

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

March 2021

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.05% 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 (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 March, while primary CLO AAA rated tranches have stabilized at around E3M+82-83bp spread area, CLO mezzanine tranches have faced supply fatigue and weakened with wider spreads generally back to early 2021 levels. Newly issued BB tranches are now offered at E3M+ 650/675bp and B tranches at E3M+925/950bp, wider by around 30/50bp compared to February.

Even if spreads on BBB/BB/B CLO tranches stand out in the historical context and the carry is attractive vs any alternative credit assets, we think the demand/supply imbalance seen last month is likely to last for a few more weeks, creating even better entry points for our cash balance. In that respect, we foresee opportunities to pick up value by adding top tier CLO BBs and B rated tranches on primary deals. Tiering between CLO managers and vintages remains wide and this dispersion could widen further as European CLOs continue to reset their cost of debt.

Secondary market flows have diminished, in particular on BWIC weekly volumes which stand well below €200mIn, as a result of heavy primary supply both coming from new deals and refinancing transactions. Indeed, €3.3bn has been issued in March bringing the 1st quarter new transactions volume to €7.8bn and refinancing deals up to €19.5bn.

According to DB Research analysts\*, primary credit metrics in European CLOs continued to improve in 2021 as evidenced by average loan portfolio rating, the number of CCC rated loans, the junior tranches over collateralization levels and a benign default rate (see graph below).

In our portfolio, we benefited from 5 exposures which have been called at par through a refinancing or a reset transaction to re-deploy part of this refund in a couple of B tranches offered in the primary market at a wide spread of E3M+950-975bp in addition to rolling our exposure in Anchorage BB tranche into their new reset deal at E3M+675bp. As a result of this partial reinvestment, we have increased voluntarily our cash position up to 12% in order to stay opportunistic on high quality primary transactions expected to be raised in April/May, with a focus on long duration deals, highly clean portfolios and conservative CLO managers.

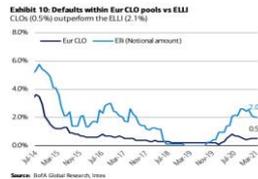
On the senior loan market, prices remain stable to slightly firmer at post Covid highs (ELLI price at 98.62%) while opportunistic transactions continue to dominate the primary loan market with technicals still strongly skewed in favour of borrowers. Worth mentioning, CLO managers are more optimistic on Covid impacted issuers which is reflected in the reduction of price dispersion as loans currently priced below 90% represent only 4% of European CLO portfolios, back to pre-pandemic levels.

Despite a more defensive market context, the Fund performed slightly positively in March thanks to our bias for high quality CLO managers and clean portfolios as well as a deliberate choice for shorter duration BBB and BB rated tranches.

Based on the cash level raised in March, our portfolio should therefore be adequately positioned to capitalize on new issue spreads to be offered during Q2 and we should continue to benefit from a strong activity in refinancing deals (Barclays raised their forecast to €50bn in 2021) allowing us to rebalance potential called assets new CLO portfolios constructed with a longer reinvestment period, limited to no CCC assets and no default.

We remain constructive on our asset class on the back of a powerful European economic recovery expected from H2 onwards, the wide spreads still provided on mezzanine CLO tranches and the structural institutional demand for floating rate assets.

\* DB European CLO Barometer March 2021



## 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%										1.92%
USD	6.30%	6.42%	1.05%	0.89%	0.06%										2.02%
CHF	3.50%	3.94%	0.99%	0.84%	0.04%										1.87%

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%										1.70%
USD	3.06%	5.64%	0.94%	0.79%	0.05%										1.78%
CHF	1.08%	3.45%	0.88%	0.75%	0.03%										1.66%

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 inception 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	\$92.9m
Inception	26 <sup>th</sup> March 2019

### Share Class Institutional Founder Class

Currency	EUR/USD/CHF/GBP
Bloomberg ID (EUR)	MLDAE1F 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: MLDAE1F 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

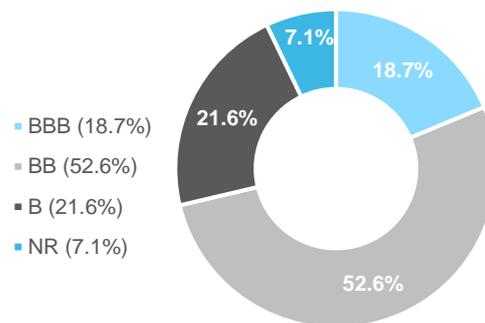
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### Portfolio Metrics

Number of Positions:	42
Number of CLO Managers	26
Expected Average Life To Maturity <sup>(1)</sup> :	6.0 years
Expected Yield to Maturity <sup>(2)</sup> :	6.1%

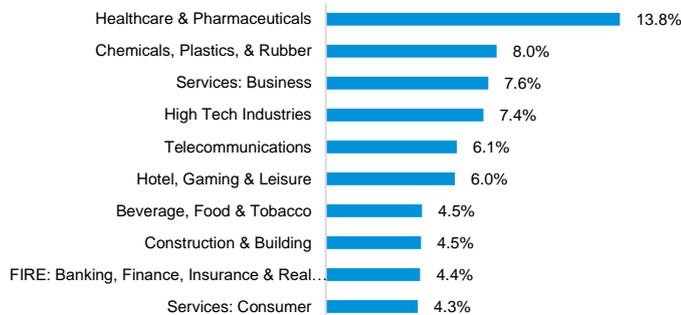
### Rating Category Breakdown <sup>(3)</sup>



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

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
DRYD 2019-69X F	PGIM	B2/B-/NR	3,000,000
BABSE 2018-2X D	Barings	Baa2/BBB/NR	3,000,000
DRYD 2014-32X ER	PGIM	Ba3/BB-/NR	3,000,000
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
BECL0 8X F	Blackrock	B2/B-/NR	2,850,000

### 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.

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