EDISON

CVC Credit Partners European Opps

Seeking opportunities in leveraged credit

Investment companies

CVC Credit Partners European Opportunities (CCPEOL) seeks to achieve gross returns of 8-12% a year by investing in a portfolio of high-yielding debt investments with a bias towards Western Europe. The majority of the portfolio is in floating rate, senior secured loans, which, while rated below investment grade, rank higher in the capital structure than equities or bonds. The strategy blends performing credit, where returns come mainly from income, with more opportunistic investment in credits that are priced below par, offering a yield pick-up as well as capital growth potential. In spite of sustained strong issuance and refinancing, which puts downward pressure on yields, the managers see opportunities from accelerating disposals of non-core assets by banks, industry dislocations in areas such as retail, and expected periods of volatility around interest rate rises.

12 months ending	CCPG share price (%)	CCPG NAV (%)	S&P Euro Lev Loan Index (%)	CS Lev Loan Index (%)	CS Western Euro HY Index (%)
28/02/15	4.8	4.1	6.2	2.8	5.1
29/02/16	(1.0)	1.3	1.2	0.4	(3.3)
28/02/17	16.7	15.4	7.2	9.5	13.8
28/02/18	8.8	7.5	2.9	2.6	3.8

Source: Thomson Datastream. Note: All % on a total return basis. Inception 25 June 2013.

Investment strategy: European debt specialist

CCPEOL invests through a Luxembourg-based investment vehicle, CVC European Credit Opportunities (CEC), taking advantage of the manager's deep resources and strong networks in performing credit and credit opportunities. Performing credit consists mainly of senior secured loans from large, liquid issuers, while credit opportunities targets credits trading well below par, offering capital upside through restructuring or corporate actions. The fund is diversified by geography (23% is in the US) and industry, although the majority of investments are in European issuers.

Market outlook: Relatively benign backdrop

New accounting rules requiring provision for expected losses should up the pace of asset dispositions by European banks, increasing the opportunity set for secondary market investors in leveraged loans. While volatility may occur in both equity and credit markets as US interest rates rise, and political risks (Italian elections, Brexit negotiations, the US mid-terms) should not be underestimated, defaults are forecast to remain low and issuance and refinancing activity remain strong.

Valuation: Trading close to NAV

At 16 March 2018, CCPEOL's sterling shares (CCPG) traded at a 0.8% premium to the 2 March NAV, while the euro shares (CCPE) traded at a 0.6% premium. Both share classes have traded close to par on average since launch (exactly at par for CCPG and a 0.3% average premium for CCPE), although market volatility in 2016 saw the shares move to a discount, peaking at 7.1% for CCPG. Regular issuance from treasury helps to meet demand, which remains strong, possibly due to the nearly 5% yield on both share classes. A quarterly tender opportunity at NAV limits the potential discount.

19 March 2018

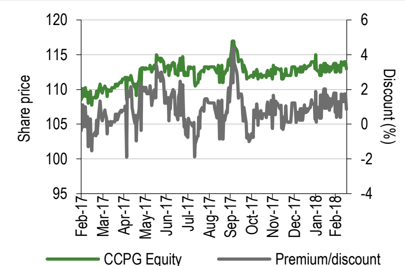
Price	**113.0p**	**€1.10**
Market cap	**£339.5m**	**€137.8m**
AUM	**£333.5m**	**€136.2m**

NAV*	112.1p
Premium to NAV	0.8%
NAV**	€1.09
Premium to NAV	0.6%

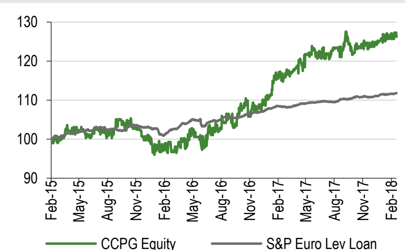
*CCPG **CCPE. Including income, as at 16 March 2018. NAVs at 2 March 2018.

Yield	4.8%	4.8%
Ordinary shares in issue	300.5m	124.7m
Code	CCPG	CCPE
Primary exchange		LSE
AIC sector		Sector Specialist: Debt

Share price/discount performance



Three-year performance vs index



52-week high/low	117.0p/€1.14	108.5p/€1.06
NAV* high/low	113.1p/€1.11	109.3p/€1.08

*Including income.

Gearing

Gross*	0.0%
Net*	0.0%

*At CCPEOL level

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Edison profile page

CVC Credit Partners European Opportunities is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

CVC Credit Partners European Opportunities is a closed-end investment company, domiciled in Jersey and listed in London. It invests through a Luxembourg vehicle, CVC European Credit Opportunities, aiming to provide investors with regular income and capital appreciation from a diversified portfolio of predominantly sub-investment grade debt instruments. The portfolio is split into two pools, performing credit and credit opportunities.

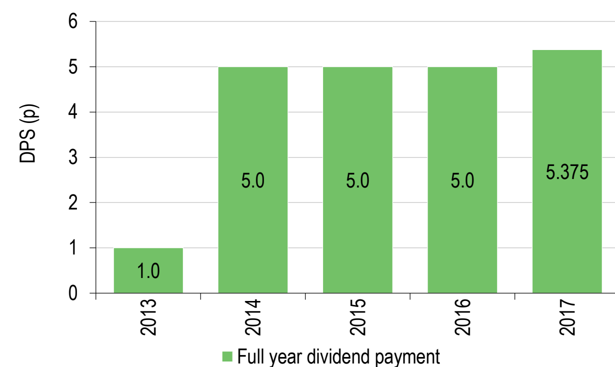
Recent developments

- 16 March 2018: In the April share conversion, 300,000 euro shares will be converted to sterling shares, and 30,000 sterling shares to euro shares.
- 2 March 2018: Annual results for the year to 31 December 2017. NAV TR +9.69% for CCPG and +8.84% for CCPE, in line with 8-12% pa return target.
- 6 February 2018: Tenders received for 3,933,091 euro shares and 24,433 sterling shares in respect of the March 2018 tender offer.
- 24 January 2018: 14,660 sterling shares and no euro shares tendered in December 2017 tender, at a price of £1.109, 1p below the 29 December 2017 NAV per share.

Forthcoming		Capital structure		Fund details	
AGM	April 2018	Ongoing charges	1.19%	Group	CVC Credit Partners
Interim results	September 2018	Gearing	Not at CCPEOL level	Manager	Team-managed
Year end	31 December	Annual mgmt fee	1.0% at underlying fund level	Address	111 Strand,
Dividend paid	Quarterly (since FY16)	Performance fee	See page 11		London, WC2R 0AG
Launch date	25 June 2013	Company life	Indefinite	Phone	+44 (0)20 7420 4200
Continuation vote	See page 10	Loan facilities	None at CCPEOL level	Website	www.ccpeol.com

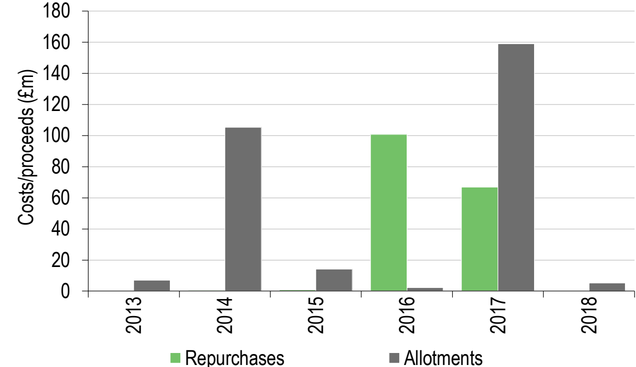
Dividend policy and history (financial years)

Since its first full financial year, CCPEOL has paid dividends at an annual rate of 5p/€0.05 per share. Originally paid in two instalments in July/August and February, from H216 the company has moved to quarterly dividend payments (three dividends paid in FY16). Dividends are now paid in May, August, November and February, and from Q217 the target annual dividend has been raised to 5.5p/€0.055 per share.

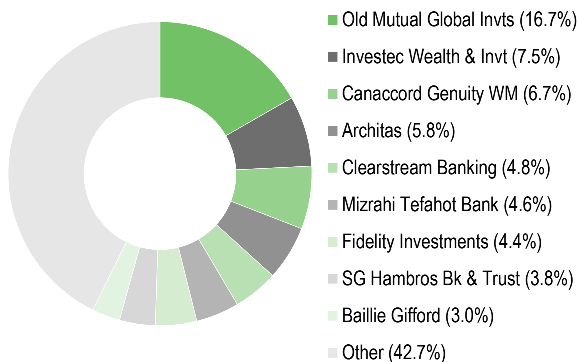


Share buyback policy and history (financial years)

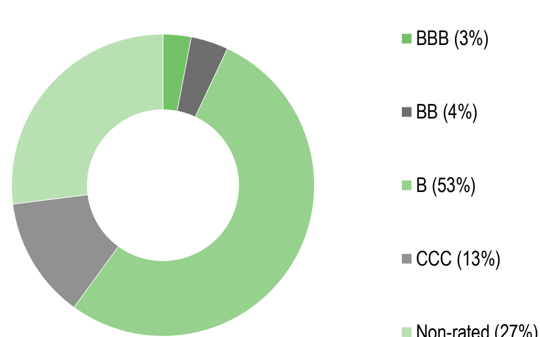
CCPEOL operates a contractual quarterly tender system (amended for FY17), a monthly conversion facility between sterling and euro share classes, and may issue shares from treasury in response to market demand. Chart below is for sterling shares (CCPG); repurchases include tendered shares and both repurchases and allotments include share conversions and placing of treasury shares.



Shareholder base (CCPG and CCPE, as at 31 December 2017)



Look-through credit rating (as at 31 January 2018)



Top 5 issuers (as at 31 January 2018)

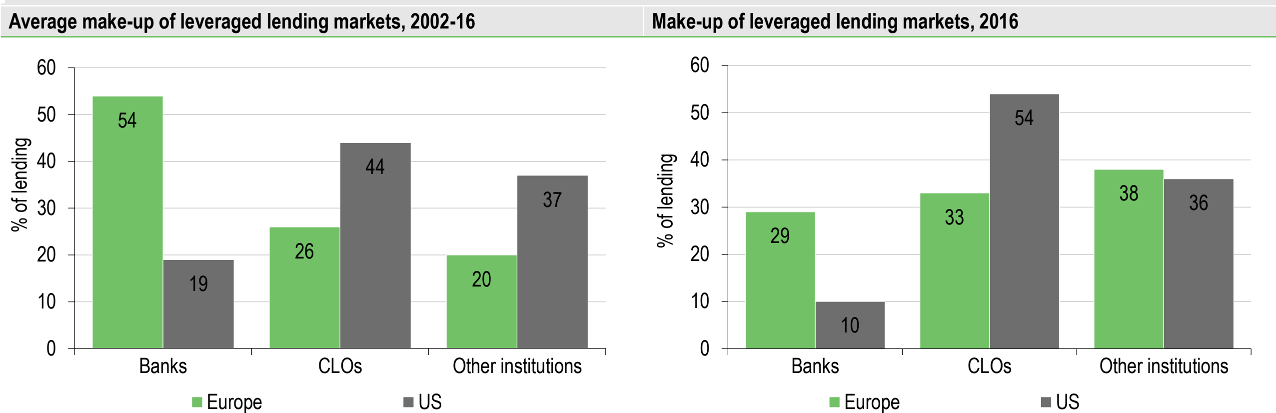
Company	Country	Sector	% of gross asset value 31 January 2018
Saur	France	Ecological	5.2
Ceva	UK	Transport & logistics	3.4
Camaieu	France	Retail	3.3
Ambac	US	Finance	3.1
Dubai World	UAE	Finance	2.8
Top five			**17.8**

Source: CVC Credit Partners European Opportunities, Edison Investment Research, Bloomberg, Morningstar

Opportunities in European corporate debt

In our initiation note of 14 July 2017, we explain the backdrop to the investment universe in leveraged lending. This area differs from the more mainstream areas of government and investment-grade corporate bonds as it focuses mainly on loans to companies that are deemed sub-investment grade because they already have a high level of borrowings. Most of the loans were originally made by banks, but as a result of regulatory changes following the global financial crisis, banks are less keen to retain these loans on their balance sheets, which has created an opportunity for secondary investors to enter the market. As seen in Exhibit 2 below, the make-up of the market has changed markedly over the last decade and a half, particularly in Europe, where until quite recently the majority of leveraged loans were still held on bank balance sheets. While banks remain important in the primary lending market, any stress or distress affecting borrowers requires the fair value of loans to be marked down, which encourages banks to dispose of the loans to more opportunistic secondary market investors. These may include collateralised loan obligation (CLO) managers, who put together structured credit investments made up of pools of loans.

Exhibit 2: Evolution of leveraged lending markets in US and Europe



Source: CVC Credit Partners European Opportunities, S&P Leveraged Commentary & Data, Edison Investment Research

Loan investments are typically floating-rate, meaning they are less exposed to a rising interest rate environment than fixed-coupon bonds. First-lien senior secured loans are at the front of the queue for repayment, meaning they are lower-risk than bond or equity investments in the same company. Senior secured bonds also rank highly in the capital structure. Second-lien investments offer higher yields, but in the event of bankruptcy would only be repaid if there was sufficient capital left over after repaying the first-lien creditors. A PIK (payment in kind) loan is more risky, because all of the return comes at the end of the term, rather than from regular coupon or interest payments.

While all debt is based on a par value, secondary investments may be made at a price above (if the asset is of good quality and offers a particularly enticing yield) or below (if the borrower is experiencing stress) the par value. Where debt is acquired at less than the par value, there is the opportunity for capital appreciation if conditions improve. An active investor may work with the borrower to improve operational performance, or encourage corporate actions such as divestments, mergers or acquisitions.

The European secondary lending market is at an earlier stage of development than the US, where faster settlement times for investments have allowed the creation of open-ended funds focused on this market. However, the inflows and outflows of capital to these funds, in response to sentiment, mean the US loan market can be more volatile than in Europe. A strategy that allows investment on both sides of the Atlantic, and in different parts of the capital structure, may thus be attractive to investors who seek income and growth potential from an investment that is neither directly exposed to high equity market valuations, nor to the very low yields on investment-grade debt.

Fund profile: Flexible investor across capital structures

CVC Credit Partners European Opportunities (CCPEOL) is a Jersey-domiciled, London-listed company, launched in 2013 as a vehicle to invest in the Luxembourg-based CVC European Credit Opportunities fund (CEC). CEC was set up in 2009 by European credit investment manager CVC Cordatus, which was renamed CVC Credit Partners in 2012. CVC Credit Partners has more than $18bn of assets under management, and is a subsidiary of CVC Capital Partners, a global investment manager focused on private equity and private debt.

CCPEOL allows investors to access the CEC strategy (the investment vehicle) with daily liquidity and daily price transparency, through either sterling or euro-denominated shares. The investment vehicle is an actively managed portfolio focused on senior secured loans and other debt investments such as high-yield bonds, predominantly in companies that are based in, or have material operations in, Western Europe. The portfolio is managed in two pools, with a broadly equal split between the two in normal market conditions. One pool invests in performing credit, where the majority of returns come in the form of income, and the other pool focuses on credit opportunities, which are credits that offer capital appreciation potential because they are priced at less than their par value. The majority of investments are senior in the capital structure and pay floating, rather than fixed coupons. The investment vehicle targets returns of 8-12% pa, with c 5pp expected to come from income and the remainder from capital appreciation. The portfolio is managed by and Andrew Davies, senior managing director and portfolio manager at CVC Credit Partners, and Mark DeNatale, global head of special situations.

Because it is a listed fund, CCPEOL's shares may be traded daily; however, the investment vehicle also offers quarterly liquidity, and in order to match this liquidity profile, CCPEOL has a quarterly tender opportunity under which investors may realise up to 24.99% of their investment (subject to a maximum of 50% in a year) at close to NAV. Gearing is not permitted at the CCPEOL level.

The fund manager: CVC Credit Partners

The managers' view: Selectivity is key

Portfolio manager Andrew Davies comments that volatility has ticked up recently in credit markets because of factors such as the US interest rate cycle, softer consumption in the UK, and problems in the US retail sector as companies try to counter the threat from Amazon. This has led to a more defensive approach to performing credit in the investment vehicle portfolio, with more secure floating-rate assets, which in turn has slightly reduced the portfolio yield, as strong issuance and refinancing of capital structures have seen falling spreads over the risk-free rate. The average price (relative to par value) of portfolio holdings has gone up, reflecting both the strong demand environment and good performance from holdings in the credit opportunities portfolio. In more volatile market conditions, the managers move more into performing credits that are trading at par, in anticipation of opportunities to redeploy at a better price point. Davies says that the pipeline in credit opportunities remains strong, and that new ideas will be at lower prices.

From a macro perspective, says Davies, there is increasing concern in the market over the rise in leveraged credit and secured debt levels in Europe. However, while the 4.75-5x leverage of new issues is similar to the level seen in 2007, effective leverage is much lower, because of tighter spreads and the cheaper cost of capital, meaning that interest coverage ratios are much more robust. This gives a reasonably large buffer against any slowdown, with the added comfort that European economic fundamentals remain strong.

Concerns are slightly different in the US, where the credit cycle is two to three years further on than in Europe, and the rising interest rate environment (Goldman Sachs has forecast up to six Fed rate

increases in 2018, says Davies) could put pressure on some capital structures as the cost of capital goes up, creating some volatility. In contrast, the European Central Bank still has an enormous balance sheet to unwind before it can consider raising interest rates – Davies estimates it would take many years in a normalised new issue market to refinance all the assets on the ECB balance sheet – so rates in Europe are likely to remain low for some time.

CVC Credit Partners expects a continuation of low default rates in performing credit in 2018, with expected returns from loans in both the US and Europe of 4-5%, and better relative value in loans versus high-yield bonds because of the position in the credit cycle. In a tighter yield environment than in recent years, the managers say that credit selection and active management will be particularly important in the year ahead. On the credit opportunities side, the managers expect a fourth consecutive year of asset dispositions in excess of $100bn, partly driven by the adoption of a new accounting standard (IFRS9) that requires European banks to provision for expected losses, which will accelerate the pace of bank sales of non-core assets to external investors. While the credit opportunities team expects to be opportunistic and flexible across platforms and geographies, DeNatale says there is a focus on three specific sectors: healthcare, particularly rural hospitals and generics in the US; engineering/construction, a sector under stress in the wake of the Carillion collapse in the UK; and retail, where the team will continue to focus on companies that can beat the threat from Amazon through their proprietary products and strong distribution networks.

In both sides of the portfolio, the managers expect a “credit pickers’ market” in 2018, and see credit analysis and due diligence as key to avoiding mistakes in a market where idiosyncratic risk may be elevated. Davies argues that with equity markets at high levels, the income on offer from equity income strategies comes with significant capital risk, while the mainly senior secured nature of the CCPEOL portfolio makes for a relatively defensive investment for investors with a sufficiently long time horizon (at least 18-24 months) to allow the investment theses in the opportunities portfolio to play through. While no investment is completely without risk – as seen in the case of Carillion (not held by the CVC funds), which DeNatale says the credit opportunities team tracked all the way from 85p in the pound to 5p before its collapse – a selective, diversified and active approach can help to mitigate the risk or impact of individual defaults.

Asset allocation

Investment process: Blend of performing and special situations

CCPEOL’s investment manager, CVC Credit Partners, invests across three principal areas: performing credit ($13.6bn AUM at 30 September 2017); credit opportunities and special situations ($3.1bn AUM); and private debt ($1.4bn AUM). The investment vehicle, CEC, concentrates on the first two areas, blending exposure to performing leveraged loans, high-yield bonds, structured corporate credit, and credit opportunities in senior and subordinated debt (Exhibit 3).

Performing credit is owned principally for its income generation. The managers seek mainly senior secured, floating rate credits, from liquid, large-cap issuers, at prices ranging from just below to just above par. The portfolio is actively managed rather than buy-and-hold, and the managers may move around the capital structure of an issuer (for example between euro and dollar credits, or from loans to bonds) to maximise returns.

In the credit opportunities portfolio, the focus is on finding discounted assets (the current average price is 95.2 [at 31 January 2018] compared with a par value of 100) that have the potential for capital appreciation as a result of refinancing, restructuring, merger and acquisition (M&A) activity or a fundamental improvement in the business. Such credits may be senior secured or subordinated, fixed or floating rate, and will usually offer an element of income as well as capital growth potential.

Exhibit 3: Core market segments

Market	Asset	Source	Target yield*
European performing leveraged loans	Floating rate, senior secured	Primary/secondary	4-7%
European high yield	Fixed rate, senior secured and subordinated	Primary/secondary	4-15%
European credit opportunities/regulatory driven	Fixed/floating, senior secured, subordinated (Equity, PIK)	Direct	10%+
Structured corporate credit	Floating rate secured/equity	Primary/secondary	6-20%

Source: CVC Credit Partners European Opportunities. Note: *Target yields based on CVC Credit Partners' observations of the market; there is no guarantee the investment vehicle will hold investments with these characteristics.

There are a number of limits governing the construction of the investment vehicle portfolio:

- A minimum of 50% of the portfolio must be in senior secured assets, which may include cash.
- At least 70% of the portfolio must be in credits from issuers that are domiciled in Western Europe or do the majority of their business there.
- No more than 7.5% of the portfolio may be invested with a single issuer, although an exception allows a single investment of up to 15% as long as it is reduced to a maximum of 7.5% within 12 months.
- No more than 7.5% of the portfolio may be invested in collateralised loan obligations (CLOs), and no primary investments may be made into CVC-managed structured finance transactions.
- Borrowing of up to 100% of NAV is permitted by the investment vehicle (CCPEOL is not permitted to borrow).
- Short positions are permitted in order to offset industry-level risks to favoured issuers.

Credit selection is the output of deep, fundamental analysis of more than 3,000 credits, around 600 of which are held in CVC Credit Partners' portfolios at any one time. The investment process has four main stages – sourcing, screening, fundamental analysis and monitoring. Sourcing teams operate from both US and European offices, and identify deals through CVC Credit Partners' extensive proprietary network, as well as the wider CVC Partners group, and relationships with banks, institutions and issuers. Analysts screen potential investments, reviewing borrower information and focusing on topics such as management or industry risks. They then make a presentation to the relevant investment committee (performing credit or credit opportunities), which decides whether further analysis is warranted. If the committees approve an idea for further research, the analysts undertake more detailed fundamental analysis, focusing on a company's location, sector, capital structure, and the quality of its business and management. The analysts build models to assess recoverability and likely returns, and stress-test for a variety of scenarios. Where an investment would be made alongside other investors, the composition of syndicates is also analysed. The idea then goes back to the investment committees, which decide whether or not to invest. Once an investment is made, portfolio managers can buy, sell or trade within the capital structure, for example moving between euro and dollar-denominated debt, in order to enhance returns. Holdings are continually monitored by the analysts, who use multiple metrics to assess the development of the investment thesis, looking at factors such as the progress of recovery, rating categorisations, and relative value versus peer companies and those on similar yields. This information is circulated to portfolio managers in a daily email, to assist them in making timely investment decisions.

The high level of detailed due diligence aims to ensure a vigilant and conservative investment management style, which is also expressed in the performing part of the portfolio by a bias towards liquid, high-quality large-cap companies. While the average holding period is one year, some investments may be held for many years (although often moving between different parts of the capital structure, to maximise relative value), while others may reach an exit event much more quickly. CVC Credit Partners may also take an active role in investee companies to drive restructuring or corporate activity to accelerate or improve the recoverability of credits.

Current portfolio positioning

At 31 January 2018, the investment vehicle portfolio split was 54% in performing credit and 46% in credit opportunities. More than 85% of the portfolio was in senior secured assets (including cash; see Exhibit 6), reflecting the manager's slightly more defensive world view, and the majority of the portfolio (see Exhibit 1) had a credit rating of B. The proportion invested in high-yield bonds was low at 12% and is likely to fall, as CCPEOL's managers have concerns over the outlook for highly valued fixed income markets in a rising interest rate environment. Their cautious view of fixed income naturally leads the managers to favour floating rate assets such as loans. Compared with 12 months ago, positioning (particularly in the performing portfolio) has become more defensive, with senior secured loan and cash exposures increasing by 7pp and 6pp apiece, while bonds, structured finance, payments in kind and other assets have seen small declines.

The portfolio was diversified across more than a dozen business areas at 31 January 2018 (Exhibit 4). Notable changes in exposure over the previous 12 months included increases in exposure to the diversified/conglomerate service, ecological and retail store areas (the largest exposure, Saur, is a wastewater services company classified as ecological), and reductions in finance, buildings & real estate, and broadcasting & entertainment.

Exhibit 4: Portfolio sector exposure (% unless stated)

Sectors	Portfolio end-January 2018	Portfolio end-January 2017	Change (pp)
Retail store	12.0	10.0	2.0
Diversified/conglomerate service	10.0	5.0	5.0
Electronics	9.0	10.0	-1.0
Finance	6.0	12.0	-6.0
Ecological	6.0	3.0	3.0
Broadcasting & entertainment	5.0	8.0	-3.0
Chemicals, plastics & rubber	5.0	6.0	-1.0
Hotels, motels, inns & gaming	5.0	6.0	-1.0
Business services	5.0	N/S	N/A
Buildings & real estate	4.0	8.0	-4.0
Health, education & childcare	4.0	5.0	-1.0
Transportation & logistics	4.0	N/S	N/A
Other	25.0	27.0	-2.0
	100	**100**	

Source: CVC Credit Partners European Opportunities, Edison Investment Research. Note: N/S=not separately stated; may be included in 'other'.

Geographical exposures to major markets (Exhibit 5) have remained broadly steady over the past 12 months, with the exception being a 6pp increase in exposure to UK issuers, where the manager is finding higher spreads than in other geographies for similar levels of credit risk, and a smaller 3pp increase in exposure to the Netherlands. US exposure is unchanged on a year ago but significantly higher over 18 months. The manager reports greater liquidity and retail investor participation in the US loan market than in Europe, which can lead to opportunities from market volatility on the back of investor repositioning.

Exhibit 5: Portfolio geographic exposure by country of issuer (% unless stated)

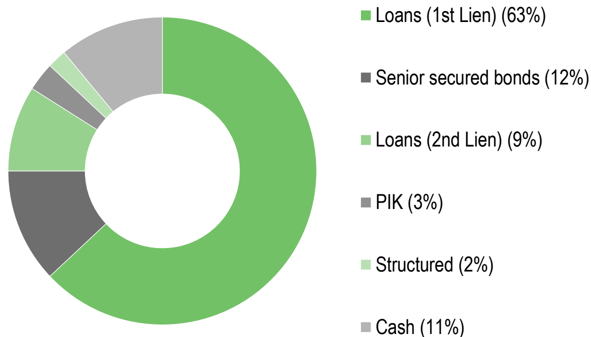
Country	Portfolio end-January 2018	Portfolio end-January 2017	Change (pp)
France	23.0	24.0	(1.0)
US	23.0	23.0	0.0
UK	21.0	15.0	6.0
Netherlands	8.0	5.0	3.0
Germany	7.0	6.0	1.0
Spain	5.0	7.0	(2.0)
Luxembourg	5.0	5.0	0.0
Jersey	3.0	N/S	N/A
UAE	3.0	N/S	N/A
Other	2.0	15.0	(13.0)
	100	**100**	

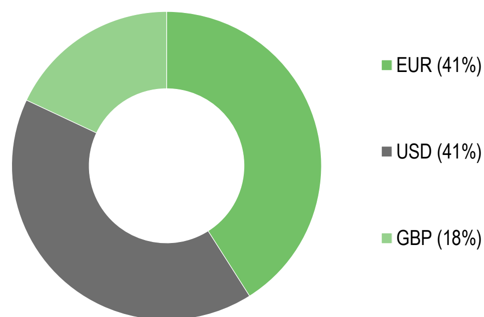
Source: CVC Credit Partners European Opportunities, Edison Investment Research. Note: N/S=not separately stated; may be included in 'other'.

The currency exposure of the portfolio (Exhibit 6) differs from the geographical split in Exhibit 5 because many issuers have credits denominated in more than one currency, which can lead to interesting opportunities for investors who understand the credits. The manager gives the example of Luxembourg-headquartered ink manufacturer Flint, whose US dollar debt is priced more attractively than its euro debt, offering a yield pick-up.

Exhibit 6: Portfolio analysis

Asset breakdown at 31 January 2018	Currency breakdown at 31 January 2018



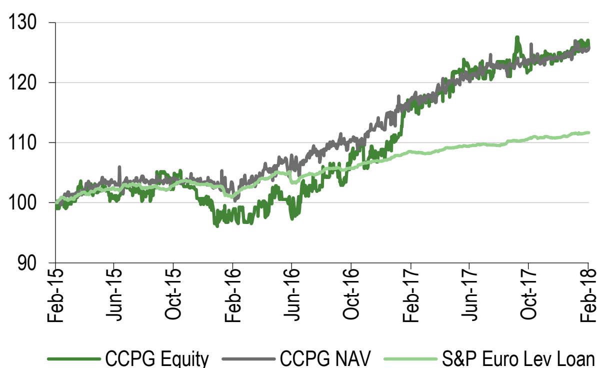


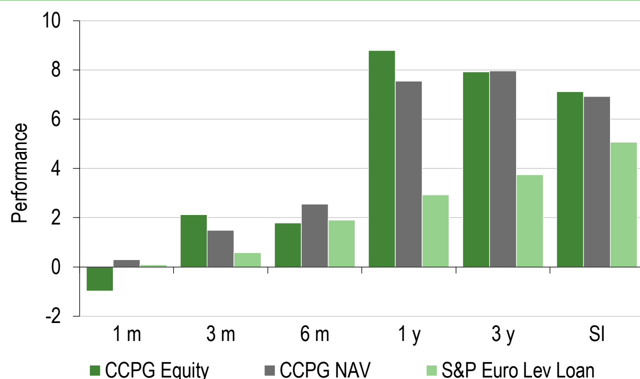
Source: CVC Credit Partners European Opportunities, Edison Investment Research

Performance: Steady returns in line with target

Exhibit 7: Investment company performance to 28 February 2018

Price, NAV and benchmark total return performance, three-year rebased	Price, NAV and benchmark total return performance (%)





Source: Thomson Datastream, Edison Investment Research. Note: Three-year and since inception (SI) performance figures annualised. Inception date is 25 June 2013.

CCPEOL has a long-term gross (pre-fees) return target of 8-12% pa, made up of income returns of 4-7% pa (primarily from the performing portfolio) and potential capital appreciation from the discounted assets in the credit opportunities portfolio (7-20% pa). As shown in Exhibit 7 (right-hand chart), since inception in June 2013, the sterling share class (CCPG) has produced net annualised total returns (after all fees) of c 7% (7.1% share price and 6.9% NAV). The corresponding figures for the euro share class (CCPE) are 6.6% and 6.1%. In calendar 2016 and 2017, returns were particularly strong, with NAV total returns of 9.7% (9.2% for CCPE) and 9.6% (8.7% for CCPE) respectively. For the 12 months to 28 February 2018, the share price total return outperformed the NAV as the discount to NAV moved to a small premium. Over all periods shown, the fund's NAV performance has been ahead of the S&P European Leveraged Loan index (S&P ELLI), with marginal share price underperformance over more recent periods. Exhibit 8 shows CCPG's performance relative to a range of indices. Because CCPEOL's portfolio includes both loans and high-yield bonds, sourced from both sides of the Atlantic, there is no perfect comparator, as the

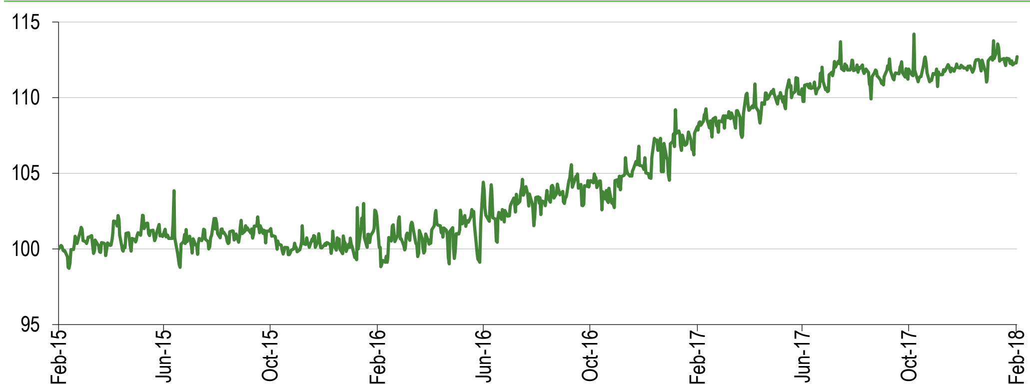
indices cover single asset classes and regions. However, the strategy has outperformed most indices over most periods, with notable outperformance versus the S&P ELLI (Exhibit 9), the most relevant index given CCPEOL's primary focus on European loans.

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	SI*
Price relative to S&P Euro Lev Loan	(1.1)	1.5	(0.1)	5.7	12.6	9.5
NAV relative to S&P Euro Lev Loan	0.1	0.8	0.5	4.4	12.5	8.4
Price relative to Credit Suisse Leveraged Loan Index	(1.1)	1.3	0.2	6.0	11.5	13.3
NAV relative to Credit Suisse Leveraged Loan Index	0.1	0.6	0.9	4.7	11.5	12.2
Price relative to Credit Suisse Western European HY Index	(0.4)	2.5	1.4	4.8	10.0	3.9
NAV relative to Credit Suisse Western European HY Index	0.8	1.8	2.0	3.5	10.0	2.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2018. Geometric calculation. *SI = since inception. Inception date is 25 June 2013.

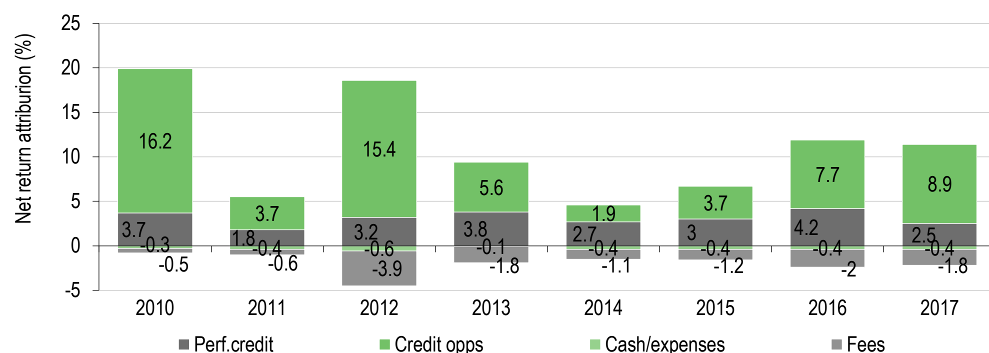
Exhibit 9: NAV TR performance relative to S&P European Leveraged Loan Index over three years



Source: Thomson Datastream, Edison Investment Research

The main contributor to returns for the strategy (Exhibit 10) over most periods has been the credit opportunities portfolio. This has been true not just in buoyant market conditions such as 2016, but also in more difficult environments like 2015, illustrating the active and risk-aware approach of the manager in volatile market environments. A significant number of exit events in the credit opportunities portfolio in the first three quarters of 2017 helped to drive the strong performance, while annualised returns from the performing credit portfolio were broadly in line with history, and came mainly from income. Significantly, from 1 January to 30 September 2017, the credit opportunities portfolio produced its strongest annualised contribution to returns since 2012, in spite of making up the lowest percentage of the portfolio since 2014 (Exhibit 11). Since CCPEOL's inception in June 2013, positive NAV total returns have been produced over each full year by both share classes, with 81.1% of monthly returns being positive, and a maximum monthly loss of 1.6%.

Exhibit 10: Historic net return attribution (investment vehicle)



Source: CVC Credit Partners, Edison Investment Research. Note: Shows eight full years of operation.

Exhibit 11: Allocation and attribution (investment vehicle)

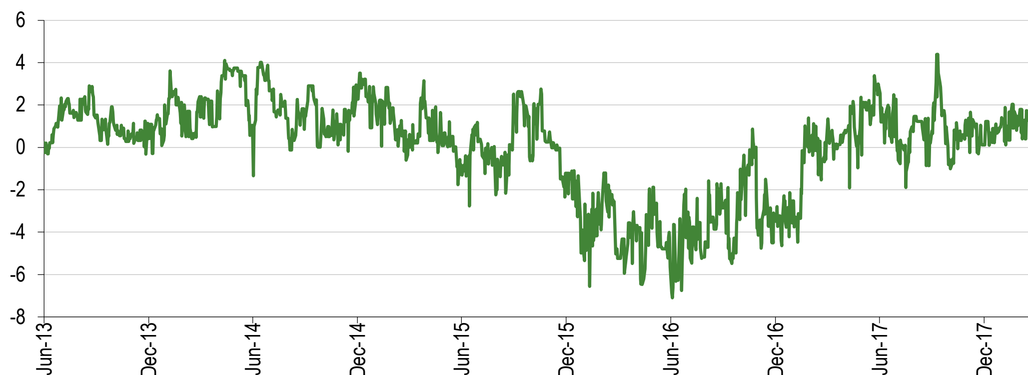
	2013 (%)			2014 (%)			2015 (%)			2016 (%)			2017 (%)		
	Alloc.	Attrib.	Rtn	Alloc.	Attrib.	Rtn	Alloc.	Attrib.	Rtn	Alloc.	Attrib.	Rtn	Alloc.	Attrib.	Rtn
Performing	56.0	3.8	7.0	57.0	2.7	5.0	44.0	3.0	7.0	44.0	4.2	9.0	47.0	2.5	5.0
Credit opps	33.0	5.7	17.0	38.0	1.9	5.0	46.0	3.7	8.0	47.0	7.7	16.0	44.0	8.9	20.0
Cash/expenses	11.0	(0.1)		5.0	(0.4)		10.0	(0.4)		9.0	(0.4)		9.0	-0.4	
Total gross rtn	**100.0**	**9.4**		**100.0**	**4.2**		**100.0**	**6.3**		**100.0**	**11.5**		**100.0**	**11.0**	
Fees		(1.8)			(1.1)			(1.2)			(2.0)			-1.8	
Total net return	**100.0**	**7.6**		**100.0**	**3.1**		**100.0**	**5.1**		**100.0**	**9.5**		**100.0**	**9.2**	

Source: CVC Credit Partners, Edison Investment Research. Note: Shows data for each year of CCPEOL (listed fund) operation plus first three quarters of 2017.

Discount: Close to NAV over short and longer term

At 16 March 2018, CCPG shares traded at a 0.8% premium and CCPE shares at a 0.6% premium to the 2 March NAV. Both share classes have traded at a small average premium to NAV (0.8% and 1.4% respectively) over the past 12 months, having spent most of calendar 2016 at a discount, which reached an all-time widest point of 7.1% (CCPG) following the UK's vote to leave the European Union. Over three years and since inception, the shares have traded on average close to NAV, with average discounts of 0.9% and 0.4% respectively for CCPG and CCPE over three years, compared with an average of par for CCPG and a premium of 0.3% for CCPE since inception. Regular share issuance from treasury helps to meet demand and control the premium, while the contractual quarterly tender facility at NAV should limit the discount.

Exhibit 12: CCPG share price premium/discount to NAV since inception (%)



Source: Thomson Datastream, Edison Investment Research. Note: Inception date is 25 June 2013.

Capital structure and fees

Domiciled in Jersey and listed in London, CCPEOL has two classes of share, with 300.5m sterling shares (CCPG) and 124.7m euro shares (CCPE) in issue at 16 March 2018. Reflecting the approximate euro/sterling exchange rate at the time of launch, each CCPE share carries one voting right and each CCPG share has 1.17. The sterling shares are hedged back to euros to eliminate FX volatility. There is a monthly opportunity for investors to switch between the two share classes. The fund has an unlimited life, but the investment vehicle (CEC) is scheduled to wind up in 2020. Should CCPEOL's net assets fall below €75m, or its average discount to NAV exceed 10% over any rolling 12-month period, the board would be required to propose a continuation vote.

A contractual quarterly tender facility allows investors to exit up to 24.99% of their shares at NAV, subject to a maximum of 50% in any one year. This is designed to match the quarterly liquidity profile of the investment vehicle. Investors must have held their shares for at least six months

before they can be tendered. In the December 2017 tender, 14,660 sterling shares and no euro shares were tendered (7.0m CCPG shares and 9.5m CCPE shares were tendered in 2017 as a whole). Tenders have been received for 24,433 CCPG shares and 3.9m CCPE shares in the March 2018 tender offer. CCPEOL also reissues shares from treasury to meet investor demand. Following a large placing of new sterling and euro shares in June 2017 (raising £77.5m and €13.87m respectively), a further £24.6m and €2.9m have been reissued (not including conversions between the two share classes).

CCPEOL is self-managed under the Alternative Investment Fund Management Directive (AIFMD). Investment management is delegated to CVC Credit Partners, which receives a 1% annual management fee, charged at the investment vehicle level but accounted for in CCPEOL's ongoing charges (1.19% in FY17). If total annual returns exceed 5%, a performance fee of 15% of the excess return may be paid (again at the investment vehicle level), subject to a high water mark.

There is no gearing at the CCPEOL level. However, the investment vehicle has a borrowing facility of €175m. Leverage of up to 100% is permitted at the investment vehicle level, and stood at 30% at 31 December 2017 (31 December 2016: 20%).

Dividend policy and record

Since its first full financial year, beginning 1 January 2014, CCPEOL has targeted and paid an annual dividend of 5.0p per CCPG share and €0.05 per CCPE share. In May 2017, CCPEOL announced it would increase the target annual dividend to 5.5p/€0.055. Originally paid half-yearly in June/July and February, dividends have been paid quarterly since the second half of 2016, in May, August, November and February. For FY17, one dividend was paid at the previous rate of 1.25p/€0.0125 and two have been paid at 1.375p/€0.01375, with a fourth at the same level declared on 24 January, bringing the total to 5.375p/€0.05375. Based on this total dividend for the year, CCPG and CCPE shares both currently yield 4.8%.

In October 2017, CCPEOL published a circular outlining the opportunity for shareholders to receive a scrip dividend (that is, in the form of further shares) rather than a cash dividend. At the reference price date (9 November 2017, with a price equivalent to the 1 November NAV), it was announced that investors opting for the scrip dividend would receive one new share for approximately each 82 CCPG or each 80 CCPE shares they owned. On 12 December 2017 the results of the scrip issue were announced, with 308,419 new CCPE shares and 22,140 new CCPG shares to be issued. Based on the number of shares in issue at 30 November 2017, this suggests the holders of c 19.4% of the euro shares and c 0.6% of the sterling shares took up the scrip dividend option.

Peer group comparison

CCPEOL is a member of the AIC's Sector Specialist: Debt sector, a broad peer group of more than 30 funds. Exhibit 13 below shows a group of peers that focus on leveraged loans or opportunities arising from bank deleveraging, and excludes funds that concentrate principally on other areas such as CLOs or property debt. Within the group, CCPEOL ranks third and fourth (sterling and euro shares respectively) over one year, and first and second over three years for NAV total return performance. Only two of the peers have a five-year track record, and there are no funds with a 10-year record, as specialist debt is a relatively new area for UK retail investors.

Ongoing charges are broadly in line with the peer group average, and there is no performance fee at the listed company level, although one may be paid at the CEC level. CCPEOL's shares currently trade at a small premium to NAV, compared with a discount for the majority of peers. The

dividend yield is below the median but above the weighted average for the group; however, it is well below the whole sector average. None of the peers is currently geared.

Exhibit 13: Selected peer group as at 28 February 2018

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Ongoing charge	Performance fee	Disc/prem (ex-par)	Net gearing	Dividend yield (%)
CVC Credit Partners Euro Opps GBP	**336.7**	**7.3**	**25.4**	**--**	**1.2**	**No**	**1.0**	**100**	**4.8**
CVC Credit Partners Euro Opps EUR	**137.4**	**6.7**	**23.3**	**--**	**1.2**	**No**	**1.9**	**100**	**4.8**
Alcentra Eur Floating Rate Income	155.2	7.4	19.3	34.6	1.0	No	(9.6)	100	5.4
Axiom European Financial Debt Fund	90.1	14.3	--	--	1.8	Yes	2.3	100	5.6
Chenavari Capital Solutions	87.6	2.8	13.8	--	1.5	Yes	(7.3)	100	8.3
NB Global Floating Rate Income GBP	863.2	3.4	11.0	18.9	0.9	No	(6.4)	100	3.7
Peer group weighted average (6 funds)		**5.4**	**16.1**	**21.3**	**1.1**		**(4.1)**	**100**	**4.5**
Whole sector weighted avg (31 funds)		**7.7**	**32.3**	**26.7**	**1.8**		**(5.0)**	**104**	**6.5**
CCPG rank in peer group	**2**	**3**	**1**	**N/A**	**3**		**3**	**1**	**4**
CCPE rank in peer group	**4**	**4**	**2**	**N/A**	**3**		**2**	**1**	**4**

Source: Morningstar, Edison Investment Research. Note: TR=total return, in sterling terms (CCPE in euro terms; CCPG shares are hedged back to euros). Net gearing is total assets less cash and equivalents as a percentage of net assets (100=ungeared).

The board

There are three non-executive directors on the board of CCPEOL, all of whom have been in post since the fund's launch in 2013. Chairman Richard Boléat is a qualified chartered accountant who has spent his career in financial services. Mark Tucker is a chartered fellow of the Chartered Institute for Securities and Investment (CISI), and previously worked as a hedge fund and derivatives broker/dealer. David Wood is a former co-head of leveraged finance at Deutsche Bank, and was a founding partner of CVC Cordatus (a predecessor of CVC Credit Partners) before his retirement in 2012. All the directors are deemed independent of the manager.

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