



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.

Commentary

The Fund generated a +1.2% net return¹ in December, -9.3% in 2022. This compares to the JP Morgan European High Yield Index return of -0.65% for the month and -9.7% for 2022.²

The Fund's gross yield to maturity is 10.6% and gross yield to expected call is 15.0%. This compares to 8.0% YTM for the JP Morgan European High Yield index.²

The Fund continued to show very limited or even negative correlation with other asset classes.³

FODC vs.	European HY	European BBB Corporates	European IG Corporates	European Leveraged Loans	FTSE 100	EURO STOXX 50	S&P 500
2022	32%	-15%	-18%	66%	8%	2%	5%

The trailing 12-month loan default rates were largely unchanged at 0.42% in Europe, and 0.72% in the US. However, the loan market continues to price in weaker credit fundamentals and rising defaults as distressed ratios increased from 9.0% to 9.9% in Europe and from 8.2% to 9.6% in the US.⁴ In 2023, loan default rates are expected to increase to 3.9% in Europe and 4.2%⁵ in the US. In the context of these forecasts, we estimate that the Fund's portfolio could withstand default rates in excess of 8%, per year, to maturity before gross returns (10.6% yield to maturity and 15.0% yield to call), are impacted and default rates in excess of 14%, per year, to maturity would be required before gross returns fell below 5%, both under conservative prepayment, reinvestment and recovery assumptions.⁶

Despite an increasing expectation of inflation and interest rates peaking in the US in 2023, we continue to focus on identifying potential sources of risk for the Fund's portfolio and regularly re-underwrite positions to support attractive risk-adjusted returns for investors. Recent press articles have, for example, flagged the risk to CLOs of CCC loan downgrades (some analysts expect CCC buckets to potentially reach 10-15% in 2023).⁷ This is a risk we identified in 2022, expecting refinancing risk to be the key driver of these downgrades. Consequently, we have been regularly mapping the Fund's portfolio and new investment opportunities to identify exposure to lower-rated (B3/B-) names, or weaker B2/B names, with refinancing requirements over the next 2-3 years.

Heading into 2023, we believe that the Fund offers an attractive opportunity given that BBB CLO spreads are currently 21bps wider than high yield spreads, compared to a 5-year average of 88bps tighter.⁹ We believe the lagging performance of CLOs is due to the unique circumstances which resulted in significant selling in 2022 by LDI-driven investors. This relative value, together with the structural protections and the floating-rate nature of CLOs should support performance under more challenging market environments.

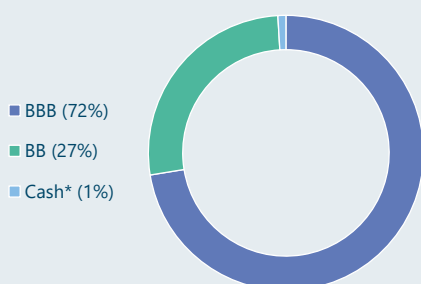
Top 5 positions¹¹

Deal name	Rating (M/S/F)	CLO manager	% of NAV
ARESE 9X D	Baa2/BBB/NR	Ares Management	2.8%
OCPE 2017-2X D	Baa2/BBB/NR	Onex Credit Partners	2.2%
TIKEH 6X D	Baa3/NR/BBB-	Tikehau Capital Europe	2.1%
WILPK 1X C	Baa2/NR/BBB	Willow Park	1.9%
PRVD 6X D	Baa3/BBB/NR	Permira Debt Managers	1.8%

TOTAL NUMBER OF ISSUERS IN THE PORTFOLIO: 1,599

LARGEST LOAN ISSUER (% MARKET VALUE): 1.08%

Rating breakdown^{11,12}



*Cash and cash equivalents

Fund facts

Data as of 30-Dec-22

Legal structure: Luxembourg SICAV-Alpha UCITS SICAV

Domicile: Luxembourg

Launch date: 13-Sep-16

Fund size: €414.0m

Dealing: Weekly (Wednesdays)

Valuations: Daily non-dealing and weekly dealing NAVs

Target gross return¹⁰: Euribor + 5% p.a. (see share class KIIDS for TER details)

Base currency: EUR

Investment manager: Fair Oaks Capital Limited ("Fair Oaks")

Management company: Waystone Management Company S.A.

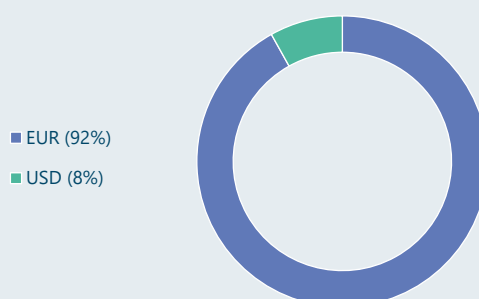
Administrator / custodian: RBC Investor Services Bank S.A.

Auditor: Deloitte Audit Sàrl

Portfolio metrics

Number of positions:	99
Yield to maturity ¹³ : (based on expected average life of 5.9 years)	+10.6%
Yield to expected call ¹³ : (based on expected average life of 2.5 years)	+15.0%
Floating rate:	100%
CLOs with ESG Investment Criteria ¹⁴ :	30%

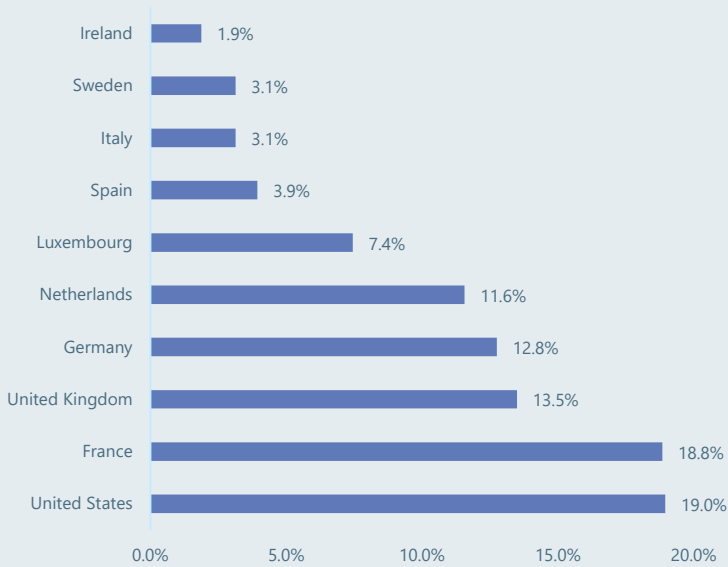
Currency breakdown^{11,12}



Please refer to the footnotes for the important information on page 3. Past performance is no indication of future results. Inherent in any investment is the potential for loss. Class M is the initial share class of the Fund with the longest track record, but is no longer available for new investment.



Look-through geographic breakdown (top 10)¹⁵



Look-through industry diversification (top 10)^{15,16}



Monthly performance¹⁷

												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	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	2018	ITD			
+0.38%	+0.25%	+0.16%	-0.24%	+0.24%	-0.13%	+0.06%	+0.31%	0.00%	+0.12%	-0.51%	-3.07%	-2.46%	+3.54%			
Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	2019	ITD			
+1.55%	-0.07%	+1.29%	+0.93%	+0.74%	-0.32%	0.45%	-0.06%	+0.17%	-0.80%	+0.47%	+0.72%	+5.17%	+8.89%			
Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	2020	ITD			
+1.92%	-1.13%	-27.19%	+6.44%	+16.06%	+4.29%	-1.27%	+2.31%	+0.75%	+0.21%	+3.49%	+0.78%	+0.53%	+9.46%			
Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	2021	ITD			
+0.95%	-0.15%	-0.03%	+0.67%	+0.37%	+0.38%	+0.49%	+0.15%	+0.06%	+0.40%	+0.17%	+0.10%	+3.63%	+13.44%			
Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	2022	ITD			
+0.37%	-1.18%	-0.12%	-0.35%	-5.51%	-3.24%	-1.40%	4.25%	-6.01%	-0.02%	+2.80%	+1.19%	-9.31%	2.87%			

Maximum weekly return: +9.51%
Largest weekly drawdown: -15.16%

% Positive or unchanged weeks: +70.13%
Average weekly return (positive or unchanged weeks): +0.37%
Average weekly return (negative weeks): -0.80%

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Signatory of:





Share class performance¹⁸

	LAUNCH DATE	ISIN	BLOOMBERG TICKER	NAV (30-Dec-22)	TOTAL RETURN MONTHLY	TOTAL RETURN 2022 YTD	ANNUALISED RETURN (SINCE CLASS LAUNCH)	ANNUALISED DAILY VOLATILITY (SINCE CLASS LAUNCH)
Class M EUR	Oct-16	LU1344623373	FODCFME	1,028.74	+1.19%	-9.31%	+0.46%	8.91%
Class E EUR	Sep-16	LU1344621674	FODCFEE	1,008.34	+1.17%	-9.61%	+0.13%	8.88%
Class L EUR	Nov-18	LU1344622219	FODCFLE	940.51	+1.15%	-9.83%	-1.49%	10.98%
Class A EUR	Aug-17	LU1344614893	FODCFAE	953.57	+1.15%	-9.83%	-0.88%	9.55%
Class N EUR	Dec-16	LU1539542248	FODCFNE	827.10	+1.16%	-9.29%	+0.30%	9.09%
Class O EUR	Mar-17	LU1570265261	FODCFOE	842.67	+1.15%	-12.41%	-0.73%	9.35%
Class R EUR	Dec-19	LU1892529196	FODCFRE	908.49	+1.06%	-10.65%	-3.09%	12.65%
Class R2 EUR	-	LU1892529519	-	-	-	-	-	-
Class S EUR	Sep-19	LU1892528388	FODCFSE	930.68	+1.14%	-9.87%	-2.19%	12.27%
Class S2 EUR	-	LU1892528628	-	-	-	-	-	-
Class E GBP	Sep-16	LU1344621831	FODCFEG	1,051.45	+1.30%	-8.39%	+0.80%	8.95%
Class E2 GBP	Jun-17	LU1628743905	FODCE2G	862.74	+1.30%	-8.28%	+0.34%	9.53%
Class L GBP	Nov-19	LU1344622482	FODCFLG	-	-	-	-	-
Class L2 GBP	Sep-17	LU1683328667	FODCL2G	860.39	+1.25%	-9.21%	-0.22%	9.75%
Class A GBP	Dec-17	LU1344615270	FODCFAG	970.54	+1.29%	-8.49%	-0.59%	9.98%
Class T GBP	Jul-21	LU2349357983	FODCF TG	926.42	+1.30%	-	-	-
Class E USD	Sep-16	LU1344621757	FODCFEU	1,134.15	+1.39%	-8.01%	+2.03%	8.98%
Class L USD	Feb-20	LU1344622300	FODCF LU	947.12	+1.36%	-8.21%	-1.86%	12.50%
Class A USD	Aug-19	LU1344615197	FODCF AU	978.59	+1.37%	-8.22%	-0.64%	12.01%
Class R USD	Dec-19	LU1892529279	FODCF RU	947.38	+1.28%	-9.14%	-1.76%	12.68%
Class R2 USD	-	LU1892529600	-	-	-	-	-	-
Class S USD	Dec-19	LU1892528461	FODCF SU	976.09	+1.36%	-8.24%	-0.78%	12.63%
Class S2 USD	-	LU1892528891	-	-	-	-	-	-
Class E CHF	Sep-16	LU1344621914	FODCF EC	972.31	+1.06%	-10.25%	-0.45%	8.89%
Class A CHF	Feb-20	LU1344615353	FODCF AC	896.91	+1.04%	-10.39%	-3.71%	12.50%
Class R CHF	Dec-19	LU1892529436	FODCF RC	895.05	+0.97%	-11.22%	-3.57%	12.68%
Class R2 CHF	-	LU1892529782	-	-	-	-	-	-
Class S CHF	Dec-19	LU1892528545	FODCF SC	921.27	+1.04%	-10.38%	-2.65%	12.68%
Class S2 CHF	-	LU1892528974	-	-	-	-	-	-
Class D ILS	May-17	LU1577731786	FODCF DS	4,788.08	+1.25%	-10.21%	-0.77%	9.48%
Class Q SEK	Oct-18	LU1886619987	FODCF QS	9,412.47	+1.21%	-9.42%	-1.44%	10.96%

Footnotes

- (1) Fair Oaks' data. Performance is of M EUR and is net of fees. The M Share Class is the earliest share class with the longest track record (M GBP shares launched Sep-16 and M EUR shares launched in Oct-16) and is no longer available for new investment.
- (2) Source: JP Morgan EUR HY Summary Yield to Maturity.
- (3) JP Morgan, LCD Pitchbook, Bloomberg, Fair Oaks Capital. Since inception of M EUR share class (net of fees). Pearson's correlation coefficient of FODC weekly returns compared to JPMorgan Euro HY Summary Market Index, JPMorgan European BBB Corporate Index, JPMorgan European AAA-BBB Corporate Index, Morningstar European Leveraged Loan Index, FTSE 100, EURO STOXX 50 and S&P 500. As at 30-Dec-22.
- (4) Source: PitchBook LCD. Euro and US loan index lagging 12-month loan default rate based on Principal Amount. Distress ratio by issuer count defined as loans trading below 80c.
- (5) 2023 default rate compiled using 2023 forecasts from Morgan Stanley (US), Barclays (EUR & US), Deutsche Bank (EUR & US), JP Morgan (US) and Nomura (US).
- (6) Intex: assuming 70c recovery and 20% prepayment rate. Other assumptions available on request.
- (7) Source: "US junk loan investors brace for increase in downgrades and defaults", Financial Time, 3 January 2023. Forecasts from Deutsche Bank, JP Morgan and Nomura
- (8) Intex: B3, Caa1, Caa2, and Caa3 rated assets (Moody's) based on loan facility rating. Calculated using contributed balance of holdings.
- (9) JP Morgan CLOIE BBB vs JP Morgan Euro HY, as of 4-Jan-23
- (10) Target gross return is before Fund expenses and management fees. Share class KIIDs including TERs are available on Management Company's Waystone website (<https://www.waystone.com/our-funds/waystone-management-company-lux-s-a/>).
- (11) Based on the current valuation of the assets in the Fund's base currency at month-end.
- (12) Due to rounding errors, the percentages may not sum to 100%. Currency breakdown of CLO investments excludes cash balance
- (13) Source: Intex. Weighted average yield of portfolio, before Fund fees expenses and currency hedging. Call is assumed one year after the end of each CLO's reinvestment period. Note the expected call timing might be unrealistic for some shorter-dated notes in the current market environment.
- (14) The proportion of the fund's investments which include ESG-focused investment criteria is being reported as per Article 8 of EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR").
- (15) Based on the par value of loans to issuers in the underlying bank loan portfolios. This analysis excludes recent purchases that have not settled in the reporting month. Source: Intex. Data as of 30-Nov-22.
- (16) Based on Moody's classification of the loan issuers. This analysis excludes recent purchases that have not settled in the reporting month. Data as of 30-Dec-22.
- (17) Fair Oaks' data. Performance is from the launch of M EUR and is net of fees. The M Share Class is the earliest share class with the longest track record (M GBP shares launched Sep-16 and M EUR shares launched in Oct-16) and is no longer available for new investment.
- (18) NAVs calculated net of fees. Share classes R2 and S2 have not launched as of the reporting month.



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This report has been communicated by Fair Oaks Capital Limited, 1 Old Queen Street, London SW1H 9JA, authorised and regulated in the UK by the Financial Conduct Authority, FRN No. 604090.

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