

From Carry to Capital Gains: Unlocking Alpha in a Dynamic Credit Environment

Vincent Ollivier & Fabio Vanerio—RAM AI SA—Membre du GSCGI

While significant uncertainties remain—including the direction of monetary policies and the trajectory of the global economy—we believe credit markets present interesting opportunities looking ahead. Higher yields have made the credit universe more attractive compared to previous years. Could 2025 be even stronger for credit markets?

One thing is certain: performance dispersion has been higher than in the recent past, and most credit asset classes have rewarded investors. Moreover, the current environment offers appealing opportunities within the credit universe that we are well-positioned to capitalise on.

*The **credit selection** will be key to navigate this environment.*

Reflecting on 2024: the Primary Source of Alpha in a Carry-driven Year

At the beginning of the year, we identified **several key themes** for our credit strategies, including the reopening of the primary market and a proactive approach by issuers to refinance their debt. Some of our holdings have included 'call options,' allowing issuers to redeem their debt before maturity. When these options are exercised or the market begins to anticipate this event, it often leads to an increase in the bond's price, coupled with the carry.

This has led to a significant contribution to the overall portfolio performance, the primary market being very active this year, with numerous calls or tenders on financial instruments such as AT1 and Tier 2, as well as some high-yield issuers and CLO instruments.

To provide concrete numbers, the RAM Strata Credit strategy achieved a 6.5% carry, a 1.5% capital gain via market spread compression, and **an alpha of 3%**, culminating in a total return gross of fees of 11%.

Past performance is not an indicator of future results.

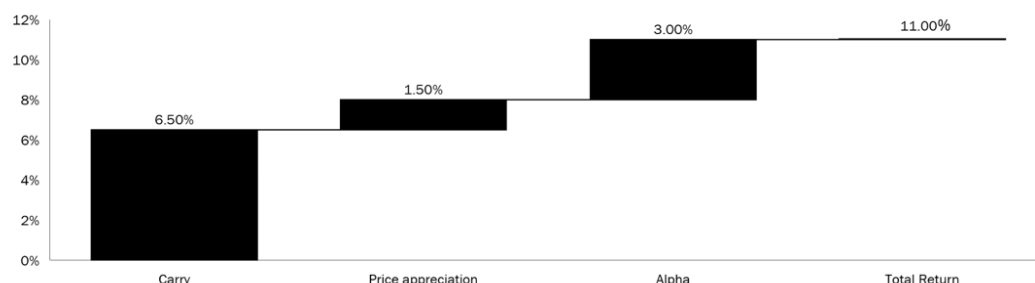


Figure 1. Source: RAM Active Investments, data as of end of November 2024.

Looking Ahead: Key Themes Set to Drive the Market

Entering 2025, we must look ahead to next year and determine the best portfolio positioning. A recurring theme over the past 18 months has been **dispersion**, as highlighted in the graph below. It shows that over the past 10 years, credit ratings have generally moved in tandem through phases of compression and decompression.

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However, we have recently observed that the spread between CCC and B ratings has widened (decompression), while the spread between BB and B ratings has tightened to a 10-year low (compression). This phenomenon is unprecedented in the past decade.

This offers tremendous **opportunities** for an active manager, as today's losers could potentially become tomorrow's winners and vice versa.

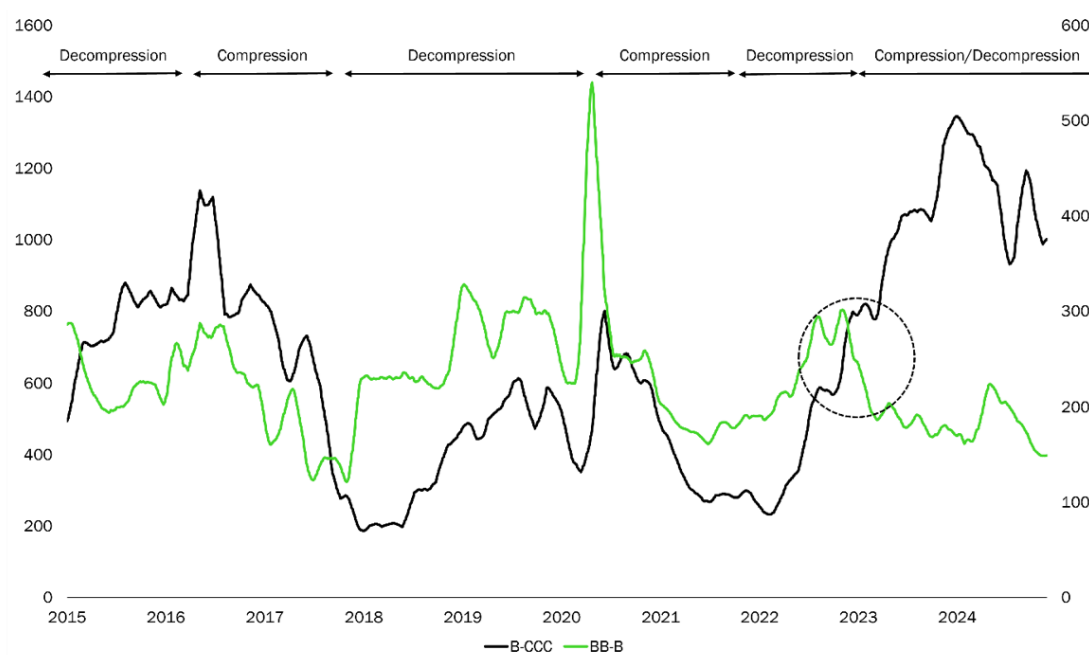


Figure 2. Source: RAM Active Investments, data as of end of November 2024.

Exploring 2025 Opportunities for a Credit Active Manager

Our flexible approach, based on rigorous fundamental analysis, gives us confidence for 2025. In this environment, active issuer selection will be crucial due to the heightened dispersion and the presence of idiosyncratic opportunities. Below, we highlight some of our recent investments, demonstrating how the **increased dispersion** and market disconnects have created **valuable investment opportunities**.

- **Lenzing** is a leading global producer of high-quality wood-based cellulosic fibre for the textile and non-woven industries. Management believes that sustainable wood-based cellulosic fibre has greater environmental properties and considerable long-term growth prospects from substitution. In the company's capital structure, the perpetual instruments stand out as an interesting opportunity. LNZAV 5 $\frac{3}{4}$ PERP Corp is callable in December 2025 with a reset at 11.2% over Euro 5yr swap. The incentive of call is very high given the prohibitive reset. Bond is trading at 98 (2pts upside) + a coupon at 5.75%.

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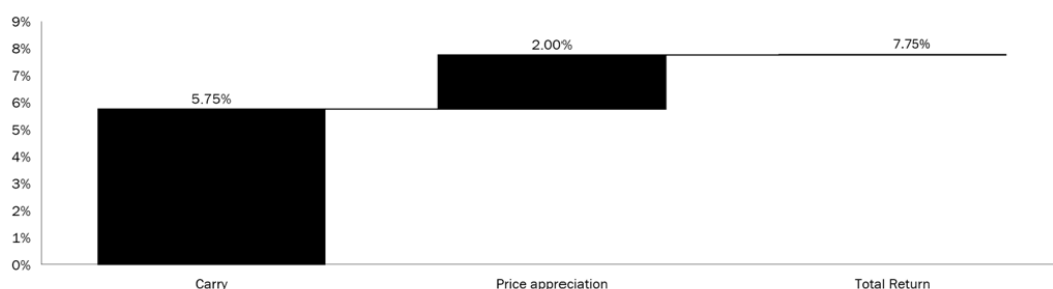


Figure 3. Source: RAM Active Investments, data as of end of November 2024.

- **Grifols** is a global healthcare company involved in the production of plasma-derived medicines and transfusion medicine. The company operates in a high-growth and high-margined industry, with volume growth supported by improving diagnostics. The business remains family-owned, and we believe it makes it the appealing target candidate for a takeover. GRFSM 3 7/8 10/15/28 (unsecured bond) looks to us the right place to play this event with signification upside given the bond is trading at a strong discount versus its change of control price (101).
- **Vontobel** offers wealth management and asset management services to both institutional and private clients with the Asset Under Management (AUM) roughly split equally between the two segments with CHF108bn in the private client side and CHF111bn in the institutional side. In terms of capital the bank reported a CET1 ratio of 18.3% in 1H24 and a total capital ratio of 23.6%, well above minimum requirement. To express our positive view on the issuer, we believe it is better to invest at the bottom of the capital structure. VONTOB 9.48 PERP (NC31) trades at a discount vs other Swiss peers such as EFG or Julius Baer despite similar credit metrics.

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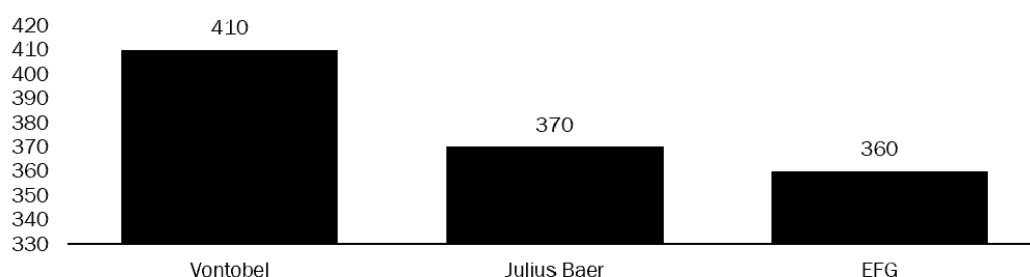


Figure 4. Source: RAM Active Investments, data as of end of November 2024.

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Performance Overview

Since its inception in May 2019, the RAM Strata Credit strategy has outperformed the selected benchmarks, demonstrating robust absolute and risk-adjusted returns even amid a backdrop of high central bank intervention and rising geopolitical risks. As of January 31st, 2025, the strategy has outperformed the Bloomberg Global Aggregate Index by 28%, the Morningstar Flexible Bond EUR Hedged by 21%, and the ICE BofA High Yield Constrained Index EUR Hedged by 9%.

Performance for RAM Strata Credit vs related Morningstar Category & Indexes

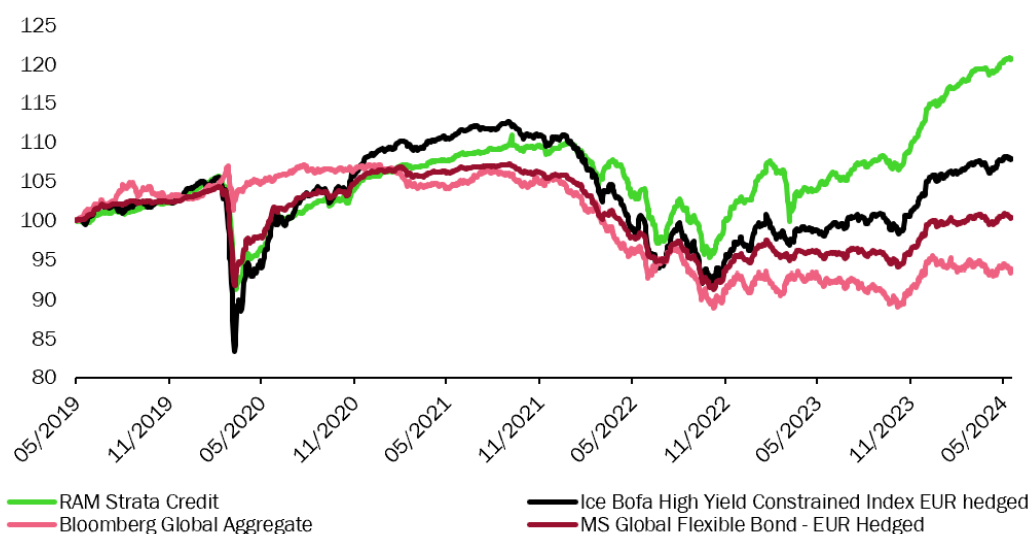


Figure 5. Source: RAM AI, Bloomberg as of 31st January 2025. The performance is gross of management fees. The portfolio is actively managed without reference to a benchmark. These benchmarks have been discretionarily selected by the portfolio manager for comparison reasons and are not included in the legal fund documents. This performance is provided for illustrative purposes only and pertains to a share class without charges that is not accessible to all investors. Fees and charges vary from share class to share class. For detailed information on specific charges, please refer to the Fund Prospectus and PRIIPs.

RAM Strata Credit						
2019*	2020	2021	2022	2023	2024	2025
3.85%	1.80%	3.84%	-6.51%	12.16%	10.76%	1.15%

*Since May 2019. Table 1. Source: RAM AI, as of 31st January 2025. Annual performance gross of management fees.

ram ai

Membre du GSCGI