CARMIGNAC P. EM DEBT: LETTER FROM THE FUND MANAGERS

10/07/2024 | ABDELAK ADJRIOU, ALESSANDRA ALECCI

+6.9% Carmignac P. EM Debt's 5 year annualized performance for the FW EUR Share class.	**+15.3%** Carmignac P. EM Debt's 2023 performance for the FW EUR Share class.	**+4.0%** Annualized out-performance versus the reference indicator since launch (31/07/2017).

***Carmignac P. EM Debt** realised a negative performance of -1.03% (for the FW Eur Acc share net of fees) year to date in 2024, below its reference indicator[1] which realised -0.49%.*

MARKET ENVIRONMENT

Let's quickly consider the global landscape year to date. The market was anticipating nearly 7 rate cuts in the US versus 2 as of today. This movement (from 7 to 2 cuts) which was sustained by the resilience of the US and global growth continued during the first half of Q2 as well, with the US Treasury yields increasing by around 90 basis points from January to April at around 4.7% to then move back to 4.4% as of end of June 2024 (still around 20 bps higher than end of Q1 2024). In fact, as of the last couple of weeks US macroeconomic data have hinted that US growth is heading towards slowdown or at least normalisation as is the job market. This has brought the first potential FED rate cut forward to September and fueled some volatility.

Emerging markets particularly had a very eventful quarter with notably a heightened election induced volatility across assets. Note that May and June were animated by elections in India, South Africa and Mexico where we had three different outcomes with notably a weaker than expected majority in India, a stronger than expected majority in Mexico and as per market expectation in South Africa. Yet, markets overreacted in all three causing a stir in local rates, currencies and external debt spreads.

Nevertheless, and overall, the absence of a landing scenario in 2024 has promoted risk premia and performance for hard currency external debt among others. Additionally, specific situations in countries such as Argentina, Ecuador, and Egypt (due to strong fiscal reforms, improved governance, or external financial aid from the IMF, World Bank etc) have greatly improved, and continued contributing to the overall tightening of spread indices.

However, this trend has slightly reversed in the last quarter, with spreads widening due to idiosyncratic stories, such as Brazil's worsening fiscal deficit, aforementioned elections, commodity prices volatility etc. Despite this widening spread move, there has been a significant amount of dispersion, with lower-rated countries experiencing the most impact while the Investment Grade counterparts barely moving.

Local currency EM debt has suffered disparities too, with notably names in Latin America suffering from the higher for longer FED rhetoric or some local stories such as elections in Mexico which not only pushed these central banks to remain cautious for further easing but also brought in a lot of mark to market volatility. Nevertheless, we still believe that the extremely high real rates in these countries, coupled with the normalisation of election-induced volatility, will eventually (continue to) benefit these rates (since this upward move has already tarted).

Lastly, EM currencies too seem to have suffered losses and gone through bouts of volatility during the period due to for instance: the continuous strength of the USD, commodity price volatility, geopolitical events and elections to name a few.

WHAT HAVE WE DONE IN THIS CONTEXT?

The fund recorded a negative performance in the second quarter, below its reference index. Nevertheless, year to date absolute performance of the fund is slightly positive.

Our selection of credit (including here external emerging debt in hard currency and corporate credit) continued to generate positive performance and that regardless of the April to June spread widening move. Among the main contributors to the performance of the strong currency debt, we can notably mention our protections on the Itraxx Xover, our selection of financial names but also hard currency sovereign names such as Dominican Republic or Pemex.

As for emerging market debt denominated in local currency, its contribution was negative, with Brazil or Mexico being the main detractors. However, our long positioning in South African or Hungarian local currency debt contributed positively on the performance of the fund.

Ultimately, our currency strategies negatively impacted the fund's performance, with however two different blocks with on the one side the Chilean Peso, the South African Rand or the Czech Krona contributing positively while the Brazilian Real and the Mexican Peso contributing negatively to the performance of the fund.

OUTLOOK FOR THE NEXT MONTHS

In the current context, with a slowdown in the US economy and the beginning of the easing cycle by central banks in developed countries, we have increased the fund's sensitivity to interest rates to around 4.7%. Furthermore, our allocation is balanced between local rates and external debt. Regarding local rates, the fund continues to favor countries such as Mexico and Brazil, where short-term real rates remain extremely high. As aforementioned we believe that short-term real rates at 7% in Mexico or Brazil are unsustainable in the long run.

In fact, we increased our allocation to local currency debt, particularly Mexican debt, following the post-election correction, in order to benefit from its rebound. This tactical positioning has already started to pay off and we even took some profits on it.

Lasty, the fund maintains a long position in emerging market debt in hard currencies, particularly in the EMEA region and Latin America. This is a call on some specific situations such as: Colombia, Ecuador, Argentina, Ivory Coast or Egypt.

Finally, and as for currencies, the fund has reduced its net exposure to currencies in a less favorable environment, but still maintains a long position on currencies such as the Brazilian real, the Chilean peso, and the Indian rupee to name a few.

Sources: Carmignac, Bloomberg, 30/06/2024. [1]50% JP Morgan GBI – Emerging Markets Global Diversified Composite Unhedged EUR* + 50% JP Morgan EMBIG Diversified hedged in Euro (Since 02/01/2024). Performance of the FW EUR acc share class.

Past performance is not a reliable indicator 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 EM DEBT FW EUR ACC

(ISIN: LU1623763734)

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

EMERGING MARKETS: Operating conditions and supervision in "emerging" markets may deviate from the standards prevailing on the large international exchanges and have an impact on prices of listed instruments in which the Fund may invest. **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. **CREDIT**: Credit risk is the risk that the issuer may default.

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. **

FEES

Maximum subscription fees paid to distributors : 0,00%

Redemption Fees : 0,00%

Conversion Fee : •

Ongoing Charges : 1.05%

Management Fees : 0,85% MAX

Performance Fees : •

PERFORMANCE (ISIN: LU1623763734)

Calendar Year Performance (as %)	2017	2018	2019	2020
Carmignac Portfolio EM Debt	**+1.1 %**	**-10.0 %**	**+28.9 %**	**+10.5 %**
Indicateur de référence	+0.4 %	-1.5 %	+15.6 %	-5.8 %

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).

Calendar Year Performance (as %)	2021	2022	2023	2024 (YTD)
Carmignac Portfolio EM Debt	**+3.9 %**	**-9.0 %**	**+15.3 %**	**+0.4 %**
Indicateur de référence	-1.8 %	-5.9 %	+8.9 %	+0.4 %

Annualised Performance	3 Years	5 Years	Since launch
Carmignac Portfolio EM Debt	**+1.2 %**	**+6.9 %**	**+5.2 %**
Indicateur de référence	+0.4 %	+0.1 %	+1.2 %

Source: Carmignac at 28 Jun 2024.
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CARMIGNAC
INVESTING IN YOUR INTEREST