

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

March 2020

Performance Returns

The Descartes Alternative Credit UCITS Fund returned -25,3% for the month of March (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

Over the month of March, following the negative news on the Covid-19 expansion in Europe and the successive lockdowns of several countries, the credit markets went in total dislocation with little distinction of the underlying borrowers' quality. European leverage loan prices went straight down from 99% to 85%, and consequently the CLO debt tranches were hit hard across the stack, with AAA tranches moving from E3M+100bp to E3M+350bp, the BBB widened from E3M+325bp at the end of February up to E3M+900bp, the BB from E3M+575BP up to E3M+1500bp and the B tranche from E3M+880bp up to E3M+2000bp. Those extreme levels have not been seen since the Global Financial Crisis in 2009.

The panicked sell-off was initially activated through little volume by a number of force sellers under margin calls pressure then joined by institutional investors reducing their exposure to CLO senior tranches. Additionally, there was a large number of BWICS every single day of the month but more than 70% of those CLO tranches for sale did not trade, in particular on mezzanine tranches, as most sellers were reluctant to sell at crushed bid prices.

As a result of the massive fiscal and monetary stimulus put in place in Europe and in the US, the European CLO market started to stabilize last week with aggressive buyers coming back on the AAA/AA tranches and to a lesser extent on the BBB tranches.

Worth mentioning, when the FED has added a massive amount of stimulus to ease some liquidity problems in the US corporate credit markets including ABS and AAA CLO tranches with unlimited access to its repo window, investors bidding interest started immediately on the AAA CLO tranches first in the US then in Europe with spreads tightening by at least 30% from the wides as a result.

Our fund strong negative performance has been driven not only by the full credit dislocation but also a large de-compression trend between IG and NIG credit assets. On the top of it, the reduced liquidity did not help our exposures pricing level in particular on the BB/B tranches representing 65% of our current portfolio. On the positive side, our cash level is at 14% and we have faced little redemptions equivalent to 6% of the fund AUM.

On the loans side, some CLO managers have initiated opportunistic arbitrages to upgrade their portfolio during the melt-down and have restored, for some of them, a decent cash bucket following well inspired loan selling in February. As a result of the governments liquidity injection, European loan prices downturn ceased and finished the month up 3 to 5% from their lows.

We believe CLO mezzanine tranches have seen their spread levels moving far too wide as their subordination level is strong enough to weather a default rate to jump up to 13%* for a BB tranche and 23%* for a BBB tranche. There is incredible value implied in our current exposures (current yield at maturity of 12%***) considering the huge stimulus program put rapidly in place and assuming a lockdown unwind is expected in May/June. Our portfolio offers today a clear asymmetry with more potential performance upside than downside bearing in mind volatility will remain elevated over the month of April. We will wait to see additional signs of stabilization prior to deploy our cash in the market, which, at least, means the confirmed inflexion point of the virus propagation in several European countries.

** based on Cartesia hypothesis * using 60% recovery rate

Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class

2019/20	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	ITD*
EUR	-0,02%	0,58%	0,94%	0,67%	0,72%	0,58%	-0,55%	-0,38%	0,32%	1,14%	2,09%	-0,16%	-25,31%	-20,78%
USD	0,06%	0,76%	1,28%	0,94%	0,90%	0,81%	-0,35%	-0,12%	0,44%	1,44%	2,30%	-0,02%	-24,74%	-18,18%
CHF	-0,10%	0,40%	0,89%	0,63%	0,67%	0,53%	-0,60%	-0,41%	0,30%	1,15%	2,04%	-0,20%	-25,38%	-21,35%

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	Mar	ITD*
EUR			0,16%	0,59%	0,64%	0,53%	-0,46%	-0,39%	0,32%	1,04%	1,86%	-0,15%	-25,19%	-22,06%
USD				0,15%	0,87%	0,76%	-0,32%	-0,13%	0,43%	1,27%	2,05%	-0,02%	-24,66%	-20,78%
CHF					0,23%	0,50%	-0,57%	-0,41%	0,33%	1,00%	1,83%	-0,17%	-25,26%	-23,20%

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	\$92.5m
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
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

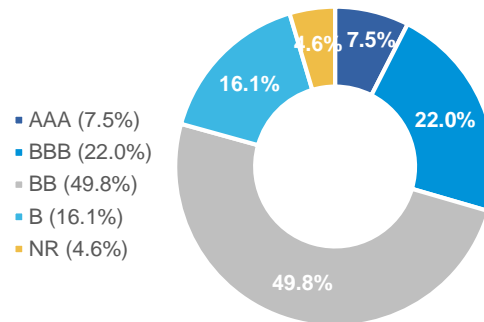
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Portfolio Metrics

Number of Positions:	50
Number of CLO Managers	26
Expected Average Life To Maturity ⁽¹⁾ :	7.0 years
Expected Yield to Maturity ⁽²⁾ :	11.6%

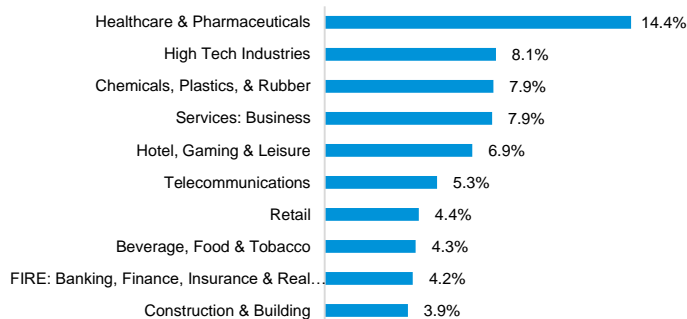
Rating Category Breakdown ⁽³⁾



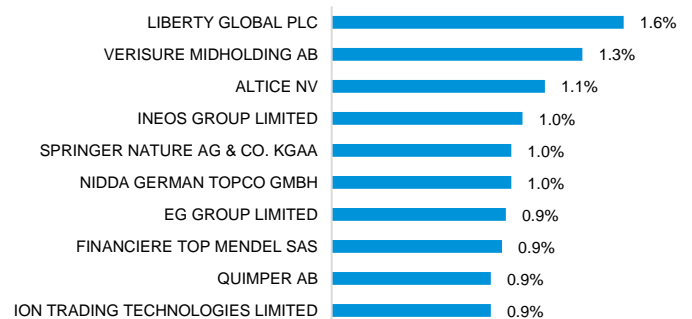
Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/S/F)	Par Amount (EUR)
FOAKS 1X A1	Fair Oaks	Aaa/NR/AAA	3,000,000
DRYD 2017-51X D	PGIM	Baa2/BBB/NR	3,000,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
DRYD 2014-32X ER	PGIM	Ba2/NR/BB	3,000,000
SPAUL 10X E	ICG	Ba2/NR/BB	3,000,000

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.

Contact Details

Investor Contact

MontLake Funds (UK) Ltd
Park House, 116 Park Street
London, W1K 6AF
T: +44 20 3709 4510
investorrelations@montlakefunds.com

Management Company

MontLake Management Ltd
23 St. Stephen's Green
Dublin 2, Ireland
T: +353 1 533 7020
investorrelations@montlakefunds.com

Investment Manager

Cartesia SAS
26 rue Danielle Casanova
75002 Paris, France
T: +33 1 56 43 4003
pm@cartesiafinance.com

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