

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

July 2020

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.57% for the month of July (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, 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

After a strong rally seen across the capital stack during the second quarter, the CLO market paused in July with initially some profit taking on junior mezzanine tranches from fast money clients followed by opportunistic long only investors chasing yield in the second part of the month.

In the secondary market, the sustained flow of BWICs continues to be well absorbed. The CLO managers tiering is now quite substantial (120/150bp) for the weaker names (those with lower than average MVOC or on Rating watch negative) at the sub-investment grade level and to a lesser extend on some BBB tranches (up to 100bp). Meanwhile, the stronger CLO portfolio profiles posted some gains during the month which has contributed to our fund performance.

The primary market was relatively busy with 8 deals printed for a total size of €2.6bn particularly as a result of a strong appetite on the AAA tranche which has priced a low since March at E3M+145bp, for the last Oaktree, Redding Ridge, Rothschild and HPS transactions. As a positive sign supporting the primary CLO market rebound, banks are increasingly willing to extend new CLO warehouse financing with better terms to CLO managers looking to take advantage of current cheap available assets.

We took the opportunity of this aggressive demand for senior tranches to sell down our AAA exposures at a discount margin ranging 105-160bp over E3M depending on the tenor. As a consequence, our portfolio rating split becomes 37% Investment Grade, 47% in BB rated tranches and 16% in B/Sub tranches, still a more conservative profile than our restricted guidelines (20% min in IG tranches and 70% min in BB rated assets).

Generic spread on mezzanine tranches has stabilized at respectively 300/420/740/950bp for A/BBB/BB/B CLO tranches, still offering generous and peerless risk adjusted returns among European credit assets.

Fitch noted that the Weighted Average Rating Factor of portfolios backing European CLOs has worsened by about two points since the beginning of the year while CCC rated loans exposure increased by three times. However trading flexibility has allowed a good number of CLO managers to mitigate negative credit migration in their portfolios and also create par build which ultimately reinforced the over collateralisation levels of CLO debt tranches. In July, the average CLO market WARF improved while the average CCC exposure decreased to 6.8%. In a similar pattern, the CCC average exposure of our fund went down to 6.9% from 7.1% recorded in June.

Moreover, it is worth mentioning only one CLO transaction of the entire European market has seen its junior over-Collateralization test breached which reflects once more the strong resilience of European CLO debt tranches based on an improving quality of the underlying loan portfolios as average price has stabilized at 93.50% coming from the low 80% last April.

As M&A activity is expected to step up over the coming months, a number of European loans will certainly be called at par and as a result will permit an acceleration in reinvestment opportunities for CLO managers.

The Fund positive performance in July was principally driven by the combination of carry and convexity in addition to our bias for conservative CLO managers.

We continue to stay constructive on the European CLO market, supported by the generous credit spreads, the ongoing scarcity of good quality secondary CLO mezzanine tranches and the convexity benefit of our positions marked at 90% average price.

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%						-3.94%
USD	6.30%	2.30%	-0.02%	-24.74%	2.52%	15.37%	6.46%	0.65%						-2.45%
CHF	3.50%	2.04%	-0.20%	-25.38%	2.35%	15.23%	6.29%	0.53%						-4.24%

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%						-4.03%
USD	3.06%	2.05%	-0.02%	-24.66%	2.51%	15.36%	6.45%	0.72%						-2.55%
CHF	1.08%	1.83%	-0.17%	-25.26%	2.36%	15.20%	6.28%	0.52%						-4.28%

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	\$123.4m
Inception	26 th 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 USD: IE00BJCWSX56 CHF: IE00BJCWSW40 GBP: IE00BJCWSV33
Bloomberg Codes	EUR: MLDAEIF 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

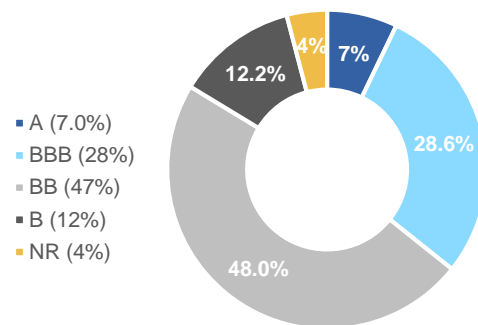
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Portfolio Metrics

Number of Positions:	57
Number of CLO Managers	29
Expected Average Life To Maturity ⁽¹⁾ :	6.9 years
Expected Yield to Maturity ⁽²⁾ :	6.4%

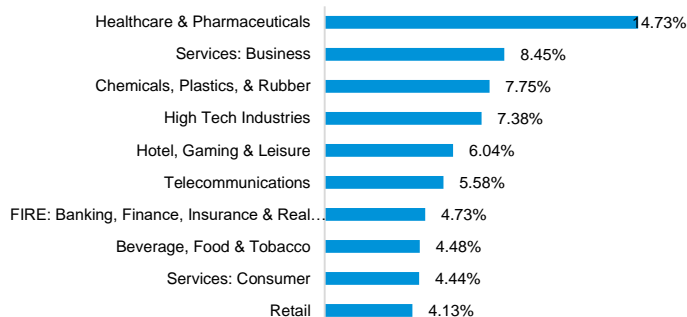
Rating Category Breakdown ⁽³⁾



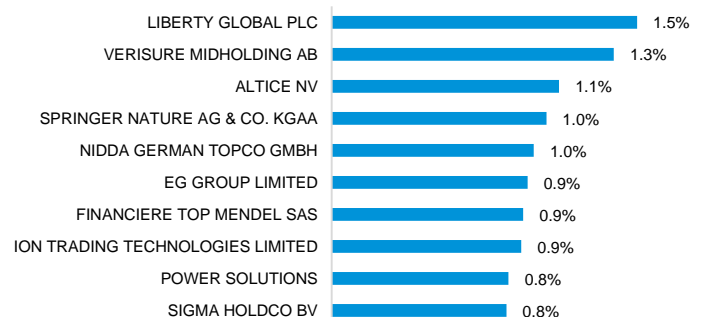
Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/S/F)	Par Amount (EUR)
ARMDA 2X E	Brigade	Ba2/NR/BB	3,000,000
SPAUL 10X E	ICG	Ba2/NR/BB	3,000,000
AQUE 2019-3X E	HPS	Ba3/NR/BB-	3,050,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
JUBIL 2018-21X E	Alcentra	Ba2/NR/BB-	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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