

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

September 2021

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.69% 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 (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 September, the CLO market was as expected busy on the primary activity with 9 deals printed for a total size of €4.2bln, taking the YTD new issue volumes to €26bln from 61 deals, surpassing the best year recorded in 2006. The positive note was illustrated by a renewed demand for the AAA tranche which managed to end the month at a tighter spread level down to E3M+98bp for the last C1FC deal. Some analysts anticipate this spread to tighten further down to E3M+95bp in the coming weeks. Similarly, we have seen consistent demand for BBB and BB rated tranches, where the former printed a few deals at nearly E3M+300bp and the latter at a spread of E3M+610bp. Even selective B rated tranche from notoriously conservative and disciplined CLO managers are sought after as positive convexity is getting rare to find.

Broader market volatility was too short lived to have any impact on the CLO market, which remained on a firm footing all along the month. While the tone in the secondary market feels constructive, the market is still not firing on all cylinders and BWIC weekly volumes remained at around €200mln, slightly below the average weekly activity observed year to date. The CLO market feels technically well supported and fairly robust. Indeed, cash allocations seem to be elevated and investors are reluctant to lighten up positions in the secondary market. Adding duration and looking for high running coupon are the preferred way for investors to grow exposure on CLO assets.

The tail risk of the CLO universe has clearly reduced this year with a constant improving average rating in loan portfolios and declining CCC exposures to levels seen pre-covid. In the same vein, there is not a single CLO deal breaching any Over-Collateralization or Interest Diversion test on the B tranche and the median BB OC ratio is now back to 2019 levels (Deutsche Bank last monthly CLO research).

The supply of senior secured loans is at record levels. M&A and leverage buyout transactions volume is the strongest it has been in more than a decade with a very robust forward pipeline offering attractive terms from a risk and reward stance for the benefit of CLO managers who could use this new opportunity to extract alpha and increase par built.

Our Fund has generated a solid performance last month, together with a low volatility, bringing the 2021 annualized return over 8% on the € founder class, in alignment with the good support seen across CLO mezzanine tranches as investors continue to see them as attractive stable income-stream products. There is still tremendous relative value in CLO mezzanine tranches compared to any credit assets with similar rating profile as they currently offer an unbeatable Sharpe profile.

Regarding our portfolio, we have deployed our cash balance to purchase 3 primary transactions being one BBB tranche of the last PGIM transaction at a spread of E3M+330bp, one BB tranche from Carlyle at a hefty spread of E3M+640bp to replace a BB tranche called at par from Tikehau, and one B rated tranche from the last deal of Capital Four at an excellent margin of E3M+945bp in particular for a CLO manager with a low risk profile. Additionally, we seized a rare opportunity to buy a very short dated BBB tranche from a GLG old CLO transaction at a discount margin of 330bp with an atypical convexity benefit at a price of 97%.

As a result of our activity, our cash or equivalent exposure is down to 5.5% to keep some ammunition to target selective opportunities among the various new CLO deals expected to be launched in the market this month.

Our portfolio continues to be adequately positioned with 25.5% in Investment Grade assets and 76.5% in BB and better rated tranches, above our minimum guidelines of 20% and 70% respectively.

Over the last months, the CLO market has been buoyed by investors' thirst for yield and driven by an increasing demand for floating rated instruments to protect asset return from a rising rates environment.

Within this context, we stay constructive on the CLO asset class which should likely outperform the overall credit markets in the coming months.

### 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%				6.14%
USD	6.30%	6.42%	1.05%	0.89%	0.06%	1.56%	1.16%	0.19%	0.51%	0.37%	0.75%				6.72%
CHF	3.50%	3.94%	0.99%	0.84%	0.04%	1.41%	1.04%	0.11%	0.41%	0.30%	0.68%				5.95%

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%				5.45%
USD	3.06%	5.64%	0.94%	0.79%	0.05%	1.40%	1.02%	0.15%	0.44%	0.32%	0.65%				5.91%
GBP	1.01%	4.07%	0.93%	1.72%	0.06%	1.40%	0.94%	0.16%	0.43%	0.33%	0.68%				5.85%
CHF	1.08%	3.45%	0.88%	0.75%	0.03%	1.25%	0.93%	0.09%	0.35%	0.27%	0.60%				5.27%

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

<b>Structure</b>	UCITS Fund
<b>Domicile</b>	Ireland
<b>Valuation</b>	Daily
<b>Liquidity</b>	Weekly
<b>Fund AUM</b>	\$100.4m
<b>Inception</b>	26 <sup>th</sup> March 2019
<b>Share Class</b>	<b>Institutional Founder Class</b>
<b>Currency</b>	EUR/USD/CHF/GBP
<b>Bloomberg ID (EUR)</b>	MLDAE1F ID Equity
<b>Mgt. Fee</b>	0.65%
<b>Perf. Fee</b>	0.00%
<b>Min Init. Sub.</b>	1,000,000
	EUR: IE00BJCWST11
	USD: IE00BJCWSX56
	CHF: IE00BJCWSW40
	GBP: IE00BJCWSV33
<b>Bloomberg Codes</b>	EUR: MLDAE1F ID
	USD: MLDAUIF ID
	CHF: MLDAC1F ID
	GBP: MLDAG1F ID

<b>Share Class</b>	<b>Institutional Class A</b>
<b>Currency</b>	EUR/USD/CHF/GBP
<b>Bloomberg ID (EUR)</b>	MLDEIAP ID Equity
<b>Mgt. Fee</b>	0.75%
<b>Perf. Fee</b>	10.00%
<b>Min Init. Sub.</b>	1,000,000
	EUR: IE00BJCWT213
	USD: IE00BJCWT544
	CHF: IE00BJCWT437
	GBP: IE00BJCWT320

<b>ISIN Codes</b>	EUR: MLDEIAP ID
	USD: MLDU1AP ID
	CHF: MLDCIAP ID
	GBP: MLDGIAP ID
<b>Bloomberg Codes</b>	EUR: MLDEIAP ID
	USD: MLDU1AP ID
	CHF: MLDCIAP ID
	GBP: MLDGIAP ID

# Descartes Alternative Credit UCITS Fund

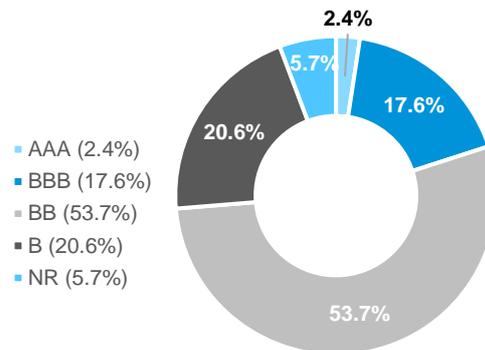
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### Portfolio Metrics

Number of Positions:	55
Number of CLO Managers	30
Expected Average Life To Maturity <sup>(1)</sup> :	7.4 years
Expected Yield to Maturity <sup>(2)</sup> :	6.3%

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



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

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
BECL0 8X F	Blackrock	B2/B-/NR	2,850,000

### Look-Through Industry Breakdown (Top 10) <sup>(4)</sup>

Healthcare & Pharmaceuticals	14.32%
High Tech Industries	7.68%
Services: Business	7.43%
Chemicals, Plastics, & Rubber	7.25%
Telecommunications	6.02%
Hotel, Gaming & Leisure	5.06%
Construction & Building	4.55%
Retail	4.54%
Beverage, Food & Tobacco	4.54%
FIRE: Banking, Finance, Insurance & Real...	4.53%

### Look-Through Issuers (Top 10) <sup>(4)</sup>

INEOS LIMITED	1.70%
LIBERTY GLOBAL PLC	1.52%
ALTICE NV	1.33%
EG MIDCO 1 LIMITED	1.19%
LORCA HOLDCO LIMITED	1.02%
3I GROUP PLC	1.02%
SPRINGER NATURE AG & CO. KGAA	0.93%
VERISURE MIDHOLDING AB	0.88%
VEDICI PARTICIPATIONS	0.87%
ION TRADING TECHNOLOGIES LIMITED	0.84%

#### 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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