

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

October 2021

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.17% 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 (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 October, European CLO tranches have proved once more resilient and decorrelated amid some volatility in global markets facing a number of headwinds including surging energy price, supply chains disruption in addition to rising inflation and long-term rates. CLO new issue volume was significant last month with 13 deals printed for a total size of €5.5bn bringing YTD issuance at €31.1bn, a record volume since 2007.

Due to this high primary volume together with refinancing deals continuing its strong pace, CLO mezzanine tranches new issue spread were stable to slightly wider with BBB tranches issued at E3M+320/330bp and BB/B rated tranches less in demand but with a solid floor set at respectively E3M+640bp and E3M+935bp. Moreover, the AAA tranche continued to attract investors with a spread seen as tight as E3M+96bp for the last issues from CVC and KKR. We expect this spread to converge gradually to 90bp level over the next months considering the floating rate nature of CLOs and the unbeatable carry vs any equivalent fixed income asset of similar rating. Even at E3M+73bp the short-dated AAA tranche refinanced on the last deal by Spire has met a strong demand.

CLOs have benefited from near-record European senior secured loans volume this year as private-equity buyouts and M&A transactions surged. Furthermore, loan credit metrics remain solid with free cash flows level seen at the highest point ever due to, among other factors, the very low interest rate context.

Primary refinancing volume activity should carry on its course until year-end as we estimate around €14bn of secondary CLO deals to exit their non-call period which make economic sense to get refinanced; in addition, a wave of new issues is expected over the next 2 to 3 months as about 50 deals securing bank financing (warehouse) are currently open to work on new transactions.

On the secondary market, CLO mezzanine tranches price has been negatively impacted by the reduction in the Euribor floor, which is currently valued at around 5bp, coming from 20bp at the end of September. Despite this effect, investors demand in BWICs for CLO assets has been relentless, specifically for BBB rated tranches and short dated BB or B rated tranches with clean underlying loan portfolios.

Fast money activity has been immaterial which helped to keep technical in the CLO market well supported as real money investors continued to deploy their large cash balance in our asset class.

As put recently by Morgan Stanley credit research dated October 24th, the strength in European credit fundamentals suggesting a benign default rate outlook favor high yield loans over any other credit asset, a view which can be best expressed through CLO junior mezzanine and equity tranches.

Regarding our portfolio, we have deployed our cash balance, built up through recent subscriptions in our fund, to purchase a BBB tranche reset by PGIM at a fat margin of E3M+360bp in replacement of the B tranche called at par, two reset BB and B tranches from Hayfin, a conservative CLO manager, at respectively E3M+655bp and E3M+940bp, an unusual wider spread due to its longer 5y Reinvestment Period. In addition to this, we took the opportunity on a refinancing deal from Tikehau where we had the BB tranche called at par to replace it, as a result of an increase of the deal size, by the equity tranche at a rare cheap price of 50% equivalent to the portfolio NAV with no premium.

As a result of our activity, our cash or equivalent exposure is down to 4.3% as we have slightly increased our portfolio risk profile, considering the positive market momentum, with 21.6% invested in Investment Grade assets and 72.5% in BB and better rated tranches, above our minimum guidelines of 20% and 70% respectively.

The Fund managed to generate a positive performance despite the Euribor floor large monthly move, thanks to a strong buying activity from institutional investors looking to re-allocate their exposure in non-interest rate sensitive assets such as CLOs.

Thanks to its large carry and inflation hedge benefits, we stay constructive on the CLO asset class which will offer some interesting alpha and market outperformance in the coming quarters.

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%			6.33%
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%			6.95%
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%			6.09%

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%			5.60%
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%			6.12%
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%			6.03%
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%			5.38%

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	\$103.5m
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
	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
	EUR: IE00BJCWT213
	USD: IE00BJCWT544
	CHF: IE00BJCWT437
	GBP: IE00BJCWT320

ISIN Codes	EUR: MLDEIAP ID
	USD: MLDUAIAP ID
	CHF: MLDCIAP ID
	GBP: MLDGIAP ID
Bloomberg Codes	EUR: MLDEIAP ID
	USD: MLDUAIAP ID
	CHF: MLDCIAP ID
	GBP: MLDGIAP ID

Descartes Alternative Credit UCITS Fund

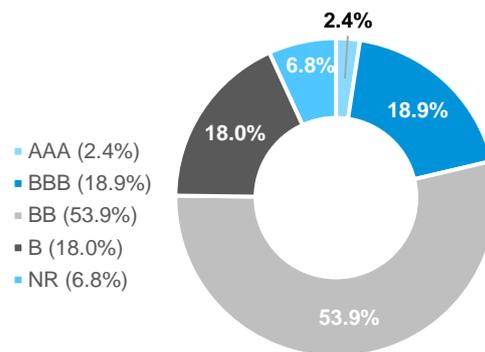
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Portfolio Metrics

Number of Positions:	57
Number of CLO Managers	32
Expected Average Life To Maturity ⁽¹⁾ :	7.5 years
Expected Yield to Maturity ⁽²⁾ :	6.3%

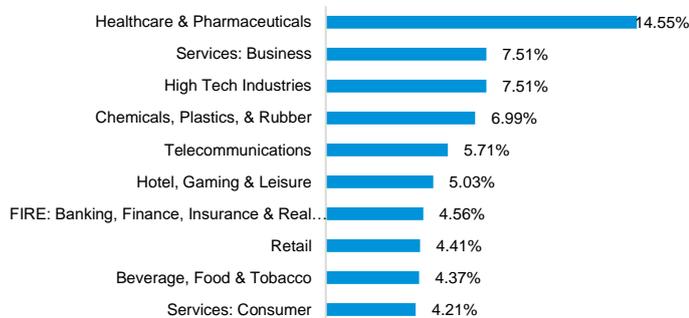
Rating Category Breakdown ⁽³⁾



Top 5 Positions ⁽³⁾

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

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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