

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

November 2021

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.62% for the month of November (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

During the first 3 weeks of November, the European CLO market was holding rather well despite the flurry of new issues launched for a total amount of €6.7bn bringing the YTD new issue volume to an outstanding level of €37.9bn. In this respect, the AAA tranche has found a good demand at E3M+95bp and we still believe the positive trend on the asset class should tighten this spread towards the 90bp level during Q1 next year. CLO investors have maintained some focus on primary deals in anticipation of a slow down in new issued CLO approaching year-end, offering then a rare opportunity to purchase high quality transactions at attractive spreads.

The last days of the month were shaken up when a new Covid variant has been identified, spreads across CLO mezzanine tranches widened immediately by 15 to 30bp in the primary market to levels slightly above 350/650/950bp for respectively BBB/BB/B tranches; even the AAA tranche cleared at a spread of E3M+98-99bp for the new transactions from Tikehau and Invesco priced on the last day of the month. However, the overall price weakness was partially contained by the increase in the Euribor floor value as a result of the decline in the 10y rate in a context of a low market volume traded through Thanksgiving. Quite remarkably, 2 primary transactions still managed to print on the 26th November, demonstrating the relentless institutional demand for CLO assets.

Growing demand for floating rate instruments coupled with heavy supply of primary senior secured loans has contributed to the best environment for CLO origination in a decade. Macro concerns driven by surging inflation make floating rate debt extremely attractive and protective against volatility in long dated interest rates.

In the secondary market, BWICs have been numerous facing a continuous investors' bidding although with quite some dispersion noted in particular on BB and B rated tranches. A strong interest emerged clearly for short dated BBB and BB tranches as investors were attracted by high coupon with low duration approaching the end of the year. As such, BB rated tranches with clean underlying loan portfolios out-performed the market with a spread seen at low to mid 500bp over E3M for a 2y reinvestment period left compared to a primary spread level of around E3M+650bp.

We do expect from now on a wait-and-see approach to be adopted by market participants with regards to Omicron and any CLO deal looking to print will find conditions more challenging. We also expect renewed scrutiny/risk monitoring from investors/CLO managers around loan portfolios with exposures to Covid-sensitive names/sectors.

Regarding our portfolio, we have deployed part of our cash balance, based on recent subscriptions in our Fund, to purchase a short-dated secondary BB tranche from a GLG transaction, already owned in the portfolio, at an excellent spread of E3M+626bp and a price of 96.6% offering then an interesting convexity benefit. Additionally, we bought a B tranche newly issued by Carlyle, based on a strong quality loan portfolio, at a great discount margin of E3M+965bp with a price of 96.5% offering as well positive convexity. On the other hand, our B tranche position from PGIM has been called at par generating a solid 11.4% realized IRR since purchase date.

As a result of our activity and with this called position which we decided not to roll, our cash or equivalent exposure moved to 9.5% and our portfolio profile is currently properly balanced with 27% invested in Investment Grade assets and 77% in BB and better rated tranches, above our minimum guidelines of 20% and 70% respectively.

The Fund managed to generate a solid performance in November despite the market turmoil seen at the end of the month, our asset class has demonstrated once more its resilience thanks to the strong over-collateralisation of CLO debt tranches and to the large carry generated.

Even if macro uncertainties will prevail and global markets could be somewhat volatile in the near term, we continue to stay positive on the CLO asset class considering the current spread levels across mezzanine tranches, its inflation hedge benefit and the ECB support through an enhanced, more flexible APP replacing gradually the existing PEPP. Our high cash level should allow us to seize the right opportunities over the next 2 to 3 months to purchase CLO mezzanine tranches at an excellent discount margin.

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%	1.45%	1.07%	0.12%	0.44%	0.32%	0.69%	0.17%	0.62%		6.99%
USD	6.30%	6.42%	1.05%	0.89%	0.06%	1.56%	1.16%	0.19%	0.51%	0.37%	0.75%	0.22%	0.60%		7.59%
CHF	3.50%	3.94%	0.99%	0.84%	0.04%	1.41%	1.04%	0.11%	0.41%	0.30%	0.68%	0.13%	0.59%		6.71%

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%	1.30%	0.95%	0.11%	0.38%	0.28%	0.62%	0.14%	0.56%		6.19%
USD	3.06%	5.64%	0.94%	0.79%	0.05%	1.40%	1.02%	0.15%	0.44%	0.32%	0.65%	0.20%	0.54%		6.69%
GBP	1.01%	4.07%	0.93%	1.72%	0.06%	1.40%	0.94%	0.16%	0.43%	0.33%	0.68%	0.17%	0.62%		6.69%
CHF	1.08%	3.45%	0.88%	0.75%	0.03%	1.25%	0.93%	0.09%	0.35%	0.27%	0.60%	0.11%	0.51%		5.92%

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 launch 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	\$109.4m
Inception	26 th 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
	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

EUR: IE00BJCWT213
 USD: IE00BJCWT544
 CHF: IE00BJCWT437
 GBP: IE00BJCWT320

Bloomberg Codes

EUR: MLDEIAP ID
 USD: MLDUAIAP ID
 CHF: MLDCIAP ID
 GBP: MLDGIAP ID

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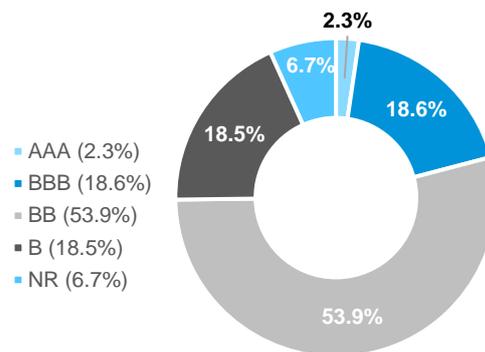
Portfolio Metrics

Number of Positions:	58
Number of CLO Managers	31
Expected Average Life To Maturity ⁽¹⁾ :	7.1 years
Expected Yield to Maturity ⁽²⁾ :	6.4%

Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
BABSE 2018-2X D	Barings	Baa2/BBB/NR	3,000,000
DRYD 2014-32X ER	PGIM	Ba2/BB-/NR	3,000,000
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
BECLO 8X F	Blackrock	B2/B-/NR	2,850,000
BABSE 2018-3X E	Barings	Ba2/BB-/NR	2,500,000

Rating Category Breakdown ⁽³⁾



Look-Through Industry Breakdown (Top 10) ⁽⁴⁾

Healthcare & Pharmaceuticals	14.32%
Services: Business	7.40%
High Tech Industries	7.00%
Chemicals, Plastics, & Rubber	6.83%
Telecommunications	5.99%
Hotel, Gaming & Leisure	4.95%
Beverage, Food & Tobacco	4.67%
Services: Consumer	4.57%
FIRE: Banking, Finance, Insurance & Real...	4.47%
Construction & Building	4.43%

Look-Through Issuers (Top 10) ⁽⁴⁾

INEOS LIMITED	1.64%
ALTICE NV	1.57%
LIBERTY GLOBAL PLC	1.46%
EG MIDCO 1 LIMITED	1.14%
LORCA HOLDCO LIMITED	1.05%
3I GROUP PLC	0.98%
VERISURE MIDHOLDING AB	0.88%
SPRINGER NATURE AG & CO. KGAA	0.87%
NIDDA GERMAN TOPCO GMBH	0.86%
SIGMA HOLDCO BV	0.83%

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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