

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

June 2022

Performance Returns

The Descartes Alternative Credit UCITS Fund returned -2.94% for the month of June (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

Following the credit market sell-off in May, the CLO market has weakened further in June as illustrated by the ELLI price dropping by 4.8% to a level not seen since April 2020. This was driven in particular by investors switching opportunistically from high yield loans in high yield bonds for the same issuers for a notable yield pick-up. As a result, all CLO debt tranches spread widened with BBB rated tranches by 50bp to a level close to E3M+600bp up to B rated tranches by 100bp to around E3M+1300bp. During the last week of the month, we have seen better buyers ready to add risk in sub-IG tranches at those wide spread levels with some healthy participation in BWICs supply, looking after highly convex assets, at prices not seen for almost 2 years and often based on clean portfolios and conservative CLO managers. This recent demand was also driven by US investors which can find CLO mezzanine tranches in Europe with higher par subordination vs US CLO tranches and a favourable USD-EUR cross-currency pick-up. Furthermore, long dated AAA tranches have touched the key level of E3M+200bp, considered by institutional investors as a clear historical buying point. This new level was the consequence of hefty supply coming from the AAA/AA space.

Due to unstable credit markets in June, the CLO primary volume has been quasi non-existent with only 1 deal printed for a size of €400m from Permira Credit. As an illustration of the market challenging tone, the lack of investors conviction forced an arranger to buy the whole AAA tranche of that single transaction at a surprising tight level of E3M+140bp, in order to clear the deal in the market sooner rather than later.

Increasingly, CLO managers are looking to issue "print & sprint" CLO deals which allow them to first lock-in the cost of funding, assuming the AAA investors are in place, then ramp up deeply discounted senior loans at a second stage to crystallize a decent initial arbitrage and profit from the large convexity value of the purchased portfolio. In such a context, several CLO managers are also considering static transactions in order to reduce the duration of the deal.

The European primary loan market is still very quiet with only €1bn issued in June. As a result, CLO managers trading activity has decreased significantly in Q2. However, most of our selected managers have been able to overweight their portfolio in non cyclical sectors such as healthcare, telco, business services and focus on corporates with healthy balance-sheet and strong liquidity. They remain very much underweight consumer staples, food & beverage industries. To get a sense of the rare convexity benefit in the current CLO market, we can find AA secondary tranches at 90% level, some BB tranches at a low 80% and B rated tranches towards mid to low 70% price level. This should provide some support to our asset class as the long call option at par is offered for free, attracting a wide range of investors being both more speculative as well as long only asset managers.

CLO portfolio main credit metrics remain at a satisfactory level with no defaults occurring and CCC buckets staying at a low level of 3%. However, as a result of the decline in senior loan prices, the Market Value Over-collateralisation level has mechanically decreased to an average of 100.5% for BB tranches and 97.5% for B tranches.

Regarding our portfolio, we have not bought or sold any assets although we tried to purchase some A and AA secondary short dated tranches through BWICs unsuccessfully as investors have been chasing the same type of CLO tranches combining a short duration and good convexity.

Our cash exposure, including AAA assets, has been maintained at a high and maximum level of 20.5%. Our exposure to BB and above rated assets is at 82%, well above the minimum required of 70%.

The Fund performance has been negative in June as a result of the large drop in European senior loan prices and the lack of investors appetite for credit assets in this volatile context. Worth adding is the Fund price decline was contained within the ELLI price underperformance, presumably helped by the strong convexity level of our portfolio with an average price of 83%.

For July, our approach remains both prudent and opportunistic as we might consider the European CLO and senior loans have reached a floor at those elevated spreads and low prices. In which case, we would rather focus on heavily discounted secondary short tranches targeting the senior mezzanine part of the capital stack.

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%							-10.51%
USD	6.30%	6.42%	7.62%	0.63%	-0.40%	-1.75%	0.43%	-6.56%	-2.74%							-10.11%
CHF	3.50%	3.94%	6.52%	0.61%	-0.47%	-1.83%	0.38%	-6.63%	-2.91%							-10.54%

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%							-10.57%
USD	3.06%	5.64%	6.72%	0.58%	-0.34%	-1.72%	0.46%	-6.57%	-2.74%							-10.07%
GBP	1.01%	4.07%	6.57%	0.59%	-0.29%	-1.71%	0.49%	-6.52%	-2.78%							-9.97%
CHF	1.08%	3.45%	5.74%	0.53%	-0.40%	-1.86%	0.37%	-6.64%	-2.91%							-10.60%

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	\$93.9m
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
	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

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

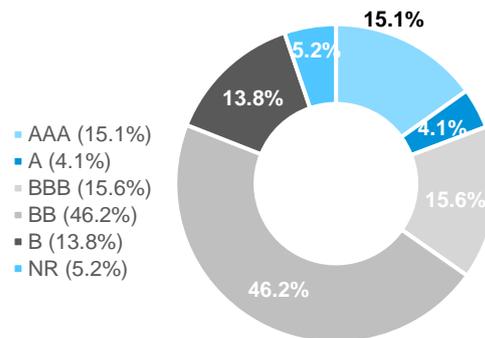
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Portfolio Metrics

Number of Positions:	67
Number of CLO Managers	34
Expected Average Life To Maturity ⁽¹⁾ :	6.3 years
Expected Yield to Maturity ⁽²⁾ :	9.8%

Rating Category Breakdown ⁽³⁾



Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
DRYD 2014-32X ER	PGIM	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⁾

Healthcare & Pharmaceuticals	14.07%
High Tech Industries	7.13%
Services: Business	7.05%
Chemicals, Plastics, & Rubber	6.35%
Telecommunications	6.07%
Services: Consumer	5.09%
Beverage, Food & Tobacco	4.66%
FIRE: Banking, Finance, Insurance & Real...	4.53%
Capital Equipment	4.43%
Hotel, Gaming & Leisure	4.39%

Look-Through Issuers (Top 10) ⁽⁴⁾

INEOS LIMITED	1.67%
ALTICE NV	1.41%
LIBERTY GLOBAL PLC	1.34%
EG MIDCO 1 LIMITED	1.08%
LORCA JVCO LIMITED	1.07%
NIDDA GERMAN TOPCO GMBH	0.98%
SIGMA HOLDCO BV	0.93%
VERISURE MIDHOLDING AB	0.88%
3I GROUP PLC	0.82%
HOMEVI S.A.S.	0.79%

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.

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