

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

May 2021

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 1.07% for the month of May (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

May was another month of continuing support for European CLO mezzanine tranches, both in primary and secondary markets. Indeed, all BWICs, although with more limited monthly volume than in April, were well absorbed across the capital structure even for high beta CLO managers. Illustrating the investors' appetite for the asset class, trading volume in equity CLO tranches has strongly increased year to date to a record level in particular during this second quarter driven by worldwide institutional demand. In primary transactions, most of the action was focused on new reset and refinancing deals which seem unstoppable considering the relatively attractive current average cost of debt of E3M+170bp to finance a still appealing senior loan average spread level of E3M+380bp. The AAA tranche spread is definitely stabilizing at E3M+85bp, as priced for the 4 new issues launched in May, offering an unrivaled relative value compared with Investment Grade corporate bonds.

Furthermore, we continue to see solid demand for primary BBB and BB CLO tranches, either on refinancing deals managed by high quality and defensive CLO managers (Ares, Blue Mountain...) or for newly issued transactions based on clean, post-Covid portfolios. In secondary, strong convex B rated tranches are getting good traction in the E3M+750/800bp area. Interestingly, despite a low roll level for recent refinancing deals at well below 50%, mezzanine tranches have systematically met a strong execution on the back of a larger investors base desperately looking after high coupon and inflation protected assets.

In this respect, top quality BBB and BB rated tranches managed to price in primary at respectively E3M+290bp and E3M+580bp, 10 to 20bp tighter than levels executed during April.

The main credit metrics and portfolio tests performance across European CLOs continued to improve, driven by a positive macroeconomic backdrop, stabilising loan ratings, active CLO management and a beneficial rating methodology change in Moodys criteria. Moreover, defaulted assets are benign across the CLO universe and more than half of existing transactions report no default at all.

We have noticed similar resilience in the senior loan market with the ELLI price gradually moving up to 98,75%, just 10bp below pre-pandemic levels, despite the flurry of primary issuance year to date with the highest volume since 2007. Indeed, the substantial appetite coming from CLO managers together with long-only investors on the look-out for floating rate assets have generated a solid and relentless bid for primary senior loans which have surged due to the recovery in M&A and LBO volumes since Q4 last year. Barclays has consequently raised its 2021 gross European loan issuance forecast to €95bn et net issuance at €20bn, taking into account an elevated pre-payment rate.

In our portfolio, we carried on seizing good opportunities early May in reset mezzanine tranches, having bought 3 deals: a single B tranche from the Spire 5 transaction at E3M+950bp and two BB tranches from the Fair Oaks 1 deal at E3M+675bp and Bilbao at E3M+640bp. Those levels were offered at a premium of 30/40bp vs secondary prices taking into account the Euribor floor value. After those investments, our cash exposure is slightly reduced to 8% as we continue to monitor opportunities in the primary market to arise in June. Our global exposure is conservatively positioned with 27% in Investment Grade assets and 76% in BB and better rated tranches, above our minimum guidelines of 20% and 70% respectively.

As a result of a constructive market tone with net inflows spilling in BB/B tranches, the Fund performed positively in May thanks to our well balanced position mixing conservative together with cyclical bias CLO managers adequately positioned for the economic rebound. In addition, we continue to benefit from the positive convexity of our portfolio, with an average market price of 95.80%.

We are still quite positive on our asset class on the back of reopening economies in Europe, improving credit metrics in the senior loan market and the structural demand for inflation and interest rates hedging assets.

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%	1,07%								4,49%
USD	6,30%	6,42%	1,05%	0,89%	0,06%	1,56%	1,16%								4,81%
CHF	3,50%	3,94%	0,99%	0,84%	0,04%	1,41%	1,04%								4,38%

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%	0,95%								4,00%
USD	3,06%	5,64%	0,94%	0,79%	0,05%	1,40%	1,02%								4,26%
GBP	1,01%	4,07%	0,93%	1,72%	0,06%	1,40%	0,94%								4,18%
CHF	1,08%	3,45%	0,88%	0,75%	0,03%	1,25%	0,93%								3,89%

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	\$100.2m
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

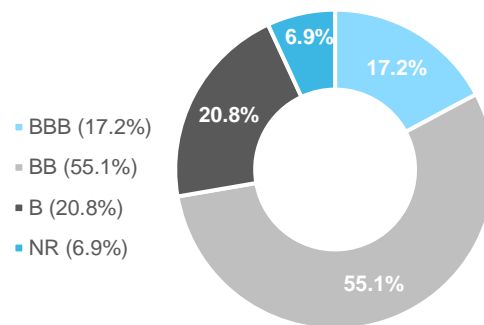
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Portfolio Metrics

Number of Positions:	47
Number of CLO Managers	26
Expected Average Life To Maturity ⁽¹⁾ :	6.8 years
Expected Yield to Maturity ⁽²⁾ :	6.4%

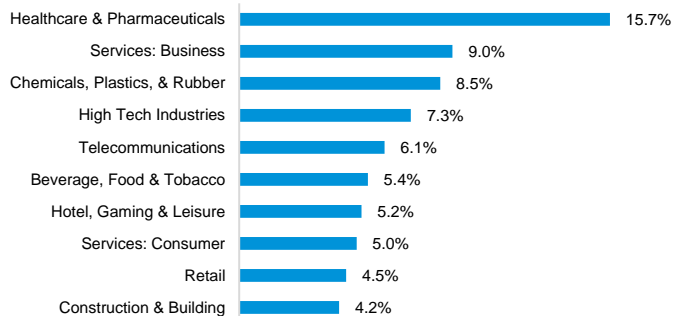
Rating Category Breakdown ⁽³⁾



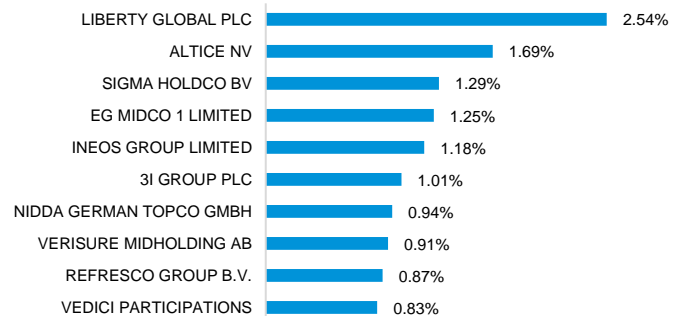
Top 5 Positions ⁽³⁾

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

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