



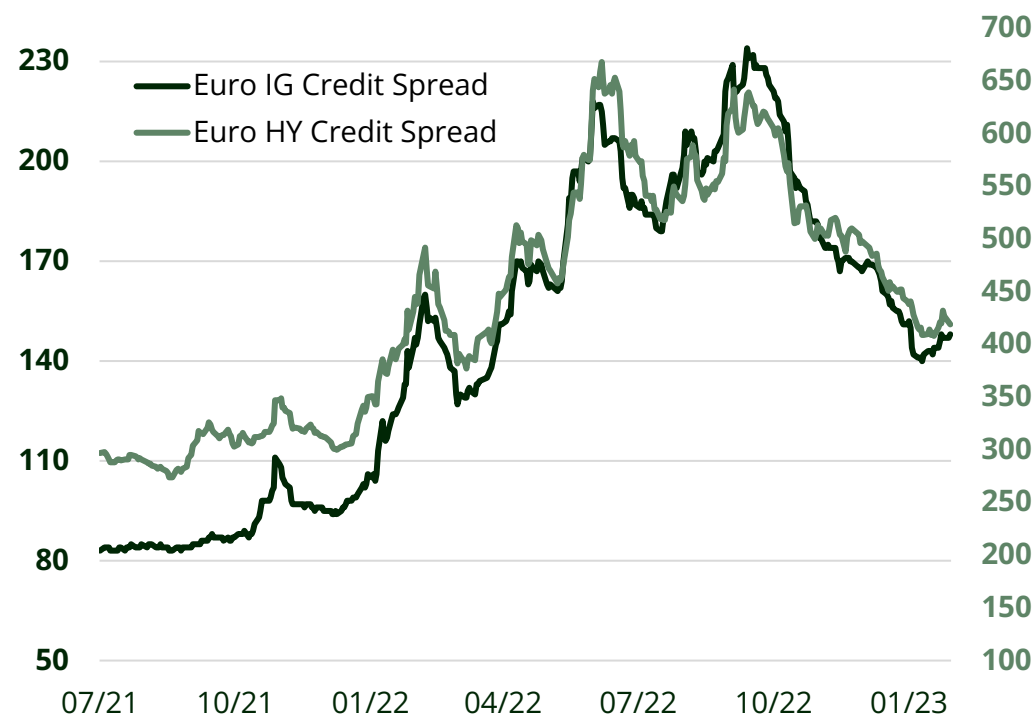
**Pierre VERLÉ**  
Head of Credit

# BUY & HOLD FUNDS: VISIBILITY IN AN UNCERTAIN ENVIRONMENT

March 6th, 2023

# CURRENT VALUATIONS IN CREDIT MARKETS

## European Market Credit Spreads



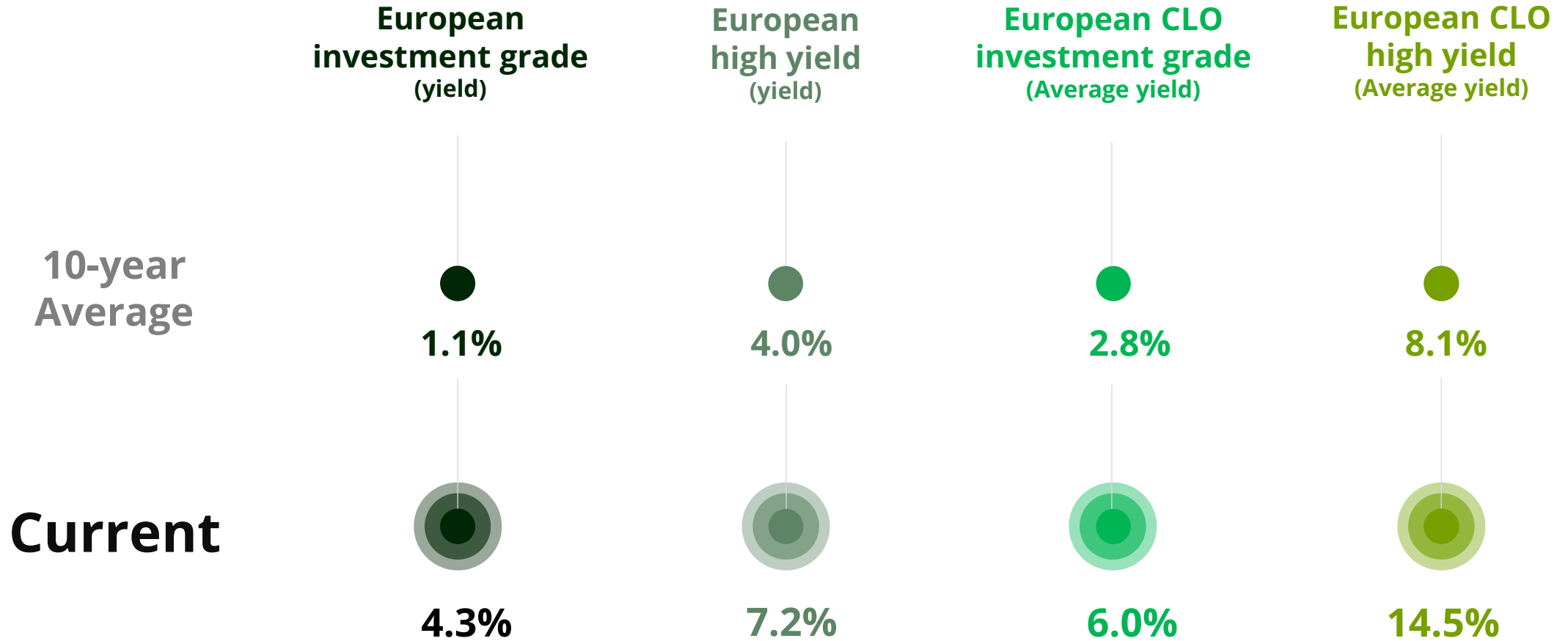
Source: Bloomberg, 28/02/2023  
<sup>1</sup>YTW : Yield-to-Worst

	YTW <sup>1</sup>	30/07/2021	28/02/2023
IG EU (ER00)		0.2%	4.3%
HY EU (HE00)		2.4%	7.2%

	Modified duration to maturity	30/07/2021	28/02/2023
IG EU (ER00)		5.4	4.5
HY EU (HE00)		4.1	3.1

**Credit**, especially high yield, has a **lower rate duration than other fixed income assets** and much lower than other assets

# RENEWED OPPORTUNITIES ON CREDIT



# WHAT IS A MATURITY FUND?

A simple strategy to estimate the level of yield from the inception of the Fund

1

## Buy carefully selected corporate bonds

Issued by companies with robust business models

Targeting repayment or refinancing with 2025 in mind

Diversify the portfolio in order to minimise default risk



Estimate and generate an attractive yield

2

## Hold them to their repayment date

Minimise the interest rate risk by holding issues till maturity

Credit and volatility risk also decrease over time

Limit transaction costs by minimising, as far as possible, the number of transactions carried out



Mitigate interest rate, credit and volatility risk

3

## Avoid accidents and reinvest coupons

Reduce or sell exposure to an issuer if its prospects deteriorate

Reinvest coupon payments and early redemptions into bonds with the same maturity, or in money market instruments



Be responsive to credit events

Source: Carmignac. For illustrative purpose only

# WHY INVEST IN FIXED MATURITY PRODUCT?

**Target Maturity Funds** combine the **characteristics of individual bonds** with the **diversification and selectivity of a traditional bond fund**

	SINGLE BOND	FIXED INCOME FUND	TARGET MATURITY FUND
Fixed Maturity	✓	✗	✓
YTM* known in advance	✓	✗	✓
Decrease of the risk profile over time	✓	✗	✓
Diversification	✗	✓	✓

Source: Carmignac  
For illustrative purpose only  
\*YTM = yield-to-maturity

# CARMIGNAC CREDIT 2025: OUR FIRST TARGET MATURITY FUND



## Fund structuring

French mutual funds (FCP). Maturity October 2025

**A strong commitment** from Carmignac:

- Reputation: numerical performance target in the prospectus: 1.9% for A EUR Acc;
- Own corporate funds: we support investors until the fund matures.

Liquidity management: open ended Fund but priority to investors remaining until the end of the term:

- Swing pricing
- Gate Option

## Investment limits<sup>1</sup>

### IG allocation

Maximum 100%

### HY allocation

Maximum 50%

### Portfolio average rating

 Minimum BBB-

### EM corporates allocation<sup>2</sup>

Maximum 30%

### Structured credit

Maximum 40%

### FX exposure

Euro – Fully hedged

Source: Carmignac

<sup>1</sup>gross limits

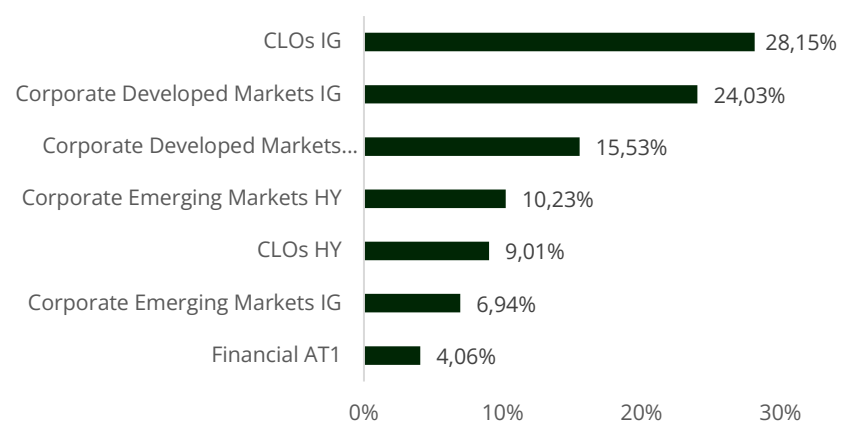
<sup>2</sup>Investment in government or corporate bond issuers from outside the OECD, including emerging markets

Carmignac Credit 2025 is a fund which invest in credit and structured credit assets from issuers based worldwide with a buy and hold approach over a 5-year horizon. The details mentioned in this presentation are partial and are subject to future modifications

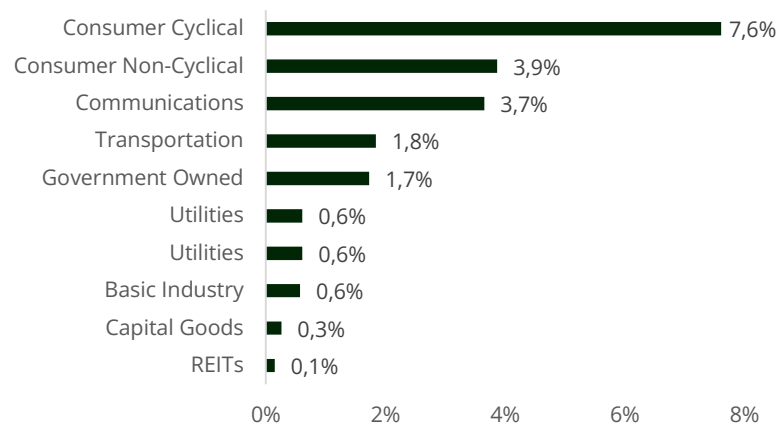
# CARMIGNAC CREDIT 2025 - PORTFOLIO CONSTRUCTION

Data as of 16/02/2023

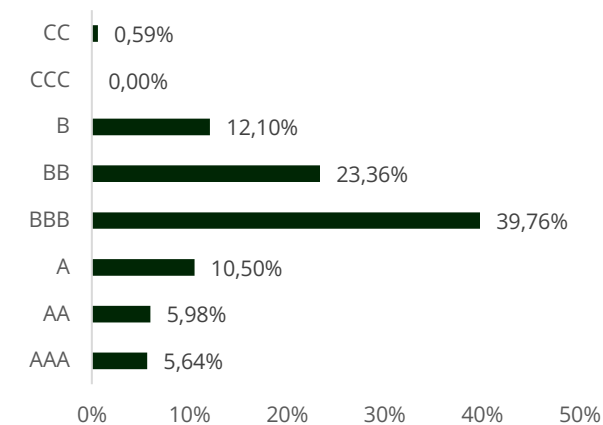
## Breakdown by asset class



## Sector Breakdown - Corporate Bonds<sup>2</sup>



## Rating Breakdown<sup>3</sup>



## Carmignac Credit 2025 - Main Characteristics

AUM	€ 232M
Yield to worst <sup>1</sup>	7.12%
Average Coupon	4.41%
Number of Securities	169
Nb Issuers: Corporate Bond Bucket	110
Nb Issuers: CLO Bucket	> 400 underlying issuers
Rating <sup>3</sup>	BBB
Average Duration	2.7

Source: Carmignac, 16/02/2023. <sup>1</sup> Yield to worst before management fees.

<sup>2</sup> Non-exhaustive list. Excluding structured credit.

<sup>3</sup> Rating based on external ratings and if not rated, we use our own internal rating.

Portfolios are subject to change at any time. Past performance is not a reliable indicator of future performance

# CARMIGNAC CREDIT 2027

Recommended minimum investment horizon: **5 years**



## Fund structuring

French mutual funds (FCP). Maturity June 2027

5-year buy and hold credit fund

Launch date : 30/06/2022 after IPO Phase

Benefit from an early redemption schedule to maximize performance at pre-determined **thresholds** if the Fund has **achieved or exceeded** a performance deemed appropriate (**A EUR Acc**):

- From 30/06/2025 if the IRR\* **is equal or above** 2.44%, corresponding to a NAV of 107.50
- From 31/10/2025 if the IRR\* **is equal or above** 2.24% corresponding to a NAV of 107.67
- From 27/02/2026 if the IRR\* **is equal or above** 2.08% corresponding to a NAV of 107.83
- From 30/06/2026 if the IRR\* **is equal or above** 1.94% corresponding to a NAV of 108.00

The fund will be redeemed if the threshold has been reached for all the share classes and if market conditions allow it

Liquidity management: open ended Fund but priority to investors remaining until the end of the term:

- *Swing pricing*
- *Gate Option*

\*Internal rate of return is a threshold that could trigger an early maturity date. In case of early redemption, actual NAV and performance can be equal or higher.

## Investment limits<sup>1</sup>

### IG allocation

Maximum 100%

### HY allocation

Maximum 100%

### CoCos<sup>3</sup>

Maximum 15%

### EM corporates allocation<sup>2</sup>

Maximum 40%

### Structured credit

Maximum 40%

### FX exposure

Euro -hedged

\*Internal rate of return

<sup>1</sup>Gross limits. Source: Carmignac. 30/04/2022

<sup>2</sup>Investment in bonds of public or private issuers from non-OECD countries, including emerging markets

<sup>3</sup>Contingent convertible bonds

Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. The management company reserves the right not to proceed with the liquidation of the fund on the Early Maturity Date even if the IRR has reached one of the thresholds described above, in particular if the Target IRR has not been reached for all the share classes or if the liquidity of the Portfolio or a drop in the markets after the date of observation concerned does not allow the fund to be liquidated on the date of early maturity at a net asset value corresponding, at least at the Target IRR for all the share classes. Carmignac Credit 2027 is a fund which will invests in credit and structured credit assets from issuers based worldwide with a buy and hold approach over a 5-year horizon The details mentioned in this presentation are partial and are subject to future modifications



# CARMIGNAC CREDIT 2027: LIQUIDITY MANAGEMENT

- Carmignac Credit 2027 offers **daily liquidity**...
- ... but priority will be given to investors remaining **until the end** of the term...
- ...with the use of **2 mechanisms**:



## Automatic Triggering

### SWING PRICING

- **Protects the interests of long-term investors** by making only **incoming or outgoing investors bear the transaction costs** of large redemptions or subscriptions
- By applying a "swing factor\*" **borne by sellers or buyers of units above a certain threshold**, they pay the transaction costs and not existing investors
- Important, especially when the Fund is **experiencing significant flow activity**



## Non-Automatic Triggering

### GATES

- In the case of **illiquid market conditions**, we retain the possibility of **deferring redemption orders**
- The company may decide to **cap redemptions in exceptional circumstances** and if the **interests of the holders** so require.

Source: Carmignac. Please refer to the prospectus

\*On a given net asset value date, when the total of net subscriptions, conversions and redemptions exceeds a certain threshold defined by the management company, this triggers a swing event and the NAV is "swung" using a swing factor. The swing factor is a mix of market spreads of the day and of synthetic factor which aims to capture dealing costs

# HOW CAN BONDS DELIVER MORE THAN THEIR ISSUANCE YIELD AT MATURITY

## Explaining investment grade bond roll-down

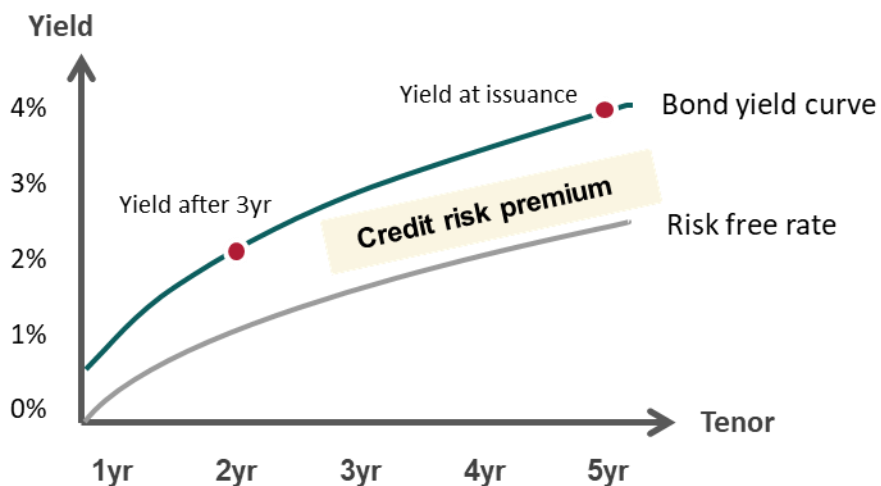
With upward sloping yield curve, bond yields decrease over time

Example: 5-year maturity bond; 4% coupon; issued on 30/06/2022

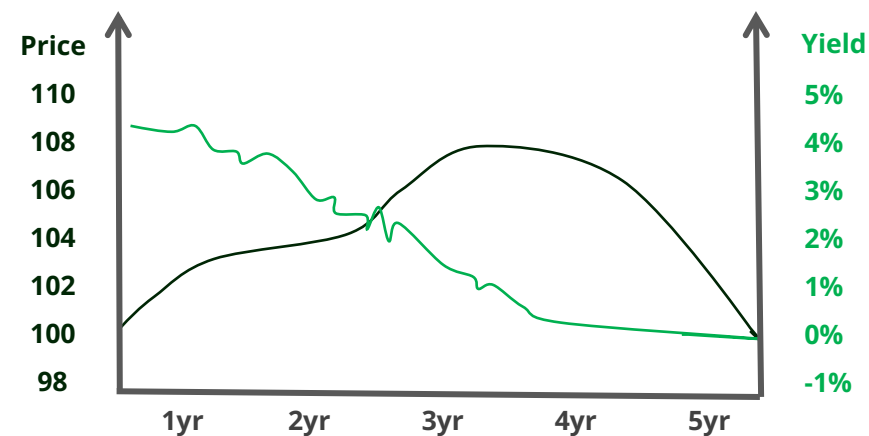
In 3-year ie. 30/06/2025 (2-year remaining): Bond trades @ 2% vs. 4% at launch

**Total annualized return in 3-year including carry and roll-down: 4,9%**

## IG Corporate issuer yield curve



## Value of a bonds over time at stable yield curve

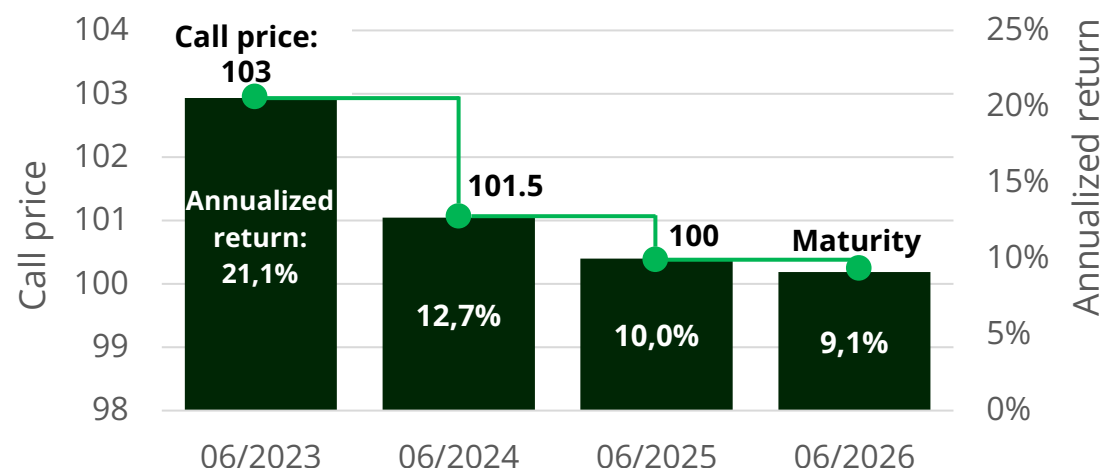


Source: Carmignac, This an example. For illustration purpose only

# HOW CAN BONDS DELIVER MORE THAN THEIR ISSUANCE YIELD AT MATURITY

## 5-year High Yield Bond return profile

- Coupon: 6%; issued on 30/06/2021
- Currently trading at 90c on the 30/06/2022



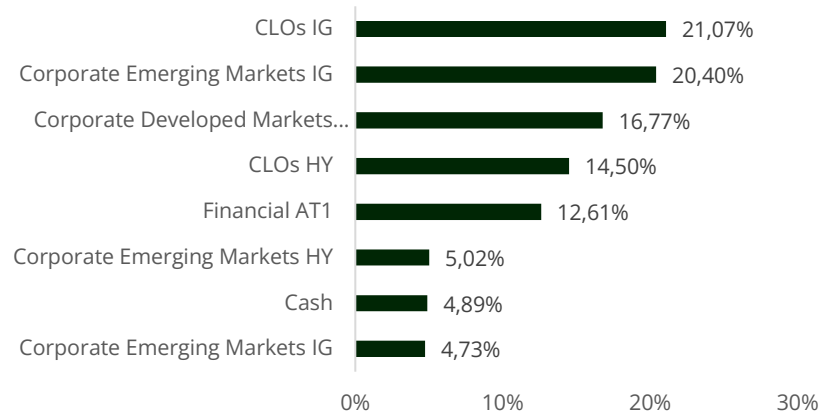
Source: Carmignac, 17/06/2022  
This an example. Illustration based on a 5-year high yield bond

- **Most high yield bonds are callable**, issuer can, at their discretion, **redeem the bond before maturity**.
- Issuers refinance high yield bonds **when they can**:
  - Often years before maturity, even if it increases their cost of capital
  - To extend their runway and lower the refinancing risk.
- Calls can **improve the risk-return profile**

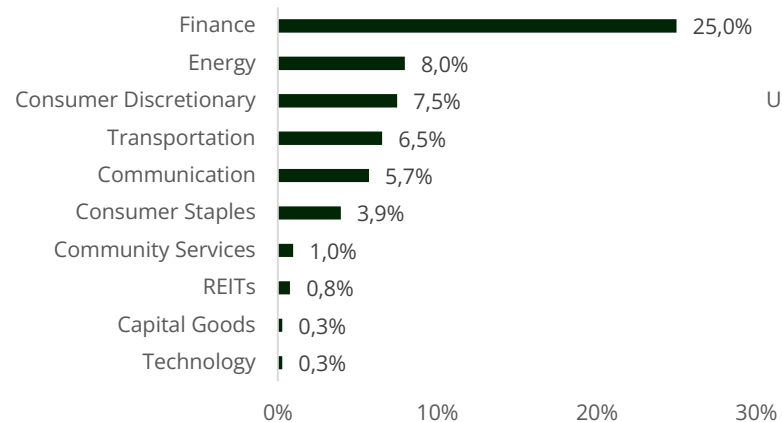
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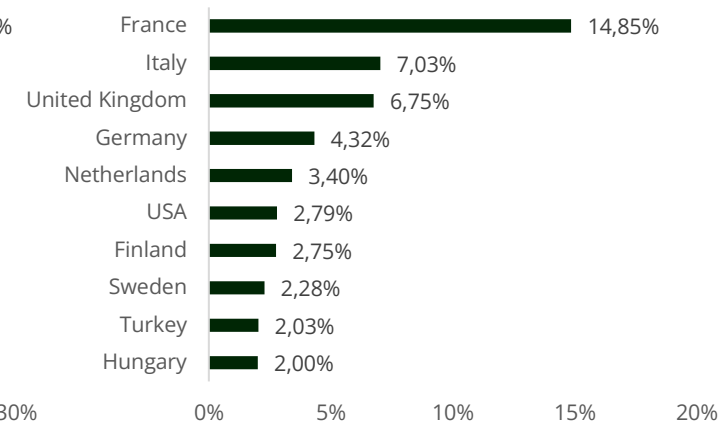
## Breakdown by asset class



## Sector Breakdown - Corporate Bonds<sup>3</sup>



## Breakdown by country<sup>3</sup> - Top 10



### Main characteristics

<b>YTW<sup>1</sup></b>	7.46%
<b>Number of issues</b>	134
<b>Average rating<sup>2</sup></b>	BBB-
<b>EM Exposure</b>	10.3%

Source: Carmignac, 16/02/2023. <sup>1</sup> Yield to worst before management fees.

<sup>2</sup> Rating based on external ratings and if not rated, we use our own internal rating.

<sup>3</sup> Non-exhaustive list. Excluding structured credit.

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# Q&A SESSION



# MAIN RISKS OF CARMIGNAC CREDIT 2025

## 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 assets selected.

**The Fund presents a risk of loss of capital**



Recommended  
minimum investment  
horizon: **5** years

SFDR Fund  
Classification\*\* **ARTICLE 6**

Source: Carmignac, 31/01/2023. A EUR shareclass.

SRRI from the KID (Key Information Document): scale from 1 (lowest risk) to 7 (highest risk); category-1 risk does not mean a risk-free investment. This indicator may change over time. The list is not exhaustive, please refer to the prospectus.

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SFDR Fund Classification\*\* **ARTICLE 8**

Source: Carmignac, 31/01/2023. A EUR shareclass.

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# APPENDIX



# THE CASE OF BIRKENSTOCK

## BIRKENSTOCK®

- **Starting leverage at 6.9x (based on adj. Dec-20 EBITDA) ...**
- ... but **L Catterton** (co-owned by LVMH) purchased a majority stake at 17.3x EV<sup>1</sup> / EBITDA<sup>2</sup>
  - => **c. 40% LTV<sup>3</sup>**
- Uniquely sustainable products in affordable luxury category with **high level of customer loyalty**
- c.10% organic revenue growth over the past 4 years, with **room for further market penetration** (esp. in Asia)
- New shareholder can support growth and profitability with “unpaid” marketing (collaborations, etc.)
- **Issued 8NC3 EUR Bond at 5.25% in Apr-21**

### Returns vs. Different Call Assumptions



	<i>Yield to 1st call</i>	<i>Earliest Par Call</i>	<i>Maturity</i>
<i>Date</i>	<b>30/04/24</b>	<b>30/04/26</b>	<b>30/04/29</b>
<i>Call Price</i>	102.625	100	100
<i>At 89.5c</i>	16.3%	9.11%	7.5%

Sources: Carmignac, Birkenstock, December 2022

<sup>1</sup>EV = Enterprise value, <sup>2</sup>EBITDA = Earnings before interest, taxes, depreciation, and amortization <sup>3</sup>LTV = Loan to Value. The trademarks and logos are used with the authorisation of the respective entities and do not imply any affiliation with or endorsement by them. Past performance is not necessarily indicative of future performance. Portfolio may change without previous notice

# THE CASE OF SANI IKOS

SANI  
RESORT

- **Leading luxury resort owner and operator** in the Mediterranean (12 hotels for 3566 rooms). All assets are on beachfront locations and **100% owned**
- Robust financial equation:
  - Properties fully built at cost of €200/250k per room at 65% LTC<sup>1</sup>
  - Fully ramped up value once operational is €400/450k
- ➔ **Limited LTV<sup>2</sup> with high real estate asset value**
- **Opening leverage at 6.0x / 44% LTV on appraised value**
- **Sani / Ikos issued EUR 300M 5Y bond at 5.625% on the 15<sup>th</sup> of July 2021**
- Market participants overlooked quality of the business model and **compared leverage with asset light hotel operators**
- **Outcome: October 2022 GIC acquires the group for €2.3bn EV**, refinances asset back facilities, leaves bonds in capital structure implying a total LTV <45%



## Returns vs. different Call Assumptions at current price (88.7c)

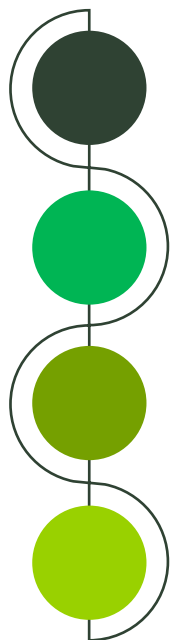
	<i>Yield to 1st call</i>	<i>Yield to 2nd call</i>	<i>Earliest Par Call</i>	<i>Maturity</i>
<i>Date</i>	<b>15/07/23</b>	<b>15/07/24</b>	<b>15/07/25</b>	<b>15/12/26</b>
<i>Repayment</i>	102.81	101.41	100	100
<i>Yield</i>	23.51%	13.45%	10.41%	9.00%

Sources: Carmignac, Bloomberg, Sani, November 2022

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Portfolio is subject to change without notice.<sup>1</sup>Total net debt including hybrid bonds, leasing, <sup>2</sup>Cash, cash equivalents, trading securities and financing receivables used for non-operational purposes

# WHY DO CLOS PRESENT AN OPPORTUNITY?



CLOs have been **wrongly associated with other poorly performing structured credit assets**, such as subprime CDOs, ABS CDOs, etc.

**European regulation** of the insurance sector: Solvency II capital charges prevent most insurers from participating

**Banking regulations:** restrictive balance sheet size regulations

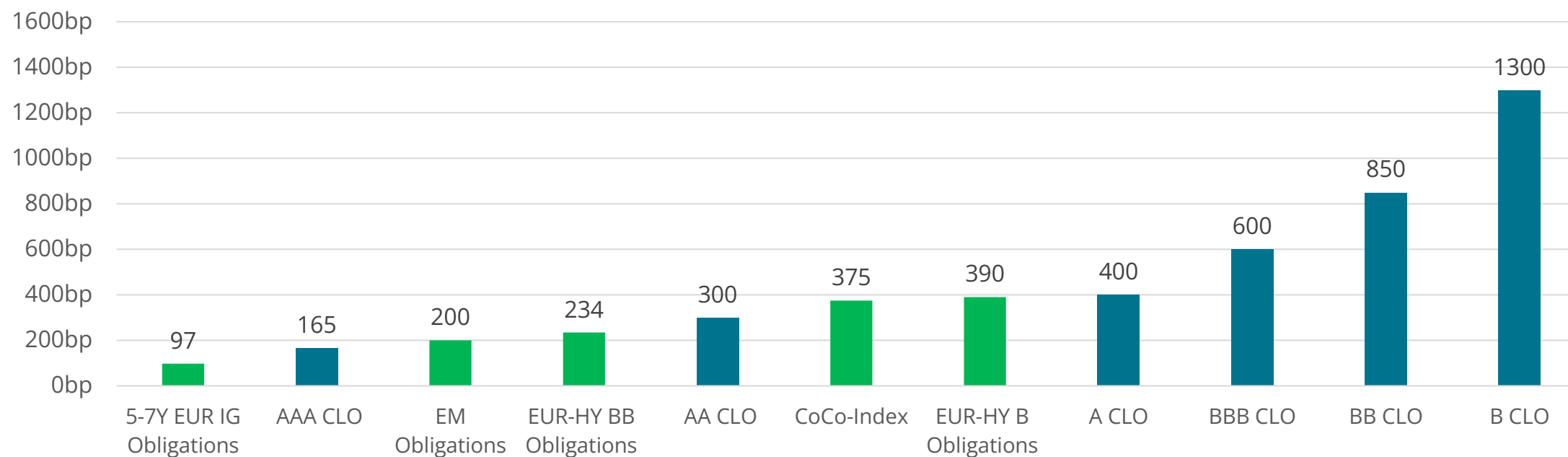
**Barriers to entry** for asset managers/pension funds: expertise, system and investment mandates



This has **limited investment capacity** and led to a more **mature investor base**

# ASSESSING CLO VALUATIONS

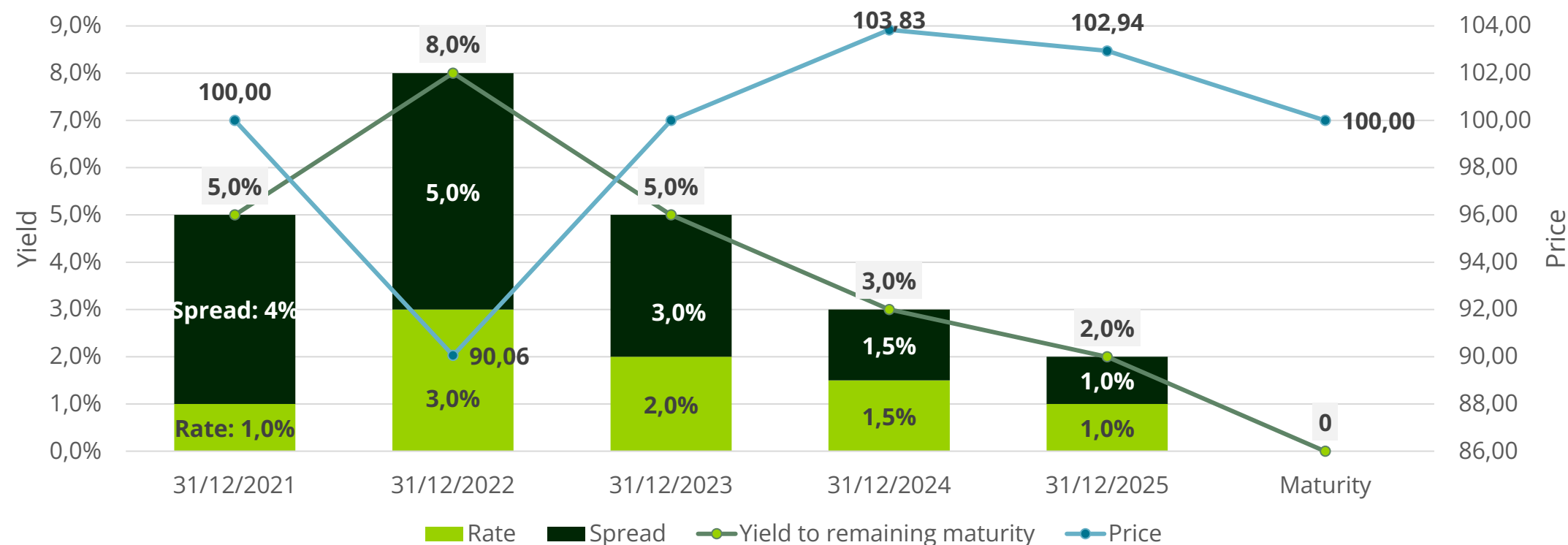
## CLO's versus main traditional credit asset class - Spreads



Source: Carmignac, BofA, January 2022

# WHEN YOU BUY A BOND, YOU KNOW THE YIELD TO MATURITY BUT YOU DON'T KNOW THE PATH

Example: 5-year maturity bond; 5% coupon; issued on 31<sup>st</sup> of December 2021



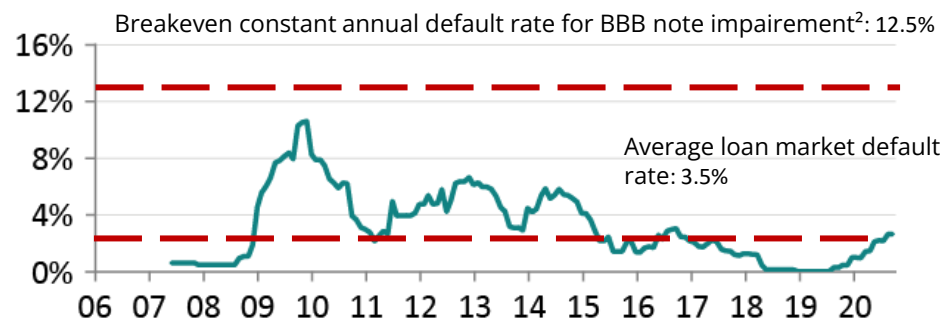
Sources: Carmignac  
For illustrative purpose.

# FINDING VALUE IN RESILIENT CLO TRANCHES

## Deal summary

Deal	Trinitas Euro CLO III
Tranche	Class D – Rating: S&P BBB- / Fitch BBB-
Bond Coupon	3mE + 630 bp
Issue Price	97.00
Pricing date	16th of September 2022
Par Subordination <sup>1</sup>	17.9%

## 12-month rolling leveraged loan default rates in Europe



Source: Carmignac, JPMorgan, ICE BofA Indices, S&P (in principal), 08/11/2022 unless otherwise stated.

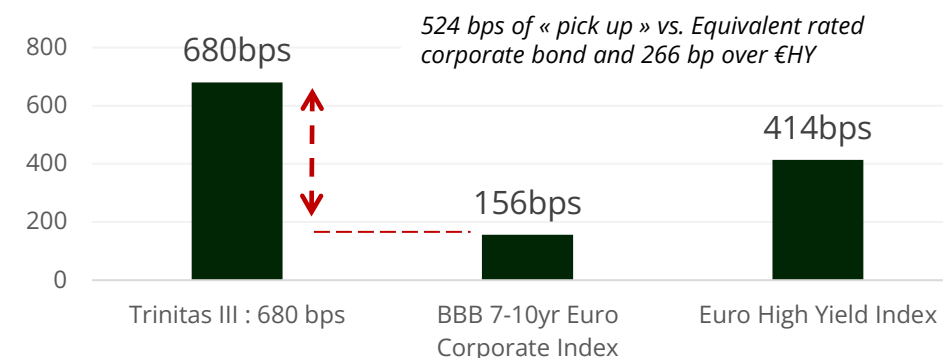
<sup>1</sup>Asset Swap Spread. <sup>2</sup>Nominal excess of assets over the par value of the BBB tranche and all tranches senior to it, divided by the total nominal assets.

<sup>3</sup>Default rate break-even point calculated by assuming a 50% recovery rate compared to long-term historical recoveries of just over 70%.

## Underlying diversified portfolio

- C. **150 issuers**
- Across **38 Sectors**
- **17 countries** (strong focus on core Europe)

## Relative value: comparison with corporate bond markets (Spreads\*)



# CARMIGNAC CREDIT 2027

## WHY THIS STRATEGY?

Recommended  
minimum investment  
horizon: **5** years



A buy-and-hold credit solution on a **fixed-term horizon of 5 years (2025)**



### Transparency

A **clear value proposition** for the **end investor**



### Adaptability

A **solution designed to navigate** in an environment of **high inflation and rising interest rates**



### Experience

A **stringent issuer selection** process from an **experienced Credit team** with a **5-year track record**



**Pierre VERLÉ**  
Head of Credit



**Alexandre DENEUVILLE**  
Portfolio Manager



**Florian VIROS**  
Portfolio Manager

Source: Carmignac, 31/08/2022. For the A Share

Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time

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Under no circumstances does it constitute an undertaking on the yield or performance of the fund; the performance is not guaranteed  
Management team as of 30/09/2020. The Fund's Management Team may change over the Fund's lifespan.

# TWO KEY CRITERIA FOR OUR CREDIT INVESTMENTS

To optimize the payment of the fundamental risk

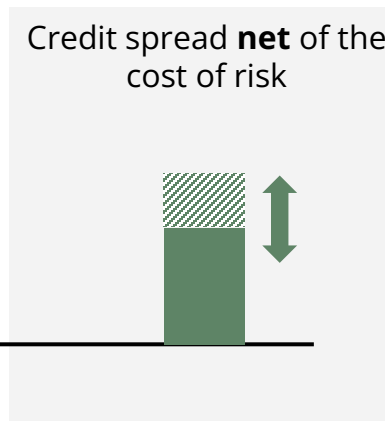
To maximize credit spread net of the cost of risk

Credit Spread



Cost of risk\*

Credit spread **net** of the cost of risk



To optimize the payment of the market risk

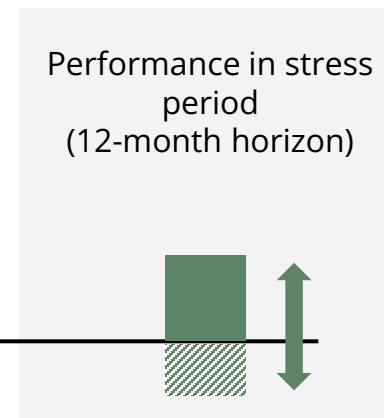
To absorb potential volatility thanks to the yield

Credit Spread



Price drop in stress period

Performance in stress period  
(12-month horizon)



Source: Carmignac  
For illustrative purpose only  
\*cumulated probability of default\* loss in case of default\*(1 - recovery rate)



# CREDIT PERFORMANCE DRIVERS

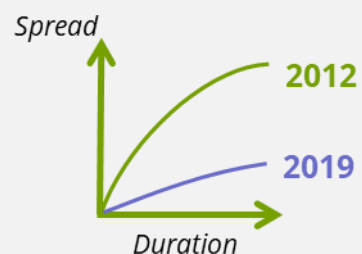


## What we don't do

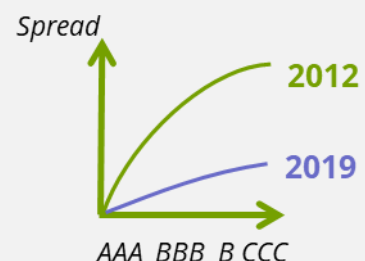
### Timing the market/Trading the beta

Often illusory: very difficult to know if the market is going to widen or tighten in the short-term

#### Increasing duration risk



#### Decreasing credit quality



*Risky strategies already well advanced in very long credit cycle*

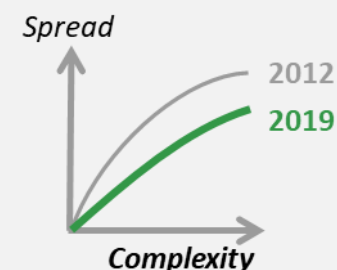
Source: Carmignac, 31/08/2020  
For Illustrative Purpose Only



## What we do

**Assessing idiosyncratic risk better** to select highest credit margins net of estimated cost of risk. **Capturing market spreads well in excess of long-term cost of risk** through disciplined analysis to estimate cost of risk

**Capturing complexity premium** understanding risk that mainstream credit buyers will not consider to capture extra premium on top of credit risk premium



*Conversely to duration and credit quality, this curve remains steep*

# EUROPEAN CLO: AN ASSET CLASS THAT HAS PROVEN ITS WORTH

Standard & Poor's – Cumulative defaults for European CLOs between 1997 and 2021

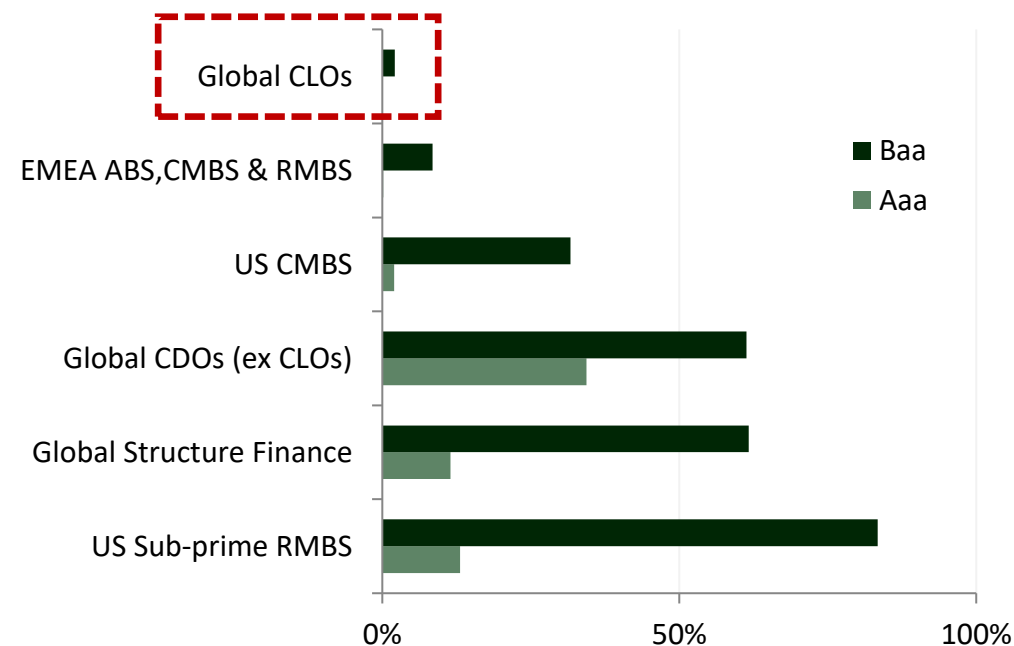
Rating on issuance	Number of CLO* tranches rated	CLO defaults	CLO default rate <sup>1</sup> (%)
AAA	1117	0	0
AA	915	0	0
A	691	0	0
BBB	707	4	0.57
BB	598	17	2.84
B	356	1	0.28
<b>Total</b>	<b>4384</b>	<b>22</b>	<b>0.50</b>

Source: Carmignac, S&P Global rating, Q4 2021

\*Taking into account European CLO tranches rated until the end of 2021

<sup>1</sup>Default rate: number of ratings downgraded to D / total number of ratings

% of loss-making tranches over the past 20 years



# REPRESENTATIVE EXPOSURE OF CLO COLLATERAL

Industry	Weight (%)
Healthcare	13,9%
Computers & Electronics	13,9%
Business Services	12,8%
Telecommunications	9,9%
Pharmaceuticals	6,1%
Retail	5,2%
Broadcasting & Media	5,1%
Banking & Finance	5,0%
Consumer Products	4,0%
Food & Beverage & Tobacco	3,1%
Chemicals	2,9%
Cable	2,9%
Transportation and Distribution	2,7%
Industrial/Manufacturing	2,6%
Automobiles	1,9%
Retail Food and Drug	1,6%
Farming & Agricultural Services	1,1%
Lodging & Restaurants	1,1%
Textiles & Furniture	1,0%
Real Estate	0,9%
Others	2,1%

Country	Weight (%)
United States	20,6%
France	20,0%
United Kingdom	15,7%
Germany	11,7%
Netherlands	8,6%
Italy	4,6%
Switzerland	3,5%
Spain	3,0%
Sweden	2,9%
Luxembourg	2,1%
Ireland	2,0%
Belgium	1,6%
Finland	1,4%
Norway	1,1%
Denmark	1,1%

Source : Carmignac, Barclays, juin 2022

# CARMIGNAC PORTFOLIO CREDIT – THE CREDIT TEAM



**Pierre Verlé | PM**

**Since 2013**

Carmignac, Paris - Head of Credit

**2012**

CAIA Charterholder

**2009 - 2012**

Butler Investment Managers, London – Founding director and deputy CEO of the distressed debt fund

**2006 - 2009**

Morgan Stanley, London – Distressed debt and High yield : buy side analyst, Special Situations Group

**2006**

CFA Charterholder

**2004 - 2005**

Merrill Lynch, Paris – Analyst, M&A, debt and equity capital markets

**2004** Master in Finance, HEC, France

**2000 - 2003** Engineer diploma (MS), Ecole Polytechnique, France



**Alexandre Deneuveille | Co-PM**

**Since 2015**

Carmignac, Paris - Credit Analyst then Fund Manager

**2011 - 2015**

Eiffel Investment Group, Paris – Credit and Equity Analyst

**2008 - 2011**

Ajna Partners, New York – Equity Analyst

**2007 - 2008**

Goldman Sachs International, London – Research Analyst, Portfolio Strategy Research

**2005 - 2008**

Master's degree in Finance, ESSEC Business School, Cergy Pontoise, France

**2001 - 2005**

Master's degree in Economics and Finance, IEP (Institute of Political Studies), Aix-en-Provence, France

# CARMIGNAC PORTFOLIO CREDIT – THE CREDIT TEAM



## Florian Viros | Credit Analyst & Co-PM of Carmignac Credit 2027

### Since 2015

Carmignac, Paris - Credit Analyst then Co-PM

### 2014 – 2015

Goldman Sachs International, London, UK – Executive Director, Credit Structuring

### 2007 – 2014

Citigroup Global Markets, London, UK – Vice President, European Credit Structuring

### 2006 - 2007

Egret Capital LLP (Société Générale CIB), London, UK – Credit Analyst

### 2005

MSc in Management, Finance Major, ESSEC Business School, Cergy Pontoise, France

Source: Carmignac, 31/12/2020  
Information about the staff teams is only informative.

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