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FLASH NOTE

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Carmignac Sécurité: Road to 2019

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Outlook 2019

With Carmignac Sécurité's benchmark[1] offering a negative yield-to-maturity close to -0.25%, the investment universe, short-maturity Eurozone fixed income, is severely challenged.

Since the ECB's tax on savers started in June 2014 and to help escape this unprecedented era of financial repression, we have used a barbell strategy: Balance longer maturities and lower credit ratings with cash and cash equivalents.

The sell-off in risky assets during 2018 has increased the opportunity set available in the credit markets. Although it is too early to jump head first into the asset class considering the deteriorating growth outlook, numerous political fights, and ongoing tightening of monetary policy, some of our favourite investments have sold off to attractive levels.

Turning strategy into action

High yield corporate bond

We benefit from a strong conviction in the telecom sector with attractive yield and the support of potential deleveraging following their recent asset disposal. We took a position in the Swedish debt collection and credit services business, which should benefit from an economic slowdown while offering yields +500bp over German rates.

High yield government bond

Our strong convictions lie mostly onto Greek government bonds across the maturity spectrum. Substantial progress implementing structural reforms and improved growth outlook ought to drive further ratings upgrades. The medium-term debt relief measures for Greece, including maturity extension and interest deferrals, further strengthen the quality of the Greek sovereign debt.

Structured credit exposure

European CLOs - Collateralized Loan Obligation - remain a broken asset class, following regulatory constraints and crisis scars, which offer attractive spread levels and a near complete absence of historical defaults. Our investments are mostly in AAA/AA, least risky tranches of CLOs.

Investment grade corporate credit

This portfolio is highly rated and invested in short-term maturity, designed to take minimal risk and offset the riskier side to our negative yield survival barbell strategy. In our opinion, recent widening has made names more attractive. We are invested in names that offer for example: modest cyclicality and modest leverage, or a funding support agreement.

Investment grade government bond

After continued downside surprises to European data, we decided to simplify the portfolio construction by exiting all directional shorts and reducing the size of French and German relative yields strategies. With reduced conviction, in the short term, on the direction of rates, we prefer to minimize the exposure of the portfolio and allow new position to be implemented when data are more supporting.

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. **RISK OF CAPITAL LOSS**: The portfolio does not guarantee or protect the capital invested. Capital loss occurs when a unit is sold at a lower price than that paid at the time of purchase. **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. **The Fund presents a risk of loss of capital.**

[1] EuroMTS 1-3 Year (EUR)
Source: Carmignac, 11/01/2019