

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

May 2020

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 15.23% for the month of May (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

Following a market stabilization in April supported by a strong investors’ demand for Investment Grade CLO tranches, the month of May has seen a clear rally across tranches through elevated volume with Institutional money from the US as well as Europe chasing mainly BBB and BB CLO tranches with decent underlying portfolio metrics and even a number of credit funds have been looking after B rated tranches with high quality underlying portfolios, lower CCC bucket and solid par subordination.

The other good news is a strong participation from end clients in numerous BWICS proposed during last month with €250mIn assets offered per week on which well above 50% have traded. The demand was driven by new money flowing into the CLO assets across A/BBB/BB rated tranches.

For reference, good BBB tranches tightened to E3M+530bp vs well over 600bp at the end of April, good quality BB tranches broke the 1000bp line to move down to E3M+850bp for the very best deals.

The main theme of the month was an aggressive compression between the IG and the NIG part of the CLO structure materialized by a strong premium for Tier 1 CLO managers. Continued dispersion between CLO managers and deal vintages/portfolio relative quality remains in play, generating up to 100-150bp price differentiation, to a point it became almost impossible to find an offer in good quality secondary BBB and BB tranches.

When looking at the last trustee reports available (April), the CCC bucket across CLO portfolios in our Fund has moderately increased from 5.3% to 6.7% during April and worth adding only 3 loans were downgraded to CCC in May vs 24 in April which is good news for CLO managers who continued to actively manage their portfolio risk profile keeping down lower rated assets and minimizing defaults. We have noticed 3 loan coupon defaulting from Solocal, Takko and SGB Smith but our Fund underlying aggregate exposure to those names is limited to 0.25% having no impact on our assets thanks to the high subordination of mezzanine tranches.

Primary CLO supply has reactivated with 4 deals printed to match the solid appetite coming from real money investors, focusing in particular on the A and BBB tranches and to some extend BB tranches. All deals offered short dated Reinvestment Period and 1y Non Call feature. The structural bid seen last month across most debt tranches should pave the way for more CLO managers to bring new deals shortly to the market.

We have been quite active in our portfolio having sold some weaker BB and B tranches to be rebalanced into more BBB tranches (7 tranches bought) offering high par subordination, shorter duration and low CCC bucket as well as 2 BB short dated strong deals and 3 A rated tranches sourced mainly from the primary market with excellent credit metrics and the benefit of the Euribor 0 floor. As a result, our cash bucket has declined to 6% and 11% when including AAA exposures.

The Fund significant performance last month was driven not only by the massive relative value spread offered by mezzanine CLO tranches within the European credit markets, the robustness assessment of those assets in stress scenario but also due to solid new cash flows deployed by real money clients chasing yield based on high profile CLO managers.

We expect our market to stay technically supported by the current generous credit spreads, the increasing scarcity of good quality CLO mezzanine tranches, a meagre primary activity and large pockets of available cash targeting high yielding assets.

### Descartes Alternative Credit UCITS Fund Performance

#### Institutional Founder Class

2019/20	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	YTD
EUR	0,94%	0,67%	0,72%	0,58%	-0,55%	-0,38%	0,32%	1,14%	2,09%	-0,16%	-25,31%	2,41%	15,23%	-10,16%
USD	1,28%	0,94%	0,90%	0,81%	-0,35%	-0,12%	0,44%	1,44%	2,30%	-0,02%	-24,74%	2,52%	15,37%	-8,97%
CHF	0,89%	0,63%	0,67%	0,53%	-0,60%	-0,41%	0,30%	1,15%	2,04%	-0,20%	-25,38%	2,35%	15,23%	-10,38%

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	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	YTD
EUR	0,16%	0,59%	0,64%	0,53%	-0,46%	-0,39%	0,32%	1,04%	1,86%	-0,15%	-25,19%	2,40%	15,22%	-10,22%
USD		0,15%	0,87%	0,76%	-0,32%	-0,13%	0,43%	1,27%	2,05%	-0,02%	-24,66%	2,51%	15,36%	-9,10%
CHF			0,23%	0,50%	-0,57%	-0,41%	0,33%	1,00%	1,83%	-0,17%	-25,26%	2,36%	15,20%	-10,41%

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 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	\$118.2m
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: MLDCIAP ID GBP: MLDGIAP ID

# Descartes Alternative Credit UCITS Fund

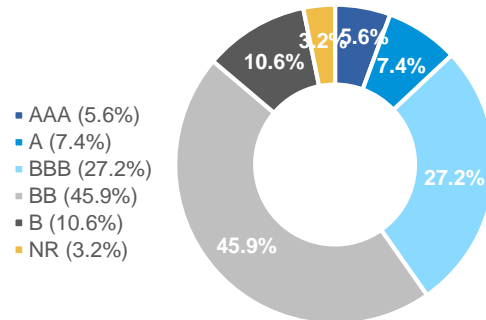
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### Portfolio Metrics

Number of Positions:	60
Number of CLO Managers	29
Expected Average Life To Maturity <sup>(1)</sup> :	6.9 years
Expected Yield to Maturity <sup>(2)</sup> :	7.4%

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



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

Tranche Name	Manager	Rating (M/S/F)	Par Amount (EUR)
FOAKS 1X A1	Fair Oaks	Aaa/NR/AAA	3,000,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
CGMSE 2019-1X D	Carlyle	Ba2/BB-/BB-	3,000,000
SPAUL 10X E	ICG	Ba2/NR/BB	3,000,000
CBABSE 2019-2X D	Barings	Baa3/NR/BBB-	2,725,000

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

CORP - Healthcare & Pharmaceuticals	14.49%
CORP - Services: Business	8.19%
CORP - Chemicals, Plastics, & Rubber	7.69%
CORP - High Tech Industries	7.37%
CORP - Hotel, Gaming & Leisure	6.00%
CORP - Telecommunications	5.36%
Other	4.82%
CORP - FIRE: Banking, Finance,...	4.40%
CORP - Beverage, Food & Tobacco	4.38%
CORP - Services: Consumer	4.27%

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

LIBERTY GLOBAL PLC	1.5%
VERISURE MIDHOLDING AB	1.3%
SPRINGER NATURE AG & CO. KGAA	1.0%
NIDDA GERMAN TOPCO GMBH	0.9%
FINANCIERE TOP MENDEL SAS	0.9%
EG GROUP LIMITED	0.9%
ION TRADING TECHNOLOGIES LIMITED	0.9%
POWER SOLUTIONS	0.8%
ALTICE FRANCE HOLDING S.A.	0.8%
QUIMPER AB	0.8%

#### 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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