

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

January 2020

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 2.09% for the month of January (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 January, the rally in CLO mezzanine tranches, started in December, continued aggressively helped by a strong price increase in the secondary loan market which then pushed up prices in the CLO asset pools. This has prompted a recovery in market value based metrics, even if the fundamentals have not changed. There is a widespread view that CLO mezzanine debt was oversold in Q4 last year, and the subsequent cheapening was simply too good an opportunity to miss in the first weeks of 2020. Improved stability on the global macro front and light inventory held by dealers is also pushing investors with cash to spend on the secondary markets.

As a result, BBB, BB and B tranches have tightened respectively 35bp and 50bp for BB/B in January.

We took advantage of this tailwind to deploy some cash in selective BBB secondary tranches at spread around E3M+375-400bp during the first days of the month. As a note, the first CLO transaction of this year, issued by Investcorp, has printed late January its BBB tranche at an astonishing tighter level of E3M+300bp even after being upsized to €500m from an initial €420m deal.

We also participated in several BWICs but we unfortunately missed our targeted deals in BBB and BB tranches offer due to very aggressive pricing execution driven by massive inflows in the asset class. Secondary BBB tranches were sold at or close to E3M+300bp and BB tranches in low 500ov E3M for reference.

In that context, our cash position remains high at 15% in order to seize good opportunities on what will be a very busy primary market in February/March with at least 12 identified deals ready to print as well as to continue sourcing secondary positions offered from dealers or through BWICs.

Tail risk identified in some CLO portfolios last year has stabilized if not diminished, and CLO mezzanine investors seem today comfortable given the very low default environment and recession risk, in particular on deals with cleaner portfolios.

The Fund best monthly performance recorded since inception was the result of additional fresh budgets spent early in the year by investors jumping in cheap secondary prices offered across mezzanine tranches. This performance is quite stunning considering the credit indices moved the opposite way with negative total return for the month.

Further tightening of junior mezzanine spreads, although more gradual, is expected in the coming months as not only the supply overhang should cool due to on going tighter loan spreads but more importantly the extreme relative value favouring CLO mezzanine tranches vs any equivalent credit with similar rating not seen since 2014 is triggering some portfolio rebalancing in our asset class. As such, we are seeing investors moving out of corporate debt such as high yield bonds into lower rated notes issued by CLOs motivated as well by the floating rate nature of CLO tranches.

In conclusion, we remain confident our current portfolio should carry on delivering positive monthly performance and alpha thanks to the large coupon locked, positive convexity, the high diversification and de-correlation benefits in addition to spread tightening expectations from current levels.

### Descartes Alternative Credit UCITS Fund Performance

#### Institutional Founder Class

2019/20	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	ITD*
EUR	-0.02%	0.58%	0.94%	0.67%	0.72%	0.58%	-0.55%	-0.38%	0.32%	1.14%	2.09%		6.23%
USD	0.06%	0.76%	1.28%	0.94%	0.90%	0.81%	-0.35%	-0.12%	0.44%	1.44%	2.30%		8.74%
CHF	-0.10%	0.40%	0.89%	0.63%	0.67%	0.53%	-0.60%	-0.41%	0.30%	1.15%	2.04%		5.61%

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

2019/20	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	ITD*
EUR			0.16%	0.59%	0.64%	0.53%	-0.46%	-0.39%	0.32%	1.04%	1.86%		4.34%
USD				0.15%	0.87%	0.76%	-0.32%	-0.13%	0.43%	1.27%	2.05%		5.17%
CHF					0.23%	0.50%	-0.57%	-0.41%	0.33%	1.00%	1.83%		2.93%

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.

\* Inception to 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	\$118.5m
Inception	26 <sup>th</sup> 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

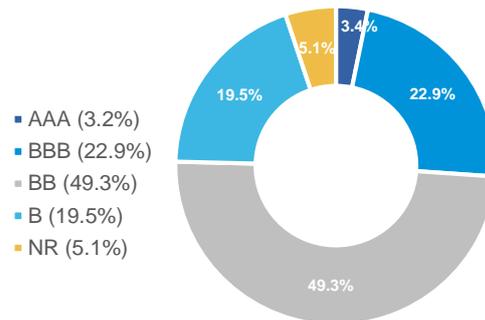
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### Portfolio Metrics

Number of Positions:	44
Number of CLO Managers	24
Expected Average Life To Maturity <sup>(1)</sup> :	7.3 years
Expected Yield to Maturity <sup>(2)</sup> :	6.4%

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



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

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