CVC Credit Partners European Opps

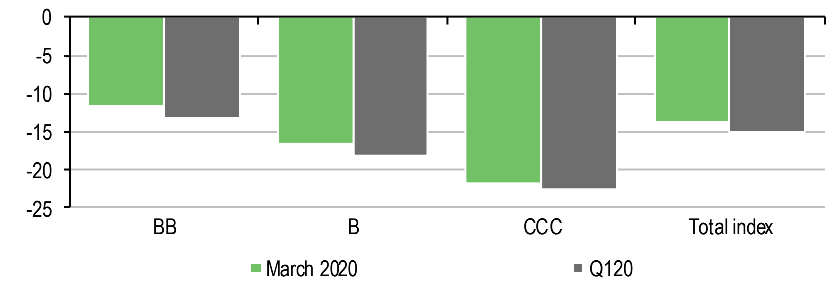
Positioned for opportunity

Investment trusts

4 September 2020

CVC Credit Partners European Opportunities (CCPEOL) has achieved a total NAV return loss of 4% (it targets an 8% return) in the last 12 months, affected by market turbulence. CCPEOL has a significant weighting to stressed assets in its portfolio. Although credit markets have rebounded from the March lows, the performing credit segment is still trading at historically low valuations. The manager sees the greatest opportunity in the upper CCC and lower B segments and in structured finance. As such, although the manager expects the markets to remain volatile, it has positioned its portfolio towards the more opportunistic spectrum of the credit market.

The March crash – performance of European loans across credit ratings (%)



Source: Credit Suisse Western European Leveraged Loan Index, Edison Investment Research

The market opportunity

CCPEOL offers investors daily traded exposure to a diversified portfolio of sub-investment grade debt, with facilities providing liquidity to investors and a buyback strategy limiting the discount to NAV. The portfolio is split into two pools: performing credit and credit opportunities. The investment manager has shifted the weight towards the latter because of market dislocation. It is a segment the manager knows well, can leverage its restructuring expertise and believes that in the next 12–18 months can deliver returns above the 8% plus target.

Why consider investing in CCPEOL?

- Investment manager has 15 years' experience.
- Debt specialist with relatively unconstrained mandate, thus able to invest in situations where technicals diverge from fundamentals.
- Current depressed valuations in credit opportunities allow manager (CVC European Credit Opportunities, CEC) to invest at an above-average YTM.

Valuation: Dividend cut, forward 4.6–5.0% yield

Both CCPEOL's share classes have traded close to NAV since the fund launched in 2013 due to share conversion facilities, active trading in treasury shares and the quarterly tender facility (subject to a specified limit). Market turbulence has resulted in higher discounts and recently climbed to a significant 10%. The recent dividend reduction due to market volatility results in a dividend yield of 4.6–5.0%.

Price	**85.8p/€0.80**
Market cap	**£176.6m/ €99.8m**
AUM	**£338m/ €371.5m**
	€1.10/£
NAV*	95.74p
Discount to NAV	10.4%
NAV**	90.19
Discount to NAV	10.6%

*CCPG. **CCPE. Excluding income. At 21 August 2020.

Yield*	4.6%/5.0%
Ordinary shares in issue	205.8m/124.7m
Code	CCPG/CCPE
Primary exchange	LSE
AIC sector	Debt – Loans and Bonds

Share price performance

%	1m	3m	12m
Abs	(3.1)	9.2	2.4
Rel (local)	(5.0)	1.4	(15.6)

52-week high/low	105.3p	60.0p

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 (CCPEOL) is a closed-end investment company, domiciled in Jersey and listed in London. It invests through a Luxembourg vehicle, CVC European Credit Opportunities (CEC), 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. CCPEOL has two classes of share: sterling shares (CCPG) and euro shares (CCPE) traded on LSE.

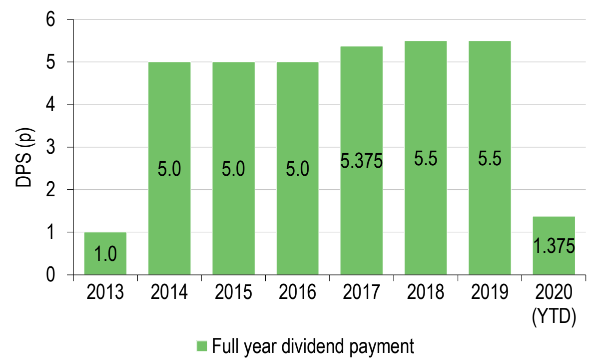
Recent developments

- 11 August 2020: 7,583,983 CCPG and 4,000,022 CCPE shares tender applications for September quarterly tender system.
- 7 July 2020: 25,588,695 CCPG, 6,319,050 CCPE shares tendered in June.
- 1 May 2020: Interim dividend declared at 1.375p/€0.01375 per share, ex-dividend date of 6 June 2020. Next quarter will fall under new guidelines.
- 24 April 2020: Annual dividend target cut from 5.5p/€0.055 to 4p/€0.04 for the next 12 months due to the impact of COVID-19 on financial markets.
- 6 April 2020: Quarterly tender system restrictions cut from 24.99% of shares to as low as 10% due to the pandemic.

Forthcoming		Capital structure		Fund details	
AGM	April 2021	Ongoing charges	1.19% (FY18: 1.19%, restated)	Group	CVC Credit Partners
Interim results	October 2021	Net gearing	Zero at CCPEOL level	Manager	Team-managed
Year end	31 December	Annual mgmt fee	1.0% at underlying fund level	Address	111 Strand, London, WC2R 0AG
Dividend paid	Quarterly (since FY16)	Performance fee	See pages 10-11		
Launch date	25 June 2013	Company life	Indefinite	Phone	+44 (0) 20 7420 4200
Continuation vote	See pages 10–11	Loan facilities	None at CCPEOL level	Website	www.ccpeol.com

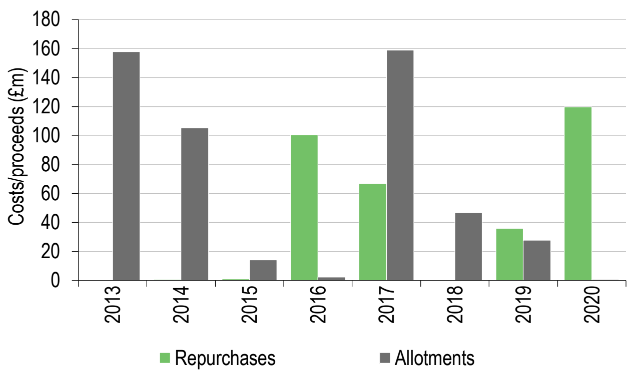
Dividend policy and history (financial years)

In Q220, CCPEOL cut its full-year dividend target to 4p/€0.04 per share citing market turbulence from the COVID-19 pandemic. It aims to return to 5.5p/€0.055 per share as soon as market conditions allow. Dividends have been paid quarterly since H216, in May, August, November and February.

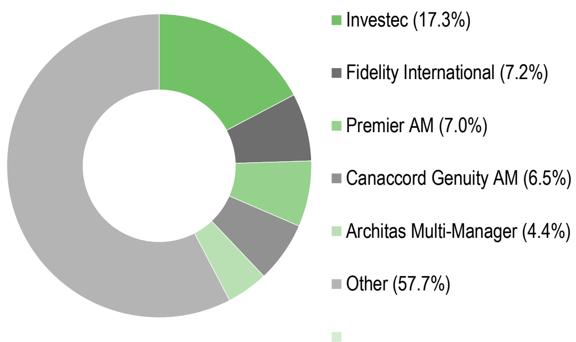


Share buyback policy and history (financial years)

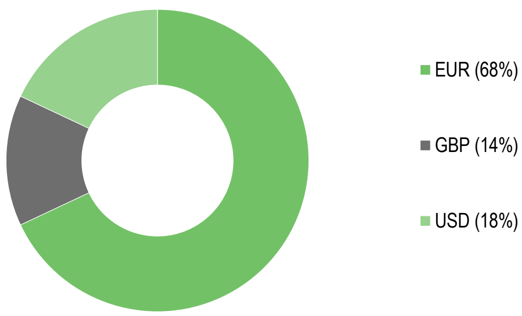
CCPEOL operates a contractual quarterly tender system, a monthly conversion facility between sterling and euro share classes and may issue shares from treasury in response to market demand. The chart below is for sterling shares (CCPG); repurchases include tendered shares and repurchases and allotments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



Shareholder base (at 31 July 2020)



Currency breakdown at 31 July 2020



Top five issuers (at 31 July 2020)

Company	Country	Sector	Portfolio weight % July 2020	Portfolio weight % July 2019*
Keter Group	Netherlands	Chemicals, plastics and rubber	3.1	N/A
Concordia	UK	Healthcare & pharmaceuticals	3.0	2.7
ColourOz	Germany	Chemicals, plastics and rubber	2.8	N/A
Tipico	Germany	Hotels, motels, inns and gaming	2.8	N/A
Civica	UK	Electronics	2.7	2.5
Top 5 (% of holdings)			**14.4**	**12.3**

Source: CVC Credit Partners European Opportunities, Edison Investment Research, Refinitiv. Note: *N/A where not in end-July 2019 top five.

Fund profile

CCPEOL was launched in June 2013 and is a Jersey-domiciled, London-listed, closed-end investment company with a focus on opportunities in leveraged credit. It invests solely in a Luxembourg-based investment vehicle, CVC European Credit Opportunities fund (CEC, or 'the investment vehicle') via preferred equity certificates (PECs). CEC has an actively managed portfolio of sub-investment grade debt assets with an annual turnover of c 100%, which also involves trading within an issuer's debt structure (ie assets with different maturities, currencies and seniority). Its portfolio is divided into two main pools: performing credit (assets acquired at close to par with the intention of generating returns from recurring interest payments/coupons) and credit opportunities (discounted assets with revaluation potential).

The investment manager is often involved in restructuring activities to unlock the revaluation potential of the credit opportunities investments. Returns come from a mixture of income and capital appreciation with target aggregate gross returns of 8–12% pa (4–7% pa from the performing portfolio and 7–20% pa from the credit opportunities portfolio). Around 5% pa is expected from the income component. The investment vehicle focuses mostly on assets that are senior in the capital structure of the issuer: first-lien loans and senior secured bonds (which currently represent 84% of NAV at end-May 2020).

The portfolio is skewed towards floating rate assets and issuers domiciled (or having the majority of operations) in Western Europe. CEC invests in large-cap companies, which had a weighted average EBITDA of more than €400m at end May 2020, which we believe still provide higher secondary liquidity and stronger credit fundamentals, leading to lower default rates in times of economic downturn.

The fund manager: CVC Credit Partners

CVC Credit Partners is a subsidiary of CVC Capital Partners, a global investment manager with nearly US$80bn of assets under management (US$25.5bn in credit) at December 2019, specialising in private equity and private debt. CVC Capital Partners employs more than 250 investment professionals across 23 offices worldwide, with 64 focused on credit investments. The investment manager maintains a database of more than 4,000 credits from which it selects investment opportunities for its various portfolios on the basis of in-depth fundamental analysis.

Manager's view: Opportunity and caution

CEC believes that the dislocation caused by COVID-19 has created interesting market opportunities. The fall in prices was not as severe as in the 2008-09 crisis and there has already been a rebound in many asset prices. However, performing credit is still trading at attractive prices compared to historical valuations, while we believe that the credit opportunities segment offers very good upside potential in the next 12–18 months. The fall in prices has resulted in some investments that used to be in the performing credit category to be reclassified as credit opportunity investments. Also, because the market has deepened since the 2008-09 crisis, there is a greater liquidity of investments to track and choose. The investment manager believes that the best opportunities are currently in lower B and upper CCC rated credit (as opposed to upper B), as well as structured finance such as collateralised loan obligations (CLOs). This is where relative valuations are currently most attractive and it is an investment space the investment manager knows well.

The investment manager believes the market rebound in April and May was mostly driven by the liquidity provided by central banks and the government fiscal stimulus. It expects continued market volatility as fundamental performance plays through and the market adjusts to increase the number of defaults and asset downgrades, and asset flows become choppy. The manager expects prices to react favourably and opportunities to arise as industries and geographies open up and adapt to the new conditions. The manager notes that the company's Q2 reporting and Q3 guidance has generally been ahead of its expectations at the beginning of the crisis. CEC expects the credit market to continue to rebound from the March lows and allow for returns above the 8% target rate. It sees the primary new issue market reopening with attractive relative yields. As it adjusts to the continuing impact of the stress and downgrade activity, the CLO market should provide a building opportunity across the structured finance segment.

Market outlook: Crash, recovery and uncertainty

The March financial market crash hit the high yield segment predictably hard. The ICE BofA US High Yield Index (which measures the spread over the US treasury curve) zoomed past the 1,000bp level (Exhibit 1) and the European index almost reached 900bp. There was indiscriminate selling as investors de-risked and sought liquidity. The market recovery started in April and continued into May and June, with some bumpy days along the way. Supportive government and central bank actions and rhetoric, along with restrictions being lifted, have boosted sentiment and liquidity.

In Europe, the EU recovery plan was discussed on 23 April and disclosed on 27 May, with a positive reaction by the market. The EU leaders met on 17–18 July to discuss the recovery plan as well as the long-term EU budget for 2021–27 and this could affect markets.

Exhibit 1: ICE BofA US High Yield Index

Source: Refinitiv

Exhibit 2: ICE BofA Euro High Yield Index

Source: Refinitiv

Despite the rebound, highsk perception remains high and economic concerns elevated. The trajectory of the COVID-19 pandemic still has plenty of unknowns (including resurgence risk) and the scale of economic disruption and subsequent recovery likewise. The timeline and progress in ending the support scheme for corporate and household borrowers could also affect markets. Market and economic recovery will be slowed in the absence of (or delay in finding) a vaccine or effective treatment.

US trade and political tensions with several key partners (including China and Europe) are another key concern. The British economy would be adversely affected if the UK fails to reach a free trade agreement with the EU and has to trade under World Trade Organization (WTO) rules.

The IMF has further downgraded economic forecasts in its June 2020 update. It cut the World GDP 2020 growth forecast to -4.9% from the previous -3.0% estimate in its April 2020 update. The IMF believes that the economic impact of COVID-19 will be greater than anticipated in April. The crisis has led to a synchronised deep economic downturn across the globe, with a sharper than expected decline in consumption and services. The labour market has been severely affected. The IMF forecasts that the EU and UK economies will both contract by 10.2% in 2020. Previously the forecasts were -7.5% and -6.8%, respectively. The US forecast has been downgraded to -8% from -5.9%. As was the case in April, the IMF warned that there was a 'higher than usual degree of uncertainty' around its forecasts.

The IMF rebound GDP forecasts for 2021 are as follows: World 5.4%, Europe 6.0%, UK 6.3% and the US 4.5%. The new rebound forecasts are higher than before, presumably on the basis that the greater the loss of output in 2020, the greater the scope for a rebound in 2021.

In its 30 June 2020 report, S&P Global Ratings rated current European credit risk levels as 'very high' (the highest category) with the risk trend considered 'improving'. However, it rated the risk trend for vulnerable company insolvency as 'worsening'. This is likely to contribute to market volatility as the inevitable downgrades and defaults come through. S&P has so far downgraded 17% of European and Middle Eastern (EMEA) corporate ratings since February 2020. In its report, it expected the default rate on speculative-grade debt to rise to 8.5% by March 2021 from 3.3% in May 2020. The optimistic scenario is a 3.5% default rate, while the pessimistic scenario is 11.5%.

Current portfolio positioning

CEC's base strategy is to target a broadly balanced allocation across performing and opportunistic instruments while holding c 10–20% in cash. The portfolio has been significantly rebalanced towards the credit opportunities basket in recent months due to market conditions. This is similar to what happened in 2009–11 after the financial crisis of 2008-09.

At the beginning of 2020, the performing credit and credit opportunities split was 61%/39%. This moved to 37%/63% at the end of July despite credit opportunities asset prices having dropped more than performing credit asset prices on average as a result of the pandemic crisis. The cash position, which peaked at 18.7% at end April 2020, dropped to 4.7% in July as CEC took advantage of investment opportunities provided by market dislocation.

The average market price for held assets in the credit opportunities portfolio dropped from 90.8 at the end of January 2020 to 73.1 in March 2020 and then rebounded to 84.8 in July 2020. The yield to maturity (YTM) is currently 10.9% at these prices with a cash yield of 6.9%. The strategy in the credit opportunities portfolio is to focus on existing investments that have required management time and effort.

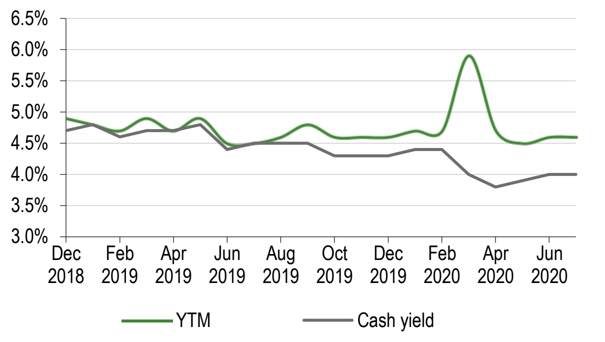
Price movements in the performing credit portfolio were predictably less dramatic. From 99.8 at the beginning of the year, the average market price dropped to 86 in March but recovered to 96.4 in May and were 95.2 in July, with a YTM of 4.6% and cash yield of 4.0%.

In the performing credit portfolio, CEC has trimmed some positions where relative value is unattractive and has rotated away from COVID-19 affected sectors/geographies as well as those at risk of a downgrade to CCC. Accordingly, early in the crisis the fund reduced exposure to sectors like leisure and entertainment, retail and travel, as well as cutting exposure to Italy and Spain. CEC has rotated into defensive sectors such as healthcare, media, telecoms and food retail. It has focused on defensive and stable issuers.

The weight of CCC-rated investments rose from 11% at the beginning of 2020 to 18% by end July as CEC believes that relative valuations and upside potential look particularly interesting in this segment. If we include non-rated (NR), the increase was from 25% to 27%. On the other hand, B rated investments dropped from 70% to 68% in the same period.

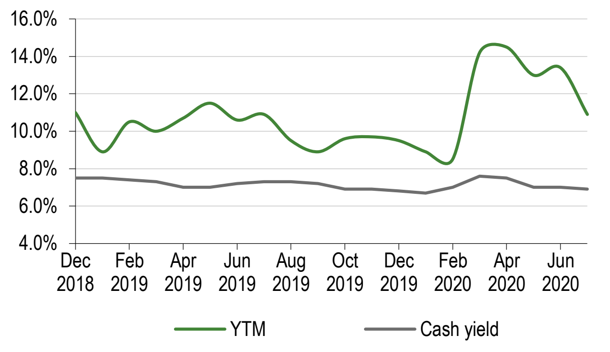
The fund has some small short exposures that have been reset at higher prices as the market has rebounded. During April, the fund actively traded its small structured finance portfolio, which has recovered in line with the broader market.

Exhibit 3: YTM and cash yield – performing credit



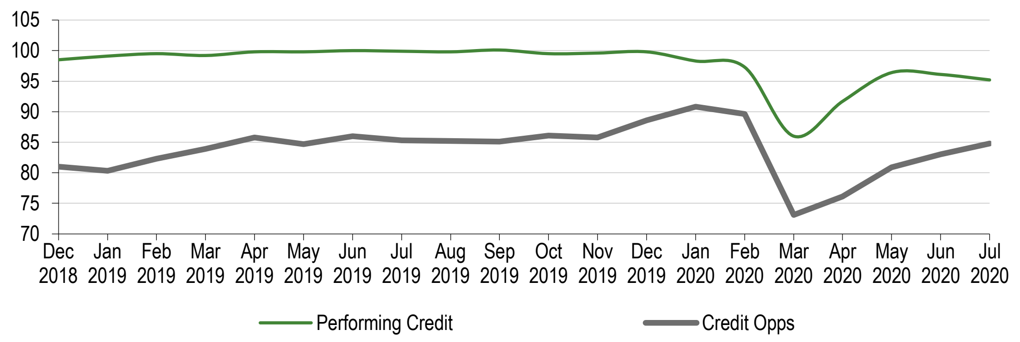
Source: CVC Credit Partners European Opportunities

Exhibit 4: YTM and cash yield – credit opportunities



Source: CVC Credit Partners European Opportunities

Exhibit 5: Average price – performing credit and credit opportunities



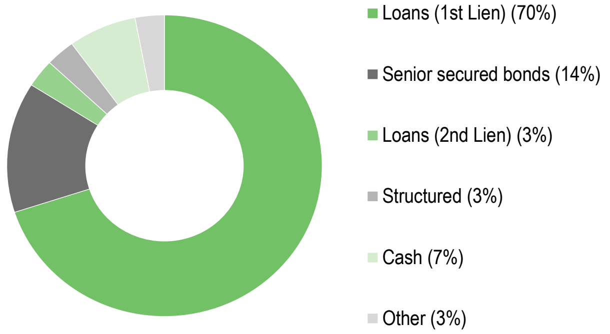
Source: CVC Credit Partners European Opportunities

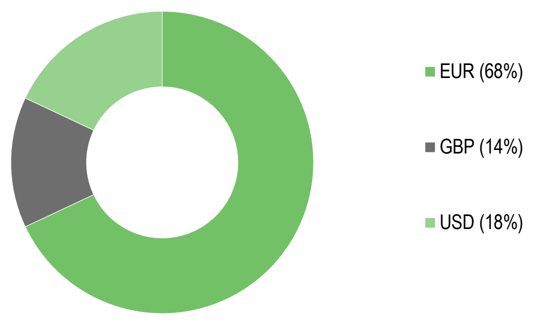
CEC's cash position increased from 5% in February to 18% in March and 19% in April. It then deployed cash into mostly first-lien loans in May as the weight of this rose from 61% to 70% in just one month. Otherwise, the structure has remained broadly the same and in line with its investment strategy of focusing on senior secured assets (first-lien loans, senior secured bonds and cash). These accounted for 89% of all assets in July compared to 88% at the beginning of the year.

FX exposure saw a rotation in January from US dollars into pounds sterling, back to US dollars in March 2020, pounds sterling in April 2020 and finally back to US dollars in May. After all these movements, currency exposure at end of July was similar to what it was during 2019 with 68% euro, 14% pounds sterling and 18% US dollar. The FX decisions were affected by the decline in the cost of hedging US dollar positions as rate differences compared to euros reduced during the crisis as interest rates decreased everywhere.

Exhibit 6: Portfolio analysis

Asset breakdown at 31 July 2020	Currency breakdown at 31 July 2020





Source: CVC Credit Partners European Opportunities

Over the last 12 months there has been no very significant change in country weightings. Dutch weightings went up by 3pp and UK by 4pp. France and the US dropped by 4pp and 2pp respectively. The Finland and UAE (essentially Dubai World, the UAE investment company) weights have fallen and are now longer shown separately in July 2020.

Exhibit 7: Portfolio – geographic exposure by country of issuer

	End- July 2020	End- July 2019	Change (pp)
UK	25%	21%	4.00
France	13%	17%	-4.00
The Netherlands	17%	14%	3.00
Germany	14%	14%	0.00
US	13%	15%	-2.00
Spain	7%	8%	-1.00
Finland		4%	-4.00
UAE		3%	-3.00
Other	11%	4%	7.00
Total	**100%**	**100%**	

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

The most significant increases in sector exposure include hotels, gaming and leisure from (4% to 10%) and chemicals (from 7% to 10%). Finance and telecommunications previously were not stated separately (we assume therefore 3% or less each) and now have a 5% weighting. The biggest reductions were retail stores (12% to 9%) and broadcasting and entertainment (8% to 4%). This would indicate a shift away from COVID-19 exposed sectors. However, we note the increase in the hotels sector was mainly due to an investment in European Camping Group, a company that CEC knows well and which should benefit from the increased trend towards domestic holidays ('staycations') and camping/driving holidays instead of flying.

Overall, industry exposure continues to be broad, illustrating the diversified nature of CEC's portfolio, and we note that there has been a mild change in the 'other' category, from 28% a year ago to 25% at end July 2020.

Exhibit 8: Portfolio – industry exposure

	Portfolio end-July 2020	Portfolio end-July 2019	Change (pp)
Healthcare & pharmaceuticals	13%	12%	1.0
Chemicals, plastics & rubber	10%	7%	3.0
Hotels, gaming & leisure	10%	4%	6.0
Retail store	9%	12%	-3.0
Electronics	7%	5%	2.0
Diversified/conglomerate service	5%	7%	-2.0
Finance	5%	N/S	5.0
Telecommunications	5%	N/S	5.0
Broadcasting & entertainment	4%	8%	-4.0
Automobile	4%	N/S	4.0
Insurance	3%	5%	-2.0
Other	25%	28%	-3.0

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

Performance

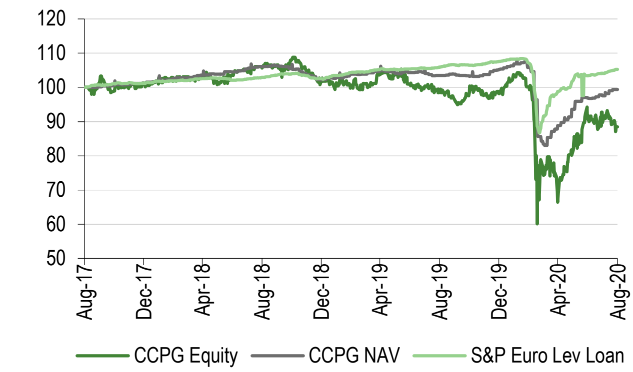
The CCPG shares have delivered a -10% market total return (similar to the CCPE shares) in the last 12 months to 31 August 2020 with the share price falling by 4% since 3 August. The NAV has fallen less – only 4% in the last 12 months.

The investment vehicle (CEC) delivered a 2.9% return gross (before fees) and 2.0% (post fees) on NAV total return in FY19. This is below CEC's long-term target for annual returns of 8% or more. The annualised gross return since inception in June 2013 is 6.1% to end FY19. FY19 investment vehicle performance was driven by performing credit gains with a 7% return (and 3.3% contribution to NAV return). The credit opportunities portfolio was flat at 0.0%. Cash and expenses were 0.6% and fees were 0.9% of NAV.

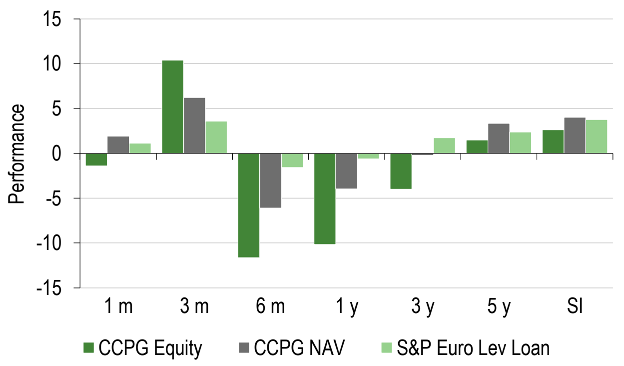
The latest reported data on the investment vehicle itself is 31 March 2020 (Q120). The Q120 return for the whole portfolio was -20.4% (before fees) and -20.6 (with fees). This reflects the state of the markets at end March before they recovered. The performing credit portfolio fell by 6% and contributed -2.3% to the NAV return. The credit opportunities portfolio was down 37% and contributed -18%. Cash and expenses were 0.1% of NAV in the first quarter of 2020.

Exhibit 9: Investment company performance to 31 August 2020

Price, NAV and index total return performance, three-years rebased



CCPG price, NAV and index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three- and five-year performance figures annualised.

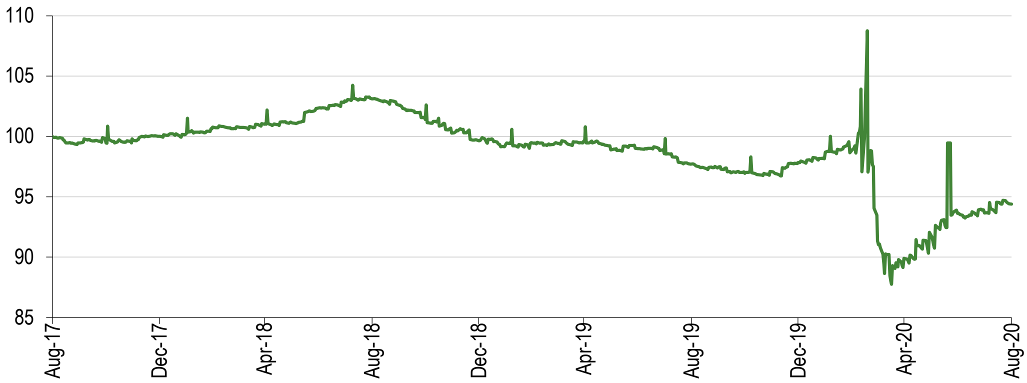
Exhibit 10: CCPG share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI*
Price relative to S&P European Lev Loan	(2.5)	6.5	(10.2)	(9.6)	(16.0)	(4.3)	(7.6)
NAV relative to S&P European Lev Loan	0.8	2.5	(4.6)	(3.4)	(5.6)	4.8	1.8
Price relative to Credit Suisse Lev Loan	(2.6)	6.5	(10.5)	(9.7)	(15.3)	(5.1)	(3.7)
NAV relative to Credit Suisse Lev Loan	0.7	2.5	(4.8)	(3.5)	(4.8)	4.0	6.1
Price relative to CS Western European HY	(2.7)	4.5	(10.7)	(9.2)	(15.6)	(10.4)	(13.0)
NAV relative to CS Western European HY	0.6	0.6	(5.0)	(3.0)	(5.1)	(1.8)	(4.1)

Source: Refinitiv, Edison Investment Research. Note: Data to 31 August 2020. Geometric calculation. *SI = since inception. Inception date is 25 June 2013.

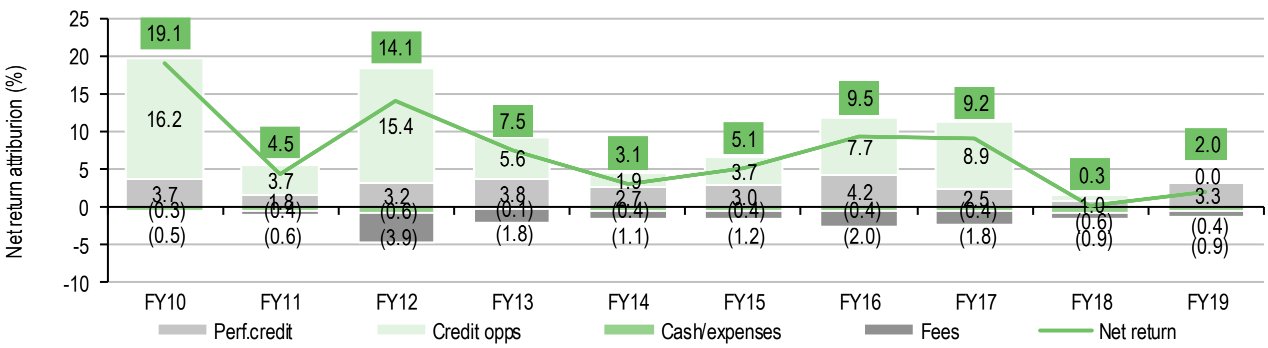
CCPG shares and NAV have underperformed the leveraged and high yield indices in Exhibits 10 and 11 over the last 12 months. The relative underperformance was influenced by the fund's leverage at the investment vehicle level (explained in more detail below) and the heavier weighting towards the CCC- and lower B-rated opportunistic investments and structured credit and mezzanine as opposed to BB- and upper B-rated. When the market rebounded in April and May, the shares and NAV outperformed (as shown in the three-month performance in Exhibit 10). The credit opportunities segment has greater upside potential (albeit higher risk) but it takes longer for these gains to materialise due to lower liquidity and because it takes longer for credit recovery stores to pan out and for fundamentals or catalysts to materialise and push the price up. As a reminder, as CCPEOL's portfolio consists of both loans and bonds (sourced from Europe and the US), none of the indices presented in Exhibit 10 is a perfect comparator.

Exhibit 11: CCPG NAV total return performance relative to S&P European Leveraged Loan Index over three years



Source: Refinitiv

Exhibit 12: Historical net return attribution (investment vehicle)

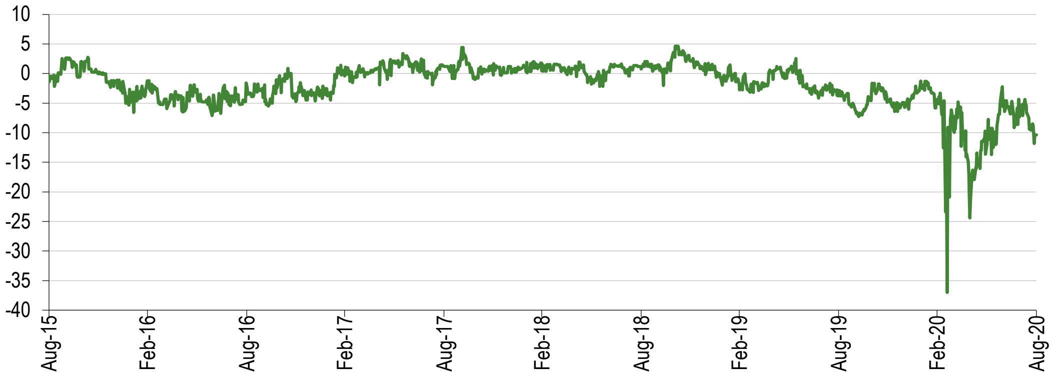


Source: CVC Credit Partners, Edison Investment Research. Note: Data from first full year of operation.

Discount

CCPEOL's conversion facilities minimise NAV discount/premium fluctuations. On average, since inception CCPG shares have traded at an average discount of 1.1% to cum-income NAV until end February 2020 and before the COVID-19 crisis, with the discount widening in a more distressed environment (eg in 2016 amid the first Brexit referendum and in 2019 amid trade tensions and concerns about global growth). During the COVID-19 crisis, the discount went as high as 37% on 19 March. The CCPG discount had declined to about 5% at the beginning of July, however, it has now widened to a considerably above average 10.6% (CCPE shares, 10.4%) by the end of August. It is worth noting that most of the trading in CCPEOL's shares is executed through the tender facility rather than on the stock exchange, which magnifies the impact. Having said that, the investment manager has highlighted that the whole strategy (including CCPEOL) saw net inflows year-to-date despite the overall risk-off mood.

Exhibit 13: CCPG share price premium/discount to NAV (cum-income) over five years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

CCPEOL is a Jersey-domiciled, closed-end investment company with an unlimited life. However, the investment vehicle is intended to wind up in 2031 (subject to the investment manager's decision to extend it). CCPEOL's board would also be required to propose a continuation vote if the average discount to NAV exceeded 10% over any rolling 12-month period, or if net assets fell below €75m (currently c €421.0m).

CCPEOL has two share classes: sterling shares (CCPG, 233.8m in issue) and euro shares (CCPE, 128.3m in issue). CCPE shares carry one voting right compared with 1.17 for each CCPG share. The company actively manages its capital structure to reflect investor demand by running a quarterly tender facility, a monthly currency conversion facility, as well as purchasing and selling treasury shares. CCPG shares are hedged back to euros to eliminate exchange rate volatility.

CCPEOL is a self-managed fund delegating the investment management to CVC Credit Partners (CVC), which also manages the investment vehicle. CCPEOL calculates its ongoing charges at 1.19% pa based on the FY19 accounts (FY18: 1.19%, restated from 1.07%), which includes its own operating expenses and an annual management fee of 1.0% pa, charged at investment vehicle level. CEC's operating expenses are not accounted for in these ongoing charge calculations and are instead reflected in the value of PECs held by CCPEOL. A performance fee (subject to a high-water mark) of 15% of excess returns may be paid at investment vehicle level should total annual returns exceed 5%.

There is no gearing at CCPEOL level, but the investment vehicle may gear up to 100% of net assets. At end FY19, the latter had borrowings of €174.5m, equivalent to c 32.6% of NAV (FY18: 22.3%). This is a €175m loan from a bank costing 1.6% with a maturity date of 18 December 2020, which could possibly be rolled over as it was in 2019.

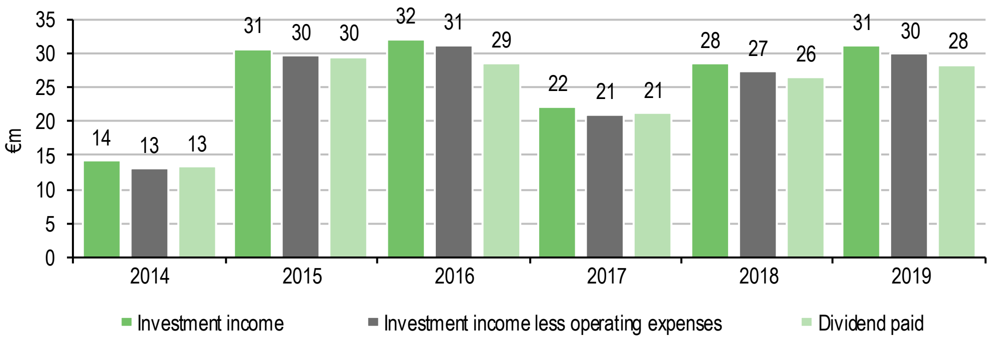
Dividend policy and record

In April 2020, CCPEOL reduced its target annual dividend from 5.5p per CCPG and €0.055 per CCPE share to 4p and €0.04, respectively, to reflect market conditions and better align dividend payments with the volatility and timing of cash flow.

This was cut was with immediate effect from Q220 (Q120 dividend was 1.375p/€0.01375) and valid for 12 months. The board stated that the 8% return target is unchanged and that it planned to reinstate the previous 5.5 pence/cents dividend if and when market condition justify it. We calculate that on average CCPEOL was able to cover more than 80% of its dividend (at the 5.5% level) with coupon payments of its investments in the last four years (2016–19). This excludes investment gains as well as CLO equity tranche returns. If applied to this lower dividend policy, coupon coverage alone would have been above 100% in the last four years.

Dividends are paid quarterly, in February, May, August and November. A scrip dividend (the facility to receive additional shares rather than a cash dividend payment) was suspended in October 2019 due to limited interest from shareholders.

Exhibit 14: CCPEOL's historical dividend coverage



Source: CVC Credit Partners European Opportunities

Peer group comparison

Despite challenges from a turbulent market and its exposure to stressed assets, CCPEOL has outperformed the average of its peers, as shown in Exhibit 15. Annualised NAV total return since inception (June 2013) stands at a creditable 5.6%. After its recent decision to reduce the dividend, the yield will be below the average of its closest peers, but closer to the average of the sector (debt – loans and bonds) peers.

Although CCPEOL does not charge a performance fee and does not use leverage, they are both applied at the investment vehicle level.

Until the exceptional market turbulence in March, every quarter investors could tender up to 24.99% of the shares for repurchase at a price close to NAV. In April, the board won approval to allow this quarterly limit to be reduced to a minimum of 10% going forward. However, so far all requested tenders have been executed and the level of requests has not been as high as anticipated in April.

Every month, CCPG shares can be converted into CCPE shares and vice versa. To facilitate this, CCPEOL actively trades its treasury shares and may issue new shares to meet investor demand, which effectively minimises the discount (since CCPEOL's launch in June 2013 it has averaged 0.1%).

Exhibit 15: Selected peer group at 1 September 2020*

% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Ongoing charge	Perf. fee	Discount/ premium (ex-par)	Net gearing	Dividend yield
CVC Credit Partners Euro Opps GBP	**177.0**	**(4.0)**	**(0.6)**	**17.9**	**1.2**	**No**	**(10.6)**	**100**	**4.6**
CVC Credit Partners Euro Opps EUR	**100.0**	**(8.2)**	**(4.5)**	**40.7**	**1.2**	**No**	**(10.4)**	**100**	**5.0**
Alcentra Eur Floating Rate Inc	35.7	(9.4)	(2.9)	5.9	1.1	No	(4.5)	100	5.1
Axiom European Financial Debt Fund	72.6	3.8	9.5		1.4	Yes	(15.4)	100	7.6
NB Global Floating Rate Income	341.9	2.2	8.8	17.8	1.1	No	(12.4)	100	5.6
Subgroup group average (3 funds)	**150.1**	**(1.1)**	**5.1**	**11.9**	**1.2**		**(10.7)**	**100**	**6.1**
Sector average (11 funds)	**119.5**	**(11.9)**	**(7.2)**	**15.5**	**2.0**		**(12.5)**	**99**	**4.4**
CCPG rank in peer group	2	3	3	3	3		3	1	3
CCPE rank in peer group	3	4	4	5	1		2	1	2

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 July 2020. 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). **At the CCPEOL level a performance fee is charged and leverage is applied at the investment vehicle level.

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