

## Carmignac P. Unconstrained Credit: the Fund Manager's thought

Autore/i

Pierre Verlé, Alexandre Deneuille

Data di pubblicazione

30 Ottobre 2020

Lu

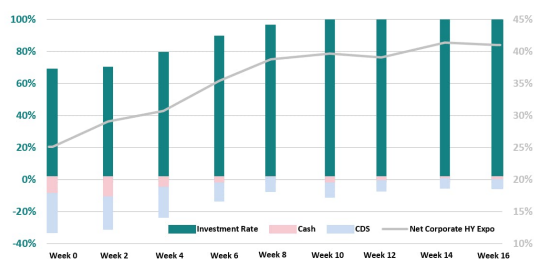


**In the third quarter of 2020, Carmignac Portfolio Unconstrained Credit posted a performance of +4.12% versus a +2.14% gain for its reference indicator, generating a +1.98% outperformance. For the first nine months of the year, the Fund returned a performance of +4.30%, while its reference indicator is down -0.02%.**

Life is far from having gotten back to what it was before Covid 19, but the third quarter of 2020 was much closer to normality than the first half of the year. This is also true for credit markets which, gradually, are becoming driven again by the long term trend which had prevailed for the past years: investors are anxious, fearful of credit accidents (be it downgrades or defaults) while an abundance of capital remains allocated to the asset class.

### Covid-19 case:

#### Managing Carmignac P. Unconstrained Credit Through a Market Dislocation (%)



		Week 0	Week 2	Week 4	Week 6	Week 8	Week 10	Week 12	Week 14	Week 16
YTD Perf. Since 14/02	Fund	+1.39%	+0.74%	-5.78%	-12.14%	-11.30%	-8.96%	-8.18%	-5.44%	+0.99%
	Ref. Ind. <sup>1</sup>	+1.17%	+0.16%	-4.21%	-8.44%	-6.55%	-5.22%	-4.83%	-4.63%	-1.94%
	Rel. Perf.	+0.22%	+0.58%	-1.57%	-3.70%	-4.75%	-3.74%	-3.35%	-0.81%	+2.93%

Source: Carmignac as at 05/06/2020. A EUR Share class 75% ICE BofA Euro Corporate Index (ER00) and 25% ICE BofA Euro High Yield Index (HE00) calculated with coupons reinvested and rebalanced quarterly. Past performance is not necessarily indicative of future performance. The return may increase or decrease as a result of currency fluctuations. Performance are net of fees (excluding applicable entrance fee required to the distributor) CCR= Carmignac P. Unconstrained Cred, \*CDS=Credit Default Swap.

This environment bears a lot of similarities with the first half of 2016 or, closer to us, the first half of 2019. We expect the coming months to be similarly fertile for bond pickers. This is not to say it will be a smooth or easy ride. **We are already seeing a sharp rise in credit rating downgrades and defaults and we expect more accidents in the next quarters.**

Central bankers can help sound businesses refinance themselves and pay lower interest expenses but they cannot save disrupted, structurally unprofitable business models. It is often said that defaults are caused by the economic environment. While there is a correlation, we do not believe there is much causality. Issuers rarely default on their debt because GDP growth turned out one or two percentage points lower than expected.

They default because their business models have been disrupted or competed away and/or because investors have not been careful in their due diligence and analysis when assessing how much debt they can bear.

Recessions only lower the willingness and ability to kick the can down the road. Hence, the measures taken to fight Covid19 will have an important impact on default rates but there would have had a high occurrence of defaults in the coming years even without this virus. It will mostly act as a catalyst, precipitating defaults which would have occurred in two or three years.

**This is why we always keep in perspective the multiyear outlook of a full credit cycle when picking investments and deciding how much risk we want to put in the portfolio** - while credit markets tend to price only short-term default rates, which is akin to driving a motorbike looking only one meter in front of the handlebar.

We are excited by the opportunities we see ahead. During the past months, the fund has benefited from high quality credit repricing to a more normal level. **Yet we still have in our portfolio many bonds from solid businesses with sound business models, good balance sheets and continuous access to liquidity**, yielding far in excess than their fundamental cost of risk, even under the assumption of a painfully slow economic recovery.

We also see a lot of excess spread in Collateralized Loan Obligations ("CLOs) tranches, with very limited fundamental risk - we would need much more pessimistic assumptions to break those tranches than what is needed to break other asset classes. As a result, we believe the risk-adjusted yield of the fund is very attractive at the moment. Beyond our current portfolio, as we wrote above, **we expect the upcoming wave of accidents will keep risk aversion high and create numerous investment opportunities, long and short.**

**Discover the Fund's webpage:**

Carmignac P. Unconstrained Credit

\* Reference Indicator: 75% ICE BofA Euro Corporate Index (ER00) and 25% ICE BofA Euro High Yield Index (HE00) calculated with coupons reinvested and rebalanced quarterly. 2017 Performance : since the launch of the fund on 31/07/2017. Performance of the A EUR acc share class. **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).**

## Carmignac Portfolio Credit A EUR Acc

ISIN: LU1623762843

Periodo minimo di  
investimento  
consigliato



### Principali rischi del Fondo

**CREDITO:** Il rischio di credito consiste nel rischio d'insolubilità da parte dell'emittente.

**TASSO D'INTERESSE:** Il rischio di tasso si traduce in una diminuzione del valore patrimoniale netto in caso di variazione dei tassi.

**LIQUIDITÀ:** Le puntuali irregolarità del mercato possono ripercuotersi sulle condizioni di prezzo che inducono il Fondo a liquidare, aprire o modificare le posizioni.

**GESTIONE DISCREZIONALE:** Le previsioni sull'andamento dei mercati finanziari formulate dalla società di gestione esercitano un impatto diretto sulla performance del Fondo, che dipende dai titoli selezionati.

L'investimento nel Fondo potrebbe comportare un rischio di perdita di capitale.

This document is intended for professional clients. This is an advertising document. This document may not be reproduced, in whole or in part, without prior authorisation from the management company. This document does not constitute a subscription offer, nor does it constitute investment advice. The Management Company can cease promotion in your country anytime. Investors have access to a summary of their rights in French, English, German, Dutch, Spanish, Italian on the following link: [https://www.carmignac.com/en\\_US](https://www.carmignac.com/en_US). Carmignac Portfolio refers to the sub-funds of Carmignac Portfolio SICAV, an investment company under Luxembourg law, conforming to the UCITS Directive. The Funds are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. The return may increase or decrease as a result of currency fluctuations, for the shares which are not currency-hedged. The French investment funds (fonds commun de placement or FCP) are common funds in contractual form (FCP) conforming to the UCITS Directive under French law. Reference to certain securities and financial instruments is for illustrative purposes to highlight stocks that are or have been included in the portfolios of funds in the Carmignac range. This is not intended to promote direct investment in those instruments, nor does it constitute investment advice. The Management Company is not subject to prohibition on trading in these instruments prior to issuing any communication. The portfolios of Carmignac funds may change without previous notice. Access to the Fund may be subject to restrictions with regard to certain persons or countries. The Fund is not registered in North America, in South America, in Asia nor is it registered in Japan. The Funds are registered in Singapore as restricted foreign scheme (for professional clients only). The Fund has not been registered under the US Securities Act of 1933. The Fund may not be offered or sold, directly or indirectly, for the benefit or on behalf of a "U.S. person", according to the definition of the US Regulation S and/or FATCA. The Fund presents a risk of loss of capital. The risks and fees are described in the KIID (Key Investor Information Document). The Fund's prospectus, KIIDs and annual reports are available at [www.carmignac.com](http://www.carmignac.com), or upon request to the Management Company. The KIID must be made available to the subscriber prior to subscription. - In Switzerland, the Fund's respective prospectuses, KIIDs and annual reports are available at [www.carmignac.ch](http://www.carmignac.ch), or through our representative in Switzerland, CACEIS (Switzerland) S.A., Route de Signy 35, CH-1260 Nyon. The paying agent is CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy 35, 1260 Nyon. - In the United Kingdom, the Funds' respective prospectuses, KIIDs and annual reports are available at [www.carmignac.co.uk](http://www.carmignac.co.uk), or upon request to the Management Company, or for the French Funds, at the offices of the Facilities Agent at BNP PARIBAS SECURITIES SERVICES, operating through its branch in London: 55 Moorgate, London EC2R. This material was prepared by Carmignac Gestion and/or Carmignac Gestion Luxembourg and is being distributed in the UK by Carmignac Gestion Luxembourg UK Branch (Registered in England and Wales with number FC031103, CSSF agreement of 10/06/2013). - In Spain: Carmignac Patrimoine is registered with Comisión Nacional del Mercado de Valores de España (CNMV) under number 386, Carmignac Investissement under number 385, Carmignac Sécurité under number 395, Carmignac Emergents under number 387 and Carmignac Portfolio under number 392.