CARMIGNAC P. GLOBAL BOND: LETTER FROM THE FUND MANAGER

11/01/2024 | ABDELAK ADJRIOU

+3.02%	+0.50%	+2.52%
Carmignac P. Global Bond performance in 2023 for the A EUR Share class.	Reference indicator's performance in 2023 for the JP Morgan GBI Global (EUR).	Outperformance of the fund during the year versus its reference indicator.

***Carmignac Portfolio Global Bond** has realised a yearly performance of +3.02% (class A shares), and it outperformed its reference indicator[1](JP Morgan Global Government Bond Index (EUR)), which delivered +0.50%.*

THE BOND MARKETS TODAY

The bond markets remained relatively volatile in 2023, with inflation being the main concern in the first half of the year. During the second half though, and especially during the last quarter, deflationary trends pushed the main central banks to bring their hiking cycles to an end. In our view this trend has been stronger than anticipated and we may be nearing its end. As a result, central banks - were the second most important theme during the year. In their latest communications (during Q4) they announced a definitive pause in their rate hike cycles and evoked the prospect of a rate cut for the coming year in the case of the US Federal Reserve (the Fed). On the back of this intervention, long yields fell considerably, with the German 10-yr yield easing by -85bp to 2% and the US 10-yr yield falling by -70bp to 3.88%, benefiting from expectations of monetary easing in 2024. However, we believe that the market has already priced in a significant amount, if not too much, with a large number of rate cuts expected for next year.

Meanwhile, the Chinese economy continued to disappoint markets, mainly due to the prolonged crisis in the real estate sector. Despite making marginal interest rate cuts, the People's Bank of China is still refraining from implementing a significant stimulus package to jumpstart the economy. This will undoubtfully go through the devaluation of its currency.

However, we also believe that due to the US economic resilience, and most importantly deflationary trends towards the year-end the market got carried away almost assuming a near-perfect economic landing across asset classes. This has led in our view to an asymmetric risk profile in most asset classes.

Developed countries currency movements did not have much of an impact in 2023, as implied volatility ended the year close to its lowest point in the previous two years. Having said that, the currency markets did offer some juicy rather tactical opportunities. For instance, real yield fluctuations over the past few months (especially in December) have benefited the JPY, NOK and SEK over the USD or the EUR.

With regards to emerging markets, last year proved to be very resilient despite very aggressive tightening which many thought would have destroyed the asset class. For instance, hard currency debt was up around 10% mainly from spread compression in the higher yielding portions of the market. The local currency debt market was up approximately 8% mainly driven by high real rate yielding countries such as Brazil, Colombia or Hungary to name a few. The year was also positive for a selection of emerging currency names such as Mexican and Colombian pesos. In fact, emerging markets were better prepared during this hiking cycle as they started hiking well before the Fed, the external buffers notably in foreign currencies reserves were larger than in previous crises.

FUND PERFORMANCE

Carmignac Portfolio Global Bond generated a positive performance in 2023, particularly in the fourth quarter, and well above its reference index. Among the factors contributing to this positive performance, our selection of corporate credit securities played a significant role, despite our hedging strategies in that area. Our structured credit investments also had a notably positive impact on the fund's performance throughout the year and in the last quarter. Furthermore, our currency and emerging debt strategies added value to the fund's performance, despite the negative overall contributions from the US dollar and Japanese Yen over the year. However, we capitalized on the reversal of the Yen's trend in the fourth quarter, as it outperformed the Euro and USD. Additionally, our long duration strategy faced challenges in the first half of the year but performed well in the last quarter due to the easing preassures from central banks. Overall, we are pleased with the performance of our investment strategies and the contributions made by various asset classes.

OUTLOOK

As aforementioned we now exercise caution and have decreased the duration of the fund to around 3 as at the year end. To sum up there are in fact three main stories influencing our approach. Firstly, central banks have shifted their stance with regards to monetary policy. However, we believe that the market has already priced in a significant number of cuts, with a total envelope of cuts priced for next year already reaching approximately 150 basis points in the US and Europe. As a result, we have tactically reduced the duration. Secondly, the deflation trend has been stronger than expected, but we believe that we may be nearing its end. The rhetoric around no landing in 2024, at least during the first half of the year, is bullish for inflation. We continue to favour real rates in the fund. Lastly, we anticipate a massive flood of supply, which we have already started to see since the beginning of the year. This influx may push the yield curves to steepen, leading us to be net short on long maturities. Given the cautiousness described earlier, we maintain some protection on credit. In terms of foreign exchange (FX), we have slightly increased our exposure to the US dollar, which now represents around 20% of the fund. We continue to hold around 8% of Japanese Yen. Additionally, we have a positive outlook on certain emerging markets and commodity currencies, including Brazilian Real and Chilean Peso but also Taiwanese Dollar and Korean Won and on the developed currencies front, we are long Norwegian Krone.

Sources: Carmignac, Bloomberg, 31/12/2023.

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

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. **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.
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 : 1,36% 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.

ANNUALISED PERFORMANCE (ISIN: LU0336083497)

Calendar Year Performance (as %)	2014	2015	2016	2017	2018
Carmignac Portfolio Global Bond	+13.8 %	+3.3 %	+9.5 %	+0.1 %	-3.7 %
Indicateur de référence	+14.6 %	+8.5 %	+4.6 %	-6.2 %	+4.3 %

Calendar Year Performance (as %)	2019	2020	2021	2022	2023
Carmignac Portfolio Global Bond	+8.4 %	+4.7 %	+0.1 %	-5.6 %	+3.0 %
Indicateur de référence	+8.0 %	+0.6 %	+0.6 %	-11.8 %	+0.5 %

Annualised Performance	3 Years	5 Years	10 Years
Carmignac Portfolio Global Bond	+1.0 %	+1.4 %	+2.6 %
Indicateur de référence	+3.5 %	+1.7 %	+1.6 %

Source: Carmignac at 30 Apr 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

CARMIGNAC
INVESTING IN YOUR INTEREST