

# Descartes Alternative Credit UCITS Fund

## Long Only Total Return Structured Credit

January 2022

### Performance Returns

The Descartes Alternative Credit UCITS Fund returned 0.61% for the month of January (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 January, the primary market was surprisingly nearly inactive as only one deal from Guggenheim (Bilbao 4) was priced during the month. As the CLO manager is perceived as conservative, demand was clearly robust mainly on Investment Grade tranches, with the BBB priced at a tight spread of E3M+325bp, but interest was more limited on BB and B tranches which priced respectively at a spread of E3M+645bp and E3M+950bp. Moreover, there has been 4 refinancing transactions launched for a total volume of €1.4bln, taking advantage of a strong investors' appetite for AAA rated tranches which managed to price from E3M+82bp for a refi transaction up to E3M+92bp for a reset deal (maturity extended). Similarly, the BBB rated tranches have been well absorbed albeit at disparate levels between 325bp and 370bp above E3M depending on the quality of the portfolio metrics (average rating, CCC bucket, loans price below 90%...). On the secondary market, the institutional demand continued to be strong, through moderately sized but well bid BWIC sessions, especially with investors looking after shorter dated assets offering a high coupon on BBB/BB tranches as well as on short convex assets in BB and B rated tranches, a relatively rare asset to source currently and executed at a spread of around E3M+550bp and E3M+750bp respectively.

The dispersion in CLO mezzanine spreads is still wide, typically ranging from 615bp to 675bp on long dated BB tranches, as investors are mostly focusing on conservative CLO managers based on high quality loan portfolios.

Considering the increased volatility noticed on risk assets during the second part of the month, the sub-IG CLO tranche prices finished overall slightly weaker in refinancing transactions which was also reflected in the secondary market for longer duration assets. In that respect, BB and B tranches widened respectively to E3M+650/670bp and E3M+950bp to satisfy the institutional demand.

On the senior loan market, we have seen some spread compression on the travel and leisure sectors supporting the ELLI index price closing the month at 99% for the first time since 2018, which mechanically strengthened the Market Value Over Collateralization (MVOC) levels across CLO mezzanine tranches. The primary loan pipeline is growing but seems too small to satisfy the large number of opened CLO warehouses open (70). Therefore, asset sourcing could become potentially challenging for some CLO managers in preparation to issue new CLO deals in February/March. Generally speaking, the European CLO underlying loan portfolios improved in quality with median tail (loans priced below 90%) decreasing from 1.2% in late 2021 to 0.5% in January. CCC buckets also edged lower at 3.5% and median portfolio NAV are up 3% year to date.

Regarding our portfolio, we bought a short BBB tranche from a refinancing deal by GLG, 4y shorter than a primary deal, at an excellent spread of E3M+350bp. On the other hand, we sold a BB tranche managed by Babson which has recovered well last year at a spread of E3M+630bp in order to reduce our exposures to aggressive CLO managers. Finally, we will be called at par on a B rated tranche managed by BlackRock which will bring our cash or equivalent position up to 17% in anticipation for what we expect to be a very busy primary market over the next 2 months.

The Fund Investment Grade overall position is now at 35%, well above the minimum required of 20%; furthermore, our BB and above rated portfolio stands at 80%, comfortably above the minimum required of 70%.

The Fund performance has been positive in January thanks principally to the carry in addition to well behaved short dated BBB and BB exposures managed by conservative and experienced CLO managers, despite the volatility pick-up observed in the global equity markets and the 40bp spread widening seen on the Itraxx X-Over index.

For the next two months, we are cautiously constructive on the CLO asset class considering the current spread levels across mezzanine tranches and its inflation hedge benefit in a context of large pockets of cash ready to be deployed on floating rate assets by numerous investors. We will monitor carefully the upcoming primary deals as we expect more tiering between CLO managers and quite some dispersion on mezzanine tranches proposed spreads. Our generous cash level should allow us to seize the right opportunities at the right pricing level.

### 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 21
EUR	4.06%	4.37%	6.83%	0.61%												0.61%
USD	6.30%	6.42%	7.62%	0.63%												0.63%
CHF	3.50%	3.94%	6.52%	0.61%												0.61%

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 21
EUR	2.43%	3.76%	6.04%	0.54%												0.54%
USD	3.06%	5.64%	6.72%	0.58%												0.58%
GBP	1.01%	4.07%	6.57%	0.59%												0.59%
CHF	1.08%	3.45%	5.74%	0.53%												0.53%

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>	\$109.6m
<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

**Bloomberg Codes**

EUR: MLDEIAP ID  
USD: MLDUIAP ID  
CHF: MLDCAIP ID  
GBP: MLDGIAP ID

# Descartes Alternative Credit UCITS Fund

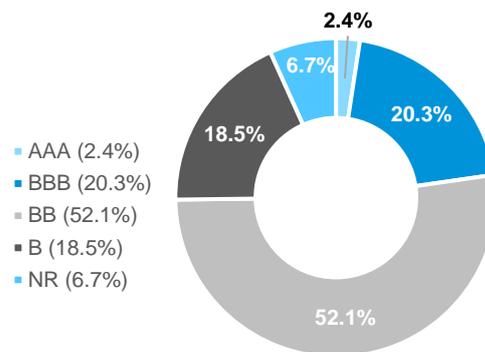
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### Portfolio Metrics

Number of Positions:	60
Number of CLO Managers	32
Expected Average Life To Maturity <sup>(1)</sup> :	7.2 years
Expected Yield to Maturity <sup>(2)</sup> :	6.5%

### 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 2014-32X ER	PGIM	Ba2/BB-/NR	3,000,000
ARMDA 2X E	Brigade	Ba2/BB/NR	3,000,000
BECLO 8X F	BlackRock	B2/B-/NR	2,850,000
CORDA 12X F	CVC	B2/B-/NR	2,500,000

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



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



#### 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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