CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Built for shifting markets: a strategy designed to endure

60 seconds with the portfolio manager

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This marketing communication is intended for non-professional investors.

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60 SECONDS
WITH THE FUND MANAGER

Sylvain de Bus and Philippe Dehoux, portfolio managers, share their insights on a strategy that invests in euro-denominated bonds with maturities ranging from 1 to 10 years.

What can a strategy focused on 1-10 year bonds offer to investors?

Many investors are looking for a single fixed income solution they can hold over the long term — one that offers limited risk, diversification and a regular source of income. They may not necessarily want to manage the shifting sectors within this market themselves — instead, they rely on us to do that. That's where our bonds euro flexible strategy comes in.

We see it as a 'core plus' approach — a strategy that forms a central part of a portfolio while allowing flexibility. Its intermediate-term focus helps smooth volatility when interest rates are volatile or make a sharp move, as for many investors, bonds are first and foremost about stability. Compared to strategies specialising in short-term bonds, our intermediate-maturity portfolio offers more potential for decorrelation from equity markets. We believe the strategy sits in a 'sweet spot' between return potential and interest rate risk.

What does a 'core-plus' mean in practice?

'Core plus' means that while the heart of the strategy lies in core investment grade bonds — including sovereign, supranational, and agency debt, as well as corporate issuers — we also have the flexibility to go beyond this core when we see compelling opportunities. When the time is right, we can allocate to other areas such as high yield, emerging market debt, inflation-linked bonds, or convertibles. These are what we call the strategy's 'diversification buckets', which can represent up to 30% of the portfolio.

We do not take on the additional risks of asset classes Emerging Market Debt, High Yield, or Convertibles in general. We do this selectively, only when our analysis suggests the potential reward justifies it. This approach aims to enhance yield over time, while also improving the portfolio's overall resilience.

How do you select the bonds and build the portfolio?

The investment process starts with a top-down assessment of markets, the economic cycle, the likely course of interest rates, how credit spreads may behave, and which sectors are likely to outperform. This also informs our decisions about allocating to the 'diversification' asset classes.

We conduct in-depth, bottom-up analysis to select the individual bonds. We carry out deep fundamental analysis on each issuer, whether sovereign or corporate, assessing its long-term creditworthiness. As an ESG-integration process, each issuer is also evaluated by our in-house sustainability analysts. The resulting portfolio incorporates both our macroeconomic views and our conviction on the individual bonds, a control of the portfolio carbon footprint, and a strong emphasis on risk management.

For example, when evaluating investment grade credit, we compare it to higher-rated assets such as government bonds, and to higher-risk assets such as high yield. This helps us to reduce unrewarded risks and focus on the most attractive opportunities at any given time.

What are your strengths in this strategy?

Candriam has been active in euro aggregate fixed income for more than three decades. The bonds euro flexible strategy benefits from that long-standing experience and is managed by a stable, seasoned team with complementary skills.

Each market segment in which we invest in is covered by dedicated specialists. But just as importantly, we don't work in silos. We exchange ideas and challenge each other's views across teams, leading to stronger, more disciplined investment decisions.

How do you aim to add value versus the reference index?

Our main objective is to deliver consistent long-term outperformance, not just over a market cycle, but also year after year. That's something our investors value highly.

The flexibility of the strategy supports that goal. Our approach is designed to anticipate a wide range of economic scenarios, and to adjust accordingly. In addition, we aim to maintain a portfolio with a lower carbon footprint than the reference index — because performance should also be sustainable.

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.

• 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.

• 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.

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