



**FAIR OAKS**  
DYNAMIC CREDIT

## Fund summary

The Fair Oaks Dynamic Credit Fund (the "Fund") offers global access to senior secured corporate loans through investments in Collateralised Loan Obligations ("CLOs"). The Fund is actively managed with a strong emphasis on bottom-up fundamental credit analysis. The Fund primarily seeks exposure to investment-grade rated CLO securities on a long-only basis and with no leverage used at fund level.

## Fund commentary

The Fund generated a performance of -0.13%<sup>1</sup> in June, outperforming the European High Yield and Loan indices, which generated returns of -0.42% and -0.49% respectively<sup>2</sup>. The negative performance in June was mainly due to widening spreads caused by elevated CLO supply in the primary market.

The Fund purchased four new BBB rated primary issues and sold one BBB rated asset in June. The total number of positions in the portfolio increased to 98, offering exposure to more than 1,450 underlying senior secured bank loan issuers<sup>3</sup>. Year-to-date, the Fund has generated a +0.66% total return with 0.59% volatility<sup>1</sup>, versus a -1.5% total return and 2.23% volatility in the JP Morgan European High Yield index.

The fundamental performance of senior secured bank loans continued to be positive with default rates for European and US loans falling from 1.11% to 0.12% and from 2.05% to 1.95% respectively in December 2017 to June 2018<sup>4</sup>. European bank loans spreads have widened from Euribor+4.22% in December to Euribor+4.53% while European high yield bond spread to worst widened from +3.46% in December to +4.54%<sup>5</sup>. This supports our view that market valuation rather than defaults continue to be a key risk for credit assets.

Despite the current technical issues facing the CLO market, we believe that CLOs still offer attractive relative value, with BBB rated CLOs offering a yield pick-up of 2.48% versus European investment grade and BB rated CLOs yielding 1.41% more than the JP Morgan Euro HY Index<sup>6</sup>. CLO supply, year-to-date, has exceeded expectations, partly due to the repeal of risk retention rules in the US. Global new issue CLO volume has reached \$84.1 billion in H1 2018 (vs H1 2017: \$61.6 billion<sup>7</sup>) and has impacted CLO spreads negatively in June.

We believe that the Fund is well positioned to navigate some of the key challenges the markets will face in H2 2018, such as weaker economic fundamentals, raising interest rates and reduced global liquidity given its focus on floating rate investments backed by senior secured loans, which have never benefited directly from quantitative easing or regulatory support.

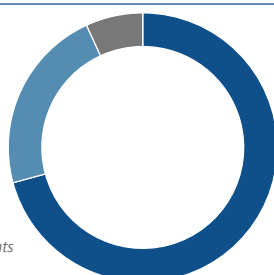
1. Performance and volatility of daily returns (M EUR Class).

2. JP Morgan European high yield summary market index value and Credit Suisse Western European loan total return index, as of 29-Jun-18.

## Top 5 positions

Deal Name	Rating (M/S/F)	Par Amount
OZLME 4X D	Baa2/NR/BBB-	€ 12,000,000
ALME 4X DR	Baa2/NR/BBB	€ 11,500,000
OCPE 2017-1X D	Baa2/BBB/NR	€ 10,000,000
SPAUL 8X D	Baa2/NR/NR	€ 10,000,000
HARVT 18X D	Baa2/BBB/NR	€ 10,000,000

## Rating breakdown



- BBB (71%)
- BB (22%)
- Cash\* (7%)

\*Cash and cash equivalents



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CAPITAL

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## Technical detail

Legal Structure	Luxembourg SICAV-Alpha UCITS SICAV
Domicile	Luxembourg
Launch Date	13/09/2016
Fund Size	€546.1m
Dealing	Weekly (Wednesdays)
Valuations	Daily Non-Dealing and Weekly Dealing NAVs
Return Profile	Libor+4% p.a. (net target returns)
Base Currency	€ denominated
Investment Manager	Fair Oaks Capital Limited
Management Company	MDO Management Company S.A.
Administrator / Custodian	RBC Investor Services Bank S.A.
Auditor	Ernst & Young S.A.

3. Based on loan par value weighted by Fund's proportional ownership in investments. Source: Intex.

4. S&P/LSTA Leveraged Loan Index and S&P European Leveraged Loan Index default rates by principal amount, as of 29-Dec-17 and 29-Jun-18.

5. S&P ELLI Index, discounted spread (3 year) and JP Morgan Euro HY Index, spread-to-worst. Data as of 29-Jun-18.

6. JP Morgan Primary CLO BBB and BB spreads to 6M Euribor: 2.9% and 5.4% resp.; iTraxx Europe Main on the Run (3Y) Index and JP Morgan Euro HY Index spread to worst: 0.42% and 4.54% resp. as of 29-Jun-18 with 5yr swap spread of 0.55%. Data as of 29-Jun-18.

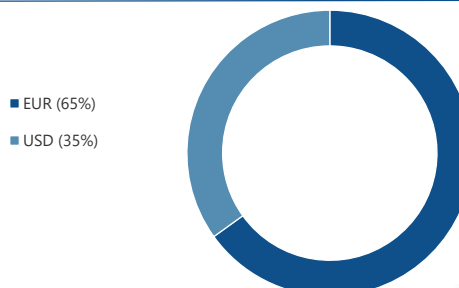
7. JP Morgan CLO Issuance, June 2017 and June 2018.

## Portfolio metrics

No. of positions:	98
Expected average life:	4.5 yr
Yield to expected call <sup>5</sup> :	Libor+3.71%
Floating rate (%):	100%
Fixed rate (%):	0%
Annualised return <sup>6</sup> :	3.9%
Annualised volatility (daily returns) <sup>6</sup> :	1.0%

5. Weighted average yield to expected call of investments, excluding fund fees and expenses.  
6. Representative of M EUR Class share price since inception. Net of fees.

## Geographic breakdown

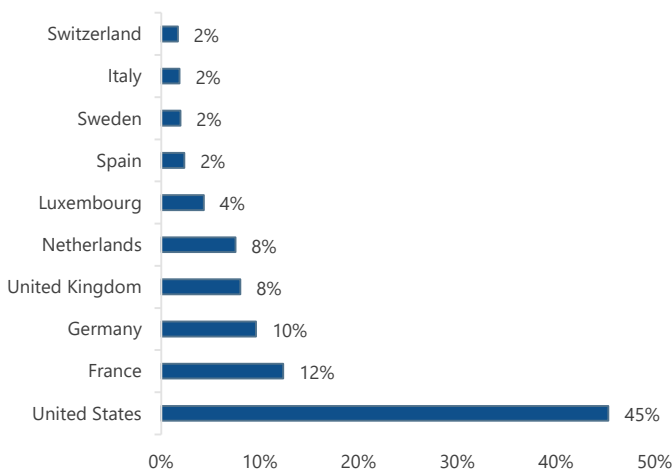


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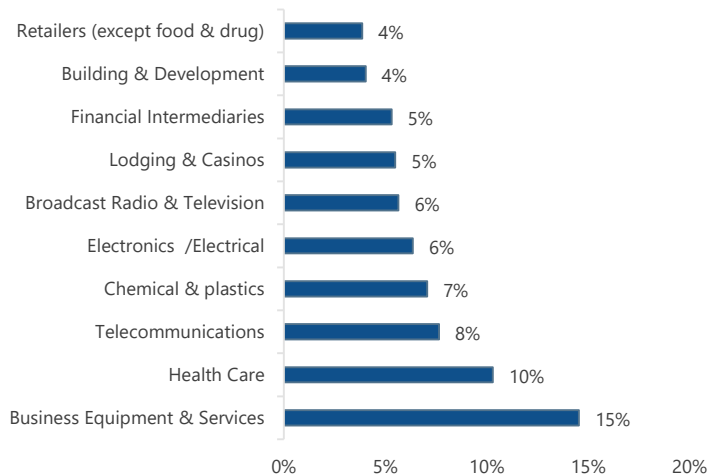




### Look-through geographic breakdown (top 10)<sup>1</sup>



### Look-through industry diversification (top 10)<sup>1</sup>



### Share class performance<sup>2</sup>

	NAV (29-Jun-18)	Total Return Monthly	Total Return 2018 YTD	Total Return ITD (Since Class Launch)	ISIN	Bloomberg Ticker	SEDOL
Class M GBP	1078.96	-0.07%	1.08%	7.90%	LU1344623613	FODCFMG	BD4GKY2
Class M EUR	1068.46	-0.13%	0.66%	6.85%	LU1344623373	FODCFME	BD4GCX1
Class E EUR	1062.12	-0.15%	0.51%	6.21%	LU1344621674	FODCFEE	BD4GCL9
Class E GBP	1073.59	-0.09%	0.93%	7.36%	LU1344621831	FODCFEG	BD4GCN1
Class E2 GBP	1008.65	-0.09%	0.91%	3.57%	LU1628743905	FODCFE2G	-
Class E USD	1097.93	0.07%	1.72%	9.79%	LU1344621757	FODCFEU	BD4GCM0
Class E CHF	1049.77	-0.20%	0.21%	4.98%	LU1344621914	FODCFEC	BD4GCP3
Class N EUR	1000.41	-0.15%	0.51%	6.06%	LU1539542248	FODCFNE	BD72S50
Class O EUR	1017.95	-0.18%	0.37%	4.17%	LU1570265261	FODCFOE	-
Class P GBP	1000.74	-0.10%	0.85%	3.86%	LU1590456338	FODCFPG	BDRXFB8
Class D ILS	5119.16	-0.19%	0.31%	2.38%	LU1577731786	FODCFDS	-
Class A EUR	1019.61	-0.17%	0.32%	1.96%	LU1344614893	FODCFAE	-
Class A GBP	1006.69	-0.11%	0.73%	0.67%	LU1344615270	FODCFAG	-
Class L2 GBP	1007.65	-0.12%	0.80%	2.26%	LU1683328667	FODCFL2G	-

### Monthly performance (M EUR Class)<sup>2</sup>

										Oct-16	Nov-16	Dec-16	2016	ITD	
										-0.45%	-0.03%	0.73%	0.25%	0.25%	
Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	2017	ITD		
1.06%	0.31%	1.28%	0.03%	0.34%	0.26%	0.36%	0.54%	0.35%	0.55%	0.52%	0.15%	5.89%	6.15%		
Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18							2018	ITD		
0.38%	0.25%	0.16%	-0.24%	+0.24%	-0.13%							0.66%	6.85%		
Maximum weekly return:		+1.00%								% Positive or unchanged weeks:		77.78%			
Largest weekly drawdown:		-0.20%								Average weekly return (positive or unchanged weeks):		+0.11%			
												Average weekly return (negative weeks):		-0.06%	

1. Based on total gross assets in underlying bank loan portfolios. Source: Intex.  
2. Fair Oaks Capital; NAVs calculated net of fees.





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This report has been communicated by Fair Oaks Capital Limited, 1 Albemarle Street, London W1S 4HA, authorised and regulated in the UK by the Financial Conduct Authority, FRN No. 604090.



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