

CARMIGNAC P. CREDIT: LETTER FROM THE FUND MANAGERS

11/10/2024 | ALEXANDRE DENEUVILLE, PIERRE VERLÉ

+2.48%

Carmignac P. Credit's performance in Q3 2024 for the A EUR Share class.

+7.44%

Carmignac P. Credit's performance YTD for the A EUR Share class, compared to +4.55% for its reference indicator¹.

+5.52%

Of annualized performance since launch of the fund (31/07/2017)², compared to +1.15% for its reference indicator¹.

Carmignac Portfolio Credit was up 2.48% (for the EUR A share) during the third quarter of 2024 versus 3.33% for the reference indicator, underperforming by -0.85%. Since the beginning of the year, the fund is up 7.44% versus 4.55% for the reference indicator, outperforming by 2.89%.

REVIEW OF Q3 2024 PERFORMANCE

All the performance drivers of the strategy have been contributing meaningfully to the fund's return so far in 2024. The main detractor was a distressed debt position that has suffered from a combination of negative short-term news and poor technicals. Most of that negative contribution happened during the third quarter, resulting in the fund's relative underperformance during that period. We remain comfortable with the investment thesis for this position and know, from experience, that restructuring investments need time to be fruitful. Already the newsflow about this issuer is improving and the management team is adopting a proactive financial communications strategy.

As we look forward toward the next quarters, we remain excited about the potential for the fund's performance. Credit markets, benefiting from strong technical and macro factors, are overall richly valued – although not quite at the peak valuations observed during the past decade – yet dispersion is elevated and we see many pockets of value.

In the financial sector, we find many investments offering a healthy spread premium, compared to general market valuations, at equivalent fundamental risk. This is a funding intensive industry by nature while many investors are still seared by memories of the Great Financial Crisis and of more recent idiosyncratic incidents (such as the Credit Suisse and Silicon Valley Bank episodes) and hence defiant. This creates an imbalance between the demand and supply of capital that needs to be resolved by higher spreads. Nonetheless, the sector as a whole is in robust shape, after more than 15 years of capital accumulation and conservative regulation, and these premiums are in some cases very attractive.

The structured credit universe offers a similarly exciting combination of unjustified taint and extremely robust fundamentals resulting in attractive risk rewards that we capture in our investments in CLO tranches. The weight of CLO tranches in the fund has decreased as positions have been refinanced while we didn't participate in many of the new structures. Towards the end of the quarter, as the quality of documentations improved, we made a few promising investments. Interestingly, in a marked change to recent years, we have started to perceive better value (after the cost of currency hedging) in some USD tranches.

Natural resources is also an opportunity-rich sector as it combines capital intensity and limited marginal appetite from many debt investors that implement too strict responsible investment strategies. There again, we find a number of investments that remunerate us much in excess of the cost of risk implied by their strong fundamentals.

The primary market has been extremely dynamic in the past quarters, with new issuers regularly making their debut on the bond market. Roadshows are typically short and good companies are frequently mis-assessed and come to market with attractive yields. We have made a number of well-timed investments in this fashion since the beginning of the year and the icing on the cake is that we can build sizeable positions with no transaction costs.

Last but certainly not least, companies that overlevered before 2022 in the context of low financing costs are facing increasing difficulties to service their debts in a world where the cost of capital has normalized. The default rate has thus been picking up. So far the availability of abundant private capital and the implementation of semi-consensual liability management schemes have dampened the impact of this regime change but we believe the frequency and severity of defaults is about to pick up. This will likely be a great source of asymmetric opportunities over the next couple of years.

OUTLOOK

In summary, we are very excited for the potential future returns and would be disappointed if Carmignac Portfolio Credit does not offer a mid-to-high single digit compounded return in the next two to three years. At the end of September the portfolio is yielding c.6.6% for a BB+ average rating, and accounting for our 21%+ hedging position through CDX high yield and Xover, the yield is close to 6% for an average BBB- rating. In addition, we have several special situations in the book where we see strong upside potential. Given the depth of the opportunity set across our investment universe, we are keeping the fund very diversified, with more than 250 positions and 150 issuers, and hence very liquid.

Sources: Carmignac, 30/09/2024. Performance of the A EUR acc share class ISIN code: LU1623762843.

¹Reference indicator: 75% BofA Merrill Lynch Euro Corporate Index, 25% BofA Merrill Lynch Euro High Yield Index. ²31/07/2017.

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).

Marketing communication.Please refer to the KID/prospectus of the fund before making any final investment decisions.

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	2024
Carmignac Portfolio Credit	+3.0 %	-13.0 %	+10.6 %	+8.2 %
Indicateur de référence	+0.1 %	-13.3 %	+9.0 %	+5.7 %

Annualised Performance	3 Years	5 Years	Since launch
Carmignac Portfolio Credit	+1.3 %	+3.4 %	+5.4 %
Indicateur de référence	+0.1 %	+0.5 %	+1.3 %

Source: Carmignac at 31 Dec 2024.

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