



Carmignac P. Credit : Letter from the Fund Manager

Author(s)
Alexandre Deneuveille, Pierre Verlié

Published
July 8, 2022

Length
4 r

-9.28%

Carmignac Portfolio
Credit's performance

in the 2nd quarter of 2022
for the A EUR Share class

-8.18%

Reference indicator's
performance

in the 2nd quarter of 2022
for the 75% ICE BofA Euro
Corporate Index and 25%
ICE BofA Euro High Yield
Index

+4.00%

Annualized performance of
the Fund since launch

versus -0.89% for the
reference indicator¹

Carmignac Portfolio Credit recorded a negative performance of -9.28% during the second quarter of 2022, for the A EUR Acc share class, and its reference indicator¹ (75% ICE BofA Euro Corporate Index and 25% ICE BofA Euro High Yield Index) lost -8.18%. Year-to-date, the fund is down -14.77% vs -12.91-% for its reference indicator, an underperformance of -1.86%.

As we indicated last quarter, the underperformance is more than fully explained by the performance of our Russian investments, which detracted more than -3% from the fund's return so far this year. This underperformance has been mitigated by the high carry of the portfolio as well as by our significant level of hedging since the beginning of 2022.

Quarterly Performance Review

In the immediate aftermath of the invasion of Ukraine, we were surprised to see credit markets treating the war as an isolated event, with negative valuation impacts largely centered on companies with direct link to Ukraine or Russia. Our view, however, was that **a prolonged conflict would steer inflation to a destabilizing level for many issuers** since it was curtailing large supplies of key commodities and accelerating the trend towards deglobalization (with the reshoring of production capacity and inventory). Additionally, **since these strong headwinds impacting businesses are inflationary in nature, we expected that they would significantly hinder central banks' ability to ease monetary policy.**

How is the fund positioned?

We took stock of these developments and repositioned the fund in early March. **We stepped up our hedging by raising our CDS protection on HY indices to 27.5% of the fund's value. We also increased our exposure to attractive bonds issued by companies that stand to benefit from an inflationary environment** (many of them in the energy and commodities space) as well our exposure to selected CLOs tranches. These CLO tranches are floating rate, meaning they are well insulated against interest rate volatility; they offer generous returns compared to their fundamental risks and are structured in a way that prevents capital losses even under very pessimistic recession scenarios.

In the four months following the invasion, inflation indeed soared to high levels in most economies and is now starting to impact many companies' profits. Most central banks have embarked on determined tightening cycles in response. All these factors have caused, credit markets to reprice severely to the downside.

Our positioning has remained largely the same, except for a modest reduction in our hedging position, due to the widening of HY credit indices. But **we still have a meaningful amount of protection since we believe the current environment calls on us to keep options open and maintain a conservative net exposure.** After their historically bad performance of the first half of 2022, we think credit markets are now very attractive, to an extent we have only seen a handful of times since the beginning of our careers. Today, the fund is invested in a very diversified set of securities, offering yields far in excess of their fundamental cost of risk. As a result, the fund has a compelling carry, even after factoring the cost of hedging.

What is our outlook for the coming months?

Performance could well remain volatile in the coming weeks but, with a year-end horizon, the carry of the fund can absorb a meaningful amount of widening – past data indicate that the level of carry we currently have is consistent with strong returns. Additionally, the market value of our Russian holdings is far below their net present value even under most conservative recovery scenarios: downside is limited going forward and there is significant upside potential if tensions between Russia and the rest of the world abate.

¹Reference indicator : 75% ICE BofA Euro Corporate Index + 25% ICE BofA Euro High Yield Index (Coupons reinvested, Quarterly rebalanced)



Access the entire credit spectrum for maximum flexibility

[Discover the fund page](#)

Carmignac Portfolio Credit A EUR Acc

ISIN: LU1623762843

Recommended minimum investment horizon



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.



Marketing communication. Please refer to the KID/KIID, prospectus of the fund before making any final investment decisions. This document is intended for professional clients.

This material may not be reproduced, in whole or in part, without prior authorisation from the Management Company. This material does not constitute a subscription offer, nor does it constitute investment advice. This material is not intended to provide, and should not be relied on for, accounting, legal or tax advice. This material has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any securities or interests referred to herein or for any other purposes. The information contained in this material may be partial information and may be modified without prior notice. They are expressed as of the date of writing and are derived from proprietary and non-proprietary sources deemed by Carmignac to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Carmignac, its officers, employees or agents.

Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor). 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. The reference to a ranking or prize, is no guarantee of the future results of the UCIS or the manager.

Morningstar Rating™ : © Morningstar, Inc. All Rights Reserved. The information contained herein: is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Access to the Funds may be subject to restrictions regarding certain persons or countries. This material is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the material or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not access this material. Taxation depends on the situation of the individual. The Funds are not registered for retail distribution in Asia, in Japan, in North America, nor are they registered in South America. Carmignac Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Funds have not been registered under the US Securities Act of 1933. The Funds 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 FATCA. The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital.

The Funds' prospectus, KIDs, NAVs and annual reports are available at www.carmignac.com, or upon request to the Management Company. Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The French investment funds (fonds communs de placement or FCP) are common funds in contractual form conforming to the UCITS or AIFM Directive under French law.

In France, Luxembourg, Sweden: The risks, fees and ongoing charges are described in the KID (Key Information Document). The KID must be made available to the subscriber prior to subscription. The subscriber must read the KID. Investors may lose some or all their capital, as the capital in the funds are not guaranteed. The Funds present a risk of loss of capital. The Funds' prospectus, KIDs, NAV and annual reports are available at www.carmignac.com, or upon request to the Management Company.

In the United Kingdom: the Funds' respective prospectuses, KIDs 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 document was prepared by Carmignac Gestion, Carmignac Gestion Luxembourg or Carmignac UK Ltd. FP Carmignac ICVC (the "Company") is an Investment Company with variable capital incorporated in England and Wales under registered number 839620 and is authorised by the FCA with effect from 4 April 2019 and launched on 15 May 2019. FundRock Partners Limited is the Authorised Corporate Director (the "ACD") of the Company and is authorised and regulated by the FCA. Registered Office: Hamilton Centre, Rodney Way, Chelmsford, Essex, CM1 3BY, UK; Registered in England and Wales with number 4162989. Carmignac Gestion Luxembourg SA has been appointed as the Investment Manager and distributor in respect of the Company. Carmignac UK Ltd (Registered in England and Wales with number 14162894) has been appointed as a sub-Investment Manager of the Company and is authorised and regulated by the Financial Conduct Authority with FRN:984288.

In Switzerland: the prospectus, KIDs and annual report 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, Montrouge, Nyon Branch / Switzerland, Route de Signy 35, 1260 Nyon.

The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in English on the following links: [UK](#) ; [Switzerland](#) ; [France](#) ; [Luxembourg](#) ; [Sweden](#).