

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

January 2021

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 1.01% for the month of January (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 European CLO market carried on its spread tightening mode in January fueled by fierce demand for higher yielding assets from a large scale of institutional investors. Credit spreads have contracted across the capital stack with a solid appetite for newly issued AAA tranches on one side, and secondary BB/B rated tranches demand for adding risk in a favorable context on the other hand. Performance dispersion (tiering) remains pronounced with a preference from investors for short dated mezzanine tranches. However, with the curve having steepened since November, we have seen investors bidding aggressively long dated tranches in the second part of the month, as they were offering more convexity.

On the secondary market, BWICs have been quite active with more than €1bn traded with a strong execution from long only clients, including US asset managers, looking at what can be considered as last opportunities to purchase some mezzanine tranches below par.

The primary market was also busy with both 5 refi/ resets transactions and 3 new deals printed including inaugural new comer Neuberger Berman. The AAA tranche managed to get sold at a low of E3M+83bp for KKR last issue, a level not seen since Q3 2018. The strong bidding across the debt tranches is also driven by clients moving from secondary to primary deals in order to capture some spread premium and credit duration.

On BBB and BB tranches, primary levels are now transacted easily at respectively E3M+300bp and E3M+560bp, systematically oversubscribed, boosted notably by the inherent value of the embedded euribor floor worth an additional 40bp.

The strong tightening move could drive further CLO refinancing activity this quarter as CLO managers look to reduce funding costs and extend the maturity of existing deals. Barclays expect up to €46bn of deals to be possibly refinanced this year if AAA spreads remain as they are. This will clearly constitute a supportive factor for our portfolio future performance as the average current price is at around 96% with several of our assets to be potentially called at par this year.

The stock of reported defaults in CLOs is still low at 0.45%\*\* . Some pick up is expected this year although the level should stay under 1%.

The appetite for European senior loans remain fierce with Central Banks' support as loan prices continue to rise with the ELLI\* up to 98.22% cash price. This is principally driven by CLO managers' warehouse increasing demand which opens up for new primary loan transactions. As an example, a strong borrower such as Verisure managed to print their last senior loan at E3M+350bp, the tightest post-pandemic level for a publicly rated B issuer in Europe. There is around €20bn of M&A financing likely to come in Q1 which should keep credit margins at a decent level helping the CLO arbitrage to keep widening and attracting more investors in the CLO market.

Within that context, the Fund performed positively in January supported by the consistent demand from institutional clients on floating rate credit assets, mostly in CLO mezzanine tranches, to position their portfolio in favour of the high yielding credit markets and benefit from the massive liquidity support from the ECB through its QE program.

In term of activity, we decided to exit one BBB rated tranche as the underlying portfolio had a large CCC bucket with some risky exposures and the selling price was close to par. Our portfolio is properly positioned to capitalize on the continued spread compression expected particularly in BB and B rated tranches which represent 75% of our portfolio. Our IG exposure remains stable at 21% in adequation with our guidelines (20% min BBB and above rated tranches).

Going forward, we should see further credit spread compression, albeit at a gradual pace, across all debt tranches as investors are increasing their allocations to our asset class considering its cheapness to alternative corporate assets.

\* European Leverage Loan Index

\*\* DB Research 22/01/2021

### 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%												1,01%
USD	6,30%	6,42%	1,05%												1,05%
CHF	3,50%	3,94%	0,99%												0,99%

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%												0,91%
USD	3,06%	5,64%	0,94%												0,94%
CHF	1,08%	3,45%	0,88%												0,88%

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



#### 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	\$91.5m
Inception	26 <sup>th</sup> 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

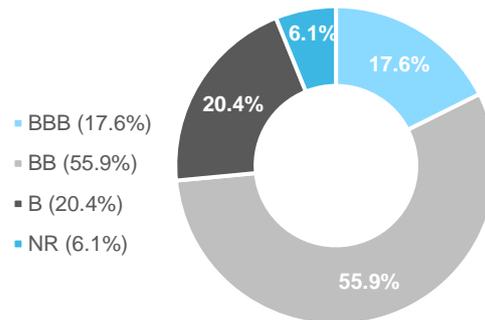
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### Portfolio Metrics

Number of Positions:	43
Number of CLO Managers	25
Expected Average Life To Maturity <sup>(1)</sup> :	6.3 years
Expected Yield to Maturity <sup>(2)</sup> :	7.4%

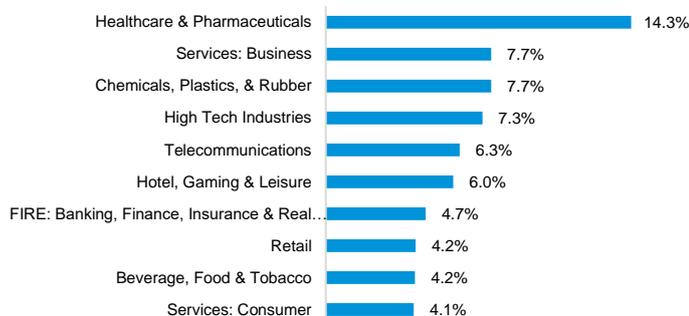
### Rating Category Breakdown <sup>(3)</sup>



### 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
SPAUL 10X E	ICG	Ba2/BB-/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
BABSE 2018-2X D	Barings	Baa2/BBB/NR	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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