QUARTERLY REPORT

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Carmignac P. Credit : Letter from the Fund Manager

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-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 indicator[1]

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 indicator[1] (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.

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

Carmignac Portfolio Credit

Access the entire credit spectrum for maximum flexibility

Discover the fund page

Carmignac Portfolio Credit A EUR Acc

ISIN: LU1623762843

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.