

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

October 2019

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned -0.38% for the month of October (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, 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 October, we continued to see a pricing divergence between senior CLO tranches and mezzanine tranches. Indeed, while the strong appetite carried on the AAA tranche creating positive price tension up to a record year to date level of 90bp over E3M priced by the last BlackRock transaction, the demand was much weaker when BB or B tranches are offered. The BBB tranche looks reasonably solid close to 400bp area. We bought in primary the last deal issued by Anchorage at E3M+ 380bp as the loan portfolio is very clean and the CLO manager style being conservative.

The high number of BWIC combined with heavy new issue supply during the month did not help to support prices at the bottom of the capital stack as we have seen investors either taking some profit or creating room to reposition for the abundant October primary issuance. Indeed, October have seen 9 new transactions priced for a total of €4bn, making the second largest new issue month of the year. Total primary activity for the year stands at €25,7bn from 62 deals, the busiest trend seen over the last 12 years.

Approaching the end of the month, we have seen secondary BBB tranches better bid on BWICs in the 350-380bp area. Looking forward, we expect to see some natural supply/demand compression with declining new issue supply and some investors looking to deploy cash.

The junior mezzanine, BB and B tranches, spread widening has also been driven by US funds outflows from the European CLO market as well as contagion from spread dislocation seen in the US CLO market in spite of a relatively modest drop in Market Value Over Collateralisation levels for BB/B tranches.

Furthermore, at the difference of the US loan market, we remain highly confident in the European loan market quality which looks much more stable with less tail risk, stronger Free Cash Flows level, less leverage, less volatile sectors involved and a reduced primary issuance by 30% year to date.

At primary spread levels of respectively E3M+400bp and E3M+725bp, we believe BBB and BB CLO tranches should stabilize offering incidentally a great entry point; we remain however more defensive on B tranche and prefer alternatively selective secondary equity tranches as on the latter duration is much shorter and cash flow payments are stronger. In this respect, we bought an old deal from BlackRock issued in 2018 at an implied IRR of 13.5% /16% to maturity/ 6y call date.

Finally, the Total Return of the Fund continued to outperform the Itraxx X-Over TR by 1.7% since inception while the weekly volatility remains much lower at 2.28% vs 5.1% for the index.

### Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class													
2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
EUR			-0.02%	0.58%	0.94%	0.67%	0.72%	0.58%	-0.55%	-0.38%			<b>2.56%</b>
USD			0.06%	0.76%	1.28%	0.94%	0.90%	0.81%	-0.35%	-0.12%			<b>4.33%</b>
CHF			-0.10%	0.40%	0.89%	0.63%	0.67%	0.53%	-0.60%	-0.41%			<b>2.01%</b>

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													
2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
EUR					0.16%	0.59%	0.64%	0.53%	-0.46%	-0.39%			<b>1.06%</b>
USD						0.15%	0.87%	0.76%	-0.32%	-0.13%			<b>1.33%</b>
CHF							0.23%	0.50%	-0.57%	-0.41%			<b>-0.25%</b>

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.

### 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 created 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	\$94.8m
Inception	26 <sup>th</sup> March 2019

Share Class	Institutional Founder Class
Currency	EUR/USD/CHF/GBP
Bloomberg ID (EUR)	MLDAE1F 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: MLDAE1F 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

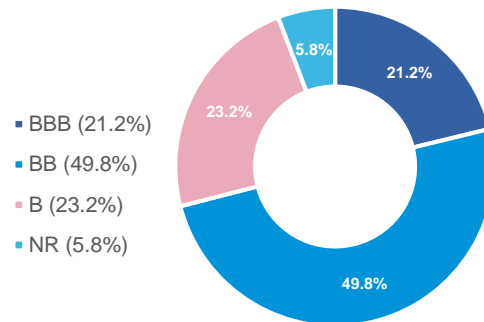
## Long Only Total Return Structured Credit

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### Portfolio Metrics

Number of Positions:	40
Number of CLO Managers	21
Expected Average Life To Maturity <sup>(1)</sup> :	7.7 years
Expected Yield to Maturity <sup>(2)</sup> :	7.0%

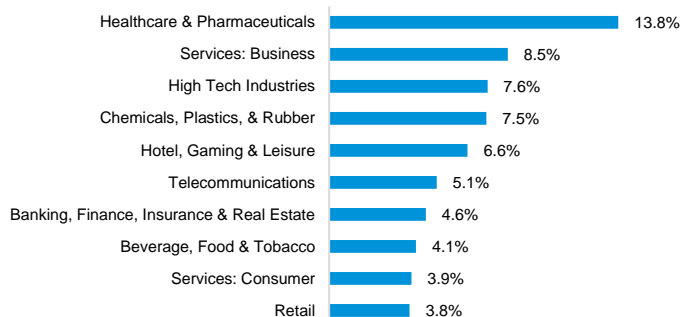
### Rating Category Breakdown <sup>(3)</sup>



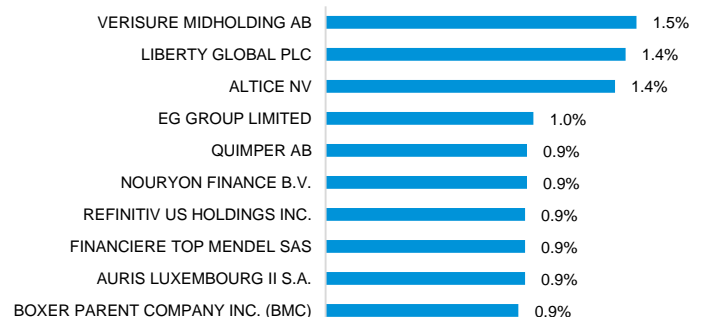
### Top 5 Positions <sup>(3)</sup>

Deal Name	Manager	Rating (M/S/F)	Par Amount (EUR)
AQUE 2019-3X E	HPS	Ba3/NR/BB-	3,050,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
CGMSE 2019-1X D	Carlyle	Ba3/NR/BB-	3,000,000
DRYD 2017-51X D	PGIM	Baa2/BBB/NR	3,000,000
DRYD 2019-69X F	PGIM	B2/B-/NR	3,000,000

### Look-Through Industry Breakdown (Top 10) <sup>(4)</sup>



### Look-Through Issuers (Top 10) <sup>(4)</sup>



#### 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

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