

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

April 2021

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 1.45% for the month of April (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 April, the European CLO market continued to be busy in both primary transactions and refinancing deals with mixed signals in term of focus interest from investors. Indeed, on senior tranches, spreads for new issue and reset AAA notes appeared to converge slightly wider in the mid 80s with a broad range between the tightest spread of E3M+79bp executed on the last CSAM transaction and the new PGIM deal priced at E3M+85bp. This widening spread range have been probably exacerbated by the return of Japanese investors who tend to be sole buyer of the tranche at a tighter level in exchange for strict deal documentation.

On the other hand, we observed a revived demand for BB and B rated tranches, leading to oversubscriptions on new issue deals with clean post covid portfolios and providing good support on the secondary market where aggressive bids have been noticed in numerous BWICs successfully executed along the month. The appetite for mezzanine tranches has been sustained by continuously declining default rates. Indeed, according to Deutsche Bank the trailing 12 months European loan default rate has reduced to 3.2% from a peak of 3.8% last January while loan defaults in European CLO has declined from 0.5% to 0.4%.

Last month, there have been €3.1bn new CLO issued in addition to €7.2bn of refinancing deals bringing the YTD total issuance at €37.6bn, the highest ever YTD volume for European CLOs. The number of CLO managers registering new European CLO warehouses rocketed recently, bringing the aggregated amount to 85. This flurry of activity follows a very solid 1st quarter for leverage loans issuance in Europe and continued positive sentiment for CLO issuance going into Q2. All the right ingredients for a strong quarter are there with a widespread investor appetite and a decent pipeline on the primary leverage loans side. The elevated CLO supply has somewhat increased pricing tiering/dispersion on the primary reset CLO market depending on portfolio quality, test performance and CLO managers perceived expertise.

We believe BBB & BB rated tranches offer very good value on the back of relative cheapness compared to any alternative credit asset and limited downgrade risk, in particular on new issues where those tranches have been tightening respectively down to E3M+300bp and E3M+580bp for the last transactions of the month. Additionally, we spot selective call related opportunities in the secondary market in the rolling high CLO refinancing wave with a permanent focus on shorter duration mezzanine tranches.

In the senior loan market, although leverage has increased due to the recession caused by the pandemic event, interest coverage ratios are healthy and liquidity and cash ratios are still high. With expectations of growth improving this year, we would also expect credit fundamentals to continue to improve.

In our portfolio, we took advantage from the March mezzanine slight widening trend to deploy our cash bucket into one BBB tranche newly issued by PGIM at an attractive spread of E3M+355bp on the top of the Euribor floor value estimated at 40bp and a couple of BB tranches from reset transactions issued by Permira and Fair Oaks at an average spread of E3M+665bp (including the floor value), a strong pick up vs secondary 2Y shorter BB tranches offered at E3M+530-550bp. After this investment, our cash exposure remains at 9.5% as we are expecting several interesting opportunities in the primary market to arise in May. Our global exposure is conservatively positioned with 27% in Investment Grade assets and 76% in BB and above rated tranches, above our minimum guidelines of 20% and 70% respectively.

As a result of a constructive market tone with net inflows mainly investing in BB/B tranches, the Fund performed positively in April thanks to our bias for high quality CLO managers as well as a systematic focus on clean portfolios. Moreover, we will continue to benefit from the positive convexity considering its average market price of 94.34% in a context of a large volume of refinancing transactions expected to be announced over the rest of this year.

We remain positive on our asset class on the back of a powerful European economic rebound due in 2021, improving credit metrics in the senior loan market and the large demand for inflation hedged assets such as floating rate loans.

Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class

	YTD 19*	FY 20	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 21
EUR	4,06%	4,37%	1,01%	0,85%	0,05%	1,45%									3,39%
USD	6,30%	6,42%	1,05%	0,89%	0,06%	1,56%									3,61%
CHF	3,50%	3,94%	0,99%	0,84%	0,04%	1,41%									3,30%

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 21
EUR	2,43%	3,76%	0,91%	0,76%	0,03%	1,30%									3,02%
USD	3,06%	5,64%	0,94%	0,79%	0,05%	1,40%									3,21%
GBP	1,01%	4,07%	0,93%	1,72%	0,06%	1,40%									3,21%
CHF	1,08%	3,45%	0,88%	0,75%	0,03%	1,25%									2,94%

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 inception 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	\$95.9m
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
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: MLDEIAP ID CHF: MLDCIAP ID GBP: MLDGIAP ID

Descartes Alternative Credit UCITS Fund

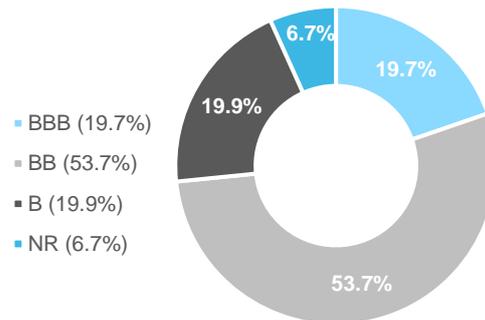
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Portfolio Metrics

Number of Positions:	47
Number of CLO Managers	26
Expected Average Life To Maturity ⁽¹⁾ :	6.3 years
Expected Yield to Maturity ⁽²⁾ :	6.2%

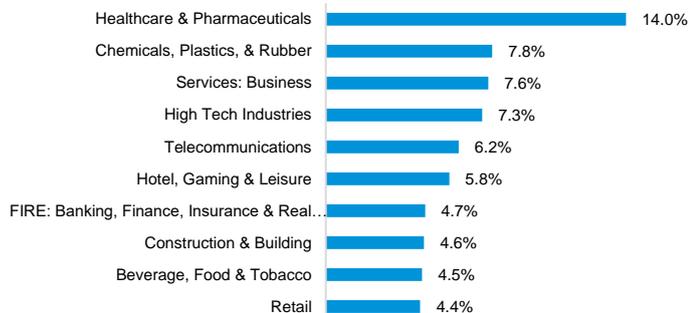
Rating Category Breakdown ⁽³⁾



Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
DRYD 2019-69X F	PGIM	B2/B-/NR	3,000,000
DRYD 2014-32X ER	PGIM	Ba3/BB-/NR	3,000,000
BABSE 2018-2X D	Barings	Baa2/BBB/NR	3,000,000
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
BECL0 8X F	Blackrock	B2/B-/NR	2,850,000

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
 23 St. Stephen's Green
 Dublin 2, 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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