

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

July 2022

Performance Returns

The Descartes Alternative Credit UCITS Fund returned -1.56% for the month of July (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

The CLO market was under further pressure during the first half of the month due to an uncertain macro context and central banks expected rate hikes, but the primary CLO market has found a path to reopen in the second half, though with execution across the debt stack at the widest levels seen since the Great Financial Crisis. This has provided welcome technical support for European senior loans as demand from CLO managers has come back on line through their portfolio ramping process. As a result, the ELLI index price moved slightly up over the month of July to finish at 91%.

In the secondary market, CLO activity has been relatively muted with much less supply offered through BWICs illustrating on one hand the reluctance from investors to sell at those low levels and on the other hand the absence of force sellers through margin calls. In fact, most credit investors are sitting on a decent cash position, waiting for a new momentum to build up in the near future.

Primary CLO mezzanine tranches spread levels are now priced at E3M+725bp/1000bp/1400bp respectively for BBB/BB/B tranches and considering new issues are proposing in most cases shorter duration, those spreads are becoming definitely very attractive on an absolute and historical basis.

On the primary market, the CLO volume reached €2.3bn for 6 transactions in July bringing the YTD volume up to €16bn. Interestingly, the AAA CLO tranche, when applying the cross-currency FX rate in USD, offers today an all time high pick-up of 85bp to the equivalent AAA US CLO tranche which should constitute an attractive entry point for dollar based investors. Still as a positive note, anchor Japanese investors are back on the AAA tranche, requiring stricter guidelines to CLO managers in term of senior secured assets, sector concentration, minimum average rating...in exchange of a tighter spread level such as E3M+170bp priced for the last Blackstone transaction vs E3M+210bp for a standard transaction with a syndicated AAA placement.

A larger number of CLO managers have decided to issue "print & sprint" CLO deals in July which allow them to lock-in the cost of funding then ramp up quickly deeply discounted senior loans to leverage on the deep convexity value of a purchased portfolio at around 90% average price. While credit fundamentals remain solid in the European CLO market with no defaults occurring since march and no loan rating downgrades, sub-85% loan prices bucket, MVOs and portfolio NAV have all deteriorated further last month, albeit remaining well above what was seen in 2020.

Secondary CLO tranches are currently offering a significant convexity value on shorter duration to a level not seen since 2009, attracting as a result more and more opportunistic institutional investors.

According to BAML credit strategists*, adding CLO exposure to European portfolios would have outperformed the same portfolios without CLOs when considering total returns since 2016, thanks to their high carry, the benign interest rate sensitivity and proven ability from CLO managers to keep collateral pool defaults much lower than the broader senior loan market.

Regarding our portfolio, we have deployed a small portion of our cash in 2 primary transactions, one AA rated tranche from the last Anchorage transaction with a Non call 1y and 2Y Reinvestment Period at a spread of E3M+400bp as well as one BBB rated tranche of an unusual very short deal issued by CVC with 1y NC and 1Y Reinvestment period at a wide spread of E3M+725bp together with a convex price of 96%. As a result, our cash exposure, including AAA assets, has been reduced to 16% and our exposure to BB and above rated assets maintained at 82%, well above the minimum required of 70%.

The Fund performance has been negative, although at a decelerating pace, in July as a result of the lack of investors on secondary mezzanine tranches which also suffered from the strong reactivation of the primary CLO market.

For August our approach remains very opportunistic with a focus on both highly convex secondary short tranches and primary deals with shorter Reinvestment Period and based on deeply discounted portfolio purchased value.

* European CLO weekly 25/7/2022

Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class

	YTD 19*	FY 20	FY 21	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 22
EUR	4,06%	4,37%	6,83%	0,61%	-0,43%	-1,81%	0,39%	-6,63%	-2,94%	-1,56%						-11,90%
USD	6,30%	6,42%	7,62%	0,63%	-0,40%	-1,75%	0,43%	-6,56%	-2,74%	-1,33%						-11,30%
CHF	3,50%	3,94%	6,52%	0,61%	-0,47%	-1,83%	0,38%	-6,63%	-2,91%	-1,52%						-11,90%

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	FY 21	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 22
EUR	2,43%	3,76%	6,04%	0,54%	-0,39%	-1,82%	0,38%	-6,64%	-2,95%	-1,57%						-11,97%
USD	3,06%	5,64%	6,72%	0,58%	-0,34%	-1,72%	0,46%	-6,57%	-2,74%	-1,34%						-11,27%
GBP	1,01%	4,07%	6,57%	0,59%	-0,29%	-1,71%	0,49%	-6,52%	-2,78%	-1,43%						-11,26%
CHF	1,08%	3,45%	5,74%	0,53%	-0,40%	-1,86%	0,37%	-6,64%	-2,91%	-1,53%						-11,97%

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	\$88m
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
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

Descartes Alternative Credit UCITS Fund

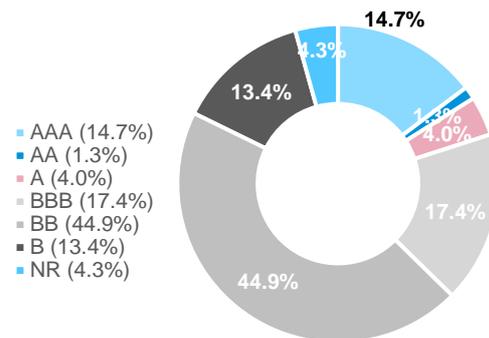
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Portfolio Metrics

Number of Positions:	69
Number of CLO Managers	34
Expected Average Life To Maturity ⁽¹⁾ :	6.2 years
Expected Yield to Maturity ⁽²⁾ :	9.5%

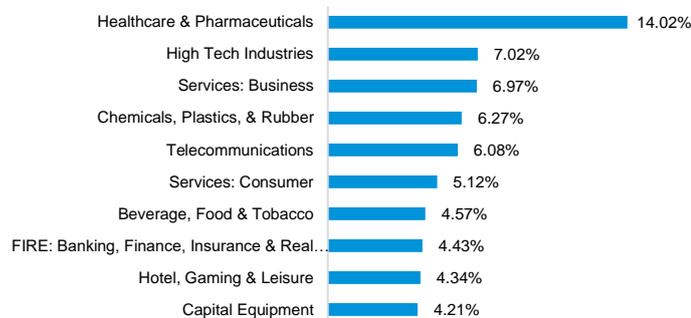
Rating Category Breakdown ⁽³⁾



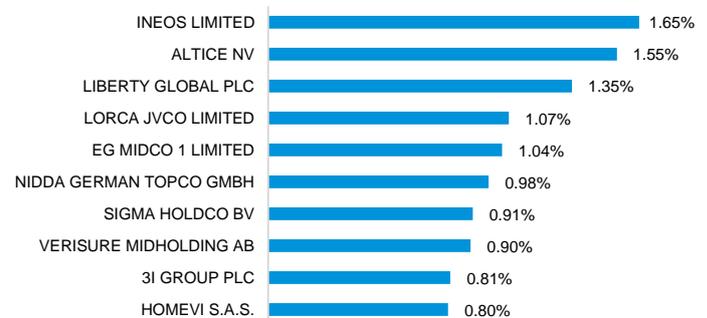
Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
DRYD 2014-32X ER	PGIM	Ba2/BB-/NR	3,000,000
CONTE 4X ARE	Five Arrows	Aaa/NR/AAA	2,500,000
HARVT 9X ER	Investcorp	Ba2/BB+/NR	2,500,000
BLUME 5X A	BlueMountain	NR/AAA/AAA	2,100,000

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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