

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

August 2021

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.32% for the month of August (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 August, the CLO market was unusually busy on the primary side with 4 transactions printed for a total size of €1.6bn, bringing the YTD new issue volume to €21.5bn. In addition, we have seen €5.1bn of refinancing deals last month bringing the total refi/reset transactions to nearly €49bn, a record year. This unstoppable activity has been driven by what is a very buoyant primary loan market since the beginning of the year helping CLO managers to ramp rapidly their loan portfolio and launch CLO transactions immediately thereafter. As a reminder, total European institutional loan issuance reached €81bn during the first half, higher than the full year 2020 issuance volume of €65bn, representing the highest total European senior loan issuance since 2007.

Even on the secondary CLO market, although the number and size of BWICs have been significantly reduced with the summer break, investors' interest did not dry up, specifically on BBB rated tranches and to a lesser extent on BB tranches with more bids than offers seen from dealers. Mezzanine CLO spreads are offering a solid support at E3M+320bp/620bp/900bp for respectively BBB/BB/B tranches.

Moreover, AAA rated tranches have now stabilized with a spread level capped at around E3M+105bp which is good news in anticipation of a busy primary CLO market expected in September. When the Euribor floor (worth 38bp) is factored in, AAA CLO spreads look indeed very attractive compared to any alternative AAA rated asset. US and European Banks have been an important investor base this year on those tranches and dealers do expect the Japanese Banks to be back on the market in the fall. Worth noting, the AAA spread dispersion on new issues remains elevated with the latest CVC deal pricing at a tight spread of E3M+89bp at the end of August vs 104bp for the latest Apollo CLO. The loan market ended the month marginally up with the ELLI price finishing at 99%, the highest mark since January 2020. Furthermore, the primary market is expected to be crowded over the next 4 months as a result of an intense M&A financing activity driven by piles of cash collected this year by Private Equity firms.

Worth mentioning is the number of CLO containing restrictive ESG language has increased this year and we are at the stage where inclusion of this ESG language in CLOs has become the normality in the European market. CLO managers have indeed made concerted efforts to broaden ESG related exclusions as part of their investment eligibility criteria with an increasing number of CLO managers reporting ESG scores for their portfolios.

Our Fund has generated a positive performance last month mainly thanks to the carry as CLO mezzanine spreads remained stable over the month.

Regarding our portfolio, we have barely used our cash balance only to purchase a short-dated AAA tranche of a new CVC deal in order to generate additional carry.

As a result of it, our cash or equivalent exposure is maintained at around 10% or 7.5% when excluding the AAA exposures, sufficient to keep the relevant ammunition to seize the right opportunities among the various new CLO deals expected to be offered on the market in September.

Our portfolio continues to be adequately positioned with 25% in Investment Grade assets and 76% in BB and better rated tranches, above our minimum guidelines of 20% and 70% respectively.

Over the last 8 months, the CLO market has been buoyed by investors' thirst for yield as well as higher demand for floating rated debt as many market participants expect rated to continue rising making fixed rated bonds less attractive and we do expect the CLO market to follow a similar pattern for the rest of the year at least.

In conclusion, our views stay constructive notably in a context where the Fed is expected to start reducing gradually its accommodative policy by year-end and inflation-protected assets such as CLO debt tranches offer one of the best investment hedges against a rise in long term rates.

### 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%					5.41%
USD	6.30%	6.42%	1.05%	0.89%	0.06%	1.56%	1.16%	0.19%	0.51%	0.37%					5.92%
CHF	3.50%	3.94%	0.99%	0.84%	0.04%	1.41%	1.04%	0.11%	0.41%	0.30%					5.23%

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%					4.80%
USD	3.06%	5.64%	0.94%	0.79%	0.05%	1.40%	1.02%	0.15%	0.44%	0.32%					5.22%
GBP	1.01%	4.07%	0.93%	1.72%	0.06%	1.40%	0.94%	0.16%	0.43%	0.33%					5.14%
CHF	1.08%	3.45%	0.88%	0.75%	0.03%	1.25%	0.93%	0.09%	0.35%	0.27%					4.64%

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 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	\$100.3m
INCEPTION	26 <sup>th</sup> 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
	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
	EUR: IE00BJCWT213
	USD: IE00BJCWT544
	CHF: IE00BJCWT437
	GBP: IE00BJCWT320
Bloomberg Codes	EUR: MLDEIAP ID
	USD: MLDEIAP ID
	CHF: MLDCIAP ID
	GBP: MLDEIAP ID

# Descartes Alternative Credit UCITS Fund

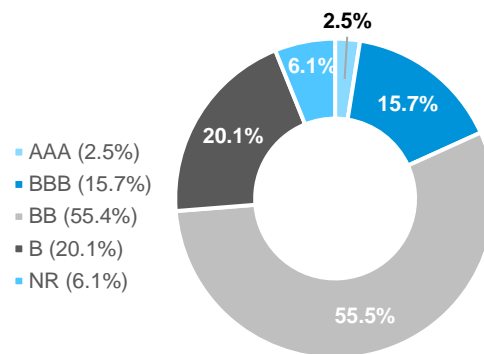
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### Portfolio Metrics

Number of Positions:	51
Number of CLO Managers	29
Expected Average Life To Maturity <sup>(1)</sup> :	7.1 years
Expected Yield to Maturity <sup>(2)</sup> :	6.2%

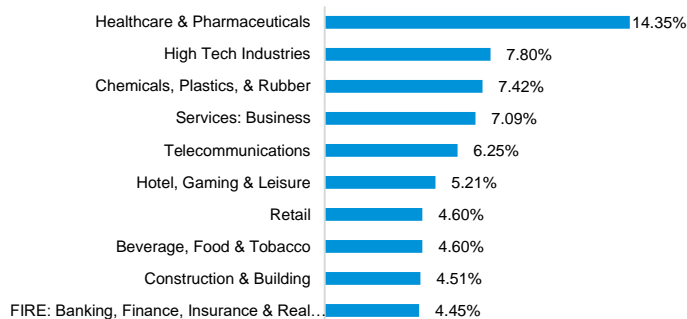
### Rating Category Breakdown <sup>(3)</sup>



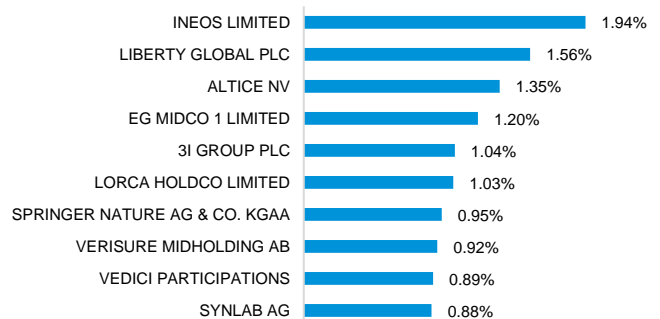
### Top 5 Positions <sup>(3)</sup>

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>



### 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

#### Investor Contact

**Waystone Capital Solutions (UK) Ltd**  
 2<sup>nd</sup> Floor, 20-22 Bedford Row  
 Holborn, London  
 T: +44 207 290 9493  
 investorrelations@waystone.com

#### Management Company

**Waystone Fund Management (IE) Ltd**  
 3<sup>rd</sup> Floor, 76 Baggot Street Lower  
 Dublin, Ireland  
 T: +353 1 533 7020  
 investorrelations@waystone.com

#### Investment Manager

**Cartesia SAS**  
 26 rue Danielle Casanova  
 75002 Paris, France  
 T: +33 1 56 43 4003  
 pm@cartesiafinance.com

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