

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

April 2020

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 2.41% for the month of April (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 the massive credit spread widening during the month of March, the overall credit markets including the European CLO market have stabilized in April with a strong floor seen in the Investment Grade part of the market on the back of the unlimited support decided by Central Banks. Investors' demand was clearly seen in the BBB tranches, with healthy volume dealt through BWICs, which tightened from the wides of E3M+900bp to E3M+700bp. On the BB and B tranches, investors confidence came back moderately, with the help of improving loan prices, but still lacking of strong inflows to move prices enough, spreads are now finding an equilibrium with a balanced dynamic across buyers and sellers at respectively E3M+1300bop and E3M+1800bp.

During the month, the decision of Rating Agencies to put on Negative Watch outlook a number of CLO mezzanine tranches increased tiering between deals where several tranches rated BBB- and BB- with weaker MVOC\* have been offloaded from investors' book through BWICs. Ratings action mostly resulted from a mix of deterioration in CLO portfolios average rating, loss of OC test cushion and higher exposure to recently stressed industries.

When looking at the last trustee reports, it clearly shows CCC bucket across all CLO portfolios has increased on average from 2.6% on February 29<sup>th</sup> up to 6.2% today compared to 5.3% in our UCITS fund, although below the 7.5% threshold for the time being. Furthermore, the junior overcollateralization buffer decreased by 50bp to 75bp mostly as a result of trading losses generated by CLO managers who dedicated the month to upgrade their portfolio risk profile looking at buying B1/B2 rated loans at the expense of B3/CCC rated loans. We believe this trend is necessary in order to provide new room of manoeuvre in case of further rating deterioration even if the rating agencies have already executed most of the immediate downgrades according to CLO managers.

From a constructive perspective, the latest ECB decision has been indirectly supportive for the CLO market as the acceptance of selective non-investment-grade rated assets as collateral could be perceived as positive for leveraged loan prices. Additionally, the active BWIC market with much more traded assets on average in April vs March (40% vs 18% on BB tranches as an illustration) demonstrates a renewed appetite of knowledgeable investors in the BBB/BB tranches space with a preference for clean portfolios and high par subordination.

In our portfolio, we took some action to upgrade our risk profile having sold one BBB- tranches with high CCC bucket and one BB tranche with low par subordination to buy secondary higher profile BBB and A tranches at an attractive level of EM+630bp and E3M+400bp respectively. Furthermore, we received some large net inflows during April which have been partially deployed, our cash level remaining elevated (15%) in order to keep firepower intact for new buying opportunities expected to emerge during this quarter.

The fund midly positive performance last month illustrates a wait and see attitude from investors looking for more detailed data from the next monthly trustee reports on CLO portfolio re-profiling outcome as well as getting further indication from the rating agencies action on potential additional loans to be downgraded.

Considering the European lockdown gradual phase out starting in May, we expect our market to stay in a range bound spread environment for a while bearing in mind we feel highly protected in the Investment Grade space with the ECB put and we are getting reasonably well paid with the strong carry, the convexity and the credit curve renormalization to stay patient for a future spread tightening move.

\* Market Value Over Collateralization

### Descartes Alternative Credit UCITS Fund Performance

#### Institutional Founder Class

2019/20	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	YTD
EUR	0,58%	0,94%	0,67%	0,72%	0,58%	-0,55%	-0,38%	0,32%	1,14%	2,09%	-0,16%	-25,31%	2,41%	-22,04%
USD	0,76%	1,28%	0,94%	0,90%	0,81%	-0,35%	-0,12%	0,44%	1,44%	2,30%	-0,02%	-24,74%	2,52%	-21,09%
CHF	0,40%	0,89%	0,63%	0,67%	0,53%	-0,60%	-0,41%	0,30%	1,15%	2,04%	-0,20%	-25,38%	2,35%	-22,22%

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	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	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%	-22,08%
USD			0,15%	0,87%	0,76%	-0,32%	-0,13%	0,43%	1,27%	2,05%	-0,02%	-24,66%	2,51%	-21,20%
CHF				0,23%	0,50%	-0,57%	-0,41%	0,33%	1,00%	1,83%	-0,17%	-25,26%	2,36%	-22,23%

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	\$104.9m
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: MLDAC1F ID GBP: MLDAG1F 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

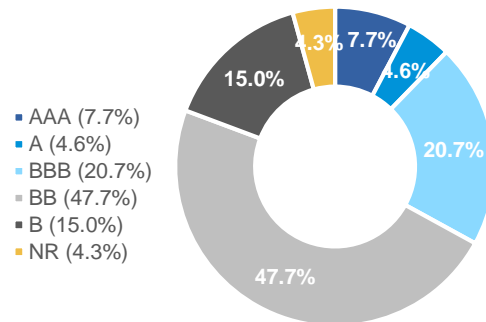
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### Portfolio Metrics

Number of Positions:	52
Number of CLO Managers	27
Expected Average Life To Maturity <sup>(1)</sup> :	6.8 years
Expected Yield to Maturity <sup>(2)</sup> :	11.1%

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



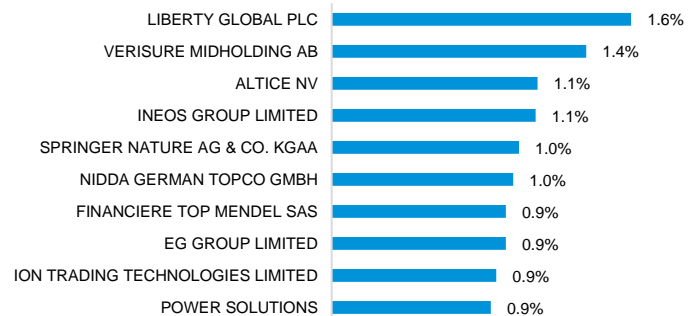
### Top 5 Positions <sup>(3)</sup>

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
BABSE 2019-2X D	Barings	Baa2/NR/BBB-	3,000,000
DRYD 2014-32X ER	PGIM	Ba2/NR/BB	3,000,000
CGMSE 2018-2X CE	Carlyle	Baa2/NR/BBB	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

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