CARMIGNAC SÉCURITÉ: LETTER FROM THE FUND MANAGERS

11/01/2024 | MARIE-ANNE ALLIER, AYMERIC GUEDY

+3.02%

Performance of the Fund in the fourth quarter vs +2.36% for its reference indicator[1] (AW EUR Acc Share class).

+4.06%

Performance of the Fund over the year vs +3.41% for its reference indicator[1] (AW EUR Acc Share class).

1%

Of its Morningstar category over 5 years and 10 years Morningstar category: EUR Diversified Bond – Short Term.(AW EUR Acc Share class).

*In the fourth quarter of 2023, **Carmignac Sécurité** gained 3.02%, while its reference indicator[1]rose by 2.36%. Over 2023, Carmignac Sécurité therefore posted a performance of +4.06% compared with +3.41% for its reference indicator[1].*

WHAT HAPPENED ON THE FIXED INCOME MARKETS DURING THE QUARTER?

After fears of a "hard landing" for the global economy in the first quarter following the failures of several US banks and Credit Suisse, followed by a "no landing" in the second and third quarters, fuelled by the reacceleration of US growth and the resilience of the labour market on both sides of the Atlantic, financial markets ended the year with hopes of a "soft landing", buoyed by a faster and more widespread disinflation than expected, paving the way for an easing of monetary policy.

Against all expectations, inflation slowed in both Europe and the United States in the last quarter. CPI inflation in the euro area fell to 2.4% year-on-year in November from over 9% at the start of the year, a far cry from the 3.2% that markets had been expecting a few weeks earlier. And even core inflation, which tends to be more persistent, slowed from 5.7% to 3.6%, thanks in particular to the fall in services inflation, a measure closely watched by central banks, which has been below the 2% target on average over the past three months. Moreover, this slowdown is taking place at the expense of corporate margins, although wage increases are expected to slow this year, which should help bring inflation back in line with the target. All this means that central banks, including the ECB and the Fed, can end the fastest rate hike cycle ever and gradually prepare for the downward cycle of rate normalisation, reviving hopes of a soft landing for the economies, combining disinflation with sluggish but positive growth. Logically, bond yields collapsed in the final quarter of the year in the wake of the disinflation and central bank pivot, almost indiscriminately across the curve and across the major developed economies. Over the quarter, the German 2-year rate fell from 3.20% to 2.40% and the German 10-year rate from 2.84% to 2.02%, ending 2023 well below the levels seen at the beginning of January. Similarly, the US 10-year rate fell from 4.57% to 3.88% but ended the year close to its January level. The context of the last quarter was, of course, very buoyant for risky assets, with high-yield credit spreads in particular narrowing by almost 120 basis points (bp) on the iTraxx Xover synthetic index - although to a much lesser extent on the physical indices - and by almost 35 bp on Italian 10-year government bonds.

PERFORMANCE

Although Carmignac Sécurité's performance over the year was mainly attributable to its carry, with an average yield to maturity over the period of around 5% – the highest it's been since the sovereign debt crisis - interest rate markets remained particularly volatile during the period.

After a good performance in January, thanks to the encouraging combination of China's reopening, disinflation in Europe and the United States and robust economic data, the situation on the markets changed from February onwards, with a sharp rebound in core rates triggered by higher than expected inflation on both sides of the Atlantic and solid economic indicators (PMI, employment, retail sales, etc.), which led to a change in tone from the central banks. However, the month of March was particularly damaging, with the failure of three regional banks in the US and the difficulties of Credit Suisse in Europe leading to historic volatility in short-term interest rates and a sharp widening of credit spreads, which affected the positioning of the portfolio at the time.

From April, although the portfolio was affected by the rise in core yields in the second quarter, as we had maintained our overall modified duration at a relatively high level of around 3, performance recovered, with our Credit exposure benefiting from the tightening of credit spreads as concerns over the US regional banking crisis eased. Then, in September, the resilience of the economy, particularly in the US, led to a sharp re-rating of long-term interest rates, reflecting the prospect of a "high for longer" monetary policy, which negatively impacted performance.

Lastly, in the final quarter, the fixed income markets reversed their trend, benefiting from weaker-than-expected economic data and, above all, a marked slowdown in inflation, which prompted central banks to ease their monetary policy stance. Against this backdrop, Carmignac Sécurité benefited strongly from its rate strategies, particularly its high modified duration to European interest rates, which was over 3 at the start of the fourth quarter. This modified duration was initially concentrated on the short end, but as the market anticipated more rate cuts by the ECB in 2024, the Fund's modified duration was reduced and redirected towards longer maturities (5/10 years). The Fund also benefited from its credit strategies (almost 2/3 of the portfolio), boosted by the compression of margins across the entire asset class. The only slight downside was that the Fund took out credit protection a little too early via the iTraxx Xover synthetic index, which continued to tighten faster than the physical market, helped by subscriptions to credit funds, even though the primary market was already in a truce. Finally, the fund's carry continued to be a stable and steady source of performance, driven by an average yield of around 5%.

WHAT IS OUR OUTLOOK FOR THE COMING MONTHS?

Finally, we look forward to 2024 with confidence in the Fund's performance potential. After more than 18 months of historic declines in fixed income markets, the asset class is ripe with opportunity. Just look at the portfolio's yield to maturity, which, despite the year-end rally, remains at one of its highest levels since the sovereign debt crisis. At 4.6% at the start of the period, it will again be the main driver of performance next year. On the interest rate front, the Fund's modified duration was reduced significantly to just under 2 at the end of the year, a figure that could fall significantly if the put options on German bonds in the portfolio were exercised. Indeed, with record issuance expected in the first quarter and a market that has turned 180 degrees and is now pricing in almost 170 basis points of ECB rate cuts in 2024 as early as March, we believe a correction to the December rally is very likely. We have also added to our long positions on inflation, as the market seems to be claiming victory a little too quickly, especially in the run-up to the wage negotiations at the beginning of the year. We have also initiated a short position on Italian credit spreads, which are vulnerable to an interest rate correction as issuance resumes. Finally, on the credit side, we are maintaining a large allocation, almost two thirds of the portfolio, concentrated in short maturities with good ratings, which represent the bulk of the Fund's carry. Financials, energy and CLOs remain our 3 strongest convictions in this market segment. We also have tactical protection in the iTraxx Xover index (5.4% of assets), which fell sharply in an illiquid year-end market.

[1] ICE BofA ML 1-3 Y Euro All Government Index (EUR).

SFDR - Fund Classification** :

Article 8

LOWEST RISK — HIGHEST RISK

1	2*	3	4	5	6	7

Recommended minimum investment horizon 2 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.
RISK OF CAPITAL LOSS: The portfolio does not guarantee or protect the capital invested. Capital loss occurs when a unit is sold at a lower price than that paid at the time of purchase. **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.

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 : 1,11% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : There is no performance fee for this product.

Transaction Cost : 0,24% 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: FR0010149120)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Sécurité	**+1.7 %**	**+1.1 %**	**+2.1 %**	**+0.0 %**	**-3.0 %**
Indicateur de référence	+1.8 %	+0.7 %	+0.3 %	-0.4 %	-0.3 %

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Sécurité	**+3.6 %**	**+2.0 %**	**+0.2 %**	**-4.8 %**	**+4.1 %**
Indicateur de référence	+0.1 %	-0.2 %	-0.7 %	-4.8 %	+3.4 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Sécurité	**+0.1 %**	**+1.1 %**	**+0.7 %**
Indicateur de référence	+0.8 %	+0.5 %	+0.1 %

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