QUARTERLY REPORT

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Carmignac Sécurité : Letter from the Fund Manager

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Len

-0.47%

Carmignac Sécurité's performance

in the 4th quarter of 2021 for the A EUR Share class

-0.27%

Reference indicator's performance

in the 4th quarter of 2021 for ICE BofA ML 1-3 years Euro All Government Index (EUR)

+0.22%

Performance of the Fund Year to date

versus -0.71% for the reference indicator

Quarterly Performance Review

The third quarter ended with central banks trying to reassure investors that inflation was transitory. In the fourth quarter their tone changed dramatically, with monetary institutions signaling that they needed to act faster and harder. This radical change in tone from the monetary authorities (led by the Bank of England, followed by the Federal Reserve and then the European Central Bank) was a source of volatility in the markets. Adding to the confusion, the appearance of the new Omicron variant at the end of the year generated additional uncertainty for investors as to the potential effects on inflation and growth.

On the markets, this change in tone was reflected in the United States by a strong flattening of the yield curve, with 10-year maturities remaining stable while 2-year and 5-year maturities tightened by 46 and 30 basis points respectively. In the Eurozone, the ECB at its last meeting of the year clearly expressed its **desire to reduce its extreme accommodative policy by starting to drastically reduce its purchases in 2022**. It is therefore logical that the strongest effects were concentrated on the non-core countries: while German 10-year rates only moved slightly, Italian spreads widened by nearly 30 basis points to end the year at 135 basis points against Germany.

Credit underperformed government debt, with spreads widening by about 12 basis points. On the other hand, spreads against swaps remained almost stable over the quarter, reflecting above all an increase in the price of sovereign debt against swaps rather than an aversion to credit risk. However, the effect of rising interest rates on the credit market, which can be quantified at around 15 basis points, persisted, penalizing the performance of this asset class and therefore our portfolio.

How is the fund positioned?

In this context, **the fund nevertheless took advantage of the rise in yields to gradually increase its exposure to credit names during the quarter**. The proportion allocated to these securities (excluding Collateralized Loans Obligation - CLO) rose from 51% to 56% at the end of the year, with a contribution to total modified duration that increased by around 20 basis points. The share of CLOs remained stable at 7.2% and remains concentrated on the most secure parts of the capital structures. In the same vein, the emerging countries share was gradually increased to reach 25 basis points of duration at the end of the year (compared to 15 basis points at the beginning of the period). This asset class seems to us to be promising and offers resolutely positive returns, even after taking inflation into account, in a world still marked by very low real rates. **To counterbalance this increase in spread products in the portfolio, two major actions have been implemented** firstly, an **increase in liquidity to reduce volatility in the run-up to December**, when interest rate movements can become erratic in the absence of investment banks with the closure of trading books and central banks that paused their end-of-year buying programme. We then decided to **reduce the overall duration of the portfolio by reducing our exposure to peripheral countries, as the end of ECB purchases should be detrimental to them, and by maintaining a negative exposure to the rates of core countries**, led by the United States and the euro zone. Only the exposure to the United Kingdom went from negative to positive during the quarter, with the short end of UK rates anticipating too many rate hikes from their central bank.

What is our outlook for the coming months?

The beginning of 2022 should allow the portfolio to continue to re-expose itself to spread products, particularly in credit and, to a lesser extent, in emerging debt, thanks to a primary market that is expected to be vigorous in the first few weeks of the year. **The liquidity envelope should therefore naturally decrease but particular attention will be given to controlling our level of volatility. On the other hand, the total duration of the portfolio should remain low overall,** as the combination of less accommodative Central Banks and still strong inflation figures argue for higher nominal rates.

Carmignac Sécurité

Flexible, low duration solution to challenging European markets

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Carmignac Sécurité AW EUR Acc

ISIN: FR0010149120

Lower risk Higher risk

Recommended minimum investment horizon

1	2*	3	4	5	6	7

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.