



Carmignac P. Credit : Letter from the Fund Manager

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Lengte
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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 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)

Carmignac Portfolio Credit

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Carmignac Portfolio Credit A EUR Acc

ISIN: LU1623762843

Aanbevolen
minimale
beleggingstermijn



Main risks of the Fund

KREDIETRISICO: Het kredietrisico stemt overeen met het risico dat de emittent haar verplichtingen niet nakomt.

RENTERISICO: Renterisico houdt in dat door veranderingen in de rentestanden de netto-inventariswaarde verandert.

LIQUIDITEIT: De prijs waartegen het fonds zijn posities kan vereffenen, innemen of wijzigen, kan door tijdelijk gewijzigde marktomstandigheden worden beïnvloed.

DISCRETIONAIR BEHEER: Het anticiperen op de ontwikkelingen op de financiële markten door de beheermaatschappij is van directe invloed op het rendement van het Fonds, dat afhankelijk is van de geselecteerde effecten.

Het fonds houdt een risico op kapitaalverlies in.