

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

August 2022

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 4.31% for the month of August (EUR Inst. Founder Class).

Investment Objective & Strategy

The Descartes Alternative Credit UCITS is a long-only Fund with a total return strategy, offering access to European senior secured corporate loans through investments in Collateralised Loan Obligations ("CLOs").

The strategy seeks to generate high current income (currently 5%-6%) plus the potential for incremental return through capital appreciation. The Fund primarily invests in European rated CLO securities. CLOs are floating rate instruments, which will benefit from rising rates, with a large carry and strong capital resilience.

The Fund's diversified portfolio is actively managed by Cartesia, using a combination of fundamental security analysis and dynamic allocation across rating categories.

Cartesia is a Paris based regulated investment manager (AMF licence GP-13000019), set up in 2009 by seasoned partners with an average experience of 25 years in European structured credit products, especially in securitised assets such as CLOs.

Monthly Commentary

In August, the CLO market has strongly recovered from depressed spread levels seen in July, supported by the price rebound in European loans as illustrated by the ELLI index, which moved from 91.50% up to 93.3% over the month. This rally was helped by CLO managers renewed purchase power to ramp their portfolio as quick as possible as a result of the surge in primary issuance in July.

In that respect, CLO mezzanine spreads tightened by 30 to 50bp with BBB moving to around E3M+600bp, BB tranches to E3M+900bp and B rated tranches to E3M+1350bp. The secondary market was relatively busy during the first 2 weeks with both institutional investors and hedge funds participating actively in BWICs as well as sourcing dealers' secondary positions.

On the primary market, the CLO activity was muted as expected during the summer break with only 2 transactions issued bringing the YTD volume to €18bn, a decline of 16% vs last year. On the leverage loan market, following a lull summer, the new issue pipeline volume has increased to €11.8bn anticipating a relatively animated primary loan market in September/October, which can be considered as a positive sign for the CLO new issue market.

European CLOs portfolio metrics remained unchanged with a low CCC bucket at 3.7%, a median range Weighted Average Rating Factor level of B equivalent, a current default rate of 0.1% and a healthy B tranche Over collateralisation test cushion at 3.4%. Furthermore, as CLO loan portfolio NAVs have naturally improved, the collateral Market Valuation of CLO mezzanine tranches managed to price upwards with tighter loan spreads.

As pointed out by the latest Barclays Research credit team, BBB tranches offer strong value in relative terms as their spread to AAA tranches is wider than the 5y average historical spread, which triggered some long only investors to jump in this part of the capital stack since late July. On the other hand, flows in AAA tranches remained healthy with secondary spread levels generally clearing tighter in the E3M+180bp area with weekly volumes at their highest level post covid. BB rated tranches have now stabilized well below the E3M+1000bp seen early July, but with a larger dispersion observed over CLO managers' style and underlying loans portfolio metrics.

We believe that a confirmation of continued inflows from investors and a non-excessive primary market will be necessary to stabilize the mezzanine part of the CLO capital structure and attract a wider range of participants over the next months. Furthermore, the optimism around peak inflation early August seems now in the rear-view mirror as Central Banks are expected to be more aggressive around policy rates in the coming months.

On the constructive side, the floating rate nature of CLO tranches offer in this context some relative protection against rising rates. Even more, as 3M Euribor turned positive in July for the first time since 2015 and is expected to increase further in the near future, this would substantially increase interest income on CLO tranches and as a result boost their expected future yields to maturity.

On the senior loan side, we are cautious on recessionary like sectors such as Leisure, Lodging, Restaurants and Gaming representing 5-6% of current positions in European CLOs and we do favour CLO tranches with the least exposure.

Regarding our portfolio, we have not changed our profile in August, which continues to be rather defensive based on low to medium duration assets and a high cash or equivalent exposure at 18.5%. Our exposure to BB and above rated CLO tranches is maintained at 83.2%, well above the minimum required of 70%.

The Fund NAV sharp rebound in August was driven by opportunistic investors looking after cheap bargain secondary mezzanine tranches.

For September, our approach will remain prudent, considering the uncertainties around central banks hiking plans and the global macro environment which remains vulnerable, with a main focus on convex secondary short dated tranches and possibly primary transactions if and when offering a short Reinvestment Period and based on low ramped loan portfolio.

Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class

	YTD 19*	FY 20	FY 21	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 22
EUR	4,06%	4,37%	6,83%	0,61%	-0,43%	-1,81%	0,39%	-6,63%	-2,94%	-1,56%	4,31%					-8,10%
USD	6,30%	6,42%	7,62%	0,63%	-0,40%	-1,75%	0,43%	-6,56%	-2,74%	-1,33%	4,47%					-7,34%
CHF	3,50%	3,94%	6,52%	0,61%	-0,47%	-1,83%	0,38%	-6,63%	-2,91%	-1,52%	4,31%					-8,11%

The performance figures quoted above represent the performance of the Descartes Alternative Credit UCITS Fund, EUR, USD and CHF Inst. Founder Share Classes since launch on the 26-Mar-2019. These performance figures refer to the past and past performance is not a reliable guide to future performance.

Institutional Class A

	YTD 2019*	FY 20	FY 21	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 22
EUR	2,43%	3,76%	6,04%	0,54%	-0,39%	-1,82%	0,38%	-6,64%	-2,95%	-1,57%	4,30%					-8,18%
USD	3,06%	5,64%	6,72%	0,58%	-0,34%	-1,72%	0,46%	-6,57%	-2,74%	-1,34%	4,47%					-7,31%
GBP	1,01%	4,07%	6,57%	0,59%	-0,29%	-1,71%	0,49%	-6,52%	-2,78%	-1,43%	4,50%					-7,27%
CHF	1,08%	3,45%	5,74%	0,53%	-0,40%	-1,86%	0,37%	-6,64%	-2,91%	-1,53%	4,30%					-8,18%

The performance figures quoted above represent the performance of the Descartes Alternative Credit UCITS Fund, EUR, USD and CHF Inst. A Pooled Share Classes since respective class creation date. These performance figures refer to the past and past performance is not a reliable guide to future performance.

* performance over 9 months from launch date

The Manager



Jérôme Anglade

Partner, Portfolio Manager

Jérôme has more than 20 years of experience in structuring, trading and risk-management with Morgan Stanley in London as a Managing Director and Head of the European Structured Credit Group, Citi Capital Advisors then at Bank of America-Merrill Lynch. He then developed a significant expertise in the private debt and peer-to-peer lending, before joining Cartesia in 2016. Jérôme graduated from École Polytechnique and École Nationale des Ponts et Chaussées in Paris.

Tanguy Boulet

Chairman, Portfolio Manager

With 30 years of experience in Finance, Tanguy had initially spent 17 years in Investment Banking (Credit Agricole, Merrill Lynch, Lehman Brothers) prior to set up in London in 2003 the investment manager Ocean Capital, specialised in the securitisation markets and structured finance. He then founded Cartesia in 2009 in Paris. Tanguy holds a diploma from ESCP Europe.

Pierre Mirat

Partner, Head of Business Development and Investor Relations

Pierre has spent 30 years in the Capital Markets in London, with a strong focus on the credit markets, working for Paribas Capital Markets, JP Morgan, Morgan Stanley – as Head of the French office for Global Markets - then for Société Générale-CIB as European Head of the Financial Institutions Group. He joined Cartesia in January 2017. Pierre graduated from HEC Paris and the Political Sciences Institute in Paris.

Alexandra Esteves

Chief Risk Officer

Alexandra brings 6 years experience in risk management and structured transactions monitoring/reporting, acquired while at Zencap Asset Management, with a significant expertise in structured credit assets (CLO & ABS), private debt and peer-to-peer lending. She joined Cartesia in the summer of 2019. Alexandra holds a Master Degree in Financial Engineering from IAE Gustave Eiffel.

Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Valuation	Daily
Liquidity	Weekly
Fund AUM	\$91.8m
Inception	26 th March 2019
Share Class	Institutional Founder Class
Currency	EUR/USD/CHF/GBP
Bloomberg ID (EUR)	MLDAEIF ID Equity
Mgt. Fee	0.65%
Perf. Fee	0.00%
Min Init. Sub.	1,000,000
ISIN Codes	EUR: IE00BJCWST11 USD: IE00BJCWSX56 CHF: IE00BJCWSW40 GBP: IE00BJCWSV33
Bloomberg Codes	EUR: MLDAEIF ID USD: MLDAUIF ID CHF: MLDACIF ID GBP: MLDAGIF ID

Share Class Institutional Class A

Currency	EUR/USD/CHF/GBP
Bloomberg ID (EUR)	MLDEIAP ID Equity
Mgt. Fee	0.75%
Perf. Fee	10.00%
Min Init. Sub.	1,000,000
ISIN Codes	EUR: IE00BJCWT213 USD: IE00BJCWT544 CHF: IE00BJCWT437 GBP: IE00BJCWT320
Bloomberg Codes	EUR: MLDEIAP ID USD: MLDUIAP ID CHF: MLDCAIP ID GBP: MLDGIAP ID

Descartes Alternative Credit UCITS Fund

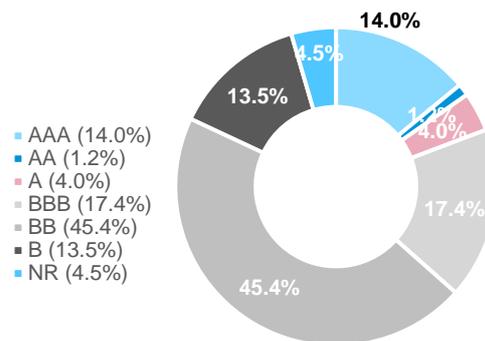
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Portfolio Metrics

Number of Positions:	69
Number of CLO Managers	34
Expected Average Life To Maturity ⁽¹⁾ :	6.0 years
Expected Yield to Maturity ⁽²⁾ :	9.6%

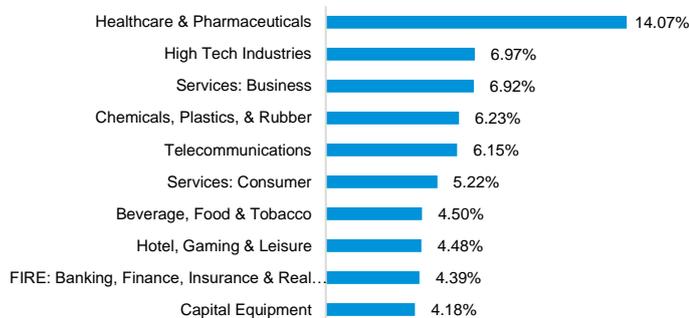
Rating Category Breakdown ⁽³⁾



Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
DRYD 2014-32X ER	PGIM	Ba2/BB-/NR	3,000,000
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
CONTE 4X ARE	Five Arrows	Aaa/NR/AAA	2,500,000
HARVT 9X ER	Investcorp	Ba2/BB+/NR	2,500,000
ANCHE 2X ER	Anchorage	Ba3/NR/BB-	2,400,000

Look-Through Industry Breakdown (Top 10) ⁽⁴⁾



Look-Through Issuers (Top 10) ⁽⁴⁾



Notes:

- (1) Weighted expected average life to maturity of investments
- (2) Weighted expected average yield to maturity of investments, excluding fees and expenses
- (3) Based on current valuation of the assets
- (4) Source: Moody's Analytics, based on nominal amounts, excluding deals which have not published their first trustee report.

Contact Details

Investor Contact

Waystone Capital Solutions (UK) Ltd
 2nd Floor, 20-22 Bedford Row
 Holborn, London
 T: +44 207 290 9493
 investorrelations@waystone.com

Management Company

Waystone Fund Management (IE) Ltd
 3rd Floor, 76 Baggot Street Lower
 Dublin, Ireland
 T: +353 1 533 7020
 investorrelations@waystone.com

Investment Manager

Cartesia SAS
 26 rue Danielle Casanova
 75002 Paris, France
 T: +33 1 56 43 4003
 pm@cartesiafinance.com

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