

Widening dispersion signals credit opportunities. How not to miss them?

Philippe Noyard, Global Head of Credit
Patrick Zeenni, CFA, Deputy Global Head of Credit

▶ Market Context

Towards a Normalisation of Growth

Strong fiscal and central bank support following an unprecedented economic shock,



Towards a recovery across all regions post COVID pandemic



Evolution of events around virus and vaccine will dictate pace of recovery



Central Banks will maintain accommodative stance



Countries are reinforcing their fiscal stimulus programs

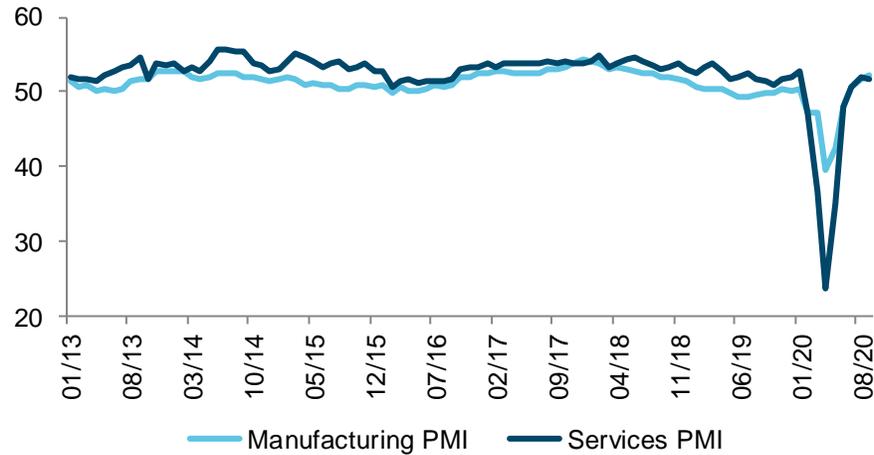


Investor demand for risk assets fuelled by stimulus

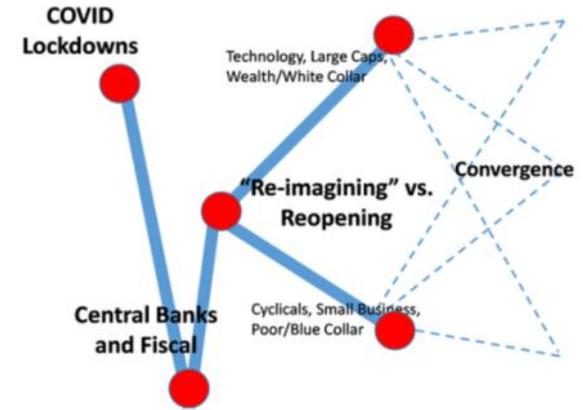
Indicative data which may change over time.

After a Sharp Drop, a V-Shaped Economic Recovery is Taking Shape...

GLOBAL PMIs

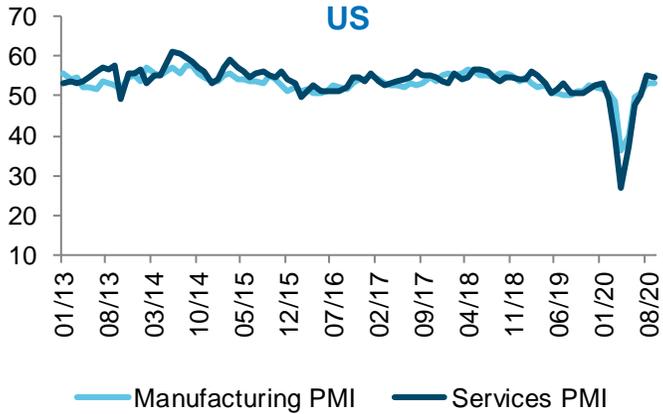


K-SHAPED RECOVERY



Source: J.P. Morgan Quantitative and Derivatives Strategy

PMI INDICATORS BY REGION

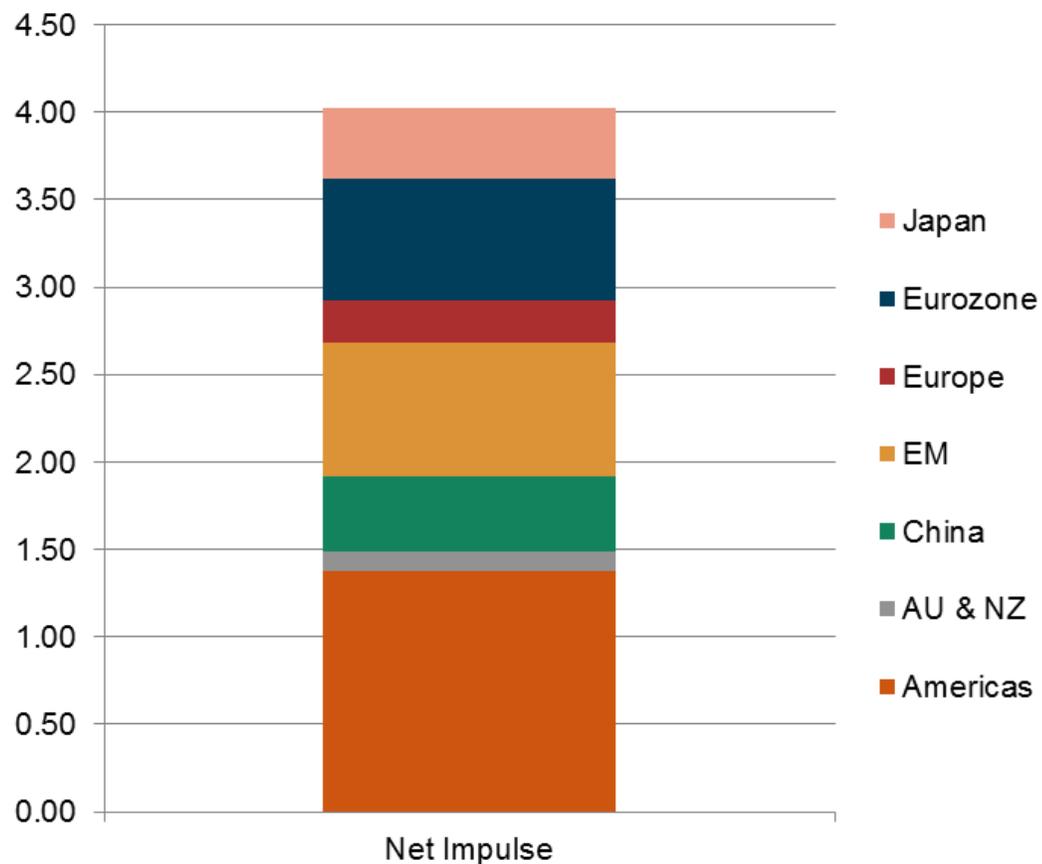


Source: Refinitiv Datastream®, As at End August 2020 - Past performance is no guarantee of future results and is not constant over time

... Thanks to Historic Fiscal and Central Bank Support

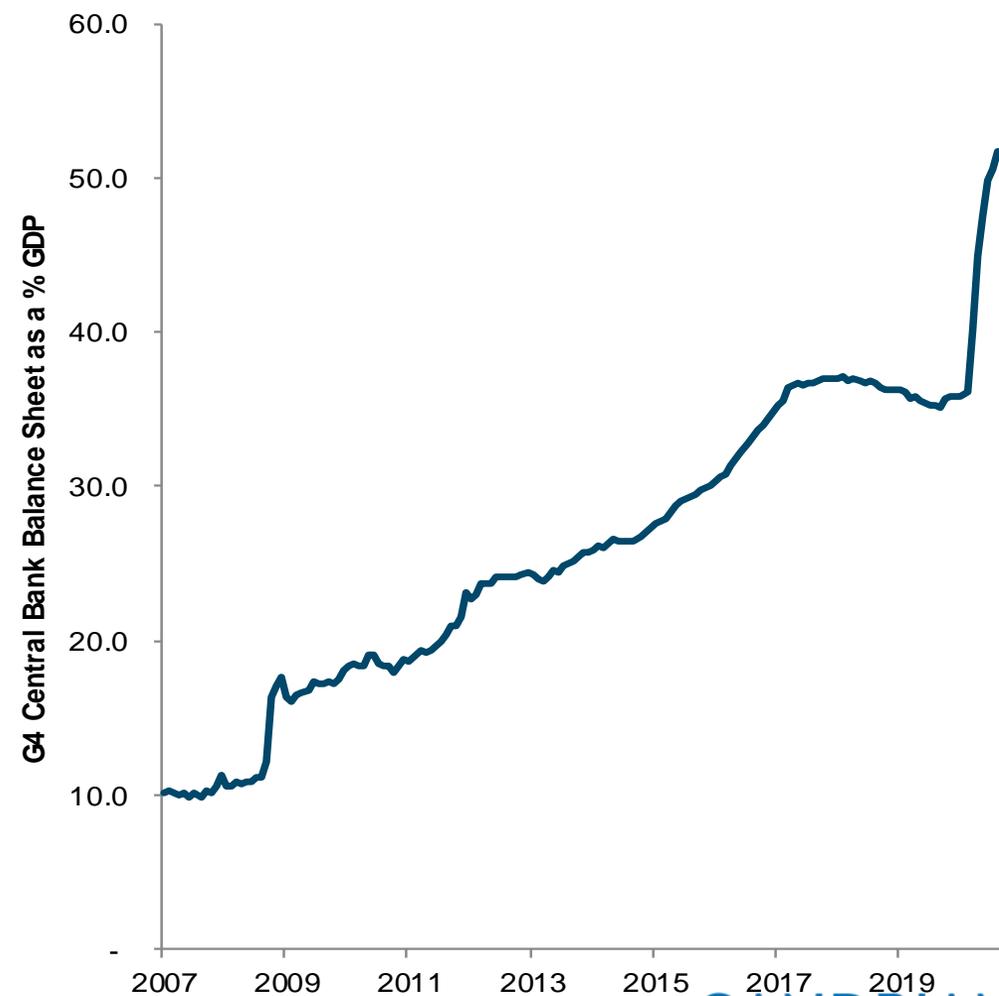
GLOBAL FISCAL STIMULUS (AS % OF GLOBAL GDP)

Contributions to change in global fiscal impulse (2020)



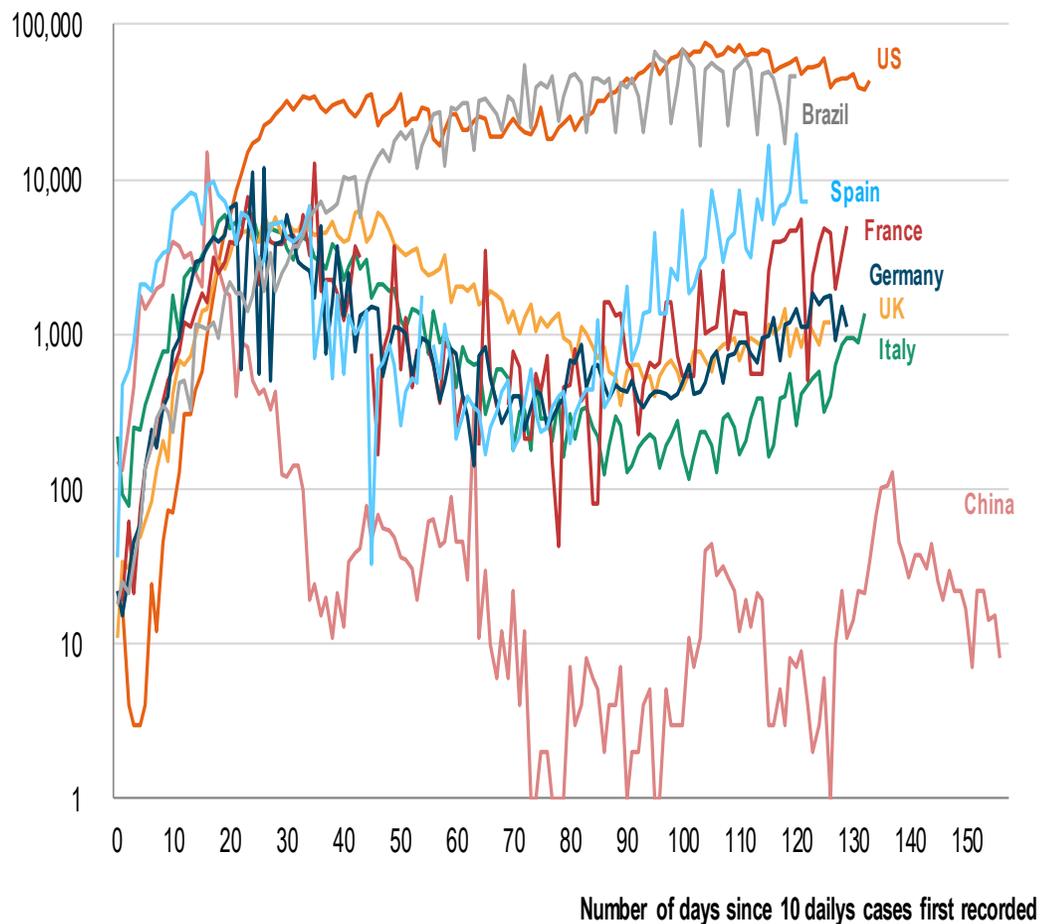
Sources: UBS, Bloomberg©

G4 CB BALANCE SHEETS (AS % OF GDP)

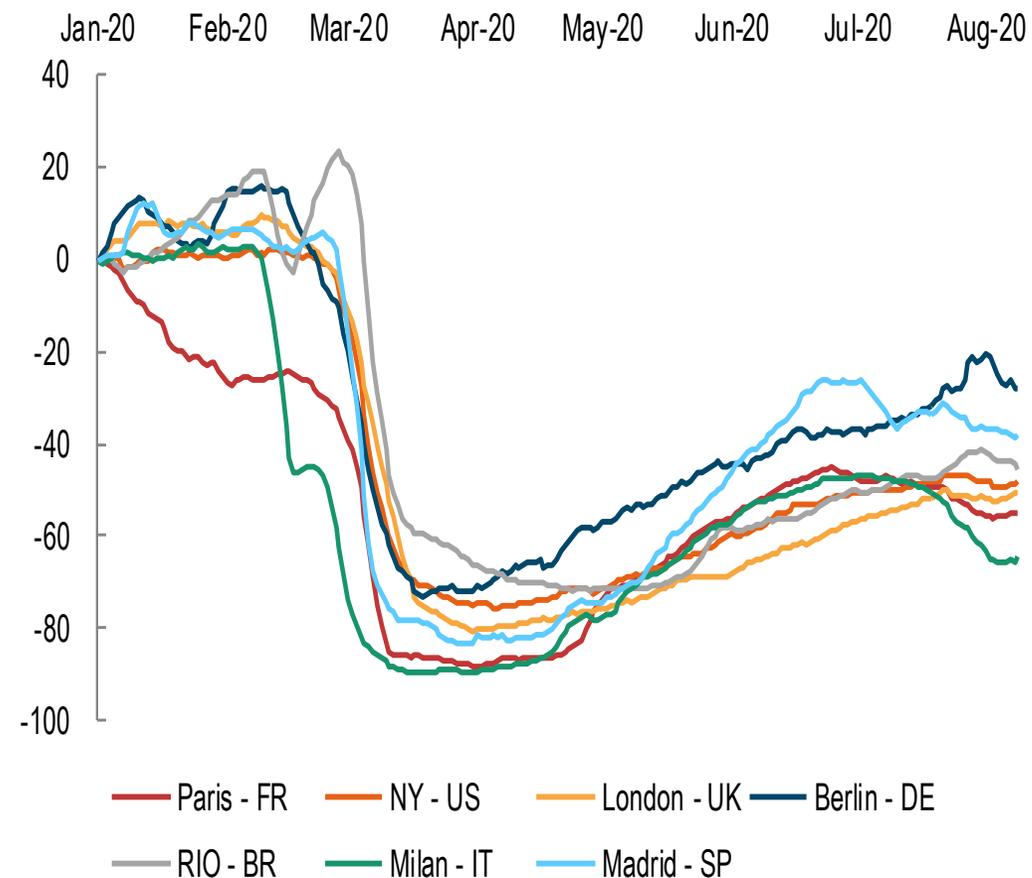


Covid-19: Gaining Ground Amidst Increased Testing and De-confinement

EVOLUTION OF THE NUMBER OF CASES IN THE MAIN REGIONS

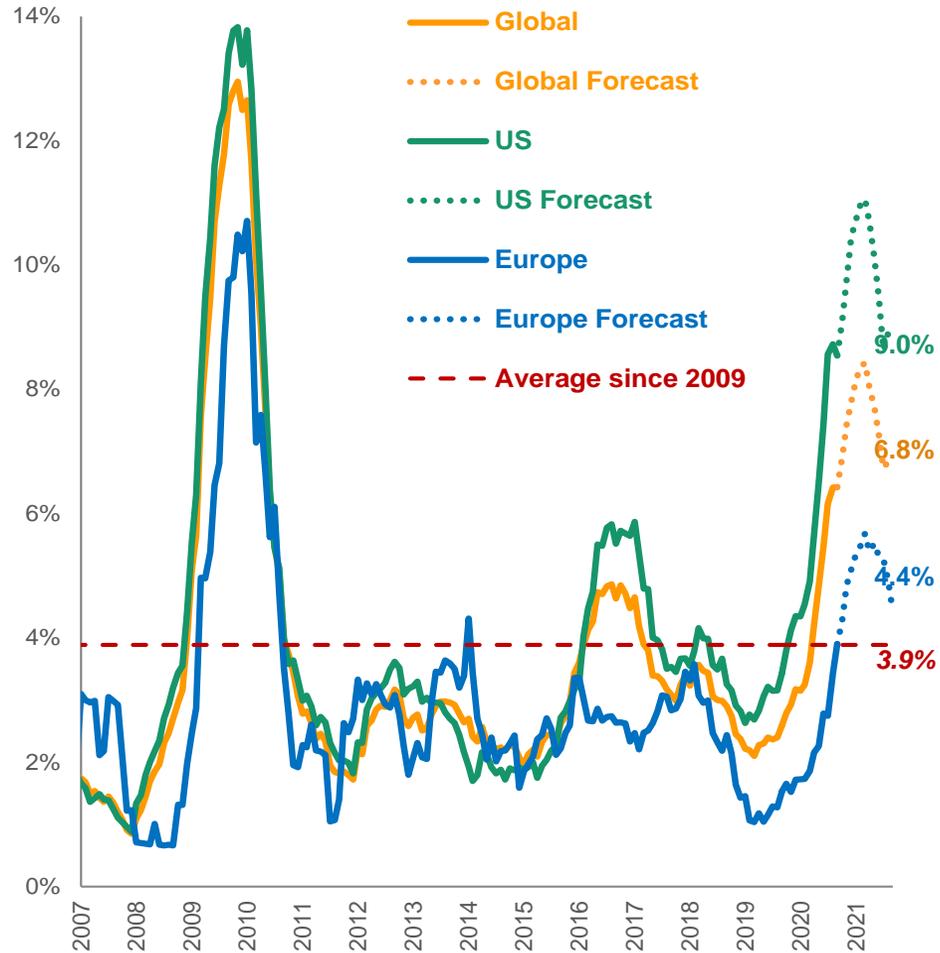


EVOLUTION OF THE MOBILITY INDEX IN THE LARGEST CITIES



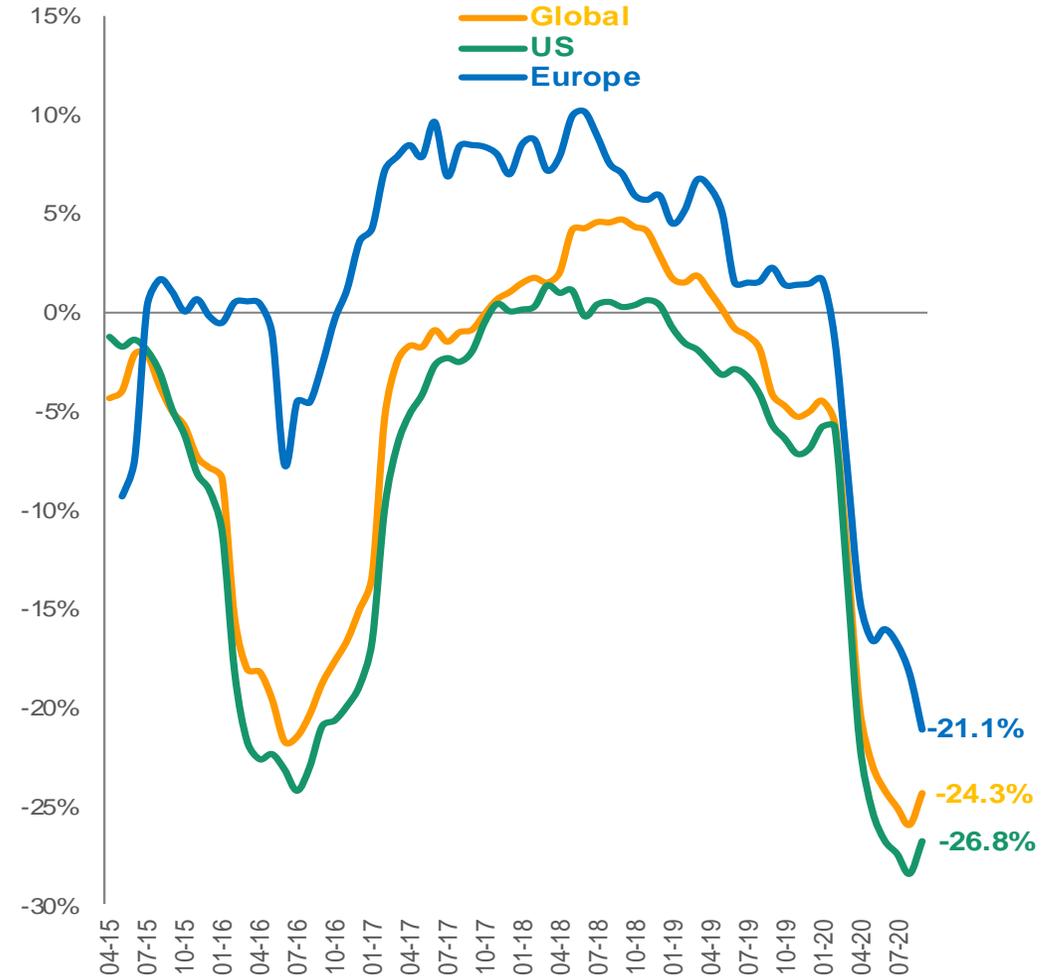
The Beginning of a Default and Downgrade Cycle

DEFAULT RATES – ROLLING 12-MONTH



Sources: Moody's ©, Candriam – data as at 31/08/2020

RATING DRIFT – 12 MONTHS

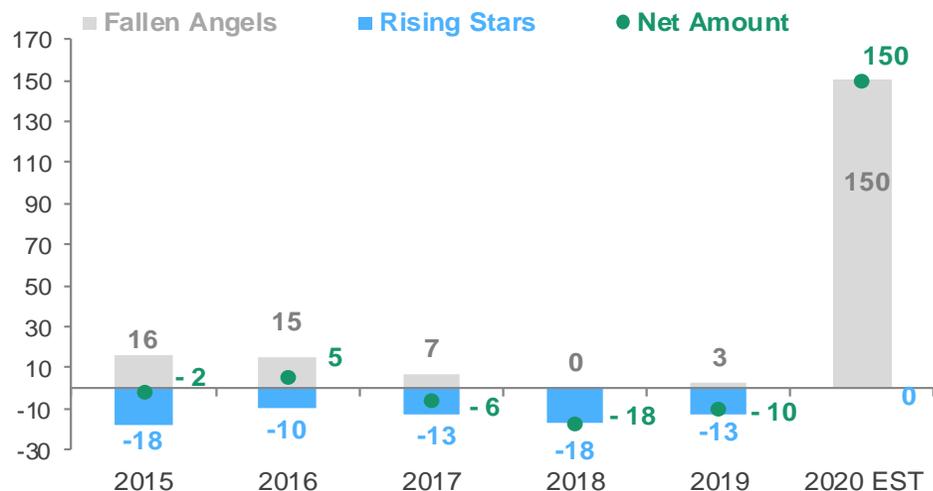


Sources: Moody's ©, Candriam – Data as at 31/08/2020

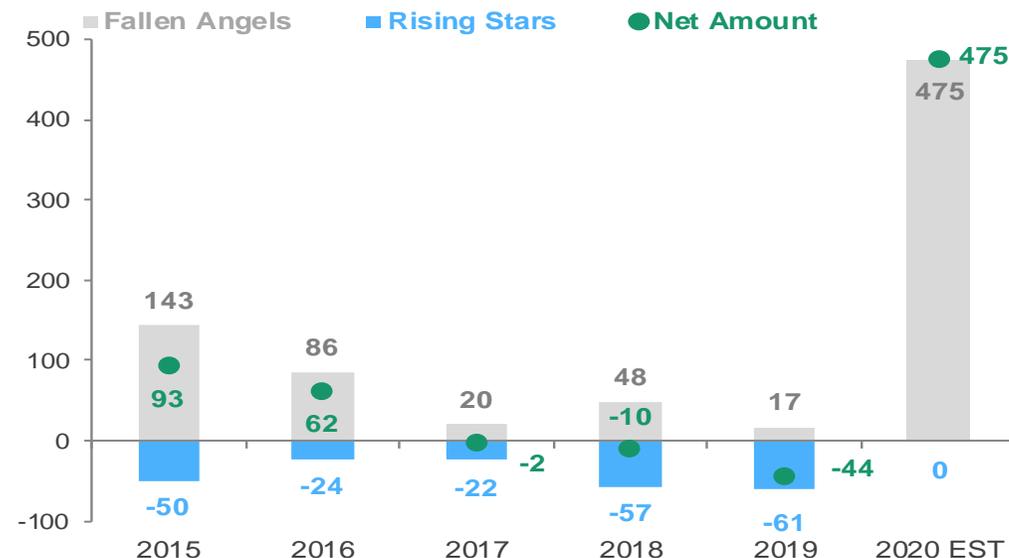
Past performance is no guarantee of future results and is not constant over time

Fallen Angels Are Expected to Weigh On Technicals Like Never Before

RISING STARS / FALLEN ANGELS EUR (€BN)



RISING STARS / FALLEN ANGELS USD (\$BN)



Sources: JPM, S&P©, Candriam - Data as of 30/06/2020

Sources: JPM, S&P©, Candriam - Data as of 30/06/2020

	Nonfinancial BBB bond debt downgraded to spec grade in Q1	Nonfinancial BBB debt still vulnerable to fallen angels status	Nonfinancial debt estimated to fall into High Yield in 2020	BB-B non financial debt outstanding as of end of March
US	\$235B	+\$240B	\$475B	\$1.4T
Europe	\$20B	+\$145B	\$165B	\$270B

Sources: Moody's, Candriam – Data as of 31/05/2020; S&P, ICE, Candriam – Data as of 01/04/2020; Moody's, Candriam – Data as of 31/05/2020

COVID-19 Crisis: A Source Of Dispersion Among Issuers And Sectors

SHORT TERM IMPLICATIONS



Telecommunications, food retailers and online media are **stay at home beneficiaries**



Retail, restaurants and travel **most impacted by lockdowns**



Unique supply shock for oil & gas

MEDIUM TERM IMPLICATIONS



To accelerate **digitalization**



To redesign **mobility**

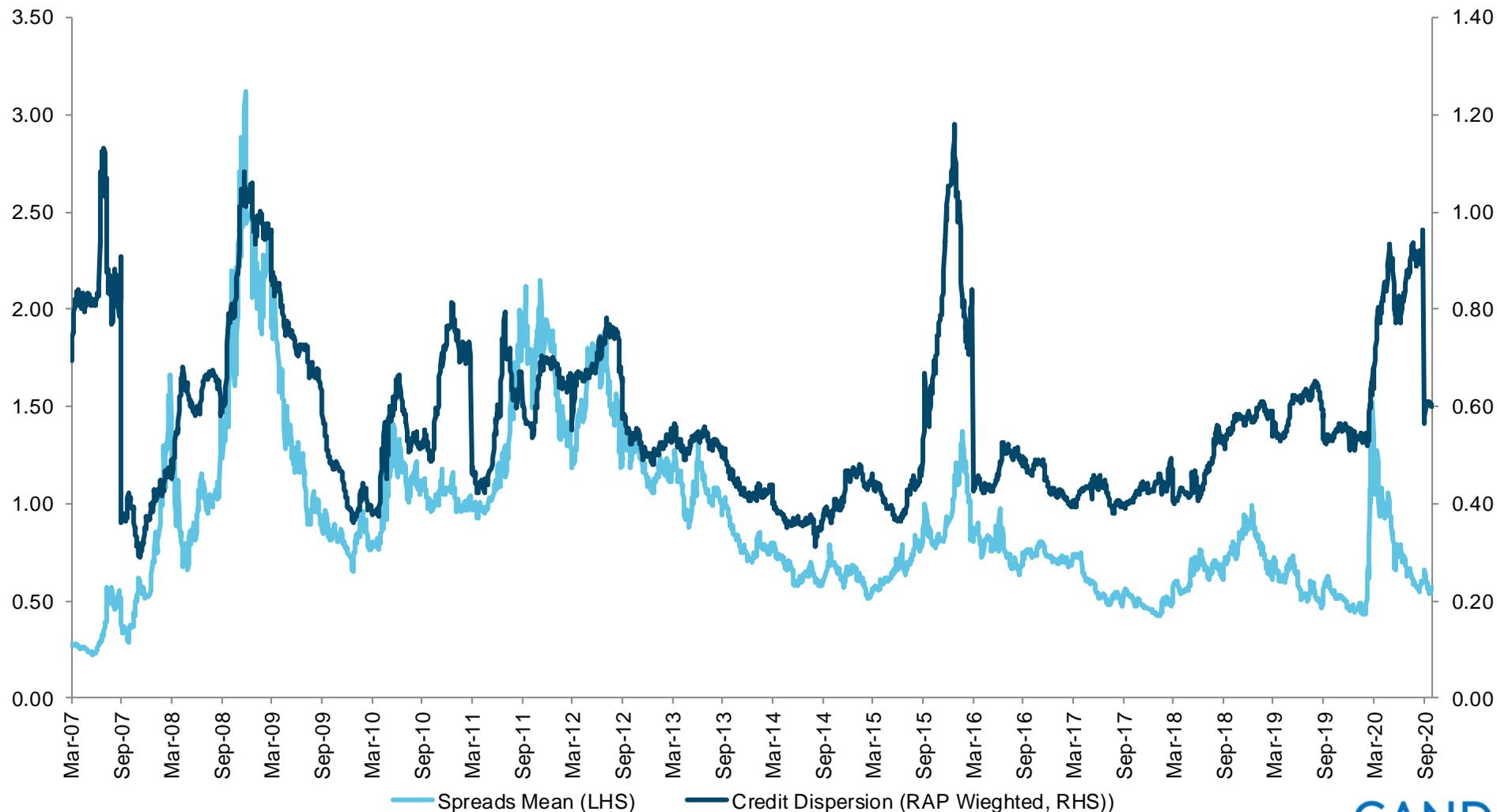


To redefine **supply chains**

Indicative data which may change over time.

Increase in Dispersion Among Issuers And Sectors

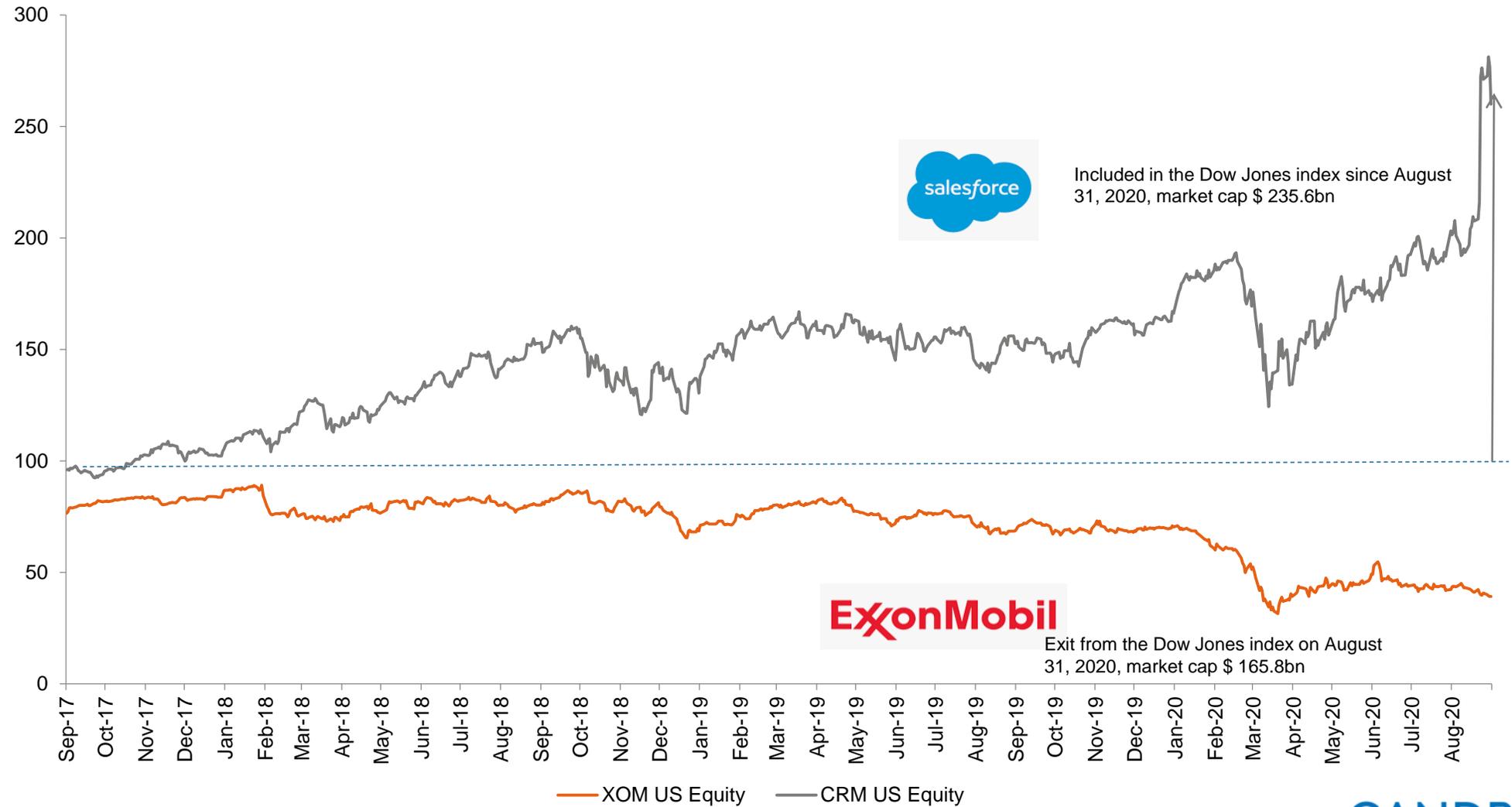
DISPERSION



Sources: Bloomberg© as at end September 2020

COVID-19: Acceleration of Major Structural Trends

EXXONMOBIL VS SALESFORCE (3 YEAR EVOLUTION)

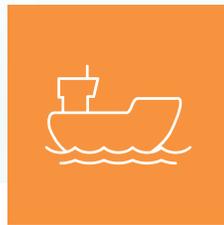


Source: Bloomberg© as at September 2020

Amidst Weak Fundamentals and Increased CB Support, Higher Dispersion Leads to Absolute Return Opportunities



Economic recovery
dependent on
COVID-19



Fundamentals are deteriorating



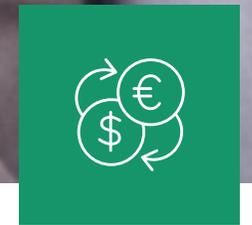
Default rates will increase



Dispersion to remain high



Technicals to remain positive



Monetary and fiscal policies are extremely supportive

Indicative data which may change over time.

- ▶ Example of Absolute Return Strategies

Directional Strategy: Short Duration

OPTIMISE CARRY

Example: Long T-Mobile (bond 63/8 2025)

- **Entry point:** 14/05/2019 at 103.9
- **Increased allocation:** 21/04/2020 at 102.78
- **Refund :** 01/09/2020 à 102.12

■ **Rationale:**

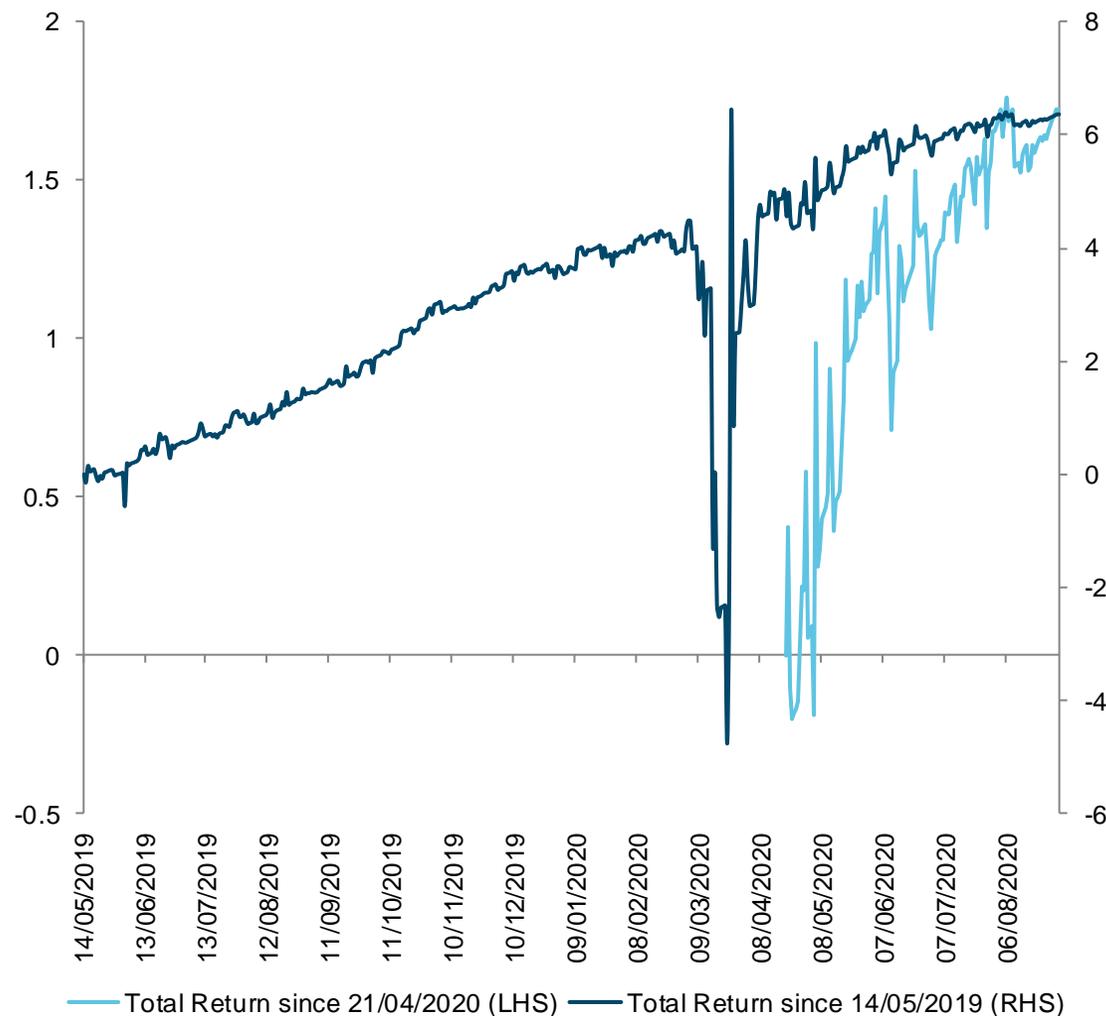
Strong fundamentals, defensive sector

Attractive coupon rate, BB- rating

COVID shock resulted in buying opportunities

P&L: 5% annualized average

T-MOBILE TOTAL RETURN EVOLUTION



Relative Value Strategies: Long Short (CDS)

PAIR TRADE OPPORTUNITY

Example: Long AT&T (BBB) vs Short Charter (BB)
(via CDS)

- **Entry point:** 09/12/2019, Buy Charter at 80 spread/ Sell AT&T at 68 bps (12 bps differential)
- **Exit point:** 12/03/2020, Charter at 240 bps/ AT&T at 170 bps (70 bps differential)

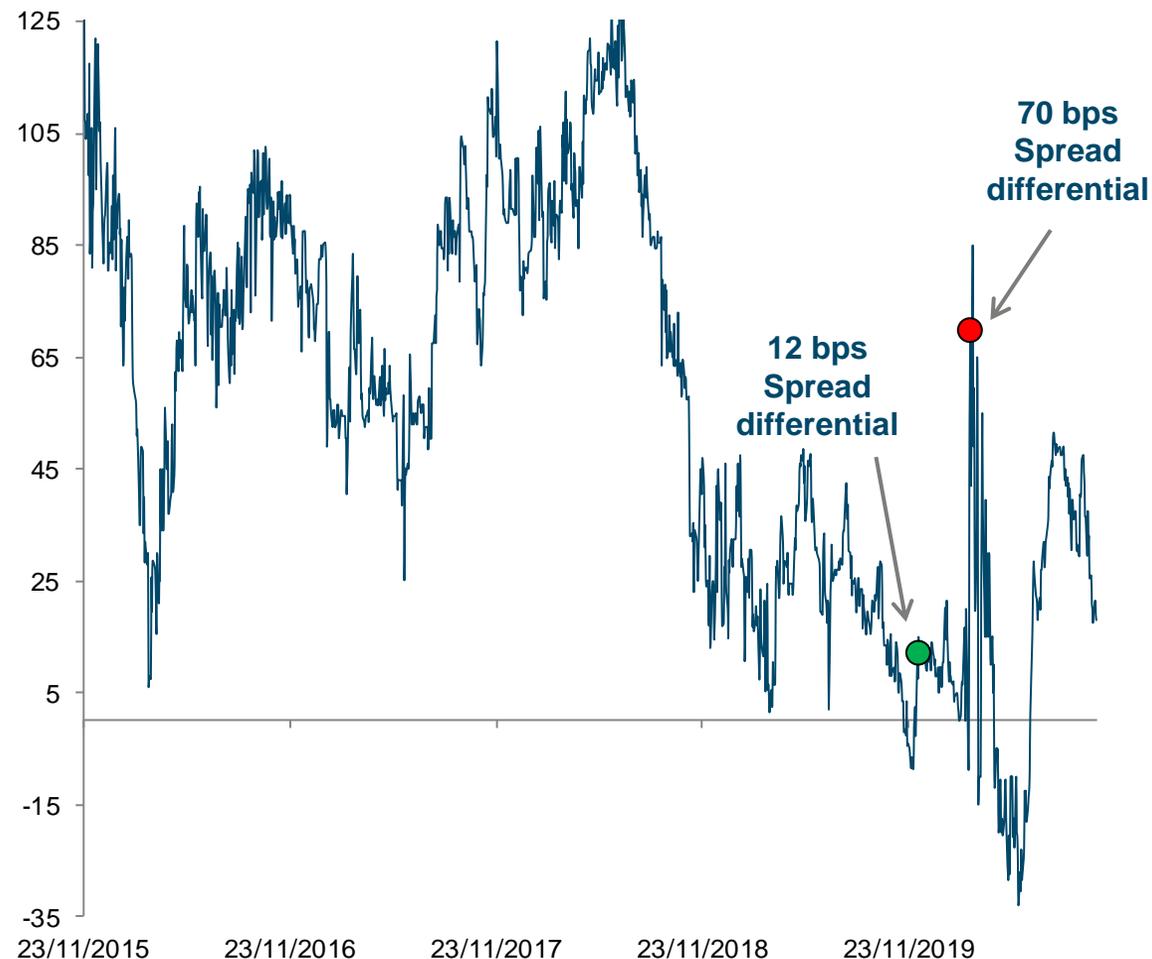
■ Rationale:

Taking advantage of tight valuations in the communications sector

CDS differential weak in spite of difference in rating

P&L flat: 2.9 % Spread difference of 58bps
Holding period: 94 days

SPREAD DIFFERENTIAL CDS CHARTER VS AT&T



— Buy CDS Charter Com vs Sell CDS AT&T ● IN ● OUT

Relative Value Strategies: Long Short (TRS)

LONG SHORT OPPORTUNITIES

Example: Long Equinix vs Short Unibail (via Total Return Swaps)

- **Entry point:** 05/03/2020, Buy Equinix at 102/ Sell Unibail at 106
- **Exit point:** 27/05/2020, Equinix at 102 / Unibail at 89

Rationale:

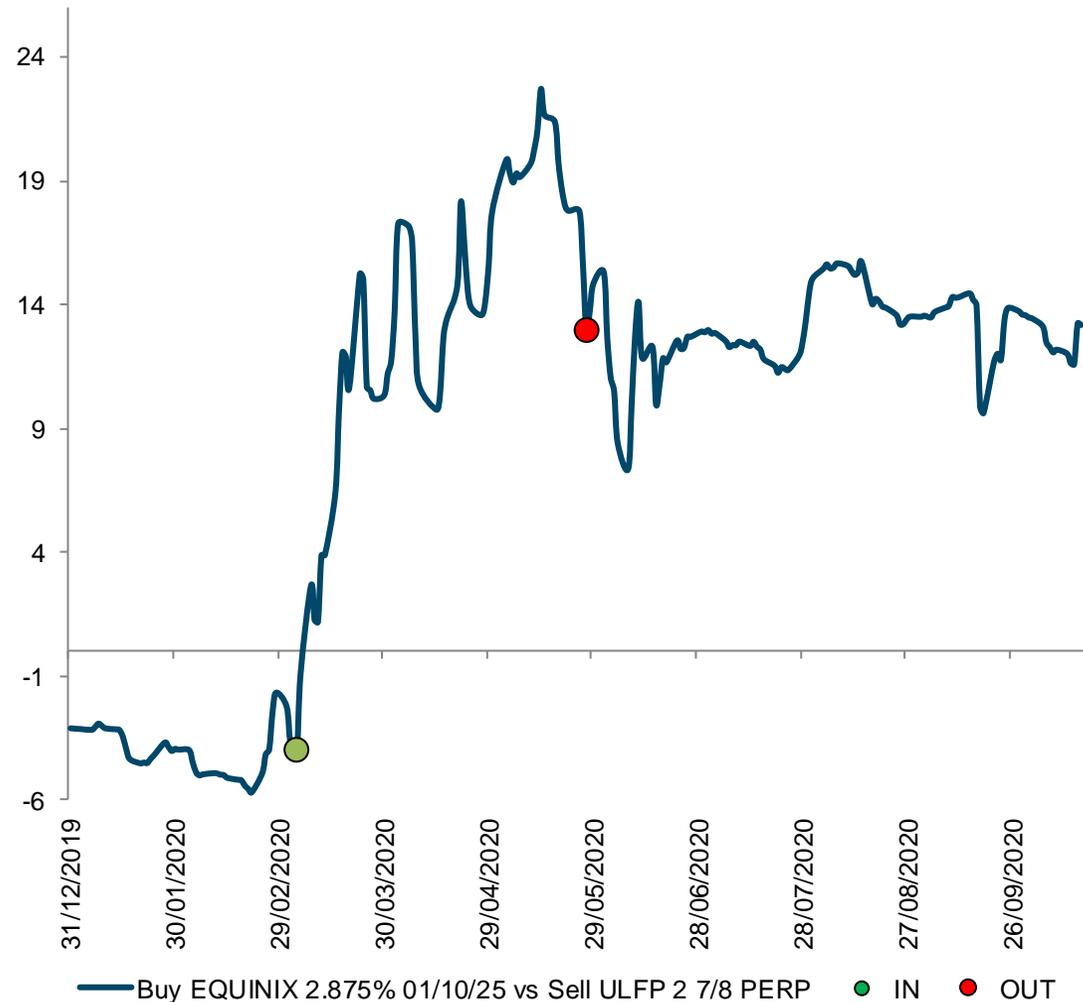
In the Covid Context, favoring digital vs. retail real estate sector

Equinix, future rising star

Unibail at the center of lockdown

P&L: 13.42%
Trade held for 83 days

PRICE DIFFERENTIAL EQUINIX VS UNIBAIL



Relative Value Strategies: Basis Trades

BASIS TRADE (SPREAD BONDS VS CDS)

Example: Long ITV bonds (with step up 125 pts) vs. Short credit ITV (via CDS)

- **Entry point:** 28/11/2019, Buy cash bond at 142 bps spread/ buy CDS at 107 bps
- **Exit point:** 10/03/2020, cash bond spread at 193 bps, CDS spread at 195 bps

Rationale:

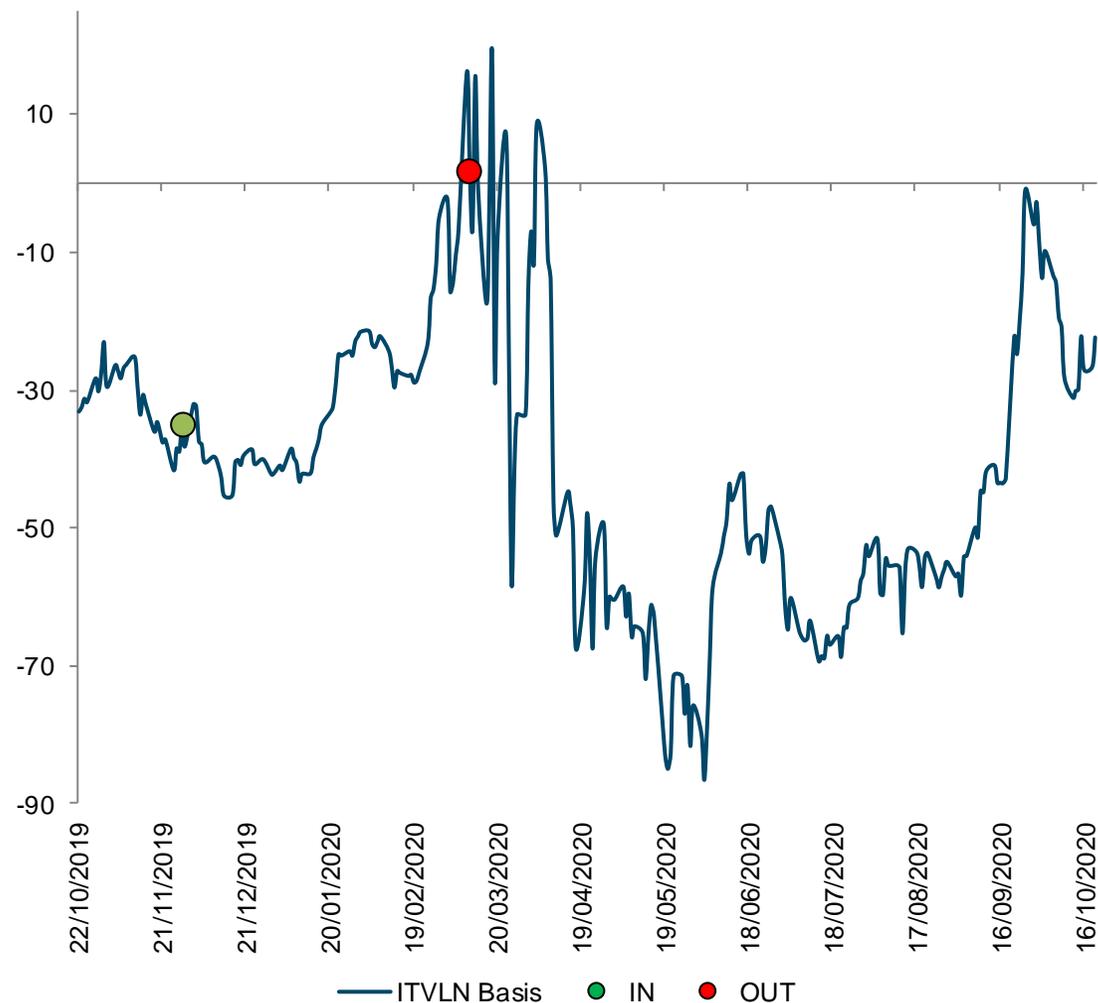
Benefit from the convergence of cash and CDS spreads

BBB- rated name, with a sub investment grade step up coupon (potential fallen angel)

UK risk hedge

P&L flat: 4.5%
Trade held for 103 days

SPREAD DIFFERENTIAL ITVLN (CASH VS CDS SPREAD)



▶ Our Solutions

An Absolute Performance Approach

**ONE
TEAM**

**TWO
FUNDS**

**ONE
PHILOSOPHY**

Candriam Long Short Credit Candriam Bonds Credit Opportunities

1

BROAD COVERAGE

2

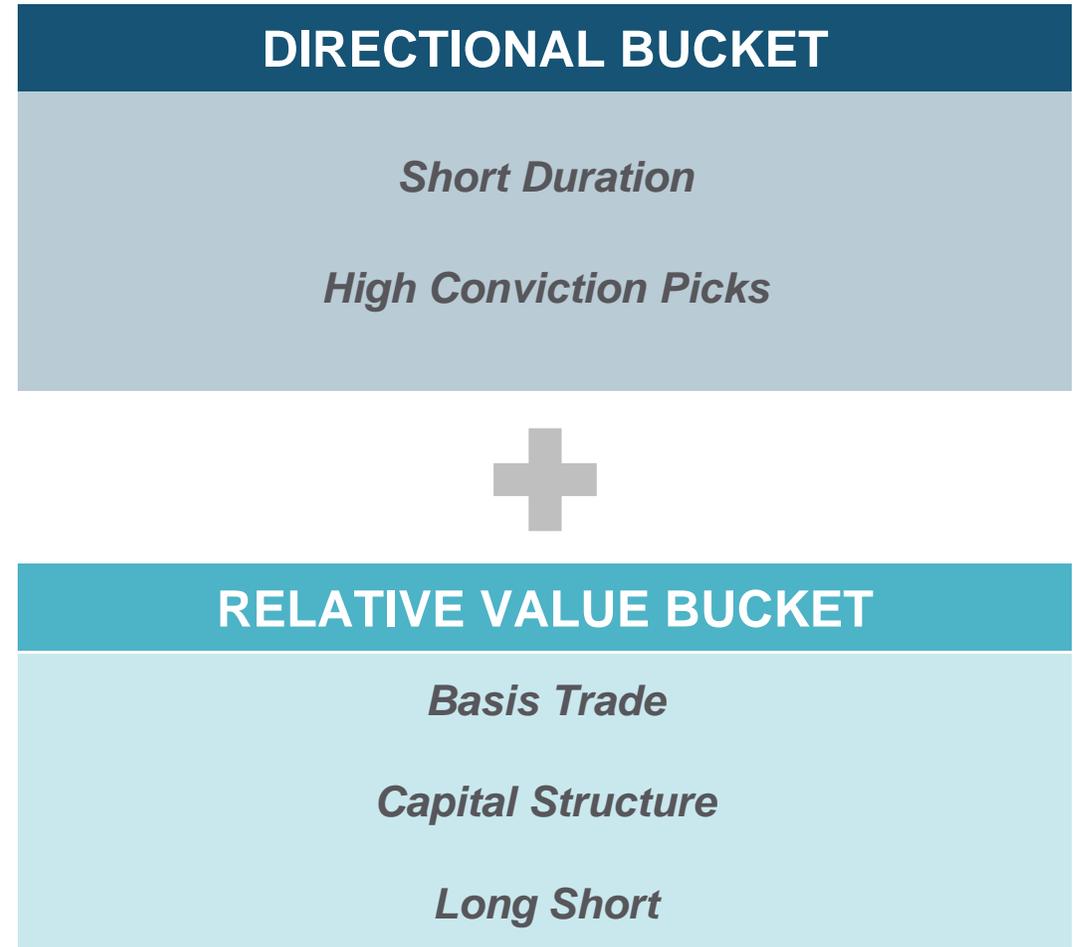
**HIGH-CONVICTION &
ACTIVE MANAGEMENT**

3

DISCIPLINED RISK MANAGEMENT

Low Volatility – Candriam Long Short Credit

- ▶ Return Objective: **Eonia + 75/100 bps**
- ▶ Volatility Target: **< 5%**
- ▶ Assets Under Management: **€800 mn**
- ▶ Positioning
 - An **absolute performance fund**
 - A **long/short credit approach**
- ▶ **Net credit exposure between -50% and +50%**
 - Max High Yield net exposure: 20%
- ▶ 2 complementary engines of performance
 - A **Directional bucket**
 - A **Relative Value bucket**

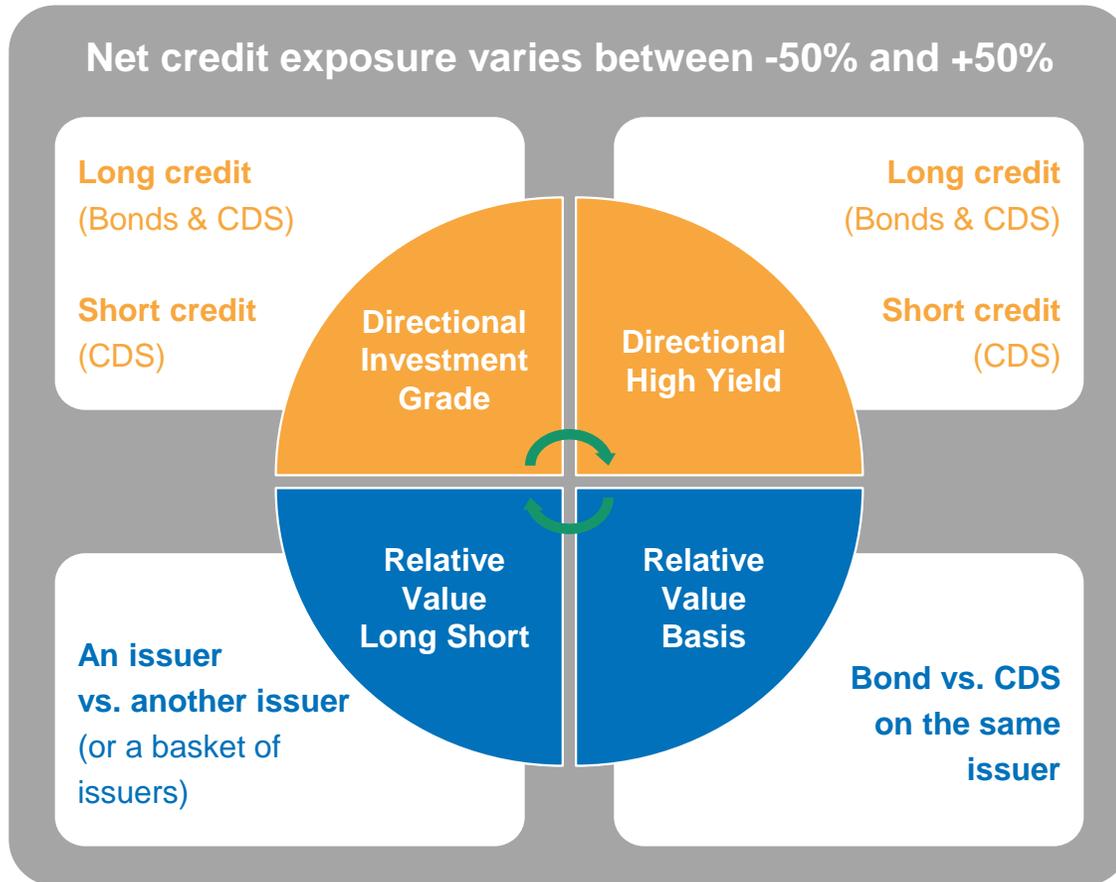


Source: Candriam as of end September 2020 - Indicative data which may change over time - UCITS Hedge Awards 2018 - Corporate Credit Long/Short – Discretionary Best Performing Fund over 4, 5 and 7 Year Periods <https://thehedgefundjournal.com/ucits-hedge-awards-2018/>

The quality of the award won by the UCI or the management company depends on the quality of the issuing institution and that the award does not guarantee the future results of the UCI or management company - For details on all specific awards please consult www.candriam.com

Low Volatility – Candriam Long Short Credit

Two engines of performance



DIRECTIONAL

High-conviction picks

- [0% -100%] gross exposure
- Maximum of 20% net credit exposure for securities rated between BB+ and B-

RELATIVE VALUE

Combination of long & short positions

- [0% - 160%] gross exposure

→ BLENDING TOGETHER OPPORTUNITIES ACROSS THE CREDIT MARKETS

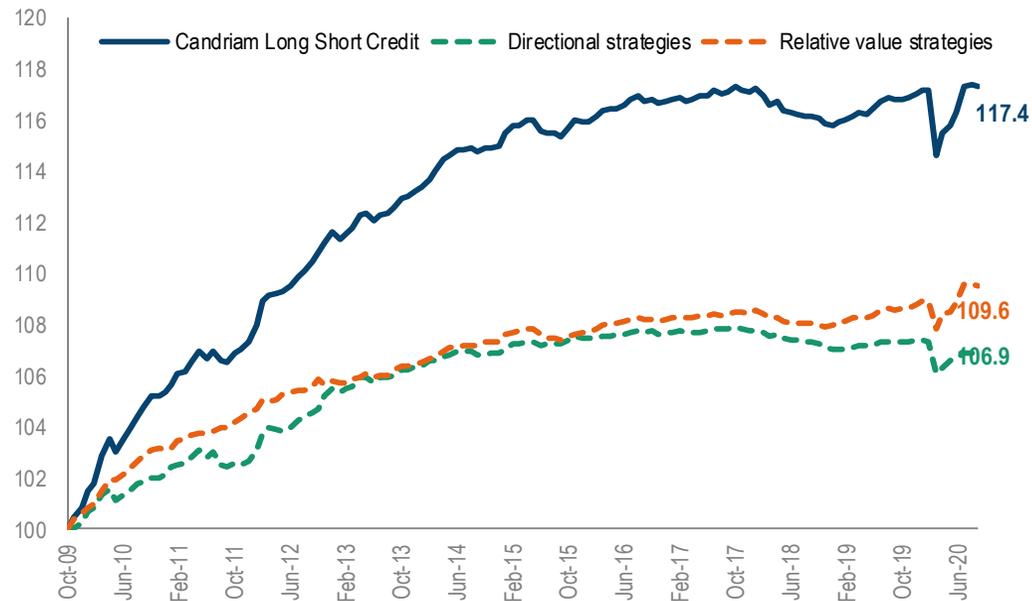
Indicative data which may change over time

Low Volatility – Candriam Long Short Credit

Historical Performance - C Share Class EUR - Net of Fees

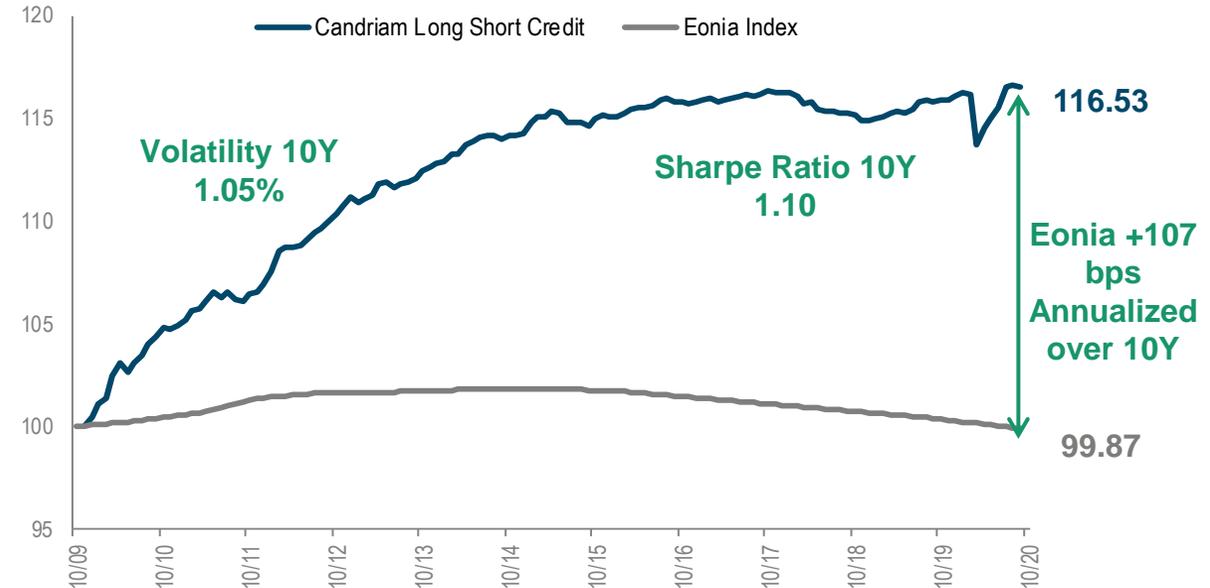
Data as of 30/09/2020	YTD	2019	2018	2017	2016	2015	2014	2013	2012	2011
Candriam Long Short Credit	+0.40%	1.08%	-0.82%	0.37%	0.65%	0.70%	1.31%	1.47%	3.98%	1.91%
Eonia	-0.35%	-0.39%	-0.27%	-0.36%	-0.32%	-0.11%	0.10%	0.09%	0.89%	0.23%
Excess return	+0.75%	+1.45%	-0.55%	+0.73%	+0.97%	+0.81%	+1.21%	+1.36%	+3.09%	1.68%

PERFORMANCE ATTRIBUTION (since inception)



Monthly Data as of 30/09/2020. Fund performance calculated net of fees
 The fund is actively managed and the investment process implies referring to a benchmark index (EONIA cap.). Past performance is no guarantee of future results and is not constant over time

A ROBUST RISK / RETURN PROFILE



Sources: Bloomberg®, Candriam - Data as of September 25th, 2020

Candriam Long Short Credit Risk Management & Reward Profile



The fund presents a risk of capital loss, the net asset value of the fund may decrease in particular because of its exposure to the risk associated with to derivative financial

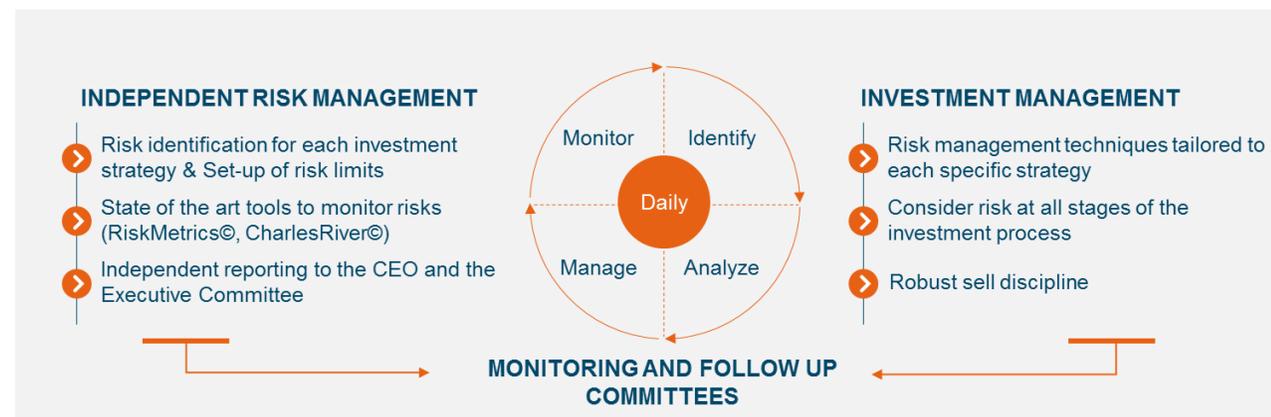
Main risks the fund is exposed to:

- ✓ The risk level shown reflects the fund's historical volatility, completed where applicable by that of its reference framework. The volatility indicates the extent to which the value of the fund may fluctuate upwards or downwards.
- ✓ The historical data may not be a reliable indication for the future.
- ✓ The indicated category may vary over time.
- ✓ The lowest category does not mean "risk-free".
- ✓ There is no guarantee or mechanism to protect the capital.

The investor needs to be aware of the following significant risks which are not necessarily adequately taken into account by the indicator:

- ✓ **Arbitrage risk:** The fund may use the technique consisting in taking advantage of price differences (recorded or anticipated) between two securities/sectors/markets/currencies. If such arbitrage transactions perform unfavourably (a rise in selling transactions and/or fall in buying transactions), the net asset value of the fund may fall.
- ✓ **Credit risk:** the fund is exposed to the risk of default of an issuer in terms of honouring the payment of coupons and/or the repayment of the amount borrowed. This risk is higher as the fund may invest in high-yield debt issues whose issuers are considered risky.
- ✓ **Counterparty risk:** The fund may use OTC derivative products and these may represent a counterparty risk, i.e. the inability of the counterparty to honour its commitments to the fund. This counterparty risk could be fully or partially hedged by the receipt of guarantees.
- ✓ **Risk related to financial derivative instruments:** their use implies risk associated with the underlying assets and can accentuate downward movements via the resulting leverage effect. Hedging strategies using derivatives may not be perfect. Some derivatives may be difficult to value under exceptional markets circumstances.
- ✓ **Liquidity risk:** the fund may invest in securities and/or market segments which may prove to be less liquid, particularly under certain market conditions, and it may therefore be the case that the securities cannot be sold quickly and at reasonable prices.

A dedicated and independent risk management team:



Main risks the fund is exposed to

Model Risk	Concentration Risk	Commodity Risk
Derivatives Risk	Currency Risk	Equity Risk
Credit Risk	High Yield Risk	Arbitrage Risk

Medium Volatility – Candriam Bonds Credit Opportunities

- ▶ Return Objective: **Eonia + 3%**
- ▶ Volatility Target: **3-5%**
- ▶ Assets Under Management: **€1.6bn**
- ▶ Positioning
 - An **absolute performance fund**
 - A **long/short credit approach with a long bias**
- ▶ 2 complementary engines of performance
 - A **Short duration bucket**
 - A **Opportunistic bucket**



SHORT DURATION BUCKET

Credit Exposure: 50% – 100%

Long Only approach (Duration < 2)

LOW BETA



OPPORTUNISTIC BUCKET

Credit Exposure: 0 – 50%

Long / Short approach

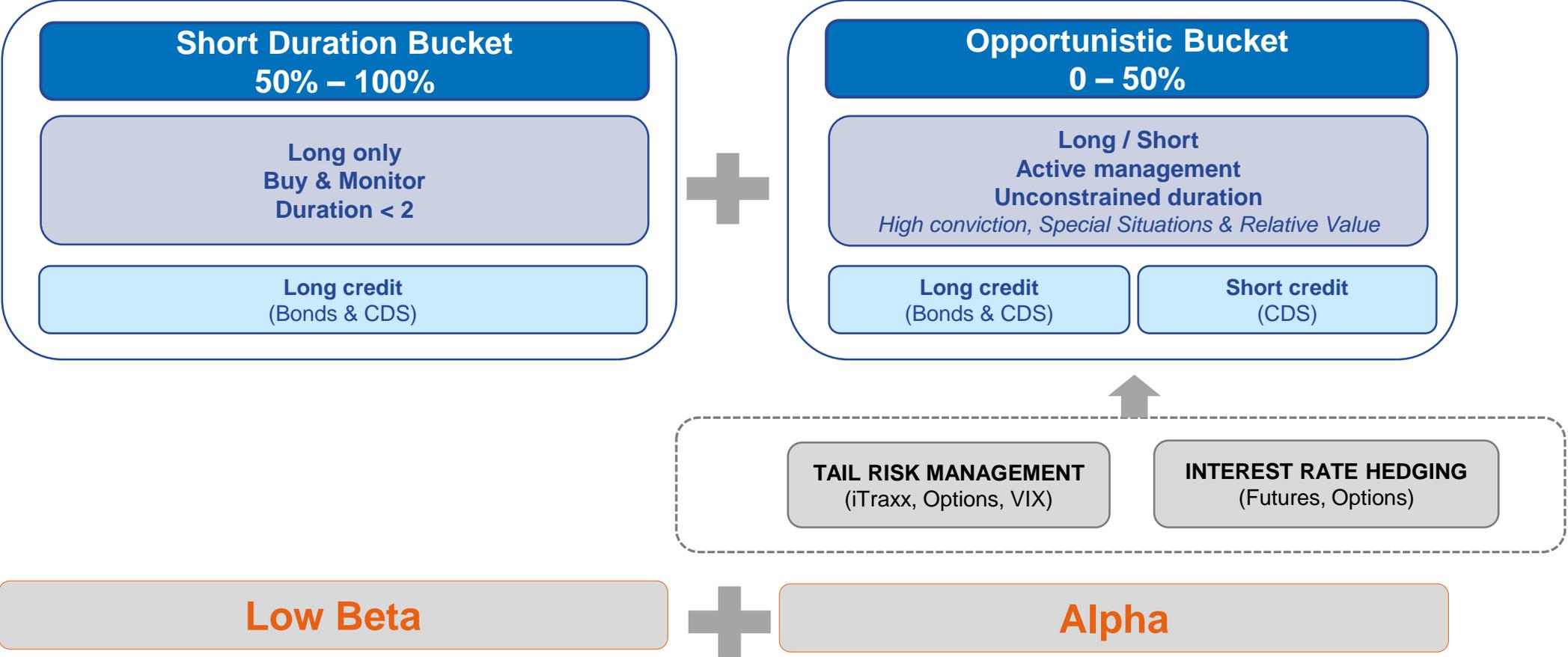
ALPHA

Source: Candriam as of end September 2020 - Indicative data which may change over time - UCITS Hedge Awards 2017 - Corporate Credit Strategy Best Performing Fund over a 3 Year Period. <https://thehedgefundjournal.com/ucits-hedge-awards-2017/> - Miglior Fondo Liquid Alternative Credit Long/Short a 36 mesi <http://www.mondoalternative.com/mhdef.aspx?tabindex=9999&tabid=31251> - <https://www.bancoawards.com/awards> The quality of the award won by the UCI or the management company depends on the quality of the issuing institution and that the award does not guarantee the future results of the UCI or management company - For details on all specific awards please consult www.candriam.com

Candriam Bonds Credit Opportunities

Two engines of performance

- A *short duration* bucket
- An *opportunistic* bucket with a *tail risk management*



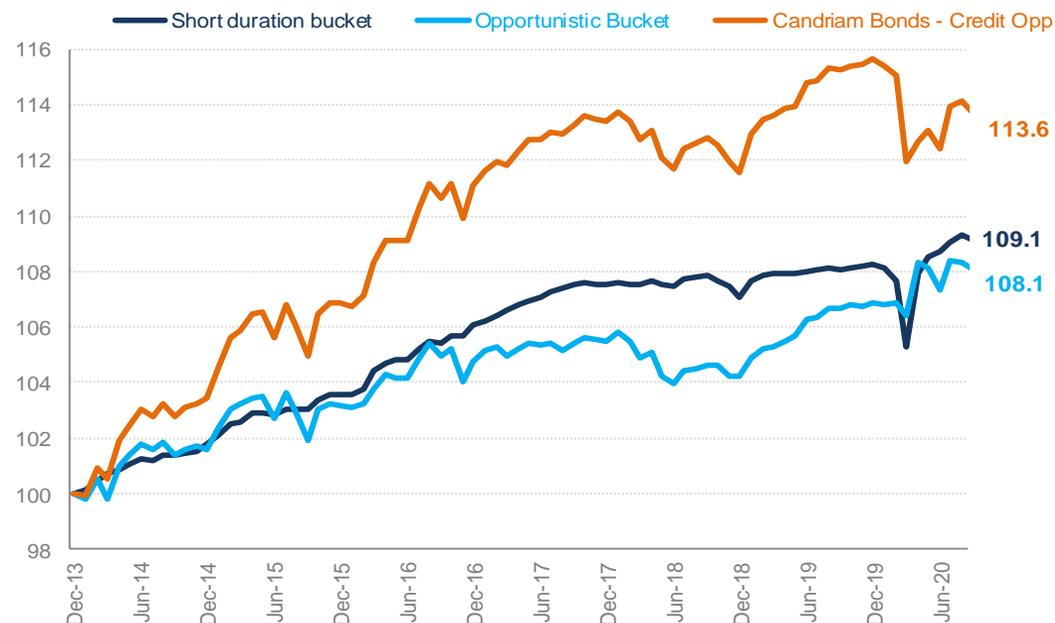
Source: Candriam - Indicative data which may change over time.

Medium Volatility - Candriam Bonds Credit Opportunities

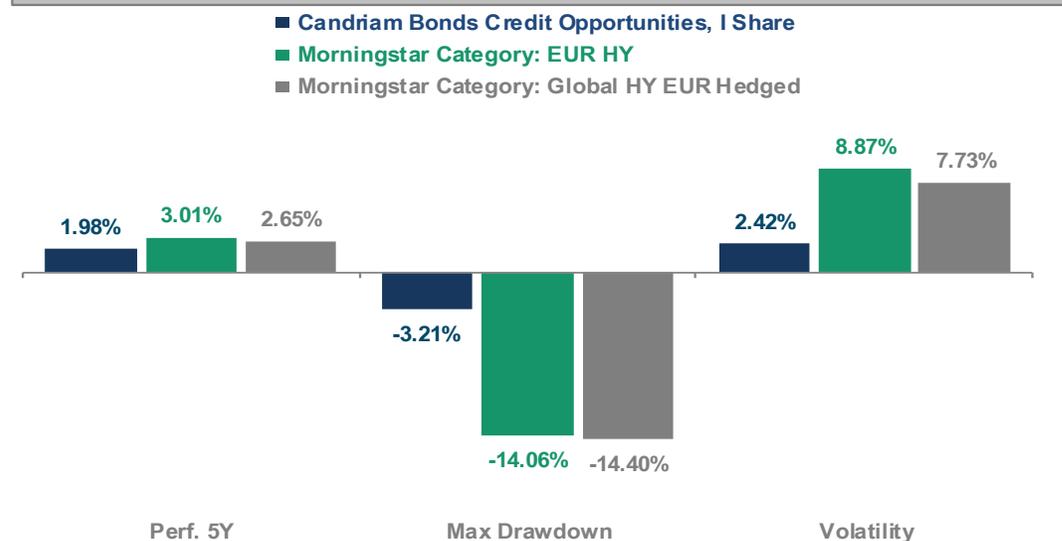
Historical Performance - I Share Class EUR - Net of Fees

Data as of 30/09/2020	YTD 20	2019	2018	2017	2016	2015	2014	2013	2012	2011
CANDRIAM BONDS CREDIT OPPORTUNITIES	+0.05%	+3.71%	-1.67%	+2.12%	+3.96%	+3.31%	+3.43%	+6.6%	+15.76%	+3.46%
Eonia	-0.35%	-0.40%	-0.37%	-0.36%	-0.32%	-0.11%	8.47%	-0.49%	4.07%	6.9%
Excess return	0.40%	4.11%	-1.3%	2.48%	4.28%	3.42%	-5.04%	7.09%	11.69%	-3.44%

PERFORMANCE ATTRIBUTION



A ROBUST RISK / RETURN PROFILE OVER 5Y (Monthly Step)



Sources: Candriam- Data from end of September 2013 to September 2020. Morningstar. Morningstar category: / EAA Fund Global HY Bond EUR Hedged. © 2020 Morningstar, Inc. All rights reserved. Some of the information contained in this document is the property of Morningstar and/or its information providers. It is given without any guarantee as to its accuracy, exhaustiveness or topicality. Its reproduction or redistribution is strictly forbidden. The quality of the award won by the UCI or the management company depends on the quality of the issuing institution and that the award does not guarantee the future results of the UCI or management company

Candriam Bonds Credit Opportunities

Risk Management & Reward Profile



Main risks the fund is exposed to:

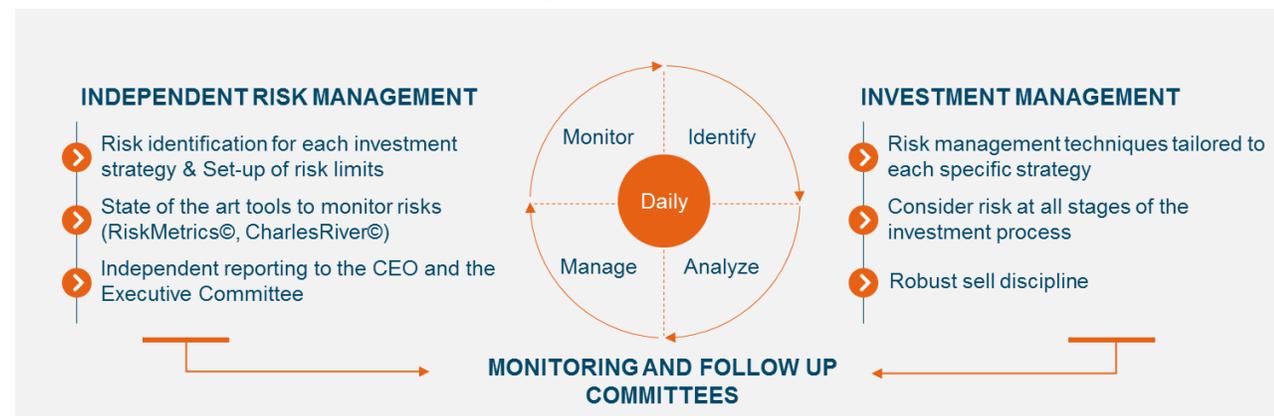
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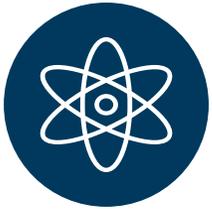


Main risks the fund is exposed to

Model Risk	Concentration Risk	Commodity Risk
Equity Risk	Currency Risk	Derivatives Risk
Credit Risk	Volatility Risk	Arbitrage Risk

Absolute Performance @ Candriam

A Recognized Expertise in Credit Arbitrage



Pioneer & Innovative since 1999



A team of **20 complementary experts**



Assets under Management around **€3bn**



Regularly awarded

▶ Annex

Fund Characteristics

CANDRIAM LONG SHORT CREDIT																	October-20			
Legal Form	UCITS - FCP						Recommended investment horizon	3 years												
Domicile	France						Frequency of valuation	Daily												
Launch date	October 27, 2009						Subscription	D-1 before 12:00 PM (CET)												
Management Company	Candriam France						Redemption	D-2 before 12:00 PM (CET)												
Auditors	PricewaterhouseCoopers Audit Fr						Settlement	D+3												
Depository bank	CACEIS Bank						Fund currency	EUR												
Transfer agent	CACEIS Bank						Fund AUM	799 million												
Fund administration	CACEIS Fund Administration																			
Registered for sale in	All or some of the fund share classes are authorized in the following countries (orange coloured points)																			
	AT	BE	CH	CL	DE	DK	ES	FI	FR	GB	IE	IT	LU	NL	NO	PT	SE	SK	SG	KR
	●		●		●		●		●	●		●	●	●						

To fully understand the fund's risk profile, we advise investors to carefully review the official prospectus and the description of the underlying risks.

Fund Characteristics

CANDRIAM BONDS CREDIT OPPORTUNITIES																			October-20	
Legal Form	UCITS - SICAV								Recommended investment horizon	3 years										
Domicile	Luxembourg								Frequency of valuation	Daily										
Launch date	July 15, 2002								Subscription	D before 12:00 PM (CET)										
Management Company	Candriam Luxembourg								Redemption	D before 12:00 PM (CET)										
Auditors	PricewaterhouseCoopers								Settlement	D+3										
Depository bank	CACEIS Bank, Luxembourg Branch								Fund currency	EUR										
Transfer agent	CACEIS Bank, Luxembourg Branch								Fund AUM	1 593 million										
Fund administration	CACEIS Bank, Luxembourg Branch																			
Registered for sale in	All or some of the fund share classes are authorized in the following countries (orange coloured points)																			
	AT	BE	CH	CL	DE	DK	ES	FI	FR	GB	IE	IT	LU	NL	NO	PT	SE	SK	SG	KR
	●		●	●	●		●		●	●	●	●	●	●		●	●		●	

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Candriam consistently recommends investors to consult via our website www.candriam.com the key information document, prospectus, and all other relevant information prior to investing in one of our funds, including the net asset value ("NAV) of the funds. This information is available either in English or in local languages for each country where the fund's marketing is approved.

Specific information for Swiss investors: The appointed representative and paying agent in Switzerland are respectively CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon and CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy, 35, CH-1260 Nyon. The prospectus, the key investor information, the articles of association or as applicable the management rules as well as the annual and semi-annual reports, each in paper form, are made available free of charge at the representative and paying agent in Switzerland.



CLIENT RELATION OFFICES

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DUBAI
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