

Descartes Alternative Credit UCITS Fund

Long Only Total Return Structured Credit

August 2020

Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.05% for the month of August (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

The CLO market stabilization noticed in July carried on in August in a quiescent context with only 2 primary CLO transactions issued including one static deal, but a lively monthly BWICs program (over €650m) where investors appetite remained solid for CLO mezzanine tranches. As a consequence, the AAA tranche primary deal for GSO Blackstone was priced at a low since last March of €3M+145bp even after upsizing the deal from €300m to €350m.

As a result of a small redemption in the Fund, we took this opportunity to take profit on several A rated tranches exposure at an average discount margin of €3M+350bp but importantly at an average price well above par. Our portfolio average price is still well under par at 89.50%, offering thereby a strong positive convexity.

As a result of this disposal, our portfolio rating split becomes 33% Investment Grade, 50% in BB rated tranches and 17% 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). The portfolio YTM is at around 7.25%.

As a compelling source of alpha, the CLO managers tiering remains significant from 100/150bp for BB and BBB tranches of the weaker transactions with low par subordination up to 200/250bp on B rated tranches.

The main theme continues to be a bid for quality, but the market showed a willingness to reach for convexity and potential for price appreciation. Flows were heaviest in BB tranches but despite the supply, there was a good number of inflows looking to take up risk.

Considering the amount of open warehouses, we expect the primary market to be busy in September which could offer some spread premium opportunities for the Fund to be considered as the credit curve has renormalized with an attractive steepness. Furthermore, as High Yield spreads remain supported, we think refinancing activity could persist moderately and most of the pipeline for M&A/LBO related issuance could be completed this year.

According to BAML, portfolio changes across CLO deals since March account for more than 50% of total par changes since CLO deal issuance illustrating once more the intense activity of CLO managers to reduce risk across the board through the sale of lower priced/high risk loans to arbitrage in favour of inexpensive good quality loans.

The August lull in primary loan supply has helped to push leverage loan prices to their highest level since March at 94.17 helping portfolio NAV to recover and improving month after month the Market Value Overcollateralization level of our mezzanine tranches exposure.

Last month, the average CCC exposure of the Fund was steady at 7% bearing in mind we remain far from the level to trigger junior OC test breach which is at 16.6% on average. Additionally, default rate stands at 1% in the Fund. Most of our CLO managers we speak to expect default rate in European CLOs to peak at 2/2.5% next year, a scenario where all rated and non rated tranches of our portfolio generate positive and attractive returns.

Finally, we believe the large shortfall of supply vs redemption in the European ABS market this year will play in favour of Investment Grade CLO tranches for the remaining 4 months assuming no hard lockdown is re-established to contain a second wave from the Covid-19.

We continue to stay constructive on mezzanine tranches of the European CLO market considering the thick credit spreads, a persistent lack of high quality secondary CLO mezzanine tranches and a reduced primary market activity, still down 40% from last year, facing deep pockets of cash desperately looking after yield in the current interest rate environment.

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%					-3.90%
USD	6.30%	2.30%	-0.02%	-24.74%	2.52%	15.37%	6.46%	0.65%	0.10%					-2.35%
CHF	3.50%	2.04%	-0.20%	-25.38%	2.35%	15.23%	6.29%	0.53%	0.03%					-4.21%

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%					-3.99%
USD	3.06%	2.05%	-0.02%	-24.66%	2.51%	15.36%	6.45%	0.72%	0.09%					-2.45%
CHF	1.08%	1.83%	-0.17%	-25.26%	2.36%	15.20%	6.28%	0.52%	0.02%					-4.26%

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	\$120.7m
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

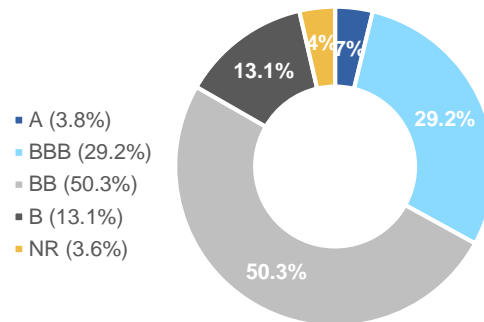
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Portfolio Metrics

Number of Positions:	55
Number of CLO Managers	28
Expected Average Life To Maturity ⁽¹⁾ :	6.9 years
Expected Yield to Maturity ⁽²⁾ :	6.8%

Rating Category Breakdown ⁽³⁾



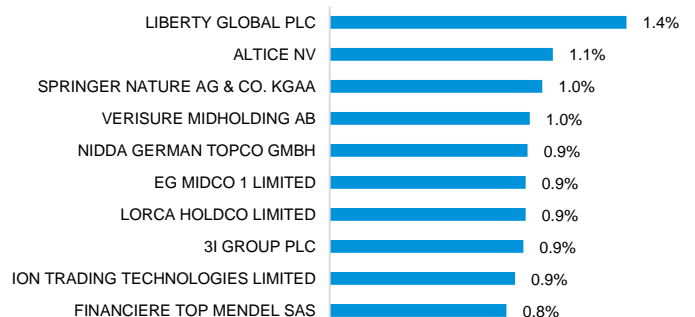
Top 5 Positions ⁽³⁾

Tranche Name	Manager	Rating (M/S/F)	Par Amount (EUR)
AQUE 2019-3X E	HPS	Ba3/NR/BB-	3,050,000
BABSE 2018-2X D	Barings	Baa2/NR/BBB	3,000,000
SPAUL 10X E	ICG	Ba2/NR/BB-	3,000,000
CGMSE 2019-1X D	Carlyle	Ba2/BB-/BB-	3,000,000
DRYD 2014-32X ER	PGIM	Ba3/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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