CARMIGNAC P. CREDIT: LETTER FROM THE FUND MANAGERS

14/01/2025 | ALEXANDRE DENEUVILLE, PIERRE VERLÉ

+0.71%
Carmignac P. Credit's performance in Q4 2024 for the A EUR Share class.

+8.21%
Carmignac P. Credit's performance YTD for the A EUR Share class, compared to +5.65% for its reference indicator[1].

+5.43%
Of annualized performance since launch of the fund (31/07/2017)[2], compared to +1.25% for its reference indicator.

***Carmignac Portfolio Credit** returned 8.21% in 2024 vs. 5.65% for its reference indicator, for an outperformance of 2.55%.*

REVIEW OF Q4 2024 PERFORMANCE

This is a solid performance as we managed to outperform credit markets in a benign environment, while keeping a defensive stance, with an average level of hedging on HY indices that was on average almost 20% during the year. The driver of the outperformance was consistent bond selection across a very diversified portfolio with more than 150 issuers and 250 bonds and a granular distribution of performance across the portfolio and the different sub-asset classes making up our investment universe.

Financials and structured credit were particularly strong contributors to the performance. The main detractor was an investment in a restructuring situation in the healthcare industry that cost (1.5)% to the gross performance. We are confident in our investment thesis, expect it to play out in 2025 and to be a solid contributor to the performance of the coming year. It is in the nature of special situations and restructuring to be more volatile. One large detractor in 2023 was an investment in a real estate special situation that cost (1)% to the 2023 gross performance, regained that in 2024 with a lot of upside left for 2025.

OUTLOOK

As we enter 2025, credit spreads are on the expensive side, supported by many investors flowing to a defensive asset class offering attractive all-in yields, when other asset classes' valuations have become difficult to explain. While we start to see signs of exuberance in the behavior of market participants, we also see significant pockets of value across our investment universe. Financials, natural resources and CLO tranches are still fertile ground for bond picking and we have been finding new misunderstood idiosyncratic opportunities on a regular basis in the past months. In that context, we are able to build an attractive, diversified portfolio with a yield far in excess of its cost of fundamental risk, while maintaining a prudent positioning with a cash buffer of c.8% and a c. 20% hedging position.

As we start the year, the portfolio sports a c. 6.8% yield for an average rating of BB+. Including the cost of hedging, the net yield is in excess of 6%. We think this an attractive level of carry that ensure solid outcomes within our investment horizon in a wide range or market scenarios. In a stable to tightening market, one could easily envision a mid to high single digit return. If there is a dislocation, the carry should mitigate to a great extent a repricing of the portfolio with a 12 months horizon.

Finally, we expect restructurings to be an incremental source of alpha. Companies that overlevered during the decade of very low cost of capital preceding 2022 are increasingly having to resize and restructure their balance sheets. This has started already in 2024, with a number of companies managing to take semi-consensual routes of liability management exercises. We expect 2025 to see more proper restructurings as it is becoming more and more difficult for a number of companies to kick the can down the road and we can think of a number of large balance sheets where investors are likely too complacent about the magnitude of adjustments needed to get to sustainable quanta of debt. This should provide us with asymmetric opportunities to generate meaningful alpha, as distressed debt can be one of the most attractive sectors of the credit world at the right moments of the cycle.

In conclusion, in spite of the rather expensive valuations of credit markets, we remain optimistic about the potential to generate alpha through carry and attractive idiosyncratic investments, while keeping a prudent positioning in order to be able to take advantage of potential market dislocations.

Sources: Carmignac, 31/12/2024. Performance of the A EUR acc share class ISIN code: LU1623762843. [1]Reference indicator: 75% BofA Merrill Lynch Euro Corporate Index, 25% BofA Merrill Lynch Euro High Yield Index. [2]31/07/2017. **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 possible entrance fees charged by the distributor). Marketing communication.**Please refer to the KID/prospectus of the fund before making any final investment decisions

CARMIGNAC PORTFOLIO CREDIT A EUR ACC

(ISIN: LU1623762843)

SFDR - Fund Classification** :

Article 6

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

Recommended minimum investment horizon

3 YEARS

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.

*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 : 2,00% 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 : 0,85% 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: LU1623762843)

Calendar Year Performance (as %)	2017	2018	2019	2020
Carmignac Portfolio Credit	+1.8 %	+1.7 %	+20.9 %	+10.4 %
Indicateur de référence	+1.1 %	-1.7 %	+7.5 %	+2.8 %

Calendar Year Performance (as %)	2021	2022	2023	2024
Carmignac Portfolio Credit	+3.0 %	-13.0 %	+10.6 %	+8.2 %
Indicateur de référence	+0.1 %	-13.3 %	+9.0 %	+5.7 %

Annualised Performance	3 Years	5 Years	Since launch
Carmignac Portfolio Credit	+1.3 %	+3.4 %	+5.4 %
Indicateur de référence	+0.1 %	+0.5 %	+1.3 %

Source: Carmignac at 31 Dec 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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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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