

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

November 2020

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 4.95% for the month of November (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

Following a stabilization in October, last month our asset class rallied aggressively across the capital structure as a result of the US Presidential election outcome and the positive news on the Covid vaccine progress from 3 pharmaceutical leaders. B-rated tranches, with tighter spread up to 100bp, and equity tranches have been the clear outperformers, the flows in BBB and BB rated tranches were predominantly coming from real money accounts with dealers' book been constantly lifted. For most of the year, the correlation between Market Value O/C and spread across the stack held firm, but that relationship has now been superseded by simple duration as investors look predominantly for shorter bonds and discounted paper. European loans continue to rally with prices firming up nearly 2%* with an increasing number of loans now trading above par as new issue discounts have been squeezed by voracious demand.

We have seen an uptick in BWIC volumes (c.€300mln offered per week) skewed towards non IG CLO tranches and equity tranches, all been well absorbed by the market as positive convexity is becoming a scarce commodity. In lower mezzanine tranches, there was noticeable spread compression between weaker and stronger credits, mirroring the trends we are seeing in other markets as more Covid-sensitive names recovered. The credit curve has also flattened aggressively with top tier long duration BB and B tranches tightened more than shorter duration equivalent tranches.

In term of spreads, generic secondary BBB tranches tightened down to E3M+340bp and BB tranches tighter by 25-70bp to E3M+650bp for intermediate duration. Primary market remains busy but to a lesser extend compared to October with 5 deals printed for an amount of €1.7bn. Spread levels on the AAA tranche remain stable at around E3M+110bp although with a tightening bias as CVC and Carlyle last transactions managed to print its AAA at E3M+106/105bp thanks to anchor investors, a low since early march; all senior tranches AAA to A have been often preplaced with large institutional accounts illustrating the need for investors to be adequately exposed in a risk-on market context.

Morgan Stanley published their outlook on the key themes for 2021 highlighting that CLO mezzanine tranches stands out as an opportunity driven by realized loan downgrade and default levels well below initial market assumptions and a benign level of B3 rated loans on watch negative (less than 1%). They see opportunities in adding BB and B CLO tranches in Europe which trade too wide relative to European loans.

The Fund performed strongly in November generating its third best monthly return since inception supported by the high cash level among institutional quickly deployed mainly in CLO mezzanine tranches to profit from wide credit spreads in absolute and relative terms together with decent convexity profile.

In term of activity, we seized the opportunity of this rapid compression mode to dispose 2 BB positions due to average credit metrics and one BBB exposure which traded quite expensively in the market. 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). Along with the strong market rebound, the current average price of the portfolio moved up significantly to 93.4% from 88.5% still offering an excellent convexity value.

We believe the current CLO tranche spread levels continue to offer an interesting compression potential over the near future considering the improving metrics in the loan market, the benign default rate (less than 1% in CLOs**), which should however moderately increase next year according to Investment Banks' analysts, CLO managers, Rating Agencies, and the massive liquidity support provided by the ECB notably through the expected increase in their CSPP and the €750bn EU Recovery plan to be activated early 2021.

* ELLI index at 97.32% on 30/11/2020

** source BAML 9/11/2020

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%		2,71%
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%		4,52%
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%		2,32%

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% **		1,20%
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% **		3,85%
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% **		2,25%

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.

** NAV estimated

* 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	\$90.0m
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
	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: MLDUIAP ID
	CHF: MLDCIAP ID
	GBP: MLDGIAP ID

Descartes Alternative Credit UCITS Fund

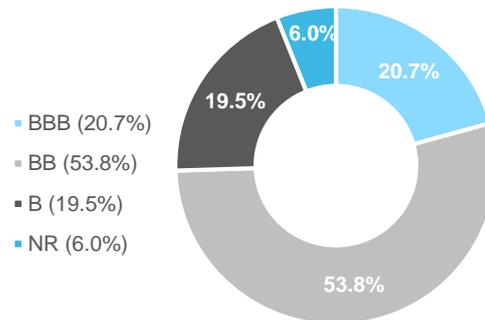
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Portfolio Metrics

Number of Positions:	44
Number of CLO Managers	25
Expected Average Life To Maturity ⁽¹⁾ :	6.5 years
Expected Yield to Maturity ⁽²⁾ :	7.6%

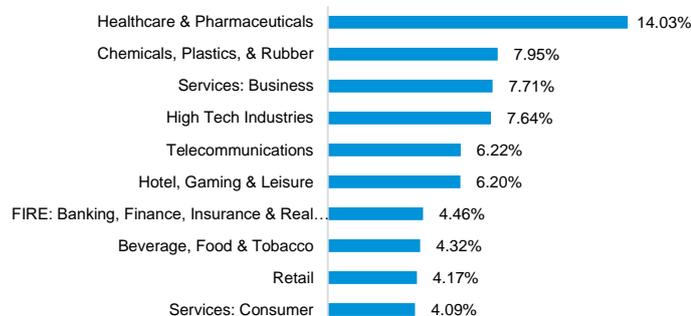
Rating Category Breakdown ⁽³⁾



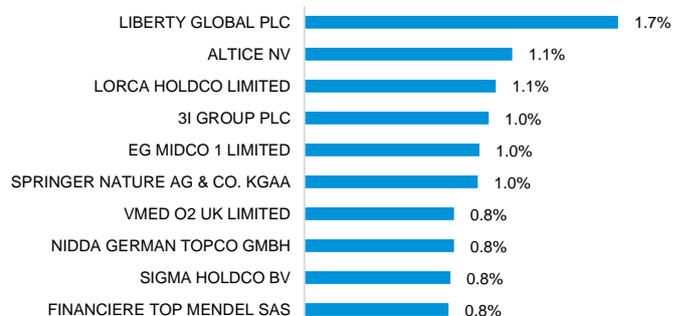
Top 5 Positions ⁽³⁾

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