CARMIGNAC P. FLEXIBLE BOND: LETTER FROM THE FUND MANAGERS

09/07/2024 | GUILLAUME RIGEADE, ELIEZER BEN ZIMRA

+0.92% Carmignac P. Flexible Bond's performance in the 2nd quarter of 2024 for the A EUR Share class.	**-0.81%** Reference indicator's performance in the 2nd quarter of 2024 for ICE BofA ML Euro Broad index (EUR).	**+4.03%** Relative annualized performance of the Fund for A EUR shareclass versus ICE BofA ML Euro Broad index (EUR) over 3 years period.

In the second quarter of 2024, ***Carmignac Portfolio Flexible Bond*** *posted a net performance of +0.92% for the A shareclass, while its benchmark[1] was down -0.81%.*

THE BOND MARKETS TODAY

In the second quarter, the focus was on political risk, with a succession of elections leading to a rebound in volatility in both emerging markets (India, Mexico) and developed markets (eurozone and UK). In the United States, the trend finally seems to be towards a normalization of activity, as can be seen in both employment data, with the unemployment rate converging towards the 4% threshold, and consumer data, with retail sales statistics significantly below expectations. Nevertheless, the US Federal Reserve insisted on the need to continue fighting inflation. While some progress was made on the headline inflation front, with headline inflation stabilizing slightly above target (+2.6% year-on-year for the PCE index), certain components of services inflation continued to give cause for concern due to a lack of moderation. In the eurozone, the economic outlook was also positive, with leading indicators on the rise in both the services and manufacturing components. This was confirmed by the publication of a benign +0.3% GDP growth in the first quarter, marking a recovery from an excursion into negative territory in the last quarter of 2024. This renewed economic vigour has, however, kept inflation in check, as the CPI indicator accelerated to +2.6% over 1 year. This improvement in activity did not prevent the ECB from cutting its key rate for the first time, by 25bp, following the lead of the Swiss National Bank and its Swedish counterpart. On the other hand, the polarization of the political spectrum intensified during the European elections in June, particularly affecting certain countries such as France. The rise of political parties proposing expensive programs increased investors' distrust of French bonds, resulting in the OAT-Bund yield spread rising above the 80bp threshold, while credit spreads widened by +22bp over the observation period.

ASSET ALLOCATION

As in the previous quarter, our strategy significantly outperformed both in absolute and relative terms, in an environment that was not very favorable to fixed-income assets. Portage was the main contributor to performance, through our stock selection in the high yield, subordinated financial debt and structured credit segments. In addition to an appropriate selection of credit issuers, the tactical credit index hedges we included in our portfolio also made a positive contribution to performance, given the risk-aversion dynamic. On the other hand, in an environment where interest rates continued to rise on both sides of the Atlantic, our low sensitivity mitigated the negative impact of this rate appreciation. Our view of a steepening yield curve was also a key contributor to the fund's relative performance, as short rates in both Europe and the United States outperformed longer maturities. We made several adjustments during the quarter, notably on the sovereign debt front, where we trimmed our short position on Japanese sovereign yields and initiated new positions on Brazilian and Mexican sovereign debt in return.

OUTLOOK

The current high interest rate environment decided upon by the main central banks continues to clash with the fiscal stimulus granted by governments, with the United States at the forefront. While growth has so far proved resilient, it seems illusory to see the US zone continuing to grow indefinitely at twice its potential. Although the spectrum of recession still seems hazy in light of the level of activity across the Atlantic, further signs of a slowdown in the job market and consumer spending cannot be ruled out in the future. While this observation argues in favor of gradually increasing the interest-rate sensitivity of our portfolio, it seems difficult at this stage to implement a marked directional conviction, given the current stagnation of inflation. On the other hand, we continue to reinforce our view of a steepening yield curve, given that short rates are likely to outperform in relative terms in a scenario of higher inflation. Complementing this view, we maintain a marked exposure to inflation-indexed strategies, where we observe a mismatch between the market's highly optimistic expectations and the current macro-economic and geopolitical environment. Finally, we believe that credit should retain its real strengths, given the strength of the various economies, enabling us to implement carry strategies in our portfolios. Our selection of credit issuers is also accompanied by tactical management of short-term credit risk, in order to cushion macro- and micro-economic uncertainties that could impact the current level of credit spreads.

Source: Carmignac as at 30/06/2024. A EUR Acc shareclass [1]ICE BofA Euro Broad Market Index (coupons reinvested). On 30/09/2019 the composition of the reference indicator changed: the ICE BofA ML Euro Broad Market Index coupons reinvested replaces the EONCAPL7. Performances are presented using the chaining method. On 10/03/2021 the Fund’s name was changed from Carmignac Portfolio Unconstrained Euro Fixed Income to Carmignac Portfolio Flexible Bond.

Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performances are net of fees (excluding applicable entrance fee acquired to the distributor).

CARMIGNAC PORTFOLIO FLEXIBLE BOND A EUR ACC

(ISIN: LU0336084032)

SFDR - Fund Classification** :

Article 8

LOWEST RISK						HIGHEST RISK
1	**2***	3	4	5	6	7

Recommended minimum investment horizon 3 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. **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. **EQUITY**: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

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 : 1,20% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,38% 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.

PERFORMANCE (ISIN: LU0336084032)

Calendar Year Performance (as %)	2015	2016	2017	2018	2019
Carmignac Portfolio Flexible Bond	**-0.7 %**	**+0.1 %**	**+1.7 %**	**-3.4 %**	**+5.0 %**
Indicateur de référence	-0.1 %	-0.3 %	-0.4 %	-0.4 %	-2.5 %

Calendar Year Performance (as %)	2020	2021	2022	2023	2024 (YTD)
Carmignac Portfolio Flexible Bond	**+9.2 %**	**+0.0 %**	**-8.0 %**	**+4.7 %**	**+3.0 %**
Indicateur de référence	+4.0 %	-2.8 %	-16.9 %	+6.8 %	-1.2 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Flexible Bond	**+0.4 %**	**+1.8 %**	**+1.1 %**
Indicateur de référence	+4.5 %	+2.8 %	+1.6 %

Source: Carmignac at 28 Jun 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

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.

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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.

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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 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.

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