

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

March 2022

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned -1.81% for the month of March (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 March, the CLO market has been negatively impacted by the global widening of credit spreads as a result of the Russia-Ukraine war and the decline of the senior loan price index, with the ELLI price trading down from 97.4% to 96.2% in mid-march before partially recovering to 97.2% at the end of the month. Specific sectors were affected such as Packaging, Beverage, Consumer goods and Construction as well as some specific corporates with a portion of business exposure (10-20%) to Russia or Ukraine such as Stada or HSE24.

The CLO mezzanine spreads widened to levels not seen since Q3 2020 with BBB/BB/B tranche spreads over 3 month Euribor reaching 475bp/800bp/1080bp respectively. Even the AAA tranche widened up to E3M+125bp in primary transactions, a much wider level than the low point of E3M+92bp executed early February.

The good news is there was no force sellers along the month, on the contrary institutional demand was looking at some good opportunities to purchase BBB and BB secondary tranches where strong positive convexity could be found even for short dated assets; Moreover, dealers' books were rather light for a quarter end adding some support to the market. BWIC activity was limited, except for AAA tranches which were incidentally well absorbed, and a good number of assets did not trade as some investors were unwilling to sell at discounted prices illustrating the constructive tone which emerged during the last 2 weeks of the month.

Despite the very tight CLO arbitrage due to the partial recovery of senior loan prices in absence of tightening of CLO debt spreads (indeed the CLO cost of funding jumped from E3M+185bp early February up to E3M+235bp currently), the primary CLO market was surprisingly busy with 10 deals executed, often with a shorter Reinvestment Period of 3,5 years, for a total size of €4.3bln. This is explained by some dealers under the pressure to exit multiple open warehouses ready for new CLO transactions to be printed. This flurry of new issues, which have been for most of them upsized to dilute some loans price losses, pushed up spreads in particular on long dated BBB and BB rated tranches.

Some metrics in CLO portfolios have deteriorated such as loan prices under 95% which moved up to 16% vs 4% in February. This had some impact on the market value overcollateralization of BB and B tranches, which declined by c. 3%, but remained comfortably above the minimum required. Default rate in collateral portfolios remained however flat month on month at a very benign level of 0.4%.

From our standpoint, BBB CLO tranches are in a sweet spot given the low beta and the current large carry with a spread around E3M+450bp. BB rated tranches are also money good when approaching 8% yield. Furthermore, we expect the primary market to slow down as the arbitrage does not work at current debt spreads level which should help mezzanine CLO tranches to stabilize in Q2.

Regarding our portfolio, we bought as a cash park in the secondary market a very short dated BB rated tranche from a transaction managed by PGIM, which has been called in March, as well as a short dated AAA tranche at a decent discount margin of E3M+116bp. We sold a BBB tranche managed by Babson at a relatively tight spread of E3M+373bp for a risk taking CLO manager. As a result, our portfolio stayed voluntarily defensive with a large cash or equivalent position of 17% and 77% of our portfolio being rated BB or above, comfortably above the minimum required of 70%, as we believe the market will offer interesting entry points during the second quarter.

The Fund performance has been negative in March as a result of the global credit markets turmoil. Our fund NAV has decreased in line with the CLO tranches index which widened by 35bp over the month across mezzanine tranches. However, year to date our fund outperformed the European CLO market as CLO mezzanine spreads have widened by 85bp on average.

For next month, we will monitor the pricing guidance both on the primary and the secondary markets. Our defensive portfolio, through a large cash balance combined with several short dated BB and B tranches, could be eventually used to purchase high quality transactions with an excellent convexity benefit to be sourced in the secondary market.

### Descartes Alternative Credit UCITS Fund Performance

#### Institutional Founder Class

	YTD 19*	FY 20	FY 21	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 22
EUR	4,06%	4,37%	6,83%	0,61%	-0,43%	-1,81%										-1,63%
USD	6,30%	6,42%	7,62%	0,63%	-0,40%	-1,75%										-1,52%
CHF	3,50%	3,94%	6,52%	0,61%	-0,47%	-1,83%										-1,69%

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	FY 21	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD 22
EUR	2,43%	3,76%	6,04%	0,54%	-0,39%	-1,82%										-1,67%
USD	3,06%	5,64%	6,72%	0,58%	-0,34%	-1,72%										-1,49%
GBP	1,01%	4,07%	6,57%	0,59%	-0,29%	-1,71%										-1,42%
CHF	1,08%	3,45%	5,74%	0,53%	-0,40%	-1,86%										-1,74%

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

<b>Structure</b>	UCITS Fund
<b>Domicile</b>	Ireland
<b>Valuation</b>	Daily
<b>Liquidity</b>	Weekly
<b>Fund AUM</b>	\$109.4m
<b>Inception</b>	26 <sup>th</sup> March 2019
<b>Share Class</b>	<b>Institutional Founder Class</b>
<b>Currency</b>	EUR/USD/CHF/GBP
<b>Bloomberg ID (EUR)</b>	MLDAE1F ID Equity
<b>Mgt. Fee</b>	0.65%
<b>Perf. Fee</b>	0.00%
<b>Min Init. Sub.</b>	1,000,000
	EUR: IE00BJCWST11
	USD: IE00BJCWSX56
	CHF: IE00BJCWSW40
	GBP: IE00BJCWSV33
<b>Bloomberg Codes</b>	EUR: MLDAE1F ID
	USD: MLDAUIF ID
	CHF: MLDACIF ID
	GBP: MLDAGIF ID

#### Share Class

#### Institutional Class A

<b>Currency</b>	EUR/USD/CHF/GBP
<b>Bloomberg ID (EUR)</b>	MLDEIAP ID Equity
<b>Mgt. Fee</b>	0.75%
<b>Perf. Fee</b>	10.00%
<b>Min Init. Sub.</b>	1,000,000
	EUR: IE00BJCWT213
	USD: IE00BJCWT544
	CHF: IE00BJCWT437
	GBP: IE00BJCWT320
<b>Bloomberg Codes</b>	EUR: MLDEIAP ID
	USD: MLDU1AP ID
	CHF: MLDCIAP ID
	GBP: MLDGIAP ID

# Descartes Alternative Credit UCITS Fund

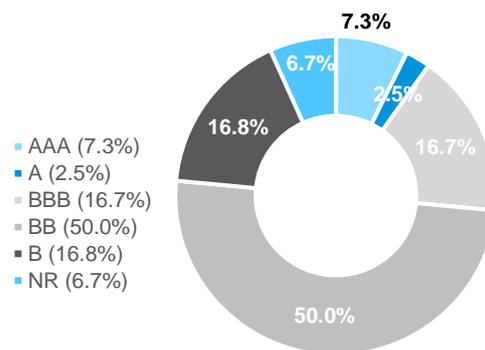
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### Portfolio Metrics

Number of Positions:	61
Number of CLO Managers	32
Expected Average Life To Maturity <sup>(1)</sup> :	6.9 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)
ARMDA 2X E	Brigade	Ba2/BB-/NR	3,000,000
DRYD 2014-32X ER	PGIM	Ba2/BB-/NR	3,000,000
ANCHE 2X ER	Anchorage	Ba3/NR/BB-	2,850,000
CORDA 12X F	CVC	B2/B-/NR	2,500,000
SNDPE 5X F	Sound Point	B3/B-/NR	2,350,000

### Look-Through Industry Breakdown (Top 10) <sup>(4)</sup>

Healthcare & Pharmaceuticals	13.61%
Services: Business	7.32%
High Tech Industries	7.02%
Chemicals, Plastics, & Rubber	6.27%
Telecommunications	5.97%
Services: Consumer	5.00%
FIRE: Banking, Finance, Insurance & Real...	4.79%
Hotel, Gaming & Leisure	4.54%
Beverage, Food & Tobacco	4.47%
Construction & Building	4.40%

### Look-Through Issuers (Top 10) <sup>(4)</sup>

INEOS LIMITED	1.61%
LIBERTY GLOBAL PLC	1.42%
ALTICE NV	1.28%
EG MIDCO 1 LIMITED	1.14%
LORCA HOLDCO LIMITED	1.06%
SIGMA HOLDCO BV	0.91%
3I GROUP PLC	0.87%
VERISURE MIDHOLDING AB	0.85%
NIDDA GERMAN TOPCO GMBH	0.85%
HOMEVI S.A.S.	0.73%

#### 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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