# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

February 2021

## Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.85% for the month of February (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 was extremely busy last month through on one hand an intense primary activity with 7 new issues and 14 refinancing /reset transactions executed for a total amount of €7.6bln, the largest supply YTD observed since 2018, and on the other hand an active secondary market with a significant volume offered in BWICs. Overall, the demand was relentless in particular for high quality investment Grade rated tranches to the extent that the AAA tranche was priced in primary at E3M+80bp for the last Permira transaction, the lowest spread since the summer 2018. On refinancing deals, the reinvestment period is no longer, contrary to the past, a pricing parameter, with deals pricing the AAA tranche in the low E3M+60bp context, attracting notably enhanced money market shorter dated funds. It is also worth noting that the intrinsic euribor floor value has moved tighter by 10bp from 50bp to 40bp, still generating a large benefit to credit investors.

Beyond this, the low yield environment is increasingly attracting junior mezzanine investors looking after greater spread offered from longer dated primary transactions. In that respect, we noticed that newly issued deals are now offering 4.5y reinvestment period, returning back to pre-pandemic normality including the longest RP not seen for a while executed on the last KKR transaction at 4.75y, demonstrating how strong the demand is for credit duration.

Generic secondary spread for mezzanine tranches have stabilized respectively at E3M+320bp for BBB, E3M+575-600bp for BB and E3M+825-850bp for B rated tranche, still above pre-Covid19 levels.

On the whole, despite several choppy days seen in February on the broader credit markets, there was no sign of the CLO market strength abating with spread compression still a major theme for investors. In fact, considering the amount of primary activity we are seeing, spreads in secondary are holding up well; there was a strong bid for convexity and shorter profiles in BB and B rated tranches from investors expecting to get called at par through a future refinancing announcement. As a result of this trend, the credit curve has steepened on those junior mezzanine.

Given the amount of supply, tiering between CLO managers is more than ever at play as investors are scrutinizing the sectorial composition for each portfolio and are monitoring more thoroughly the assets rotation implemented over the recent months by the various CLO managers.

On the senior loan side, the primary market was very active since the beginning of the year on the back of a pick up in M&A deals. Having said that, with such a flurry of new CLO transactions expected in Q1, loan sourcing could become a challenge for CLO managers going forward and could therefore contain future CLO supply, which in turn would help to drive CLO mezzanine spreads lower.

In term of activity, we bought one BBB tranche at E3M+340bp from a reset CLO deal managed by PGIM, one of our favoured credit manager, and we got called at par from 2 existing BB (Alcentra) and B (Spire) positions generating a decent profit which will be reflected in the March fund NAV.

Within that context, the Fund performed positively in February, though to a lesser extend than the previous month, supported by a broader demand from institutional clients in favour of floating rate assets.

Our portfolio remains adequately positioned to capitalize on spread compression we do anticipate to materialize mostly in lower mezzanine tranches considering the current steep credit curve and the relative price lag of those assets compared to senior tranches of CLO.

Going forward, we are still constructive on our asset class based on a benign default rate in European leverage loans (0.4%*), the strong resilience of CLO tranches illustrated by last year strong comeback, the beginning of an upgrade cycle for high yield corporate* and the structural bias from credit investors for floating rate assets as long term interest rate rise is starting to hurt fixed rate products.

** BAML Research February 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% | 0,85% | | | | | | | | | | | **1,87%** |
| USD | 6,30% | 6,42% | 1,05% | 0,89% | | | | | | | | | | | **1,95%** |
| CHF | 3,50% | 3,94% | 0,99% | 0,84% | | | | | | | | | | | **1,83%** |

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% | | | | | | | | | | | **1,67%** |
| USD | 3,06% | 5,64% | 0,94% | 0,79% | | | | | | | | | | | **1,74%** |
| CHF | 1,08% | 3,45% | 0,88% | 0,75% | | | | | | | | | | | **1,64%** |

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 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** | $92.3m |
| **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<br>USD: IE00BJCWSX56<br>CHF: IE00BJCWSW40<br>GBP: IE00BJCWSV33 |
| **Bloomberg Codes** | EUR: MLDAEIF ID<br>USD: MLDAUIF ID<br>CHF: MLDACIF ID<br>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<br>USD: IE00BJCWT544<br>CHF: IE00BJCWT437<br>GBP: IE00BJCWT320 |
| **Bloomberg Codes** | EUR: MLDEIAP ID<br>USD: MLDUIAP ID<br>CHF: MLDCIAP ID<br>GBP: MLDGIAP ID |

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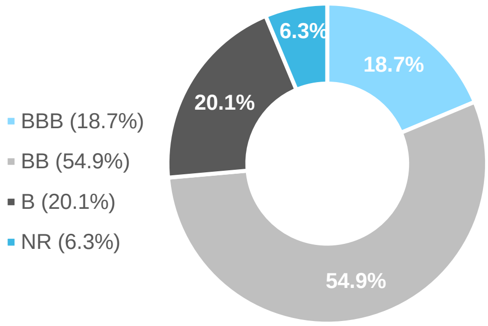
### Portfolio Metrics

| | |
|---|---|
| Number of Positions: | 44 |
| Number of CLO Managers | 25 |
| Expected Average Life To Maturity (1): | 6.2 years |
| Expected Yield to Maturity (2): | 6.6% |

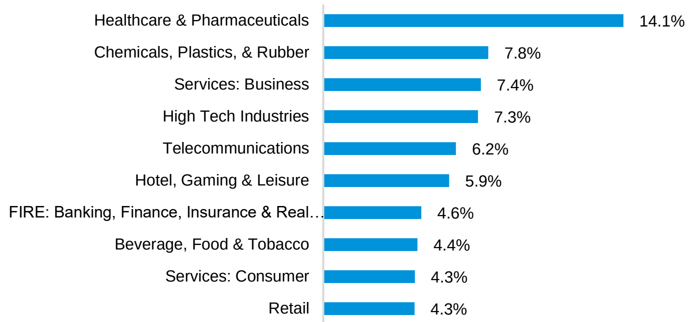
### Top 5 Positions (3)

| Tranche Name | Manager | Rating (M/F/S) | Par Amount (EUR) |
|---|---|---|---|
| DRYD 2019-69X F | PGIM | B2/B-/NR | 3,000,000 |
| SPAUL 10X E | ICG | Ba2/BB-/NR | 3,000,000 |
| DRYD 2014-32X ER | PGIM | Ba3/BB-/NR | 3,000,000 |
| BABSE 2018-2X D | Barings | Baa2/BBB/NR | 3,000,000 |
| ARMDA 2X E | Brigade | Ba2/BB/NR | 3,000,000 |

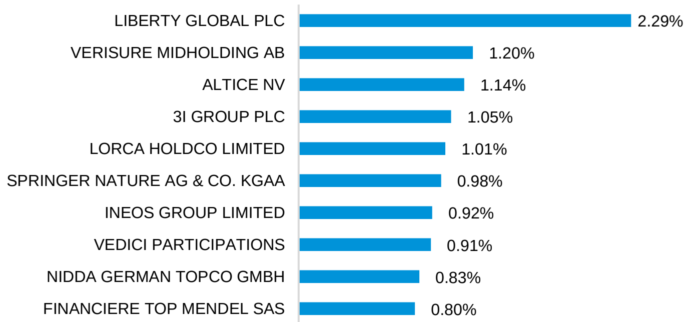
### Rating Category Breakdown (3)




### 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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## Disclaimer