DENEUVILLE

+10.58% Carmignac P. Credit's performance in 2023 for the A EUR Share class.	**+9.00%** Reference indicator's performance in 2023 for the 75% ICE BofA Euro Corporate Index et 25% ICE BofA Euro High Yield Index.	**+5.01%** of annualized performance since launch of the fund (31/07/2017), compared to +0.59% for its reference indicator.[1]

***Carmignac Portfolio Credit** was up +5.63% during Q4 2023, versus +5.54% for its reference indicator[1]. Since the beginning of the year, the fund is up +10.58% vs. +9.00% for its reference indicator, outperforming by +1.58%.*

REVIEW OF 2023 PERFORMANCE

This strong performance and outperformance is a function of the high carry of the fund at the beginning of the year – the gross yield of the portfolio was then in excess of 9%, for an average rating of BB+, combined with a rally in credit markets in the last weeks of the year.

All our performance engines on the long side contributed strongly to the fund's return, with emerging markets high yield bonds and structured credit instruments being the largest contributors. Our CLO ("Collateralized loan obligation") tranches in particular performed extremely well thanks to their floating rates, high carry and a robust price action at the end of the year. The return was achieved with a high level of diversification (more than 250 positions and 150 different issuers), limiting the potential impact of isolated credit accidents and keeping the fund very liquid. As we enter 2024, we are excited by the prospects for future performance for the fund.

OUTLOOK

Of course, there is not as much value in broad credit markets as there was twelve months ago, following an historic bear market in 2022. **We have adjusted our risk exposure in consequence and have been lately increasing our hedging**.

Yet, **we think the opportunity set remains very attractive for flexible and analytically minded credit investors**. Our bread and butter has always been complex situations that either require a lot of analytical work to build conviction and/or fall between the cracks of the mandates of indexed investors. In the past, even in years of financial repression and negative interest rates, when credit markets were infested with “tourists” desperately searching for a modicum of income, we managed to assemble portfolios with strong risk adjusted returns. The outlook for what we do is much brighter now than it was then and we suspect it will remain so. Indeed, **even if risk-free rates have rallied recently, they remain well into positive territory**. As investors can now earn a positive return on short term government bonds, they are asking for a decent remuneration to fund good quality, established companies and they need some serious enticement to venture even one step outside their comfort zone. This keeps the complexity premia that power the performance of the fund at very attractive level in absolute as well as in relation to the average level of credit indices.

In particular, the **opportunity set in special situations and distressed debt looks very promising**. The financial repression of the past decade spawned a cohort of companies with balance sheets only sustainable in a world where a low single B credit with more than 6x ND/EBITDA leverage and declining profitability had windows every couple of years to refinance at 5% - or less. This is not the case anymore and these businesses and associated balance sheets are going to start coming to terms with the changed landscape. Our team has a strong background in this area. It has contributed nicely to the historical performance of the fund and we think it could contribute to a much higher extent in the future, as this the one area of the credit markets where experienced investors can achieve high double digit returns.

As of this writing, the portfolio has a yield just shy of 7% with a net exposure close to 85% (with 2.7% of cash and 11.9% of hedges on HY indices). **The opportunity set in front of us is very conducive for alpha generation** and we would be disappointed if the fund does not return a mid to high single digit annualized return over the next two to three years.

Sources: Carmignac, Bloomberg, 31/12/2023

SFDR - Fund Classification** :

Article 6

LOWEST RISK — HIGHEST RISK

1	2	3*	4	5	6	7

Recommended minimum investment horizon **3 YEARS**

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.
**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 : 2,00% 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 : 1,20% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,43% 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: LU1623762843)

Calendar Year Performance (as %)	2017	2018	2019	2020
Carmignac Portfolio Credit	**+1.8 %**	**+1.7 %**	**+20.9 %**	**+10.4 %**
Indicateur de référence	+1.1 %	-1.7 %	+7.5 %	+2.8 %

Calendar Year Performance (as %)	2021	2022	2023
Carmignac Portfolio Credit	**+3.0 %**	**-13.0 %**	**+10.6 %**
Indicateur de référence	+0.1 %	-13.3 %	+9.0 %

Annualised Performance	3 Years	5 Years	Since launch
Carmignac Portfolio Credit	**+0.1 %**	**+4.9 %**	**+5.2 %**
Indicateur de référence	+1.8 %	+0.0 %	+0.6 %

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).

CARMIGNAC
INVESTING IN YOUR INTEREST