CARMIGNAC P. FLEXIBLE BOND: LETTER FROM THE FUND MANAGERS

11/10/2023 | GUILLAUME RIGEADE, ELIEZER BEN ZIMRA

-1.51%	-1.58%	+0.07%
Carmignac P. Flexible Bond's performance in the 3rd quarter of 2023 for the A EUR Share class.	Reference indicator's performance in the 3rd quarter of 2023 for ICE BofA ML Euro Broad index (EUR).	Relative performance of the Fund over the quarter versus its reference indicator.

***Carmignac Portfolio Flexible Bond** shed -1.51% (class A shares) in the third quarter of 2023. However, it outperformed its reference indicator[1], which was down -1.58% during the period.*

THE BOND MARKETS TODAY

The third quarter of 2023 was marked by an unfavourable environment on the bond markets, with an unfavourable cocktail of accelerating long-term rates and widening credit spreads. Central bankers maintained a hawkish tone over the observation period, as illustrated by the further tightening of the Federal Reserve, which raised its key rate to 5.5%, and the two increases by the European Central Bank, which raised its deposit rate to 4%. In addition, the main monetary policymakers reconfirmed an inflation target of 2%, thereby recommending a level of interest rates that would be "high for longer", which led to a substantial rise in long-term interest rates at the end of the period. 10-year yields are now at their highest levels for more than 15 years, following a 74bp rise in the US 10-year yield over the quarter to 4.58% and a 44bp rise in the German 10-year yield over the same period to 2.85%.

Even so, leading indicators continued to flag during the quarter, with the PMI indices continuing to fall, to 47.0 in the eurozone and 50.2 in the United States respectively. While employment remained very robust in the United States, the confidence indices showed a considerable deterioration in US household morale, fuelling speculation that the labour market is easing. In the eurozone, the economic slowdown deepened, as shown by the contraction in industrial production indicators and the deterioration in the business climate index in Germany, which was already in contraction territory.

Inflation also continued to slow in the United States, where the headline component fell from +4% year-on-year to +3.6%, as in Europe, where headline inflation came out at +4.3% year-on-year compared with +5.4% at the start of the period. Unfortunately, the rebound in commodity prices and the decisions by OPEC member countries to cut crude oil production have considerably dampened the prospects of renewed enthusiasm among market operators. The environment on the credit front was also unfavourable, fuelled both by anxiety about the trajectory of the Chinese economy and its property sector in particular, and by the revaluation of long-term premiums linked to the high interest-rate environment, which caused credit margins to widen by +18bp on the Xover index and +4bp on the Main index over the quarter.

ASSET ALLOCATION

During the third quarter, we adapted the portfolio to different market phases:

Our management of interest-rate sensitivity remained dynamic in a particularly volatile interest-rate environment. The portfolio's overall sensitivity moved within a range of and exposure to sovereign debt sub-segments changed considerably during the quarter. We consequently reduced our weighting in emerging, peripheral and US debt in favour of core 10-year eurozone yields, which we believe offer a more attractive risk/return profile given the more marked economic slowdown on the Old Continent. We also reallocated our short positions in Japanese yields from 10-years to shorter maturities (3 and 5 years), which are more sensitive to decisions by the Japanese central bank.

Our gross exposure to credit assets remained stable over the period, but we remained proactive in managing the portfolio's net exposure. During the summer, we implemented tactical CDS protection covering up to the entirety of our exposure to high-yield credit (14% of the fund's net assets) in order to hedge against the widening of credit margins following the resurgence of the property crisis in China. At the end of the period, we reinitiated these hedges to a lesser extent to cushion the downturn in the credit markets following the sharp acceleration in long-term interest rates.

OUTLOOK

We continue to take a constructive view of the normalisation path for the economies and policies of the main central banks. Indeed, if core inflation continues to settle above the 2% target set by the main central bankers, we believe that the slowdown in the various economies as reflected in the leading indicators should enable the major central bankers to moderate their monetary tightening policies in the future. In the short term, this scenario argues for maintaining a high risk appetite in terms of both interest-rate sensitivity and credit weighting. We are therefore maintaining a duration close to our upper limit, considering the end of the tightening cycle, with a preference for the intermediate and long points of the yield curve, which are less volatile and benefit more from the economic slowdown. This environment also remains favourable to carry strategies, such as credit, which is attractively valued. Finally, we are maintaining long positions in real rates and break-even inflation rates, given the persistence of inflationary pressures (commodities and services).

[1]Reference indicator: ICE BofA Euro Broad Market index.

SFDR - Fund Classification** :

Article 8

LOWEST RISK						HIGHEST RISK
1	2*	3	4	5	6	7

Recommended minimum investment horizon **3 YEARS**

MAIN RISKS OF THE FUND

INTEREST RATE: Interest rate risk results in a decline in the net asset value in the event of changes in interest rates.
CREDIT: Credit risk is the risk that the issuer may default.
CURRENCY: Currency risk is linked to exposure to a currency other than the Fund's valuation currency, either through direct investment or the use of forward financial instruments. **EQUITY**: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

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 : 1,00% 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 : 0,38% 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: LU0336084032)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Portfolio Flexible Bond	**+2.0 %**	**-0.7 %**	**+0.1 %**	**+1.7 %**	**-3.4 %**
Indicateur de référence	+0.1 %	-0.1 %	-0.3 %	-0.4 %	-0.4 %

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Portfolio Flexible Bond	**+5.0 %**	**+9.2 %**	**+0.0 %**	**-8.0 %**	**+4.7 %**
Indicateur de référence	-2.5 %	+4.0 %	-2.8 %	-16.9 %	+6.8 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Flexible Bond	**+0.7 %**	**+2.1 %**	**+1.0 %**
Indicateur de référence	+4.5 %	+2.9 %	+1.6 %

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).