CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

An alternative strategy with low correlation to credit markets

60 seconds with the portfolio manager

JUNE 2025

This marketing communication is intended for non-professional investors.

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Discover how Candriam, with its low-correlation alternative strategy, is navigating the credit markets in these paradigm-shifting times. Nicolas Jullien and Thomas Joret provide you with the essential information you need to understand this strategy.

How would you describe the current situation on the credit markets?

In recent years, new structural trends have emerged, such as the polarization of the world, the relocalization of supply chains and the fight against climate change. These changes are now compounded by rising geopolitical uncertainties. This new environment has significant implications for corporate financial health – and, by extension, for our investment choices in corporate bonds. Investors are therefore required to adapt their strategies. In this context, adopting an approach that aims to deliver performance independently of credit market trends appears as a compelling investment solution to consider.

What are the implications of this new paradigm for credit markets ?

This paradigm shift has important implications for monetary policy, which can no longer be as accommodating as it was in the previous decade. As a result, we can expect more volatile[1] credit spreads, more dispersion between «good and bad students» even within the same sector, and higher default rates. This new environment seems particularly suited to alternative strategies seeking to take advantage of both tightening and widening spreads.

How do you identify investment opportunities?

Our strategy invests predominantly in corporate bonds of issuers based in developed countries, with a credit rating equivalent to or higher than CCC/Caa2 from a recognized agency or bonds determined to be of equivalent quality according to our internal analysis. This is a purely long/short[2] credit strategy, with no particular bias, based on a selective, high-conviction approach designed to generate performance with a low correlation to market trends, whatever the context.

60 SECONDS
WITH THE FUND MANAGER

1 A bond's spread represents the difference in yield between a bond and the yield of a risk-free bond for the same duration.
2 Traditional management simply involves buying financial products, betting on the markets to rise (Long Only), while the alternative approach takes both long and short positions (Long/Short).

The strategy focuses on in-depth bottom-up[3] research, enabling us to identify buy or short opportunities in the credit markets. The strategy operates across a broad investment universe (Investment Grade and High Yield) to ensure diversification, and is generally free from any specific bias. The complementary nature of the «long» and «short» positions is designed to produce a portfolio with low correlation to the market. To manage volatility, the team also incorporates a tactical[4] overlay.

What type of environment favours this type of strategy?

The objective is to outperform the capitalized €STR©[5] index in all market conditions, with ex-ante volatility of less than 10%[6].

Since its launch in February 2021, our strategy has shown consistent performance every year, delivering positive returns even when credit indices fell, notably in 2022[7]. Thus, despite a difficult environment, we recorded a positive performance of 5.79%[8] that year. In 2023, the strategy maintained its momentum with a similarly positive performance of 8.48%[9], capturing a significant share of the credit markets' gains.

Since its inception, the strategy has posted a performance gross of management fees of 26.26%[10]. By comparison, its benchmark index returned just 7.93% over the same period, representing a cumulative outperformance of 18.33%. Thanks to its ability to generate positive, uncorrelated returns with reduced volatility, even in unfavorable market conditions, this approach is, in our opinion, a strategy offering an attractive absolute return opportunity in a diversified portfolio.

How does Candriam's approach differ from other alternative strategies on the credit markets?

Candriam's alternative credit strategy stands out for its high-conviction approach to the market's best «long» and «short» opportunities, and for its active position management based on over 15 years' expertise in long/short credit management. This combination makes it a robust solution for investors seeking to navigate all credit market configurations.

3 Bottom-Up" management is an investment approach that focuses on the individual characteristics of each company, rather than on sector conditions or the global economy.
4 The "overlay" approach consists of applying a "second layer" of management in the construction of a portfolio, with the aim of optimizing its risk/return profile.
5 All rights reserved
6 Volatility could nevertheless be higher, particularly in abnormal market conditions.
7 Performance of -13.5% for the ICE BoA GHY BB-B Non Fin. index in 2022, source Bloomberg
8 Source : Candriam
9 Source : Candriam
10 Source: Candriam from 03/31/2021 to 31/05/2025

The main risks of the strategy are:

• Risk of capital loss:

There is no guarantee for investors relating to the capital invested in the strategy in question, and investors may not receive back the full amount invested.

• Interest rate risk:

A change in interest rates, resulting in particular from inflation, may cause a risk of losses and reduce the performance of the strategy (especially in the event of a rate increase if the strategy has a positive rate sensitivity and in the event of a rate reduction if the strategy has a negative rate sensitivity). Long term bonds (and related derivatives) are more sensitive to interest rate variations. A change in inflation, in other words a general rise or fall in the cost of living, is one of the factors potentially affecting interest rates and consequently the NAV.

• Sustainability Risk:

The sustainability risk refers to any environmental, social or governance-related event or situation that might affect the performance and/or reputation of issuers invested in.

Sustainability risks may be subdivided into three categories:

• Environmental: environmental events may create physical risks for the companies invested in.

• Social: refers to the risk factors linked to human capital, the supply chain and the way companies manage their impact on society.

• Governance: these aspects are linked to governance structures.

The sustainability risk may be specific to the issuer, depending on its activities and practices, but may also be due to external factors. If an unforeseen event occurs in a specific issuer such as a strike or more generally an environmental disaster, the event could have a negative impact on the performance. In addition, issuers which adapt their activities and/or policies may be less exposed to the sustainability risk.

• Derivative risk:

Financial derivatives are instruments whose value depends on (or is derived from) one or more underlying financial assets (equities, interest rates, bonds, currencies, etc.). The use of derivatives therefore involves the risk associated with the underlying instruments. They may be used for purposes of exposure or hedging against the underlying assets. Depending on the strategies employed, the use of derivative financial instruments can also entail leverage risks (amplifying downward market movements). In a hedging strategy, the derivative financial instruments may, under certain market conditions, not be perfectly correlated to the assets to be hedged. With options, an unfavourable fluctuation in the price of the underlying assets could cause the strategy to lose all of the premiums paid. OTC financial derivatives also entail a counterparty risk (though this may be attenuated by the assets received as collateral) and may involve a valuation risk or a liquidity risk (difficulty selling or closing open positions).

• Credit risk:

Risk that an issuer or a counterparty will default. This risk includes the risk of changes in credit spreads and default risk. Some strategies may be exposed to the credit market and/or specific issuers in particular whose prices will change based on the expectations of the market as regards their ability to repay their debt. These strategies may also be exposed to the risk that a selected issuer will default, i.e. will be unable to honour its debt repayment, in the form of coupons and/or principal. Depending on whether the strategy is positively or negatively positioned on the credit market and/or some issuers in particular, an upward or downward movement respectively of the credit spreads, or a default, may negatively impact the performance. When evaluating the credit risk of a financial instrument, the Management Company will never rely solely on external ratings.

• Arbitrage risk:

Arbitrage is a technique which consists in benefiting from the differences in prices recorded (or anticipated) between markets and/or sectors and/or securities and/or currencies and/or instruments. If such arbitrage transactions perform unfavourably (a rise in sell transactions and/or fall in buy transactions), the performance may fall.

The risks listed are not exhaustive, and further details on risks are available in regulatory documents.