Bond Fund of the Month: Carmignac P. Unconstrained Credit

Celebrates its third anniversary

Author(s)
Pierre Verlé, Alexandre Deneuville

Published
October 16, 2020

Len

★★★★★
Overall Morningstar Rating ™

We are pleased to announce that Carmignac Portfolio Unconstrained Credit has been awarded 5 stars by Morningstar for its track record over 3 years.

A fund that gives you access to the entire credit spectrum for maximum flexibility:

Rich investment universe

to capture the right investments across the entire credit spectrum

Flexible and opportunistic

to implement an unconstrained and conviction-driven allocation

Looking for the optimal risk/return

to have the right positioning over the credit cycle

Adjusting our portfolio construction to different environments

Adjusting the risk taking of the fund depending on the quantity and quality of the opportunities we see in credit markets is central in our investment philosophy. We strive to have the courage to **stay prudent when the market is expensive** and euphory reigns, as well as the courage to **be aggressive when panic reigns** and opportunities abound.

Sticking with discipline to this playbook has been especially key to navigate the Covid19 crisis. We entered this turbulence prudently positioned as we felt credit markets were poor in opportunities at the beginning of 2020. When the crisis started to develop, we saw many companies whose credit spreads moved much more than their fundamental costs of risk, creating attractive investment opportunities that we seized.

Let's take a step back

Since launch, Carmignac Portfolio Unconstrained Credit posted a positive cumulative performance of +30.55% as of end-of-September, **outperforming its reference indicator by +23.81%** or an annualized outperformance of 6.70%.

Calendar Year Performance	2017[2]	2018	2019	2020 YTD	Annualized Since Launch
Carmignac P. Unconstrained Credit	1.79%	1.69%	20.93%	4.30%	8.78%
Reference Indicator[1]	1.13%	-1.75%	7.50%	-0.02%	2.08%

Source: Carmignac, 30/09/2020
[1] 75% ICE BofA Euro Corporate Index (ER00) and 25% ICE BofA Euro High Yield Index (HE00) calculated with coupons reinvested and rebalanced quarterly
[2] Since the launch on the fund on 31/07/2017

A EUR Acc share class ISIN code: LU1623762843. 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 applicable entrance fee acquired to the distributor). The Fund presents a risk of loss of capital.

2017

- **Market environment**: expensive markets, with stretched valuations supported by abundant liquidity
- **Performance**: slight outperformance, thanks to the carry of portfolio as well as relative value strategies

2018

- **Market environment**: expensive markets during the first ten months of 2018. The last two months were characterized by a liquidity crisis creating appealing risk rewards
- **Performance**: our defensive positioning allowed us to remain in positive territory for 2018, while deploying capital towards attractive investments in the last two months

2019

- **Market environment**: market rich in opportunities early in the year, becoming gradually more expensive
- **Performance**: strong performance, thanks to the re-risking of the portfolio at the end of 2018 as well as a successful short position.

2020

- **Market environment**: expensive markets, poor in opportunities until mid-March where we saw a dislocation linked to the Covid19 crisis
- **Performance**: the portfolio briefly suffered from the extraordinary volatility, but the re-risking we carried out just afterwards enabled us to return to positive performance

Market views & current positioning

Turning to what we are seeing today, even after the recent strong performance of credit markets, **we find exciting opportunities**. The excess spread of the portfolio, i.e. the difference between the spreads of bonds in the Fund and our estimation of these instruments' costs of risk, is much larger than it has been in the years preceding the Covid-19 crisis.

Portfolio positioning	
Developed Markets	**81.5%**
Investment Grade	36.0%
High Yield	26.5%
Structured Credit (CLOs):	19.0%
Senior tranches (AAA/BBB)	*12.7%*
Junior tranches (BB/B)	*6.3%*
CDS[1] - Net exposure	*(0.3%)*
Emerging Markets	**16.3%**
Investment Grade	4.9%
High Yield	11.4%
Cash & Cash Equivalents[2]	**2.2%**

Average Spread	Average Rating	Modified Duration
489 bps	BB+	4.8

Source: Carmignac as at 30/09/2020
[1]Off-balance-sheet exposure (unfunded trade), buyer of credit protection. [2]include cash accounts and unfunded trades p&l (FX forwards, Futures and CDS)
Portfolio may change without previous notice

We are back to an environment that combines rising default rates with large amounts of capital allocated to the asset class. In past credit cycles, as the fear of defaults was growing, capital was taken out of the asset class in order to be invested in safe haven. As we live a prolonged episode of financial repression, safe haven assets are not an alternative for many investors. **Capital thus remains invested in credit despite the expectations of defaults,** creating unprecedented demand for what most participants consider as safe while many other situations seem untouchable by the market. This dispersion, which was already a hallmark of the market environment in recent years, has dramatically increased with the recent events.

We think this long-term trend of rising dispersion is a blessing for bond pickers like us, creating unprecedented opportunities long and short.

Hence, although we have slightly decreased the Fund's exposure in the last few weeks to lock some profits, we are staying close to fully invested as attractive opportunities remain plentiful.

Discover the Fund's webpage:

Carmignac Portfolio Unconstrained Credit

Carmignac Portfolio Credit A USD Acc Hdg

ISIN: LU1623763064

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.

Important legal information. This is an advertising document.
Source: Carmignac, 30/09/2020. 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. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. 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. Morningstar Direct © 2020 Morningstar, Inc. All Rights Reserved. EUR Flexible Bonds category, 31/08/2020
- 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 Portfolio is registered with Comisión Nacional del Mercado de Valores de España (CNMV) under number 392.