

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

December 2020

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 1.62% for the month of December (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 felt strong in December as primary deals saw large investors' demand and spreads in the secondary market continued to tighten. The CLO market often starts to feel sloppy as we approach year end, but in 2020 it turned out to be the opposite. There is optimism around further spread tightening in 2021, especially at the AAA spread level with secondary paper now firmly in the E3M+130-140bp context. The BWIC process was extremely competitive during the first 2 weeks as dealers chased risk looking to position for this year. The outperformers were BBB and BB rated tranches, where convexity is rapidly shrinking. As a result, short dated BBB tightened to around E3M+300bp while some longer duration paper is now trading inside E3M+400bp even with cash prices above par. With top-tier BB tranches now in the low E3M+600bp for similar duration to primary deals, we saw the return of the compression trade as more accounts renewed their focus on aggressive CLO portfolios where convexity can still be found. The same is also true for B-rated tranches, with top-tier deals now trading in the E3M+LM800bp area.

Equity tranches also remained firm, supported by the continued rally in loan prices. Even shorter equity CLO profiles managed to catch an investor bid pretty easily. Given the moves in spreads and with so many IG mezzanine tranches now trading above par, the market is turning its attention to refinancing and reset prospects for 2021. The post-Covid vintage are obvious refinancing candidates when they exit the non-call period mid-year.

The primary market was unusually busy in December with 5 deals priced for a total amount of €1.7bn, widely distributed to long-only investors. CIFIC and Capital Four transactions managed to print their AAA tranches at a post Covid low of E3M+105bp, with the AA and A tranches being fully pre-placed. Spreads on AA and A tranches in Europe look indeed increasingly cheap compare to the US CLO equivalent assets.

The secondary market continued to grind tighter in concert with other credit markets. BWIC supply represented around €260mln per week, a lower daily total than November, but still reflecting a relatively active secondary market. Approximately half of that supply came in sub-IG paper and was met with good demand. Most BB tranches continued to trade in the E3M+600bp, with selective prints in the high 500bp. B-rated tranches saw the most customer demand in a sign of credit compression momentum.

The European loan market technicals remain tight and prices continue to rise with the ELLI* up to close the year north of 97.66% cash price. This is driven by CLO managers warehousing demand, creating a positive aspiration in both secondary and primary loan deals.

As a consequence, the Fund performed well in December supported by the relentless demand from institutional and dealers, mostly in senior and junior mezzanine tranches to better position their respective book for the high yield credit market and benefit from the positive momentum expected to carry on during the first half of this year.

In term of activity, we have not moved our portfolio exposures being well positioned to capitalize on the spread compression trend seen in BB and B tranches, representing nearly 75% of our portfolio. Our IG exposure remains stable at 21% as well as our BB exposure at 54%, still conservatively positioned above our minimum guidelines (70% min BB and above rated tranches).

Given the proven resilience of CLO structures where liability spreads have recovered quickly since the Covid-19 market shock last March supported by a burgeoning and constant investor demand materialized in the second half of last year, 2021 should bring further spread compression across all debt tranches as investors should increase their allocations to European CLOs considering its relative cheapness to other corporate debt and its euribor zero floor benefit.

* European Leverage Loan Index

Descartes Alternative Credit UCITS Fund Performance

Institutional Founder Class

	YTD 2019*	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 2020
EUR	4,06%	2,09%	-0,16%	-25,31%	2,41%	15,23%	6,31%	0,57%	0,04%	2,73%	-0,87%	4,95%	1,62%	4,37%
USD	6,30%	2,30%	-0,02%	-24,74%	2,52%	15,37%	6,46%	0,65%	0,10%	2,77%	-0,79%	4,98%	1,81%	6,42%
CHF	3,50%	2,04%	-0,20%	-25,38%	2,35%	15,23%	6,29%	0,53%	0,03%	2,69%	-0,86%	4,92%	1,59%	3,94%

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*	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 2020
EUR	2,43%	1,86%	-0,15%	-25,19%	2,40%	15,22%	6,31%	0,56%	0,03%	2,72%	-0,87%	3,53%	2,53%	3,76%
USD	3,06%	2,05%	-0,02%	-24,66%	2,51%	15,36%	6,45%	0,72%	0,09%	2,77%	-0,79%	4,43%	1,72%	5,64%
CHF	1,08%	1,83%	-0,17%	-25,26%	2,36%	15,20%	6,28%	0,52%	0,02%	2,69%	-0,88%	4,92%	1,18%	3,45%

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	\$93.2m
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

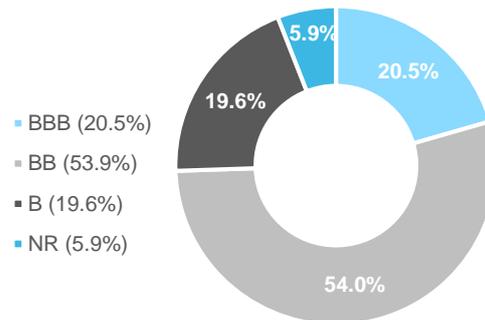
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Portfolio Metrics

Number of Positions:	44
Number of CLO Managers	25
Expected Average Life To Maturity ⁽¹⁾ :	6.5 years
Expected Yield to Maturity ⁽²⁾ :	7.4%

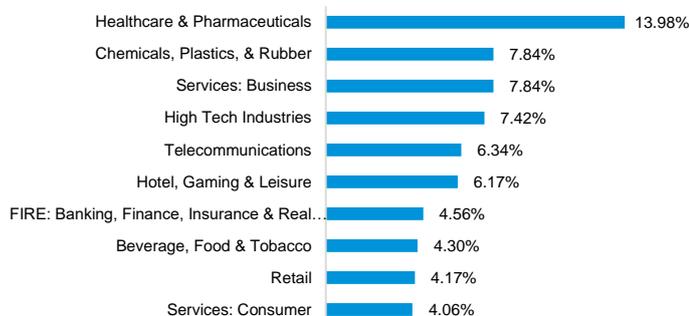
Rating Category Breakdown ⁽³⁾



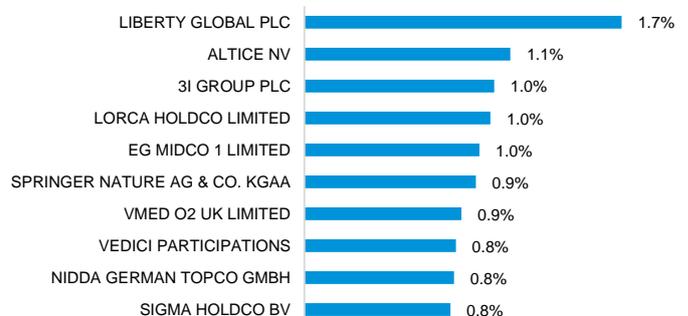
Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/F/S)	Par Amount (EUR)
SPAUL 10X E	ICG	Ba2/BB-/NR	3,000,000
DRYD 2019-69X F	PGIM	B2/B-/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
DRYD 2014-32X ER	PGIM	Ba3/BB-/NR	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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