

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

December 2021

Performance Returns

The Descartes Alternative Credit UCITS Fund returned -0.15% for the month of December (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 December, the European CLO market was less active as expected although the primary market remained relatively open during the first 2 weeks with 3 deals printed for a total size of €1.2bn, bringing the full year issuance to a record amount of €39.1bn for a total of 95 new issues. When taking into account refinancing deals, total issuance exceeded the landmark level of €100bn in 2021 driven by a larger and more diversified investors base, looking after high return within the fixed income markets.

For the last month of the year, key credit metrics were stable or have improved slightly with the Moody's Weighted Average Rating Factor flat month-on-month but much better over the year, the tail of the CLO universe has reduced quite substantially in 2021. Moreover, CCC buckets in CLO portfolios have decreased significantly along the year to finish last month at a low of 3.4%. Additionally, distressed loans (price below 80%) exposure in CLO portfolios closed the year at 0.8%, which is even lower than pre-pandemic levels. Finally, not a single CLO deal breached any OC or IDT test at the end of 2021 and the median BB tranche Over-Collateralization ratio remains at a satisfactory level of 111% in December, well above the level seen in early 2021.

CLO mezzanine tranches moved sideways last month with BBB/BB/B rated tranches spread ended the year at respectively E3M+340bp/650bp/920bp for recently issued transactions. Spread dispersion remains however quite large with a strong bias from investors for disciplined and experienced CLO managers based on post-pandemic established loan portfolio.

For 2022, we expect somehow similar dynamics, with less refinancing deals but with another very strong year for primary new issues. Senior loans supply, which is also expected to remain firm, will definitively support CLO issuance volume. Investment Banks are targeting €34bn to €40bn new CLOs this year, which should include new CLO managers looking after a footprint in the European CLO market. CLO debt spreads are expected to be range bound, supported by a better macro backdrop and a subdued default rate context but facing some headwinds through an on-going supply pressure.

Regarding our portfolio, we have not traded any position and have not bought any transaction as we wanted to build ammunitions for this new quarter, expected to be very busy in primary deals as a large number of warehouses have been loading senior loans last quarter in preparation for new CLO deals to be launched in the near term.

As a result of recent subscriptions and a few positions been called, our cash or equivalent exposure has increased to 13.3% which, together with our BBB exposures, brings the Investment Grade overall position to 30%, well above the minimum required of 20%; furthermore, our BB and above rated portfolio stands at 77%, comfortably above the minimum required of 70%.

The Fund performance has been slightly negative in December due to some BB and B tranches minor spread widening as a result of dealers off-loading some positions approaching year-end. In addition, the Euribor 0 floor value has declined following some interest rate tension seen in the 5-10y forward curve.

The full year performance remains however solid at nearly 7%, which is at the top end of our return objective, despite some flattish spread evolution across CLO mezzanine tranches all along 2021 due to a massive primary market activity. Worth considering, our Fund weekly volatility stayed low and well below the average European High Yield funds universe as our asset class floating rate nature offered a natural hedge against long term interest rates volatility.

For the coming quarter, we continue to stay constructive on the CLO asset class considering the current spread levels across mezzanine tranches, its inflation hedge benefit and the ECB support through an increasing Asset Purchase Program replacing gradually the existing PEPP. Our high cash level should allow us to seize excellent opportunities over the next 2 months to purchase CLO mezzanine tranches at a generous discount margin.

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%	0.12%	0.44%	0.32%	0.69%	0.17%	0.62%	-0.15%	6.83%
USD	6.30%	6.42%	1.05%	0.89%	0.06%	1.56%	1.16%	0.19%	0.51%	0.37%	0.75%	0.22%	0.60%	0.02%	7.62%
CHF	3.50%	3.94%	0.99%	0.84%	0.04%	1.41%	1.04%	0.11%	0.41%	0.30%	0.68%	0.13%	0.59%	-0.18%	6.52%

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%	0.11%	0.38%	0.28%	0.62%	0.14%	0.56%	-0.14%	6.04%
USD	3.06%	5.64%	0.94%	0.79%	0.05%	1.40%	1.02%	0.15%	0.44%	0.32%	0.65%	0.20%	0.54%	0.03%	6.72%
GBP	1.01%	4.07%	0.93%	1.72%	0.06%	1.40%	0.94%	0.16%	0.43%	0.33%	0.68%	0.17%	0.62%	-0.11%	6.57%
CHF	1.08%	3.45%	0.88%	0.75%	0.03%	1.25%	0.93%	0.09%	0.35%	0.27%	0.60%	0.11%	0.51%	-0.17%	5.74%

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	\$109.3m
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
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Bloomberg Codes	EUR: MLDEIAP ID USD: MLDUIAP ID CHF: MLDCAIP ID GBP: MLDGIAP ID
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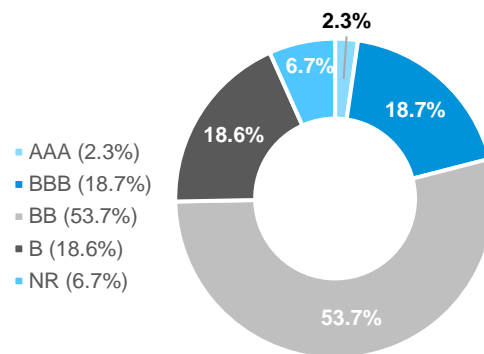
Portfolio Metrics

Number of Positions:	58
Number of CLO Managers	31
Expected Average Life To Maturity ⁽¹⁾ :	7.1 years
Expected Yield to Maturity ⁽²⁾ :	6.4%

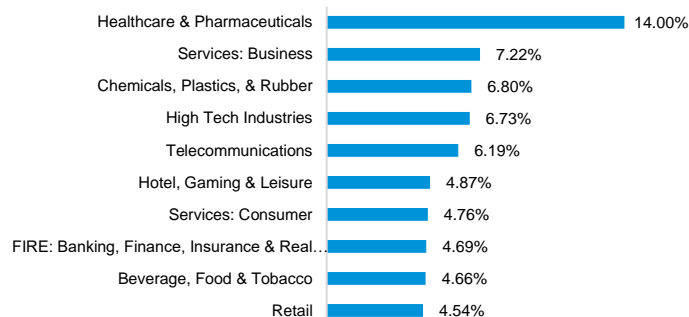
Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
BABSE 2018-2X D	Barings	Baa2/BBB/NR	3,000,000
DRYD 2014-32X ER	PGIM	Ba2/BB-/NR	3,000,000
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
BECLO 8X F	BlackRock	B2/B-/NR	2,850,000
BABSE 2018-3X E	Barings	Ba2/BB-/NR	2,500,000

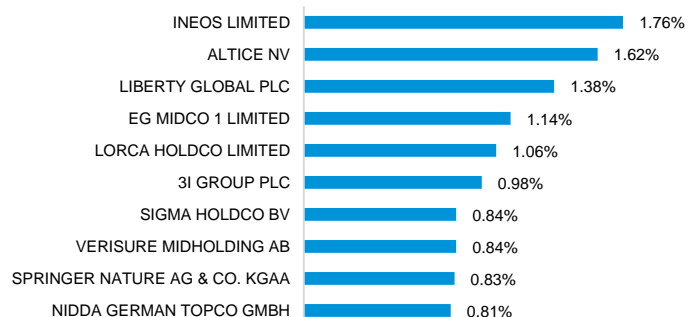
Rating Category Breakdown ⁽³⁾



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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