

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

July 2021

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.44% 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 (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 July, the CLO market was busy, even more than expected, with 11 primary transactions priced, making the largest monthly volume so far this year with €4.8bn issued and bringing the YTD issuance at an outstanding level of €20bn. The investors' appetite was intact as demand for high yielding credit assets remains paramount, anticipating a brief lull in supply in August. Illustrating the strong intrinsic demand, average deal size for July new issues stands at €455mln vs €380mln in June. One interesting note was the strong disparity on the AAA tranche new issued spread, ranging from E3M+93bp on the reset deal issued by Oaktree up to E3M+108bp from the last Albacore refinanced transaction. On the other hand, demand for BBB rated tranches was relatively solid with systematic bid from long only investors focusing mainly on new issues. This can be explained by the relentless search from institutional clients after investment grade credit assets which, in the case of CLO tranches, offer a very favorable yield pick up over any IG corporate assets (as a reference, AAA CLO tranches spread pick up vs IG Corp is at a 3y high of 62bp).

The sell-off in risky assets seen later in the month proved to be short lived as markets retraced most of the ground they have lost with a few mezzanine CLO tranches closing the month even tighter. In addition, positive convexity was a supportive factor for investors to trigger selective interest in BB and B CLO tranches. The high issuance volume including refinancing deals has however capped spread performance despite good interests from credit investors for BB and B CLO tranches above 600bp and 900bp respectively, looking after clean underlying portfolios and still benefiting from the relative wide spreads vs the tightest levels seen in 2018 of E3M+540bp and E3M+740bp.

Better quality CLO portfolios and top tier CLO managers are still trading very well but we have clearly noticed more tiering on B rated tranches with weaker names leaking wider. The dispersion of bids on BWICs also appear to be increasing unsurprisingly though given the reduced activity through the summer break.

On the senior loan market, the primary activity remains robust on the back of a healthy M&A transactions pipeline. This is helping CLO managers to activate their portfolio sectorial and corporate rotation strategies with a spread pick-up in numerous cases, as B2 rated loans are generally offered at or above E3M+375bp, wider than 6 months ago.

Worth mentioning, the European Leverage Finance Association has announced the creation of a new committee to establish industry best practices and serve investors' requirements in the CLO market. This committee will contribute to the regulatory dialogue on the asset class with the development of ESG credentials being one key area of focus.

Our Fund managed to generate a positive performance last month despite the heavy CLO issuance volume, our well selected exposures are indeed benefiting from a good demand for short dated CLO tranches as well as for deals with the right portfolio credit metrics. We are also capitalizing on the convexity of the portfolio which is currently priced at 95.20% on average.

Regarding our portfolio, we were not that active in July as we bought a B tranche from the last new issue managed by Rothschild, an excellent conservative CLO manager, at a large spread of E3M+910bp, a BB tranche from the last AXA transaction at E3M+630bp and we rolled our BBB exposure on a Tikehau deal which was refinanced at E3M+340bp.

As a result, our cash exposure is slightly down to 10% in order to keep sufficient firepower as we are monitoring the weeks ahead which could offer opportunities to pick up some interesting secondary assets at the short end of the curve with good relative value compared to similar quality reset CLO tranches. Numerous investors are indeed off the market in August pressing some dealers to offer more aggressively assets they hold on their books.

Our global exposure is adequately positioned with 24.5% in Investment Grade assets and 75% in BB and better rated tranches, above our minimum guidelines of 20% and 70% respectively.

As recently noted by DB Research analysts, the improving credit cycle with key metrics such as Weighted Average Rating Factor decreasing below 3000 for the first time since March 2020 while CCC buckets have been gradually reduced to 5%, are supportive factors for our asset class going forward on the top of the great relative return offered in comparison to any European credit assets.

### 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%						5.08%
USD	6.30%	6.42%	1.05%	0.89%	0.06%	1.56%	1.16%	0.19%	0.51%						5.53%
CHF	3.50%	3.94%	0.99%	0.84%	0.04%	1.41%	1.04%	0.11%	0.41%						4.92%

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%						4.51%
USD	3.06%	5.64%	0.94%	0.79%	0.05%	1.40%	1.02%	0.15%	0.44%						4.88%
GBP	1.01%	4.07%	0.93%	1.72%	0.06%	1.40%	0.94%	0.16%	0.43%						4.79%
CHF	1.08%	3.45%	0.88%	0.75%	0.03%	1.25%	0.93%	0.09%	0.35%						4.35%

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

<b>Structure</b>	UCITS Fund
<b>Domicile</b>	Ireland
<b>Valuation</b>	Daily
<b>Liquidity</b>	Weekly
<b>Fund AUM</b>	\$99.1m
<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>	MLDAEIF 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: MLDAEIF ID
	USD: MLDAUIF ID
	CHF: MLDACIF ID
	GBP: MLDAGIF ID

<b>Share Class</b>	<b>Institutional Class A</b>
<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: MLDUIAP ID
	CHF: MLDCIAP ID
	GBP: MLDGIAP ID

# Descartes Alternative Credit UCITS Fund

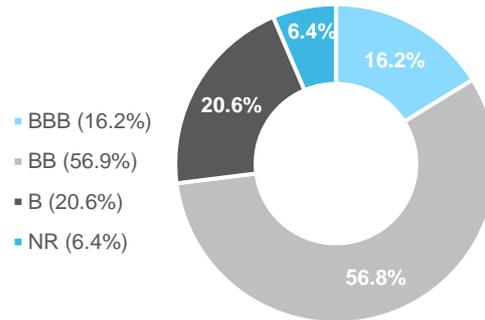
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### Portfolio Metrics

Number of Positions:	50
Number of CLO Managers	29
Expected Average Life To Maturity <sup>(1)</sup> :	7.1 years
Expected Yield to Maturity <sup>(2)</sup> :	6.4%

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



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

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

Healthcare & Pharmaceuticals	14.71%
High Tech Industries	7.68%
Chemicals, Plastics, & Rubber	7.35%
Services: Business	7.31%
Telecommunications	6.18%
Hotel, Gaming & Leisure	5.37%
Beverage, Food & Tobacco	4.72%
Retail	4.49%
FIRE: Banking, Finance, Insurance & Real...	4.37%
Construction & Building	4.35%

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

LIBERTY GLOBAL PLC	1.53%
ALTICE NV	1.34%
EG MIDCO 1 LIMITED	1.20%
3I GROUP PLC	1.02%
LORCA HOLDCO LIMITED	1.02%
VERISURE MIDHOLDING AB	0.99%
SPRINGER NATURE AG & CO. KGAA	0.98%
VEDICI PARTICIPATIONS	0.97%
INEOS GROUP LIMITED	0.92%
SYNLAB AG	0.91%

#### 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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