



## 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 remained flat in May<sup>1</sup>, in contrast to the +0.81% return for the JP Morgan European High Yield Index<sup>2</sup> and a mixed performance for the European Leveraged Loan Index and the US Leveraged Loan Index at +1.37% and -0.18% respectively.<sup>3</sup>

The portfolio's gross yield to maturity stands at 9.69% and the gross yield to expected call is 14.32%. This performance compares to the yield to maturity of 7.88% for the JP Morgan European High Yield Index.<sup>4</sup>

As anticipated, default rates increased in May, especially in the US. The default of large borrowers under severe stress for a considerable duration, such as Envision, led to the US loan default rate increasing from 1.31% to 1.58%. Meanwhile, the European loan default rate remained stable at 0.60% in May. According to the latest S&P LCD survey, investors anticipate the US loan default rate to reach between 2.5% and 3.0% by April 2024.<sup>5</sup>

Although primary CLO issuance increased in May with 19 deals totaling \$8.1bn printing in the US and 6 deals totaling €2.3bn printing in Europe, YTD CLO issuance is c.25% lower than during the same period in 2022 - both in the US and Europe.<sup>6</sup> We believe that there is potential for further slowdown in the European primary CLO market, primarily due to two reasons: First, current primary CLO spreads remain high compared to historical averages (EUR CLO AAA primary spreads are at E+1.98%, whereas the historical average since June 2008 is E+1.24%).<sup>7</sup> Second, we believe that there is a limited number of managers under pressure to issue CLOs to secure long-term funding for warehouse facilities, especially given the high loan prices (the current JPM EUR Loan Index price of 94.46c is the highest since May 18, 2022).<sup>7</sup> Under these circumstances, managers of existing warehouses might either choose to capitalise on the price gains immediately or wait until CLO liability levels stabilise.

Moreover, CLO calls continue to take place, like Cairn VI being redeemed this month, repaying all liabilities at par. This was achieved despite a highly appealing funding cost (AAA liability cost of E+0.79%) as over 85% of its AAA-rated financing had been amortised.

We believe that the scarcity of primary supply, potential CLO calls, the relative value of CLO mezzanine and the protection it enjoys against individual defaults make CLO mezzanine investments a compelling risk-adjusted investment opportunity in the current market environment.

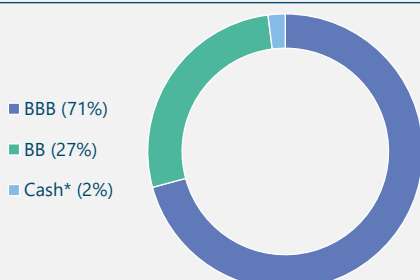
## Top 5 positions<sup>9</sup>

Deal name	Rating (M/S/F)	CLO manager	% of NAV
OCPE 2017-2X D	Baa2/BBB/NR	Onex Credit Partners	2.5%
ARESE 9X D	Baa2/BBB/NR	Ares Management	2.4%
WILPK 1X C	Baa2/NR/BBB	GSO Capital Partners	2.3%
OHECP 2018-7X D Mtge	Baa3/NR/BBB-	Oak Hill Advisors	2.1%
SNDPE 6X D	Baa3/NR/BBB-	Sound Point	2.1%

**TOTAL NUMBER OF ISSUERS IN THE PORTFOLIO:** 1,287

**LARGEST LOAN ISSUER (% MARKET VALUE):** 1.06%

## Rating breakdown<sup>9,10</sup>



\*Cash and cash equivalents.

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.

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## Fund facts

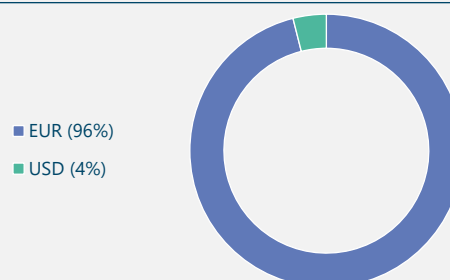
Data as of 31-May-23

Legal structure	Luxembourg SICAV-Alpha UCITS SICAV
Domicile	Luxembourg
Launch date	13-Sep-16
Fund size	€364.0m
Dealing	Daily
Valuations	Daily dealing NAVs
Target gross return <sup>8</sup>	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

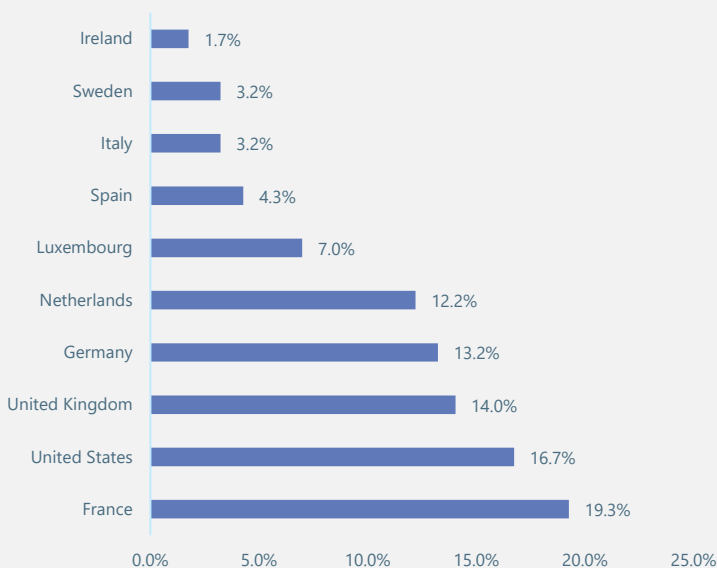
Number of positions:	94
Yield to maturity <sup>11</sup> : (based on expected average life of 5.5 years)	+9.7%
Yield to expected call <sup>11</sup> : (based on expected average life of 2.0 years)	+14.3%
Floating rate:	100%
CLOs with ESG Investment Criteria:	28%

## Currency breakdown<sup>9,10</sup>

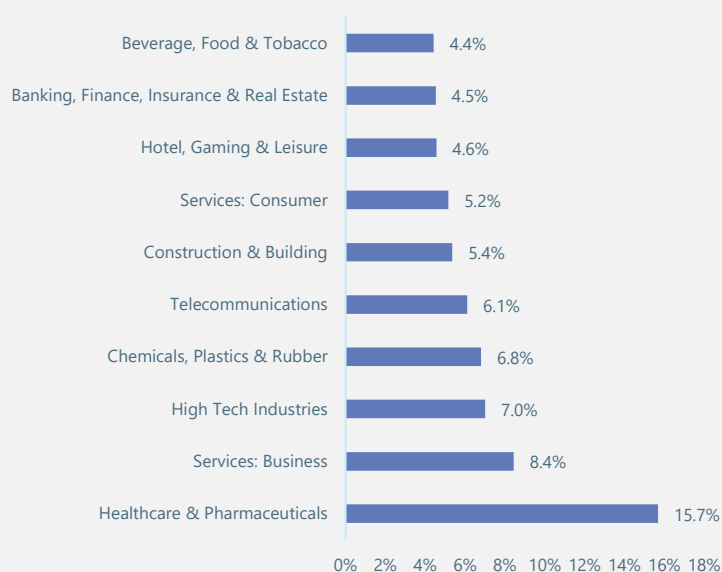




## Look-through geographic breakdown (top 10)<sup>12</sup>



## Look-through industry diversification (top 10)<sup>12,13</sup>



## Monthly performance<sup>14</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	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%
Jan-23	Feb-23	Mar-23	Apr-23	May-23								2023	ITD
+4.40%	+0.99%	-2.10%	+2.88%	0.00%								+6.19%	+9.25%
Maximum weekly return:			+9.51%			% Positive or unchanged weeks:			+70.29%				
Largest weekly drawdown:			-15.16%			Average weekly return (positive or unchanged weeks):			+0.39%				
						Average weekly return (negative weeks):			-0.79%				

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## Share class performance<sup>15</sup>

	LAUNCH DATE	ISIN	BLOOMBERG TICKER	NAV (31-May-23)	TOTAL RETURN MONTHLY	TOTAL RETURN 2023 YTD	ANNUALISED RETURN (SINCE CLASS LAUNCH)	ANNUALISED DAILY VOLATILITY (SINCE CLASS LAUNCH)
Class M EUR	Oct-16	LU1344623373	FODCFME	1,092.45	0.00%	+6.19%	<b>+1.34%</b>	<b>8.73%</b>
Class E EUR	Sep-16	LU1344621674	FODCFEE	1,069.30	-0.04%	+6.05%	<b>+1.01%</b>	<b>8.71%</b>
Class L EUR	Nov-18	LU1344622219	FODCFLE	996.33	-0.06%	+5.94%	<b>-0.08%</b>	<b>10.61%</b>
Class A EUR	Aug-17	LU1344614893	FODCFAE	1,010.16	-0.06%	+5.93%	<b>+0.17%</b>	<b>9.33%</b>
Class N EUR	Dec-16	LU1539542248	FODCFNE	865.30	-0.04%	+6.04%	<b>+1.03%</b>	<b>8.92%</b>
Class O EUR	Mar-17	LU1570265261	FODCFOE	892.69	-0.06%	+5.94%	<b>+0.13%</b>	<b>9.14%</b>
Class R EUR	Dec-19	LU1892529196	FODCFRE	958.52	-0.15%	+5.51%	<b>-1.21%</b>	<b>12.05%</b>
Class S EUR	Sep-19	LU1892528388	FODCFSE	985.76	-0.06%	+5.92%	<b>-0.39%</b>	<b>11.72%</b>
Class E2 GBP	Jun-17	LU1628743905	FODCE2G	893.13	-1.33%	+5.13%	<b>+1.03%</b>	<b>9.32%</b>
Class L2 GBP	Sep-17	LU1683328667	FODCL2G	892.87	+0.05%	+6.41%	<b>+0.75%</b>	<b>9.50%</b>
Class A GBP	Dec-17	LU1344615270	FODCFAG	1,034.27	+0.06%	+6.57%	<b>+0.62%</b>	<b>9.72%</b>
Class T GBP	Jul-21	LU2349357983	FODCFTG	987.17	+0.07%	+6.56%	-	-
Class E USD	Sep-16	LU1344621757	FODCFEU	1,213.16	+0.14%	+6.97%	<b>+2.93%</b>	<b>8.81%</b>
Class L USD	Feb-20	LU1344622300	FODCLFU	1,012.02	+0.11%	+6.85%	<b>+0.36%</b>	<b>12.33%</b>
Class A USD	Aug-19	LU1344615197	FODCFAU	1,063.74	+0.10%	+8.70%	<b>+1.63%</b>	<b>11.47%</b>
Class R USD	Dec-19	LU1892529279	FODCFRU	1,008.59	+0.02%	+6.46%	<b>+0.25%</b>	<b>12.07%</b>
Class S USD	Dec-19	LU1892528461	FODCFSU	1,042.82	+0.11%	+6.84%	<b>+1.21%</b>	<b>12.03%</b>
Class E CHF	Sep-16	LU1344621914	FODCFEC	1,022.34	-0.26%	+5.15%	<b>+0.33%</b>	<b>8.72%</b>
Class A CHF	Feb-20	LU1344615353	FODCFAC	942.12	-0.28%	+5.04%	<b>-1.79%</b>	<b>12.37%</b>
Class R CHF	Dec-19	LU1892529436	FODCFRC	936.58	-0.37%	+4.64%	<b>-1.87%</b>	<b>12.07%</b>
Class S CHF	Dec-19	LU1892528545	FODCFSC	967.86	-0.28%	+5.06%	<b>-0.94%</b>	<b>12.07%</b>
Class D ILS	May-17	LU1577731786	FODCFDS	5,081.67	0.00%	+6.13%	<b>+0.27%</b>	<b>9.26%</b>
Class Q SEK	Oct-18	LU1886619987	FODCFQS	9,976.79	-0.05%	+6.00%	<b>-0.05%</b>	<b>10.59%</b>

## 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 European High Yield Index.
- (3) Source: PitchBook LCD European and US Leveraged Loan Indices.
- (4) Source: JP Morgan EUR HY Summary Yield to Maturity.
- (5) Source: PitchBook LCD. European and loan index lagging 12-month loan default rate based on Principal Amount.
- (6) Source: Pitchbook LCD.
- (7) Source: JP Morgan as at 02-Jun-23.
- (8) Target gross return is before Fund expenses and management fees. Share class KIID's including TERs are available on Management Company's Waystone website (<https://www.waystone.com/our-funds/waystone-management-company-lux-s-a/>).
- (9) Based on the current valuation of the assets in the Fund's base currency at month-end.
- (10) Due to rounding errors, the percentages may not sum to 100%. Currency breakdown of CLO investments excludes cash balance.
- (11) 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.
- (12) 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 31-May-23.
- (13) 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 31-May-23.
- (14) 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.
- (15) NAVs calculated net of fees. Share classes R2 and S2 have not launched as of the reporting month.



## Disclaimer:

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CLASS S AND CLASS R SHARES ARE AVAILABLE TO RETAIL INVESTORS. ALL OTHER SHARE CLASSES AVAILABLE TO INSTITUTIONAL AND WELL-INFORMED INVESTORS. NO OTHER PERSONS SHOULD RELY ON THE INFORMATION CONTAINED WITHIN THIS REPORT.

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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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