CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Long Short Credit : a credible alternative in the face of heightened volatility

60 seconds with the fund manager

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Marketing communication

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Philippe Noyard, Global Head of Credit, Patrick Zeenni, CFA, Head of Investment Grade & Credit Arbitrage and Guillaume Benoit, Senior Investment Grade Fund Manager / Credit Analyst explain how a Global Long Short Credit strategy is a must-have in a diversified portfolio.

What should we learn from the financial markets since the COVID crisis?

The markets must cope with heightened volatility: influenced by less accommodative monetary policies, rising inflation and significant geopolitical risks, etc.

In the face of heightened volatility, investors are seeking strategies that can provide stability and significant diversification in their portfolios. Like our Global Long Short Credit strategy, which meets these expectations by investing on the credit market.

What is a Global Long Short Credit strategy?

A Long Short Credit strategy can be defined as the search for inefficiencies on the credit market by managers who can make a profit from them while being able to reduce their exposure to interest rate risk or volatility spikes.

This combination allows the Long Short Credit strategy to seek to offer absolute returns, increased alpha and low correlation with other asset classes.

The strategy is based on a broad investment universe. First, geographically, by selecting issuers worldwide, with a preference for markets in Europe and the US. Then, at asset class level (investment grade[1] or high yield). And finally, at instrument level, with cash bonds or credit derivatives, i.e. all securities that are directly or indirectly linked to an issuer's ability to repay its debt.

60 SECONDS WITH THE FUND MANAGER

(1) Investment grade bonds refer to a higher credit quality (lower probability of default) assigned by a rating agency. For example, a bond or issuer must have a rating above BBB- to carry investment grade status with Standard and Poor's. Investment grade bonds are opposed to High Yield bonds.

What are the myths associated with Long Short Credit strategies?

Long Short Credit strategies can be quite daunting for investors as they are part of absolute return strategies. This type of investment carries a risk of capital loss.

This statement is less and less true as safeguards such as strict risk limits have been in place in these strategies for several decades. At Candriam, risk management is an integral part of the management process, but is conducted by an independent team.

Furthermore, our strategy focuses on keeping volatility low, while the markets seem to be dominated by increased volatility.

How do you select your investments?

Our Long Short Credit strategy aims to capitalise on the best credit opportunities. These opportunities are selected based on a fundamental and financial analysis of the issuers, an in-depth legal analysis and a quantitative analysis of issues.

These investment opportunities are structured around two distinct segments within the portfolio:

- relative value arbitrage: arbitrage of price differences observed or anticipated by the management team between markets, sectors, currencies or instruments;

- directional strategies: setting up long or short positions on the basis of strong convictions.

To what extent does a flexible approach favour performance?

We go beyond the traditional rating boundaries to position ourselves across the spectrum of Investment Grade and High Yield segments. There are interesting opportunities within this area between these two segments, and the market can have a significant difference in perception between rising stars and fallen angels. Fallen angels are companies that are downgraded from Investment Grade to High Yield, and vice versa for rising stars. For formerly Investment Grade issuers returning to the High Yield category, the increased cost of their debt as their risk premium increases has prompted them to change in recent years. Indeed, many fallen angels are now rising stars that may be rewarded with a better credit rating.

Our strategy is therefore not exclusively focused on Investment Grade; it may also include High Yield bonds. We dynamically manage overall duration in order to adapt to different market environments..

What make the strategy unique?

Its uniqueness, and its strength, is the search for and control of low volatility, thanks in particular to our selection of issuers, which places particular emphasis on liquidity.

Another feature of our strategy is our investment process, which has two complementary performance drivers (relative value arbitrage and directional strategy). Our fundamental analyses, legal expertise and quantitative research have been the basis for this since 1999. In addition, the uniqueness of our strategy is enhanced by its low correlation to traditional asset classes (equities and government bonds).

Finally, the strategy relies on our experienced team of 12 credit analysts dedicated to analysing and identifying opportunities to develop and sustain its performance.

The main risks of the strategy are:

- **Risk of capital loss**
- **ESG Investment Risk**
- **Sustainability Risk**
- **Equity risk**
- **Interest rate risk**
- **Credit risk**
- **Risk on Cocos**
- **Currency risk**
- **Liquidity risk**
- **Derivative risk**
- **Counterparty Risk**
- **Arbitrage risk**
- **Volatility risk**
- **Emerging market risk**

ESG Investment Risk: The non-financial objectives presented in this document are based upon the realization of assumptions made by Candriam. These assumptions are made according to Candriam's ESG rating models, the implementation of which necessitates access to various quantitative as well as qualitative data, depending on the sector and the exact activities of a given company. The availability, the quality and the reliability of these data can vary, and therefore can affect Candriam's ESG ratings. For more information on ESG investment risk, please refer to the Transparency Codes, or the prospectus if a fund.