

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

December 2019

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 1.14% for the month of December (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 December, the CLO mezzanine market has accelerated its bottom fishing trend with spread tightening seen across BBB, BB and B tranches. Both in BWICs and on the secondary trading, investors seized this buying opportunity focusing in particular on BB and B tranches as spreads were technically too wide as a result of a busy primary market all along the year. As an additional tailwind to our asset class, US CLO investors stopped their European credit exposure liquidation following the FED pausing rate policy decision.

BBB, BB and B have tightened respectively by 20, 30 and 50bp in December.

We took this opportunity to deploy some cash in one of the rare new CLOs issued last month from Babson in their BBB tranche at an attractive spread of E3M+410bp.

Our cash position still remains voluntarily high at nearly 20% in order to be able to act quickly on attractive primary deals expected to emerge early Q1 as well as to source secondary positions offered from dealers. Incidentally, part of this cash has been temporary invested in highly liquid AAA CLO tranches in order to generate some carry while taking very little risk.

The strong monthly performance was mainly the result of the above mentioned spread tightening and to a certain extent the positive convexity thanks to the average portfolio priced well below par.

As illustrated by Ares' last CLO transaction priced in December, there was evidence buyers are moving back into the junior mezzanine tranches. Indeed, new issue B tranche approached 11%, close to 4% wider than historical tight and without meaningful deterioration in portfolio qualities. Ares managed to price its BB tranche inside 700bp over E3M, taking spreads back to levels last seen in October, ending the month on an optimistic note.

Our fund closed 2019 with an annualized total return of 5.40% despite the challenging context as all mezzanine tranches spread widened along the year mostly due to the primary deals profusion. Thanks to our strict deal selection, our patience to pick up the right CLO manager for the right tranche and vintage as well as the high coupon payments, we managed to deliver strong alpha through a well diversified portfolio of 42 positions, combined with a low weekly volatility of 2.25%.

Further tightening of junior mezzanine spreads is expected in 2020 as the supply overhang cools during the course of the year, most Investment Banks expect new issue pipeline to decrease by around 20% from the outstanding €30bln raised in 2019.

As a consequence, we are as optimistic as Barclays which expects in 2020 top tier long duration new issue BBB spreads to tighten 20-30bps to 380bp, BB spreads to tighten 30-40bp to 660bp and B spreads tightening 50-100bp down to 950bp and even lower from our standpoint.

In conclusion, we remain confident our asset class will deliver in 2020 an attractive performance combined with a strong resilience driven by an elevated carry, a positive convexity and its high diversification nature.

Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class

2019	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
EUR			-0.02%	0.58%	0.94%	0.67%	0.72%	0.58%	-0.55%	-0.38%	0.32%	1.14%	4.06%
USD			0.06%	0.76%	1.28%	0.94%	0.90%	0.81%	-0.35%	-0.12%	0.44%	1.44%	6.30%
CHF			-0.10%	0.40%	0.89%	0.63%	0.67%	0.53%	-0.60%	-0.41%	0.30%	1.15%	3.50%

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
EUR					0.16%	0.59%	0.64%	0.53%	-0.46%	-0.39%	0.32%	1.04%	2.43%
USD					0.15%	0.87%	0.76%	0.76%	-0.32%	-0.13%	0.43%	1.27%	3.06%
CHF							0.23%	0.50%	-0.57%	-0.41%	0.33%	1.00%	1.08%

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 created 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	\$115.6m
INCEPTION	26 th 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

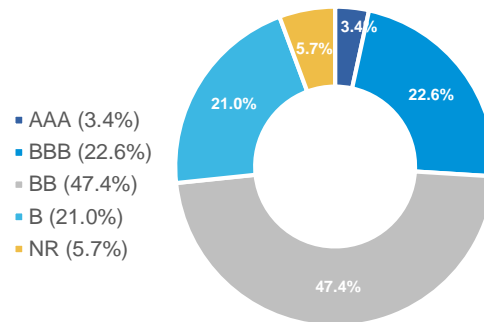
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Portfolio Metrics

Number of Positions:	42
Number of CLO Managers	22
Expected Average Life To Maturity ⁽¹⁾ :	7.3 years
Expected Yield to Maturity ⁽²⁾ :	6.4%

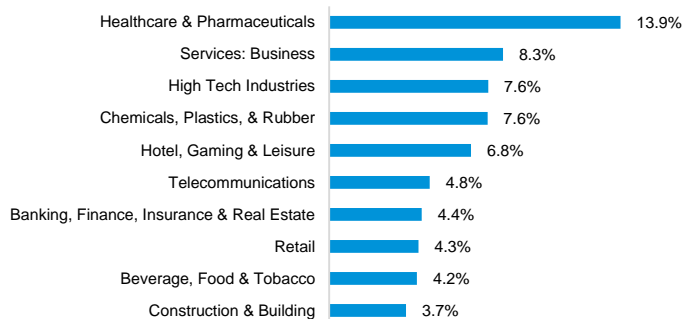
Rating Category Breakdown ⁽³⁾



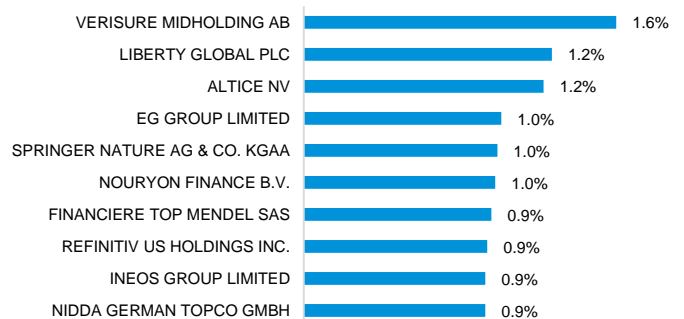
Top 5 Positions ⁽³⁾

Deal Name	Manager	Rating (M/S/F)	Par Amount (EUR)
DRYD 2019-69X F	PGIM	B2/B-/NR	3,000,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
DRYD 2017-51X D	PGIM	Baa2/BBB/NR	3,000,000
CGMSE 2019-1X D	Carlyle	Ba3/NR/BB-	3,000,000
AQUE 2019-3X E	HPS	Ba3/NR/BB-	3,050,000

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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