QUARTERLY REPORT

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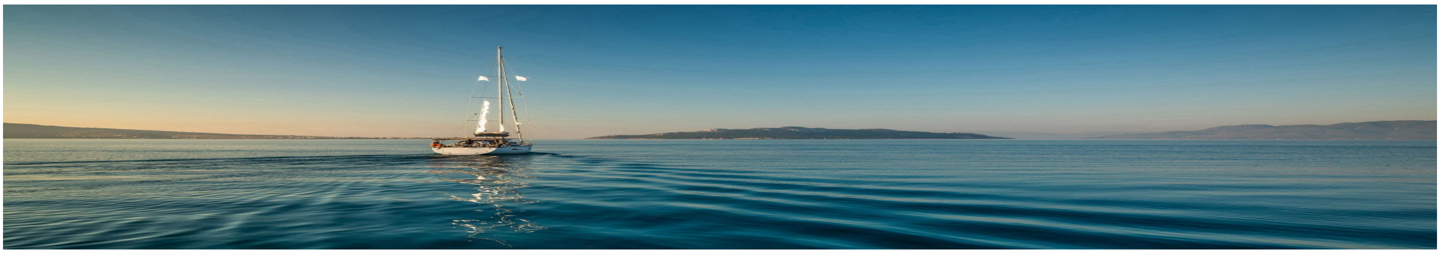

Carmignac Portfolio Flexible Bond : Letter from the Fund Managers

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+5.31%

Carmignac P. Flexible Bond's performance

in the 4th quarter of 2022 for the A EUR Share class

-0.82%

Reference indicator's performance

in the 4th quarter of 2022 for ICE BofA ML Euro Broad index (EUR)

+8.89%

Outperformance of the Fund

as of end of the year versus its reference indicator

Carmignac Portfolio Flexible Bond *delivered a very positive return (+5.33% on class A shares) in the fourth quarter of 2022, considerably outperforming its reference indicator (ICE BofA ML Euro Broad Index (EUR)), which lost -0.82%.*

The Bond Market Today

The fourth quarter was marked by the first signs of a reversal in macroeconomic trends. While employment levels remained robust, especially in the US, and both consumer spending and manufacturing output proved highly resilient, confidence indicators were down sharply. And even though inflation was still high, it fell during the quarter, suggesting it has probably peaked.

Central banks – most notably the US Federal Reserve and the ECB – tightened monetary policy further in Q4 but indicated that the time has come to ease the pace of rate hikes. The Bank of Japan surprised analysts by expanding the range in its yield curve control policy sooner than expected.

European sovereign-bond yields rose sharply during the quarter, but perhaps the most surprising development was the steep rally in risk assets. Investors' risk appetite returned with the prospect of slower rate hikes, coupled with the decline in energy prices and China's reopening after Beijing lifted its zero-Covid policy. In fixed income, this was reflected in narrowing spreads on corporate bonds and, to a lesser extent, on sovereign debt in emerging markets and the eurozone periphery.

Asset Allocation

We adjusted our asset allocation in Q3 in response to the changing market climate.

- **We substantially reduced the portfolio’s modified duration**. We decided to focus our short positions on German and Italian rates, given that real interest rates in these countries are still negative and the ECB has no choice but to keep tightening monetary policy; it could even follow in the Fed’s and BoE’s footsteps and start shrinking its balance sheet. We also added a short position on Japanese rates, since inflation in the country – already record-breaking – should keep climbing, amid tensions between the Japanese government and central bank.
- **We continued to increase our credit-market exposure**. Prices are even more attractive now that credit spreads have stabilised at high levels. We therefore reinforced our positions on the strongest convictions in our portfolio: European financial debt, high-yield corporate bonds, collateralised loan obligations, and EM debt. Because we believe the credit market will remain volatile, we decided to keep a substantial level of protection (around 12%, consisting of CDSs).

Outlook

Credit spreads currently sit at levels consistent with our view that the risk of default has been overestimated and that bonds are trading at attractive prices. We believe the slower pace of monetary tightening will dampen volatility in fixed income, creating an auspicious climate for carry strategies. We have accordingly built up a diversified portfolio allocation covering all segments of the credit market, with a preference for subordinated financial debt, high-yield corporate bonds (particularly in the energy sector), and EM debt.

Our modified duration is positive because we believe most of the yield-curve correction is behind us. We doubt central banks will need to lift rates higher than what’s already anticipated by the market given the likelihood of a deceleration in both GDP growth and inflation. We’re cautious on longer-dated maturities since the market may have trouble absorbing the record volume of new bond issues that’s expected in early 2023.

Source: Carmignac, Bloomberg, 31/12/2022. Performance of the A EUR Acc share class ISIN code: LU1744628287. [1]Reference Indicator: 40% STOXX Europe 600 (Reinvested Net Dividends) + 40% ICE BofA All Maturity All Euro Government + 20% ESTER capitalized. Quarterly Rebalanced. Until 31/12/2021, the reference indicator was 50% STOXX Europe 600, 50% BofA Merrill Lynch All Maturity All Euro Government Index. The performances are presented using the chaining method. Risk Scale from the KID (Key Investor Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. *Launch date: 29/12/2017.

Carmignac Portfolio Flexible Bond

A flexible solution aiming to capture bond opportunities globally

Discover the fund page

Carmignac Portfolio Flexible Bond A EUR Acc

ISIN: LU0336084032

Recommended minimum investment horizon

Lower risk Higher risk

1	2*	3	4	5	6	7

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.