

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

September 2020

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 2.73% for the month of September (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

The appetite for CLO tranches across the board resumed during the first 3 weeks of the month with strong bids seen both in primary deals as well as in secondary transactions absorbing pretty easily the large BWICs offered in the market.

Indeed, on the primary market, among the deals printed last month, the last CVC transaction managed to price its AAA tranche at E3M+110bp, a tight level coming from E3M+140bp printed in August. The demand on IG tranches has been very strong due to large cash pockets which stayed on hold during the summer combined with the increasing value of the Euribor floor reaching nearly 50bp on a 5y tenor, a high over the last 12 months.

Dispersion of spreads, depending on the CLO manager style and expertise, remained in place in secondary as much as in primary market such as CVC pricing its new BBB tranche at E3M+350bp compared to Barings pricing the same tranche at E3M+435bp.

In September, 4 primary transactions were executed for a total of €1.5bln bringing the YTD volume to €15bln. As the cost of funding CLO is tightening week after week, we are expecting more primary deals to come to the market in October (up to 10 deals are rumoured to be ready). On the other hand, as BWICs volume was one of the busiest recorded month and dealers appeared reluctant to add assets ahead of the quarter end, this has put a halt to the market rally during the last week of September with a spread decompression seen between IG and non IG CLO tranches.

From a macro perspective, fundamentals for all European CLO assets have stabilized, with CCC levels coming off their peaks having retreated from 7 to 6.5%\* today, curing of junior OC tests and WARF levels easing from their recent highs. Moreover, only 5% of BBB and below rated tranches have been downgraded on the full CLO universe, the performance outlook going forward is favourable and structural protection remains a source of support.

In term of rating action on the European loan market, the outlook continues to improve across all agencies with the portion of debt on negative ratings watch falling steadily below pre-Covid-19 levels in recent months. As a result, 80% of CLO tranches put on negative watch during the first half have been affirmed with their initial rating. Furthermore, loan default rates have been lower than expected with 2.2% of the ELLI index and only 0.7% in European CLO portfolios.

Better credit metrics combined with the lack of primary loan supply has helped to push leverage loan prices to a stronger level at 94.80 helping CLO portfolio NAV to recover and to improve the Market Value Overcollateralization level of our mezzanine tranches exposure. We expect demand for yield and risky assets broadly to remain supportive for European loans.

The strong fund performance in September is explained by the above mentioned improving credit metrics together with the high cash level sitting with institutional investors looking desperately after gainful assets in Europe.

In term of activity, we took profit on our remaining positions in A rated tranches at a spread of around E3M+280bp crystallizing a 10% asset performance since purchased last April. As a consequence, our IG exposure has been reduced to 30% and our BB exposure built up to 52%, still conservatively positioned above our minimum guidelines.

We continue to stay constructive on mezzanine tranches of the European CLO market and think that selective opportunities should incrementally arise notably in second tier BB tranches and first tier B tranches during the last quarter of the year.

\* Morgan Stanley Research 21/09/2020

### Descartes Alternative Credit UCITS Fund Performance

#### Institutional Founder Class

	YTD 2019*	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 2020
EUR	4,06%	2,09%	-0,16%	-25,31%	2,41%	15,23%	6,31%	0,57%	0,04%	2,73%				-1,28%
USD	6,30%	2,30%	-0,02%	-24,74%	2,52%	15,37%	6,46%	0,65%	0,10%	2,77%				0,36%
CHF	3,50%	2,04%	-0,20%	-25,38%	2,35%	15,23%	6,29%	0,53%	0,03%	2,69%				-1,63%

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*	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 2020
EUR	2,43%	1,86%	-0,15%	-25,19%	2,40%	15,22%	6,31%	0,56%	0,03%	2,72%				-1,39%
USD	3,06%	2,05%	-0,02%	-24,66%	2,51%	15,36%	6,45%	0,72%	0,09%	2,77%				0,24%
CHF	1,08%	1,83%	-0,17%	-25,26%	2,36%	15,20%	6,28%	0,52%	0,02%	2,69%				-1,69%

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	\$119.6m
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: MLDCAIP ID GBP: MLDGIAP ID

# Descartes Alternative Credit UCITS Fund

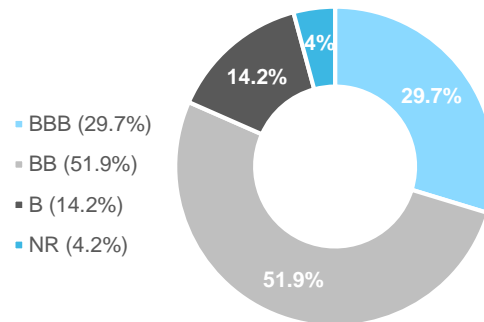
## Long Only Total Return Structured Credit

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### Portfolio Metrics

Number of Positions:	53
Number of CLO Managers	27
Expected Average Life To Maturity <sup>(1)</sup> :	6.9 years
Expected Yield to Maturity <sup>(2)</sup> :	7.2%

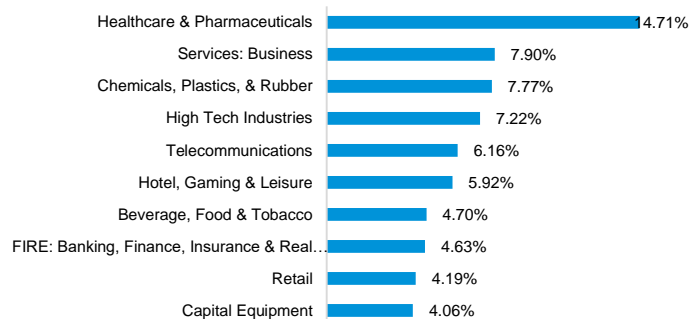
### Rating Category Breakdown <sup>(3)</sup>



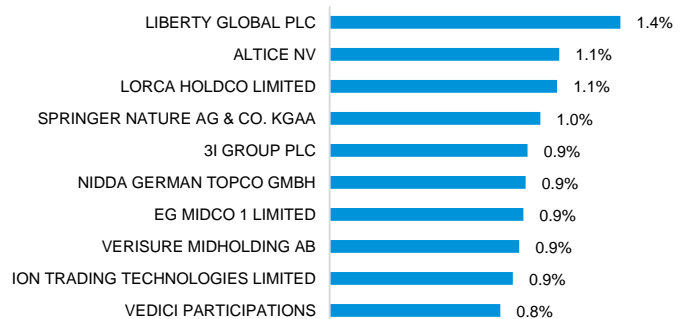
### Top 5 Positions <sup>(3)</sup>

Tranche Name	Manager	Rating (M/S/F)	Par Amount (EUR)
SPAUL 10X E	ICG	Ba2/NR/BB-	3,000,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
AQUE 2019-3X E	HPS	Ba3/NR/BB-	3,050,000
DRYD 2019-69X F	PGIM	B2/NR/B-	3,000,000
DRYD 2014-32X ER	PGIM	Ba3/NR/BB-	3,000,000

### 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.

### 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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