MontLake

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

June 2021

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.12% for the month of June (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 June, the CLO market trend was on a pause mode as a result of numerous transactions been refinanced in addition to several new issues printed as CLO managers are aiming to get their deal out before the summer break. Indeed, so far this year favorable financing conditions and a large batch of CLOs becoming callable (230 deals) sparked an unprecedented refinancing wave (€39bn YTD).

As a consequence, the AAA tranche was struggling for find new demand and the spread had to move back to E3M+94-96bp area to trigger some firm interests, a level not seen since last January. It is worth adding that 20% of all refinancing deals executed year to date had an initial anchored Japanese investor who decided not to roll their position in the new deals. We believe Japanese banks should start to be back to the AAA tranche at E3M+100bp around which constitute a strong historical ceiling.

In the same way but to a lesser extent, recently issued CLO mezzanine tranches have widened slightly over the month with BBB tranche spread up 10bp to E3M+320bp and BB tranche up 20bp to E3M+630bp.

The positive consequence of the refinancing dynamic is that mezzanine investors are getting stronger protection with deal documentation amendments requiring from now all CLO debt holders' consent, instead of just the AAA holders, for any potential changes in the CLO manager flexibility and rights on its loan portfolio management.

The significant BWIC volume was absorbed comfortably last month with better demand focused on both good quality BBB tranches, shorter B tranches with weaker profiles but offering interesting convexity benefit and also on secondary equity tranches, an asset offer been relatively insufficient to feed an uninterrupted investors' appetite this year.

The primary market was busy as some of the backlog of refinancing deals was cleared in June and 6 new issues were priced for a total amount of €2.3bn. The short-term technical picture should however improve over the summer with less deals offered in primary due to a wider cost of debt (185bp vs 170bp in Q1) making the arbitrage less attractive for CLO managers. Although tiering between CLO managers continue to be the market trend, there is no basis anymore between new issues and reset deals as portfolio components look quite similar having been ramped for a large portion post March 2020.

Furthermore, the senior loan market is still in good shape with default rate trending lower and no reported defaults over the last 5 months, according to DB Research. The downward trend is expected to carry on with DB credit strategists predicting default rates to trend back to the structurally low default world that has largely persisted in the last years.

Given this market context, our fund performance managed to be slightly positive last month, our well selected exposures were indeed less impacted than the CLO market modest spread widening and we continue to benefit from the positive convexity of our portfolio with an average market price of 95.50%.

Regarding our portfolio, we were rather defensive considering the weaker appetite for senior CLO tranches as we only bought two secondary short dated BB tranches managed by Anchorage and Tikehau at a deep discount margin of respectively E3M+678bp and E3M+643bp as well as we rolled an existing BBB position from Spire at a spread of E3M+310bp.

Due to our decision not to roll a refinanced BB tranche from HPS reset CLO which was priced too tight, our cash exposure has increased to 13% as we are monitoring where junior mezzanine tranches will find a solid bottom. Our global exposure is conservatively positioned with 28% in Investment Grade assets and 78% in BB and better rated tranches, above our minimum guidelines of 20% and 70% respectively.

The economy reopening, a new upgrade cycle, decent carry, the floating nature and strong credit performance remain the main attractive metrics of our asset class to credit investors in addition to its significant relative value vs any alternative credit product, even if an elevated primary supply could generate partial headwinds later this year.

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%							**4,62%**
USD	6,30%	6,42%	1,05%	0,89%	0,06%	1,56%	1,16%	0,19%							**5,00%**
CHF	3,50%	3,94%	0,99%	0,84%	0,04%	1,41%	1,04%	0,11%							**4,49%**

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%							**4,11%**
USD	3,06%	5,64%	0,94%	0,79%	0,05%	1,40%	1,02%	0,15%							**4,42%**
GBP	1,01%	4,07%	0,93%	1,72%	0,06%	1,40%	0,94%	0,16%							**4,35%**
CHF	1,08%	3,45%	0,88%	0,75%	0,03%	1,25%	0,93%	0,09%							**3,99%**

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

Cartesia

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 Boullet

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	$98.4m
Inception	26th 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: MLDCIAP ID GBP: MLDGIAP ID

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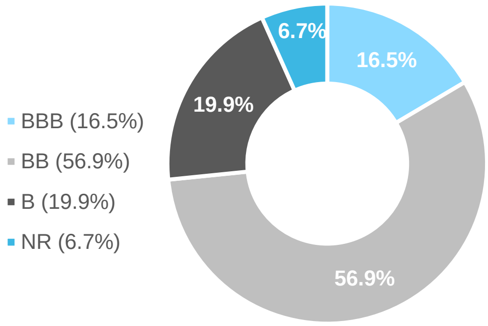
Portfolio Metrics

Number of Positions:	48
Number of CLO Managers	27
Expected Average Life To Maturity (1):	6.8 years
Expected Yield to Maturity (2):	6.4%

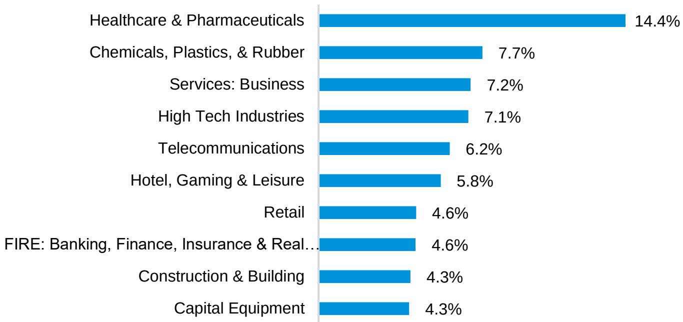
Rating Category Breakdown (3)



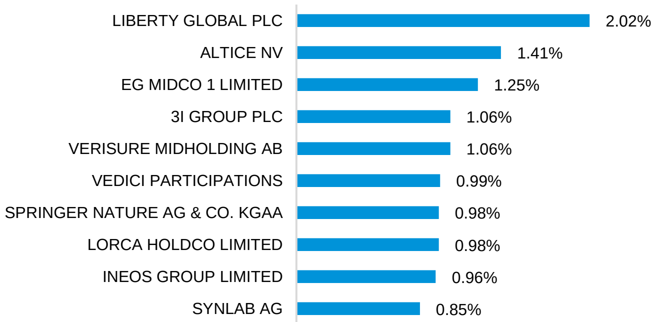
Top 5 Positions (3)

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
BECLO 8X F	Blackrock	B2/B-/NR	2,850,000

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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