

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

June 2020

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 6.31% 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, 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

Following a strong pricing improvement in May, the rally in mezzanine tranches carried on in June during the first 2 to 3 weeks supported by a sizeable appetite focused mainly on BB and B tranches with often a lesser differentiation, as opposed to May, on CLO vintages and portfolio credit metrics. Indeed, the cash waiting on the side line seems too hefty to wait for an hypothetical spread widening.

The market activity was intense with large BWICs offered every week totalling in fact the second biggest monthly amount since 2016 at €1.7bn. More specifically, during the second half of the month, we have seen hedge funds taking profit on their recent purchases executed in April, facing real money accounts chasing extra yield and assets diversification. The softer tone across the capital structure at the end of the month was mainly due to investors unwilling to add more assets as we approach quarter end reports.

Indeed, despite the uninterrupted price uptrend move since April, mezzanine tranches still offer generous spreads at respectively 470bp/720bp/950bp over E3M for respectively BBB/BB/B rated tranches.

Like in May, the core theme continued to be a spread compression between the IG and the NIG part of the CLO structure always materialized by a premium for Tier 1 CLO managers. Despite the current dry powder chasing any CLO mezzanine tranche on offer, dispersion in performance between CLO managers and deal vintages/portfolio relative quality has incontestably contributed to our alpha generation during the quarter.

As a consequence of a wider demand for assets, primary CLO supply is getting busier with 9 deals (including 3 first time issuers) printed for a total size of around €2.5bn to match the solid appetite coming from institutional investors, in particular on the A-BBB-BB tranches. Most deals offered 1 to 3y Reinvestment Period and 1y Non Call feature. Interestingly, the AAA tranche priced a low of E3M+155bp, level not seen since March thanks in particular to a strong demand coming from Banks liquidity bucket.

The reported CCC bucket across our assets is at 7.2%, a contained increase from 6.1% in May, mainly as a result of the trading activity from CLO managers, but the junior overcollateralization cushion, while at a comfortable level of 3%, is likely to deteriorate gradually over time due to an expected slight pick up in defaults and some additional loan rating downgrades. Overall, our portfolio remains however well protected both in term of current par subordination for each asset and the over exposure to high quality loan portfolios and defensive CLO managers.

In June, we have been inactive in our portfolio having deployed enough cash in May, our cash bucket when including AAA exposures has indeed come down to 7.4% from 11% in May, and we are satisfied with our portfolio mix of 40% IG assets, 45% of BB tranches and 15% in B tranches together with a minor equity tranches exposure.

The Fund constructive performance in June was driven once more by the unrivaled relative value spread offered by mezzanine CLO tranches within the European credit markets, the confirmed robustness of those assets in stress scenario and also due to solid new cash flows deployed by real money clients looking for yieldy assets.

Although the global markets could be volatile in the second part of the year due to a possible second wave of the coronavirus, we expect our CLO market to stay supported by the current generous risk adjusted credit spreads, the difficulties to find good quality secondary CLO mezzanine tranches at the right spread level, a strong indirect support from the ECB through the massive TLTRO provided to banks and the convexity benefit of our positions based on a current average market price of 89.75% when excluding the AAA bucket.

Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class

2019/20	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
EUR	0,67%	0,72%	0,58%	-0,55%	-0,38%	0,32%	1,14%	2,09%	-0,16%	-25,31%	2,41%	15,23%	6,31%	-4,49%
USD	0,94%	0,90%	0,81%	-0,35%	-0,12%	0,44%	1,44%	2,30%	-0,02%	-24,74%	2,52%	15,37%	6,46%	-3,09%
CHF	0,63%	0,67%	0,53%	-0,60%	-0,41%	0,30%	1,15%	2,04%	-0,20%	-25,38%	2,35%	15,23%	6,29%	-4,74%

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

2019/20	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
EUR	0,59%	0,64%	0,53%	-0,46%	-0,39%	0,32%	1,04%	1,86%	-0,15%	-25,19%	2,40%	15,22%	6,31%	-4,56%
USD	0,15%	0,87%	0,76%	-0,32%	-0,13%	0,43%	1,27%	2,05%	-0,02%	-24,66%	2,51%	15,36%	6,45%	-3,24%
CHF	0,23%	0,50%	-0,57%	-0,41%	0,33%	1,00%	1,83%	-0,17%	-25,26%	2,36%	15,20%	6,28%	6,28%	-4,78%

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.

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	\$125.2m
Inception	26 th March 2019
Share Class	Institutional Founder Class
Currency	EUR/USD/CHF/GBP
Bloomberg ID (EUR)	MLDAE1F 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: MLDAE1F 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: MLDCAIP ID GBP: MLDGIAP ID

Descartes Alternative Credit UCITS Fund

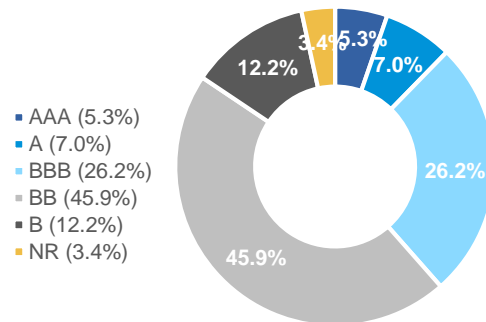
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Portfolio Metrics

Number of Positions:	60
Number of CLO Managers	29
Expected Average Life To Maturity ⁽¹⁾ :	6.9 years
Expected Yield to Maturity ⁽²⁾ :	6.4%

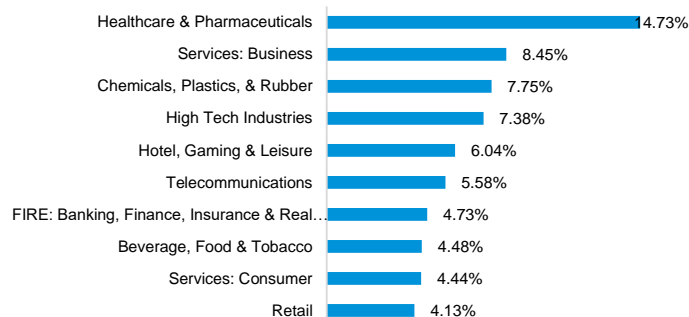
Rating Category Breakdown ⁽³⁾



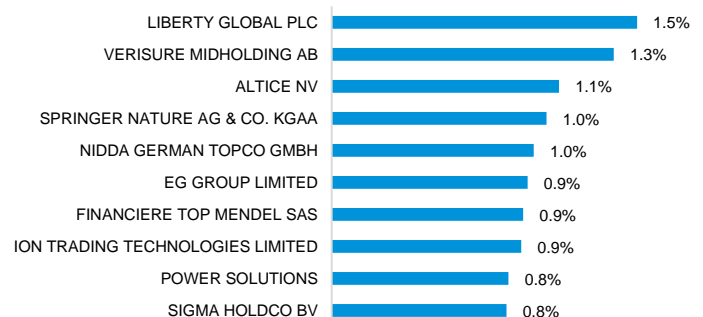
Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/S/F)	Par Amount (EUR)
FOAKS 1X A1	Fair Oaks	Aaa/NR/AAA	3,000,000
SPAUL 10X E	ICG	Ba2/NR/BB	3,000,000
AQUE 2019-3X E	HPS	Ba3/NR/BB-	3,050,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
JUBIL 2018-21X E	Alcentra	Ba2/NR/BB-	3,000,000

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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