EDISON

CVC Credit Partners European Opps

Defensive positioning and solid dividend cover

Investment companies

CVC Credit Partners European Opportunities (CCPEOL) aims to achieve a blend of capital growth and income (it targets gross total returns of 8–12% pa, with c 5pp from income). The portfolio is positioned defensively, mainly in senior secured debt of large issuers (average EBITDA above €500m) from Western Europe. Long-term NAV net total return (TR) performance remains broadly intact at 6.4% pa over three years (vs SP ELLI at 3.5% pa), despite weaker performance during the Q418 downturn. Currently both share classes offer a dividend yield in excess of 5%, largely covered by coupon income according to our estimates.

12 months ending	CCPG share price (%)	CCPG NAV (%)	S&P Euro Lev Loan index (%)	CS Lev Loan index (%)	CS Western Euro HY index (%)
19/07/15	2.9	5.4	6.4	3.7	2.7
19/07/16	0.5	3.4	1.3	2.4	3.2
19/07/17	18.5	13.6	5.2	5.9	8.7
19/07/18	5.7	6.2	2.0	1.9	1.5
19/07/19	(4.6)	(0.1)	3.3	2.9	4.0

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Portfolio developments: Increasing current yield

CCPEOL invests through CVC European Credit Opportunities (CEC) into two pools of assets: performing credit representing mainly senior secured loans from large and liquid European issuers and credit opportunities of assets priced below par with recovery potential. The portfolio manager has been taking advantage of the recent increase in high yield bond prices, shifting the allocation to primary performing credit, which currently offers more attractive spreads. This has helped to increase the yield of the portfolio to 6.1% at end-June 2019 from 5.8% in September 2018. CEC retained its defensive positioning, with 89% of the portfolio allocated to senior secured assets at end-June 2019.

Market outlook: Low interest rates to stay longer

The concerns over political tensions and global economic slowdown that triggered the late-2018 deterioration of market sentiment remain in place. However, the credit market's performance should be supported by central banks' recent dovish announcements suggesting a continuation in accommodative monetary policy. Although we note a degree of weakening credit quality as illustrated by the high proportion of covenant-lite debt, we also note that default rates remain at historically low levels and a corporate debt maturity cliff is not expected till 2024-2025.

Valuation: Trading close to NAV, assisted by 5% yield

Both CCPEOL share classes have traded close to NAV on average since the fund was launched in June 2013. Following the Q418 sell-off, the discount widened slightly and currently stands at 4.2% for CCPG shares and 3.9% for CCPE. CCPEOL offers an above 5% dividend yield, which is largely covered by coupon income.

8 August 2019

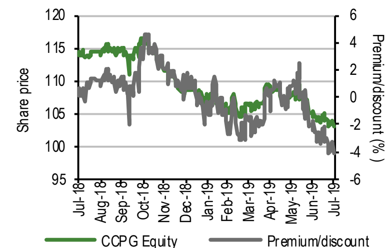
Price	**103.0p/€0.99**
Market cap	**£370.0m €126.9m**
NAV	**£386.1m €132.1m**

NAV*	107.5p
Discount to NAV	4.2%
NAV**	€1.03
Discount to NAV	3.9%

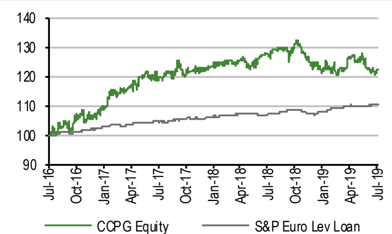
*CCPG. **CCPE. including income. As at 19 July 2019.

Yield	5.3%/5.6%
Ordinary shares in issue	359.2m/128.2m
Code	CCPG/CCPE
Primary exchange	LSE
AIC sector	Debt – Loans and Bonds

Share price/discount performance



Three-year performance vs index



52-week high/low	116.5p/€1.14	103.0p/€0.98
NAV* high/low	113.9p/€1.10	106.8p/€1.02

*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 (CCPEOL) 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

- 24 July 2019: Dividend declared at 5.5p/€0.055 per share, ex-div set on 1 August 2019, dividend payment on 13 September 2019.
- 17 June 2019: No requests received for conversion of shares in July.
- 7 June 2019: £23.7m new capital raised by placing 21.9m CCPG shares.
- 6 June 2019: 344,573 CCPE shares and 35,273 CCPG shares issued as scrip dividends in respect of May's quarterly dividend.
- 13 May 2019: 4,396,361 CCPG and no CCPE shares tendered for June's quarterly tender process.

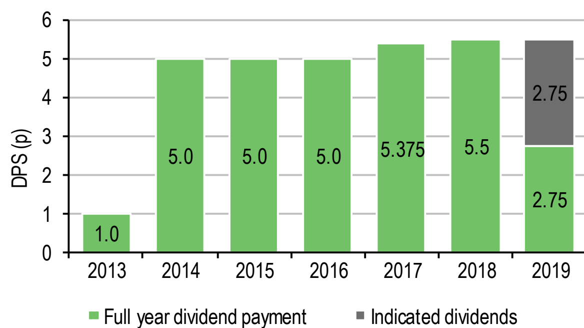
Forthcoming		Capital structure		Fund details	
AGM	April 2020	Ongoing charges	1.07%	Group	CVC Credit Partners
Interim results	October 2019	Gearing	Zero at CCPEOL level	Manager	Team-managed
Year end	31 December	Annual mgmt fee	1.0% at underlying fund level	Address	111 Strand, London, WC2R 0AG
Dividend paid	Quarterly (since FY16)	Performance fee	See page 12		
Launch date	25 June 2013	Company life	Indefinite	Phone	+44 (0) 20 7420 4200
Continuation vote	See page 11	Loan facilities	None at CCPEOL level	Website	www.ccpeol.com

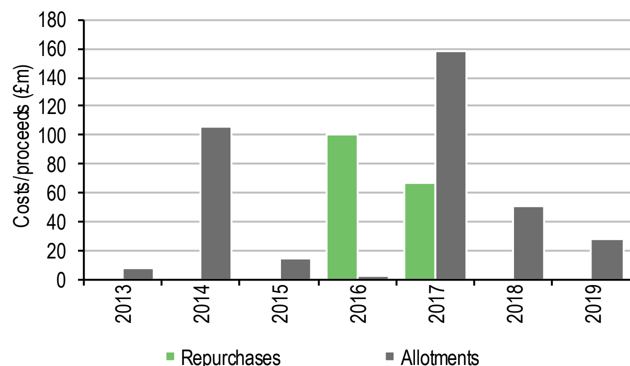
Dividend policy and history (financial years)

From Q217, CCPEOL has raised its full-year dividend target to 5.5p/€0.055 per share, having been 5.0p/€0.05 per share since its first full financial year. Dividends have been paid quarterly since H216, in May, August, November and February. Previously dividends were paid in two instalments. FY16 was a transitional period, when three dividends were paid.

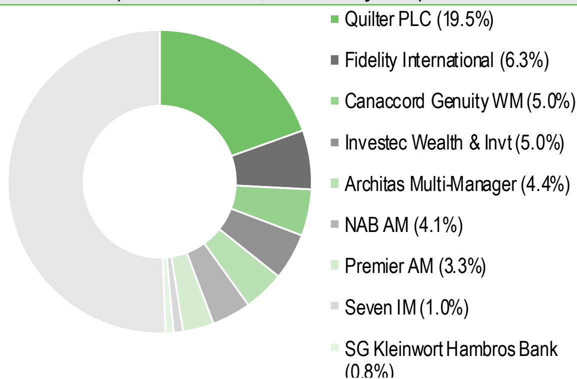
Share buyback policy and history (financial years)

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 both repurchases and allotments include share conversions and placing of treasury shares.

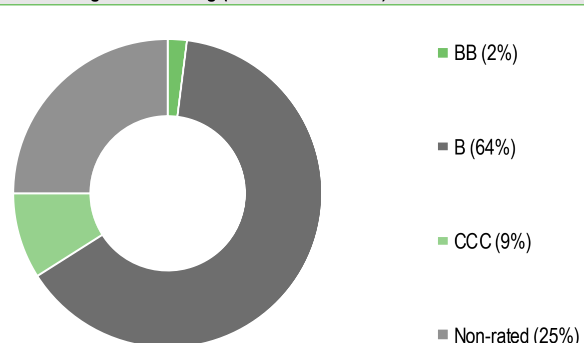




Shareholder base (CCPG and CCPE, as at 15 July 2019)



Look-through credit rating (as at 30 June 2019)



Top five issuers (as at 30 June 2019)

			% of gross asset value	
Company	**Country**	**Sector**	**30 June 2019**	**30 June 2018***
Concordia	UK	Healthcare & Pharmaceuticals	2.7	N/A
Civica	UK	Electronics	2.5	N/A
Celsa	Spain	Metals & Mining	2.5	2.9
Promotora	Spain	Broadcasting & Entertainment	2.4	N/A
Kirk Beauty	Germany	Retail Stores	2.2	N/A
Top five			**12.3**	**17.3**

Source: CVC Credit Partners European Opportunities, Edison Investment Research, Refinitiv. Note: *N/A where not in end-June 2018 top five.

Fund profile: Daily traded fund with senior loans focus

CVC Credit Partners European Opportunities (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 in a Luxembourg-based investment vehicle, CVC European Credit Opportunities fund (CEC, or 'the investment vehicle') via preferred equity certificates (PECs). CEC was set up in 2009 and is an open-ended fund managed by CVC Credit Partners (the investment manager). CVC Credit Partners is a subsidiary of CVC Capital Partners, a global investment manager with nearly US$75bn of assets under management as at March 2019, specialising in private equity and private debt.

CCPEOL shares are quoted on the London Stock Exchange giving investors indirect access to the vehicle and providing daily pricing and liquidity. Two classes of share are quoted: sterling (CCPG) and euro (CCPE) with a monthly conversion facility between them. One euro-denominated share holds one voting right, whereas one sterling share holds 1.17 voting rights reflecting the £/€ exchange rate at inception. CCPEOL provides the majority of capital managed by CEC, with the structure allowing for a capped number of external investors to invest directly into CEC (usually at a minimum investment of €5m). As at 28 February 2019, all issued interests were valued at a total of €809m, of which €562m was attributable to CCPEOL and €200m to CVC persons. CCPEOL offers investors a quarterly tender facility by which investors can realise up to 24.99% of their investment (subject to an annual 50% maximum) at a price close to NAV. Moreover, CCPEOL may issue shares to meet the additional demand in the market. These facilities result in the fund trading historically close to NAV since launch. CCPEOL does not use gearing, but CEC can and does gear up to 100%. Currency exposure is hedged back to euros.

CVC Capital Partners has more than 250 investment professionals across 24 offices worldwide. 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 deep-dive fundamental analysis. CEC has an actively managed portfolio of sub-investment grade debt assets with 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). 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), with around 5% pa expected from current income. 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 80% of NAV as at end-June 2019). 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. These had a weighted average EBITDA of €513m at end-Q119, which we believe provides higher secondary liquidity and stronger credit fundamentals, leading to lower default rates in times of economic downturn.

A number of limits govern the construction of the investment vehicle portfolio:

- At least 50% of the portfolio must be in senior secured assets (this may include cash).
- At least 60% (70% until June 2018) must be in credits from issuers that are domiciled in or do most of their business in Western Europe.
- No more than 7.5% can be invested with a single issuer, subject to an exception whereby one issuer may make up 15% of the portfolio, as long as the holding is reduced to a maximum of 7.5% within 12 months of acquisition.
- No more than 7.5% of the portfolio may be invested in CLOs.
- The investment vehicle may borrow up to 100% of NAV; CCPEOL may borrow up to 15% of its NAV, but only for the purpose of purchasing or redeeming its own shares.
- Short positions may be used to offset industry-level risks to favoured issuers.

The manager's view: Focus on fundamentals

The fund manager (CVC Credit Partners) believes that the current economic and financial markets outlook should translate into a significant amount of investment opportunities. The European economy remains robust (although growth prospects have weakened recently). Nonetheless, this environment should allow CEC to generate solid, stable risk-adjusted returns from the performing credit strategy. The continued accommodative monetary policy is likely to support low default rates, while supply of new credit is assisted by high corporate activity to finance growth and M&A. This includes in particular large-cap companies backed by private equity funds that have large amounts of investible capital at their disposal. At the same time capital requirements for banks should remain stringent, encouraging them to sell loans and thus remove them from their balance sheets. This should support the ongoing shift in leveraged loan market dominance from banks to institutional investors. The growing popularity of CLOs represents a source of market stability given their locked-up structures, which entails a buy-and-hold strategy being applied to a significant part of their portfolios. The scheduled departure of Mario Draghi as ECB president in October 2019 may have an effect on markets, should his successor indicate any radical changes in policy (although at present this is not expected).

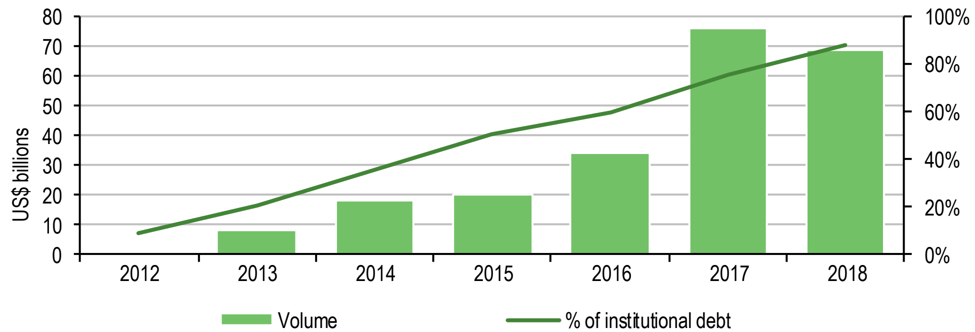
The investment manager points out that the increase in covenant-lite debt should not adversely affect liquid sub-investment grade credit. Liquid sub-investment grade credit has always been relatively 'covenant-lite', and restrictive covenants would be more of an indication of fundamental weakness in the borrower. Having said that, reduced lender protections and higher leverage (fuelled by low interest rates) do present higher risks to investors across the broader credit investments spectrum. CVC Credit Partners recognises that this will translate into increased default risk once interest rates start to rise and loans approach their maturity (and thus will require refinancing). In this scenario, CEC should still achieve a steady and attractive investment pipeline for its credit opportunities portfolio as the market responds to the distressed nature of the underlying issuers. This is due to its flexible approach, covering both performing credit and credit opportunities, which means the fund is well placed to benefit from any market shocks causing downward pressure on loan prices.

Market outlook: Cheap money still readily available

The global economy has entered a slowdown phase, with central banks expecting a relatively subdued growth rate in the coming years. The ECB forecasts 1.2% growth of the euro area economy in 2019 (from 1.9% in 2018) and 1.4% in 2020–21 (following a recent downgrade). Similarly, the Federal Reserve expects the US economy to post 2.1% growth in 2019 (from 2.9% in 2018), which subsequently decelerates to 1.9% in 2020 and 1.8% in 2021. The markets are eyeing the tensions in international trade as one of the factors limiting growth.

However, the slower growth has, so far, not resulted in higher corporate default rates, which have remained at low levels over the last 12 months in both the US and the European loan markets. According to Moody's, the default rate in advanced economies fell to 1.6% in 2018 from 2.3% in 2017. At the same time, the default rate in the European leveraged loans market reached 0% in the second half of 2018 according to S&P, which may have been stimulated by the prevalence of covenant-lite loans. These represented well above 70% of newly issued institutional debt in 2017 and 2018. We are wary of the fact that we may be currently approaching the end of the credit cycle and that at some stage default rates should increase, with the dominance of covenant-lite loans translating into lower recovery rates. Having said that, loose covenants coupled with relatively distant maturity dates mean that this is less likely in the near term.

Exhibit 2: European newly issued covenant-lite institutional volume



Source: Leveraged Commentary & Data's Quarterly European Leveraged Lending Review; Q418 as in CCPEOL's 2019 Prospectus

Dovish statements from major central banks to delay monetary tightening may support a longer environment with low default rates and tighter spreads upon loan refinancing, which is already reflected in the solid performance of credit markets over last weeks. The ECB announced in June 2019 that it intends to further stimulate the economy and drive inflation closer to its target of 2%. ECB President Mario Draghi specifically mentioned a fresh expansion of the bank's €2.6tn quantitative easing programme coupled with rate cuts and the markets expect a continuation of the ECB's current policy despite Draghi's departure in October 2019. At the same time, the Fed cancelled its balance-sheet reduction programme and the markets price in a 25bp rate cut on the next meeting (31 July 2019) with 100% probability and assign a 92% chance of a further 25bp cut until the end of the year.

As the prospects of further rate hikes evaporated, investors started moving their capital into fixed-rate assets. According to Lipper, the week ending 3 July 2019 was the 33rd consecutive week with net outflow from US leveraged loan funds (US$18.3bn ytd), which was partially directed into fixed-rate high yield bonds posting a net inflow of US$12.8bn in the period. The high-yield credit spreads increased rapidly in Q418 reaching local peaks at 535bp in the US and 523bp in Europe, but have been narrowing ever since. Currently the spreads stand at around 402bp in the US, and 355bp in Europe. As a result, they are considerably below the 2016 peaks (over 800bp in US and over 600bp in Europe) and far from the 2008 credit crunch levels of over 2,000bp.

Exhibit 3: BofAML US high-yield credit spread

Source: Refinitiv

Exhibit 4: BofAML Euro high-yield credit spread

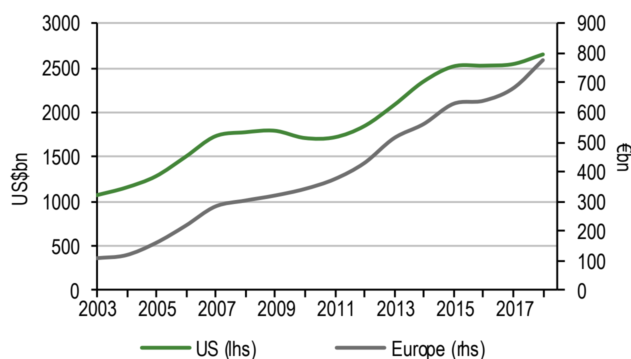
Source: Refinitiv

The current 'cheap money era' (which is likely to persist in the near term) results in a high degree of investible capital in private equity funds, which surpassed US$2tn (compared to c US$1tn in 2007–10), according to McKinsey (February 2019). Moreover, banks provide a steady supply of new leveraged loan investments as they remove loans from their balance sheets to meet the ever-tighter capital requirements. These factors promote growth of active debt markets and funds specialising in

debt investments. Structured finance products are experiencing significant interest as well, with c 60% of total leveraged loans structured into collateralised loan obligations (CLOs) according to S&P.

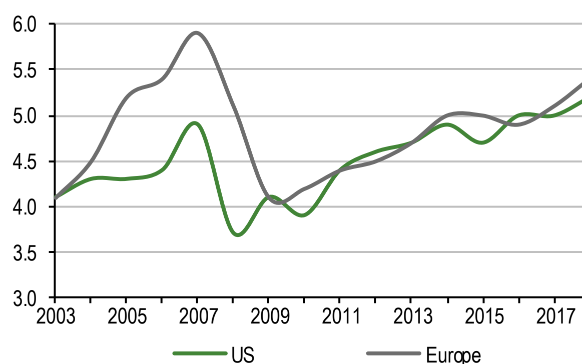
The high debt capital availability at historically low cost translated into the average issuer leverage reaching pre-crisis levels, with total debt to EBITDA at 5.2x in the US and 5.4x in Europe on average in 2018. This, together with the high proportion of covenant-lite loans (as discussed above), may be an indication of deteriorating credit quality. In this environment, prudent issuer selection becomes key. We believe that CVC Credit Partners is well positioned in this respect, given its large team of experienced investment professionals, extensive database of potential investments and in-depth fundamental approach.

Exhibit 5: Leveraged loan and high yield bond market expansion



Source: Credit Suisse Credit Strategy – February 2019 as in CCPEOL's 2019 Prospectus

Exhibit 6: Average total debt/EBITDA



Source: Leveraged Commentary & Data's Quarterly European Leveraged Lending Review; Q418, as in CCPEOL's 2019 Prospectus

During the first half of 2019, around €69bn of sub-investment grade debt was issued in Europe (down 29% y-o-y). The decrease was attributable both to loans (-34%) and bonds (-22%). At the same time, the spread on new issues remained at somewhat higher levels after increasing during H218 (benefiting players such as CEC). Term loan B's new issue spreads in June 2019 were 391bp over Euribor on average, 16bp higher than in the corresponding period of last year.

Current portfolio positioning

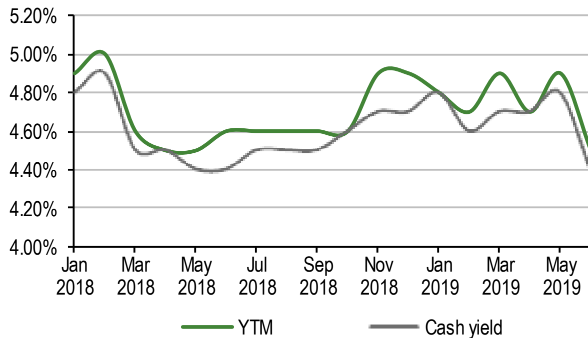
Since the beginning of 2019, sub-investment grade credit markets rebounded significantly after the Q418 sell-off, only to offset part of year-to-date gains during the May shake-off fuelled by political risks concerning trade wars and Brexit. The primary credit market continues to price wider than in 2018 and CCPEOL's investment manager is leveraging this to reallocate the performing credit portfolio at higher coupon rates, exiting positions that were trading close to historical highs (in particular fixed rate high-yield (HY) bonds benefiting from the perceived change in the Fed's and ECB's monetary policies).

As the latest market rebound was not uniform, the price recovery of CCPEOL's credit opportunities pool was weaker than the performing credit portfolio. Simultaneously, the investment manager conducted opportunistic purchasing of credits that had sold off. Consequently, the average price of assets in the credit opportunities portfolio was 86.0% at end-June 2019 compared to an end-September 2018 level of 91.5%, providing scope for par building. This, together with the earlier mentioned purchases on the primary market, translated into an increase in current yield on the whole portfolio to 6.1% at end-June 2019 from 5.8% at end-September 2018.

At end-June 2019, the investment vehicle portfolio split was c 55% in performing credit and 45% in credit opportunities. Please note that performing credit includes cash, which stood at 8.9% of the

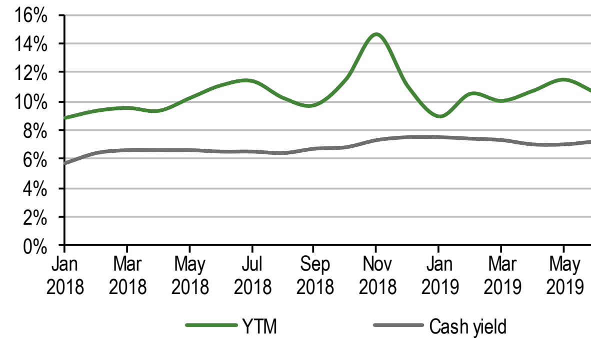
portfolio. The proportion held in performing credit (net of cash) decreased to 46% from 52% in May 2019, returning to the 2018 average. Floating rate assets continue to represent the clear majority with an 85% share of the portfolio at end-June 2019, despite decreasing from 90% on average during 2018. Importantly, the investment manager was recently reducing its short positions, which were set up ahead of the market downturn (6.9% of portfolio in November 2018).

Exhibit 7: Performing credit: YTM and cash yield



Source: CVC Credit Partners European Opportunities, Edison Investment Research

Exhibit 8: Credit opportunities: YTM and cash yield

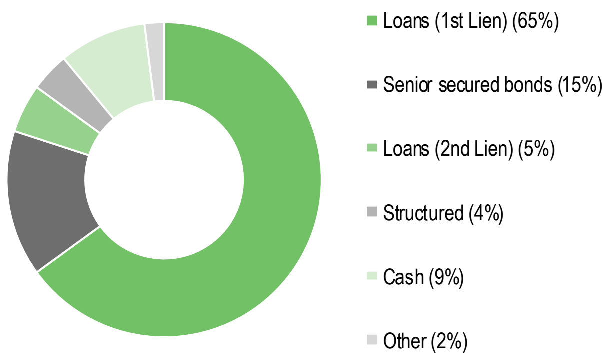


Source: CVC Credit Partners European Opportunities, Edison Investment Research

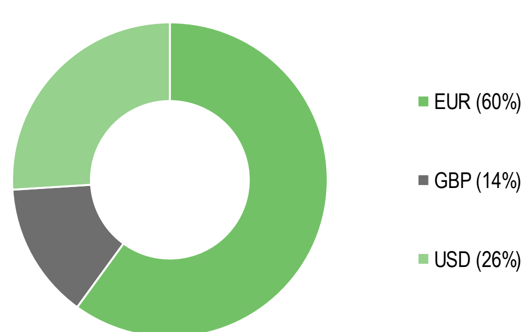
CEC retained its defensive positioning, with 89% of its portfolio at end-June 2019 allocated to senior secured assets (first-lien loans, senior secured bonds and cash) compared to 90% at end-June 2018 (see Exhibit 9, lhs chart). This is partially due to the 5pp y-o-y increase in the cash position to 9% of the portfolio as of end-June 2019. Moreover, CEC euro exposure increased to 60% (by 8pp y-o-y), with the share of dollar assets declining by 7pp. While the investment vehicle primarily focuses on Western European issuers, these companies are typically large and may have borrowings in multiple currencies, which explains the mismatch between US issuers (16%) and US dollar assets (26%).

Exhibit 9: Portfolio analysis

Asset breakdown at 30 June 2019



Currency breakdown at 30 June 2019



Source: CVC Credit Partners European Opportunities, Edison Investment Research

CEC's US weighting fell (-2pp) over the 12 months to end-June 2019 despite the fact that it reduced its minimum permitted weighting in Western European securities in June 2018 (from 70% to 60%) (Exhibit 10). This is partly as a result of increased swap costs. The biggest fall was in exposure to France (-5pp), partly as a result of the takeover of the largest issuer in the portfolio, French water management company Saur (5.2% of gross assets at end-October 2018) by the private equity firm EQT, as well as a downward value adjustment of another French asset after the issuer sought protection from creditors. Exposure to Germany increased by 10pp to 14% of the portfolio. Importantly, the investment manager avoids meaningful exposure to export-oriented German companies, which face macroeconomic headwinds at present.

Exhibit 10: Portfolio geographic exposure by country of issuer (% unless stated)

	Portfolio end-June 2019	Portfolio end-June 2018	Change (pp)
UK	20.0	22.0	(2.0)
France	17.0	22.0	(5.0)
US	16.0	18.0	(2.0)
Germany	14.0	4.0	10.0
Netherlands	14.0	9.0	5.0
Spain	7.0	9.0	(2.0)
Finland	4.0	N/S	N/A
Luxembourg	N/S	8.0	N/A
UAE	N/S	3.0	N/A
Other	8.0	5.0	N/A
Total	**100.0**	**100.0**	

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

In terms of sector exposure (Exhibit 11), retail stores kept their leading position in the portfolio over the year with 13%. Importantly, as the company explains, holdings in the area are more weighted towards retail services (such as marketing), and there is limited exposure to high-street shops or casual dining. The largest holding in this sector is Kirk Beauty (2.2% of GAV, one of the top five issuers), a vehicle created by CVC Capital in 2015 to take over Douglas – Europe's leading specialist retailer of beauty and personal care products headquartered in Germany. Healthcare & pharmaceuticals also makes up for 13% of the portfolio. Investments in this area increased steadily over the last 12 months (by 8pp y-o-y in total), and currently Concordia is the largest portfolio component at 2.7% of GAV. Concordia is a subsidiary of Advanz Pharma – a global manufacturer of specialty generic and legacy branded drugs, with revenues of US$537m in 2018. Overall, the industry exposure is broad, illustrating the diversified nature of the CEC portfolio.

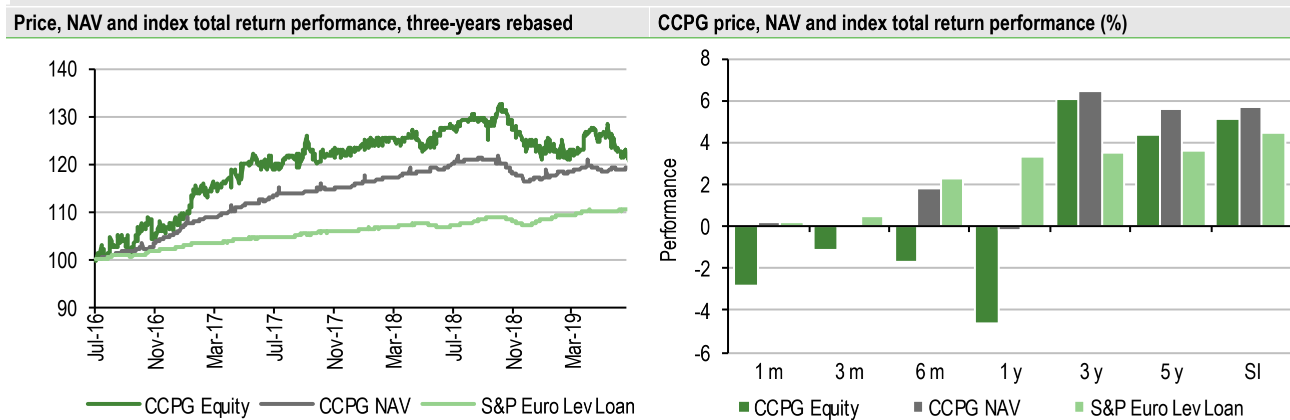
Exhibit 11: Portfolio industry exposure (% unless stated)

	Portfolio end-June 2019	Portfolio end-June 2018	Change (pp)
Retail store	13.0	14.0	(1.0)
Healthcare & pharmaceuticals	13.0	5.0	8.0
Broadcasting & entertainment	8.0	8.0	0.0
Chemicals, plastics & rubber	7.0	6.0	1.0
Diversified/conglomerate service	7.0	9.0	(2.0)
Electronics	5.0	7.0	(2.0)
Health, education & childcare	5.0	N/S	N/A
Insurance	4.0	N/S	N/A
Diversified/conglomerate mfrg	3.0	N/S	N/A
Utilities	3.0	N/S	N/A
Ecological	N/S	6.0	N/A
Hotels, gaming & leisure	N/S	6.0	N/A
Finance	N/S	5.0	N/A
Business services	N/S	3.0	N/A
Metals and mining	N/S	3.0	N/A
Buildings & real estate	N/S	3.0	N/A
Other	32.0	25.0	N/A
Total	**100.0**	**100.0**	

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

Performance: LT positive alpha despite ST slowdown

Exhibit 12: Investment company performance to 19 July 2019



Source: Refinitiv, Edison Investment Research. Note: Three- and five-year and since inception (SI, 25 June 2013) performance figures annualised.

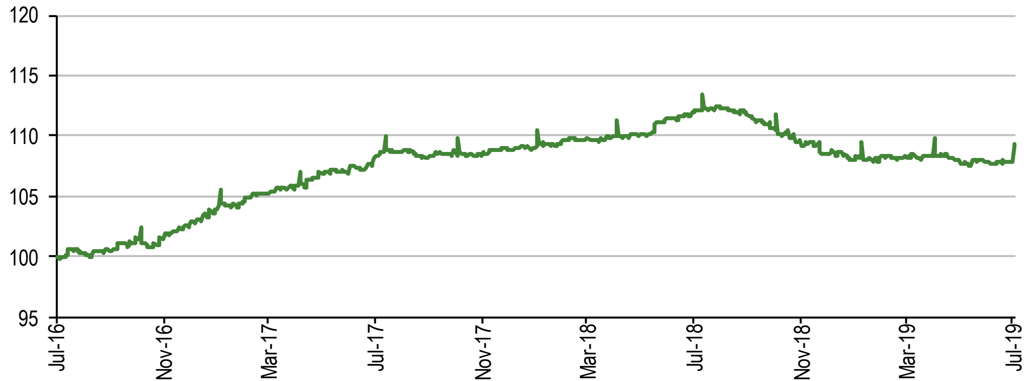
Exhibit 13: CCPG share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI*
Price relative to S&P Euro Lev Loan	(3.0)	(1.6)	(4.0)	(7.9)	8.5	4.0	5.1
NAV relative to S&P Euro Lev Loan	0.0	(0.4)	(0.5)	(3.5)	9.6	11.7	9.2
Price relative to Credit Suisse Lev Loan	(3.1)	(1.7)	(4.0)	(7.4)	8.5	5.8	10.1
NAV relative to Credit Suisse Lev Loan	(0.1)	(0.5)	(0.5)	(3.0)	9.5	13.5	14.2
Price relative to CS Western European HY	(3.6)	(2.0)	(7.5)	(8.6)	4.6	1.9	(2.8)
NAV relative to CS Western European HY	(0.6)	(0.8)	(4.0)	(4.2)	5.7	9.6	1.4

Source: Refinitiv, Edison Investment Research. Note: Data to 19 July 2019. Geometric calculation. *SI=since inception. Inception date is 25 June 2013.

A sell-off across a wide range of assets – including both leveraged loans and high-yield bonds – in late 2018 meant CEC failed to achieve its target gross (pre-fees) annual return of 8–12% in FY18, ending the year at 1.2% gross return. After accounting for the ongoing charges (including management fee) at CEC's and CCPEOL's levels, this translated into an NAV net total return at 1.0% for CCPG shares (0.1% for CCPE shares). Since then, CCPG's share price performance has been below its NAV development, resulting in a discount of 4.2% as at 2 August 2019 (historically, CCPG shares traded broadly in line with NAV). Nevertheless, the longer-term track record remains broadly intact, with gross returns from the investment vehicle of c 11% in both FY17 and FY16 translating into three-year and five-year gross returns (at CEC level as at end-2018) of c 8% and 7%, respectively. For CCPEOL investors, this represents an NAV total return for CCPG shares of 6.7% and 5.7%, respectively (5.8% and 4.8% for CCPE shares, respectively). The subsequent rebound in credit markets in early 2019 was partially offset by weaker sentiment in May and resulted in year-to-date NAV total return (until 19 July 2019) for CCPG and CCPE shares of 2.4% and 1.8%, respectively.

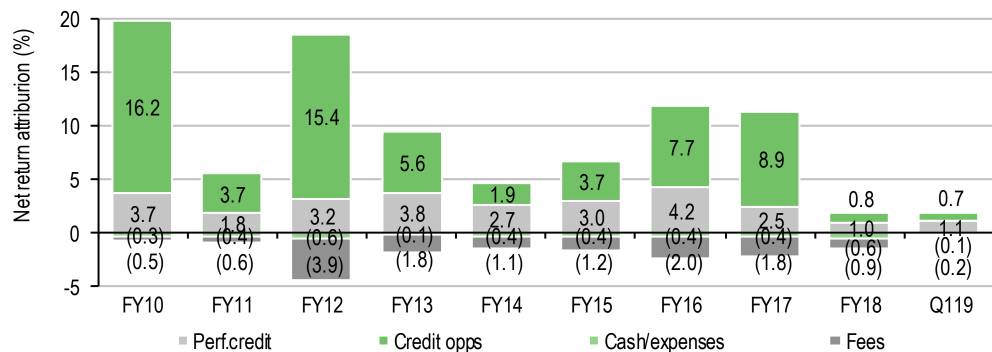
Exhibit 14: CCPG NAV TR performance relative to S&P Euro Leveraged Loan Index over three years



Source: Refinitiv, Edison Investment Research

As shown in Exhibits 13 and 14, NAV performance has been in line with the S&P Euro Leveraged Loan Index year to date after the underperformance during the Q418 sell-off. The latter is partly attributable to a general decline in loan prices towards the end of 2018, which had a greater impact on the more challenged credits in CCPEOL's credit opportunities portfolio. In addition, a stock-specific issue in October, when a French holding in the portfolio sought protection from its creditors, caused a large part of the fund's NAV underperformance during the month. Looking at the bigger picture however, CCPEOL outperformed the indices over the periods of three and five years. It is important to note that, as CCPEOL's portfolio contains both loans and bonds (and is sourced from both Europe and the US), none of the indices presented in Exhibit 13 is a perfect comparator.

Exhibit 15: Historical net return attribution (investment vehicle)



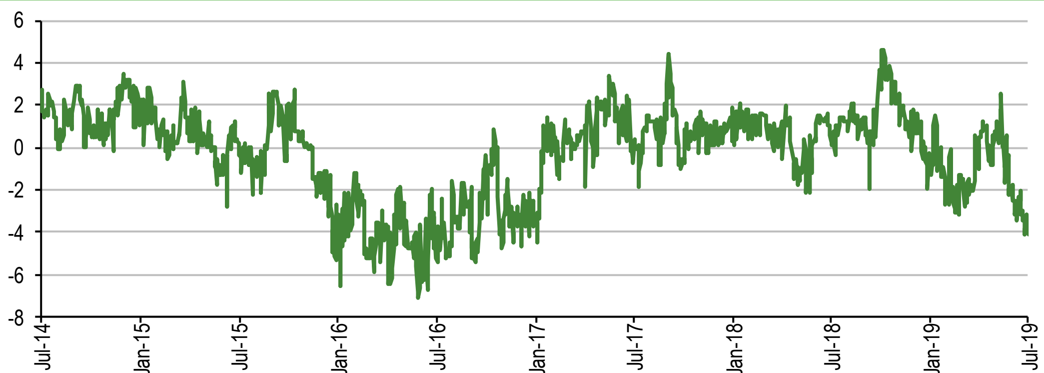
Source: CVC Credit Partners, Edison Investment Research. Note: Data from first full year of operation. Q119 to 31 March.

Exhibit 15 shows the historical breakdown of net returns for the investment vehicle since its first full year of operation in 2010. The credit opportunities portfolio – where a significant proportion of returns may come from capital appreciation – has provided the majority of the investment returns in most of the full years shown. Returns from the performing credit portfolio tend to come mainly from income and are much less volatile. Due to the Q418 sell-off, CEC posted the lowest annual return since its inception at 1.2% gross and 0.3% net return. The results of Q119 exhibit a more normalised NAV attribution. Since CCPEOL's inception in June 2013, positive NAV total returns in both sterling and euro terms have been achieved over each full year, with 78.9% of monthly returns being positive, and a maximum monthly loss of 1.8% (for CCPE in November 2018).

Discount: Trading close to par on average since launch

CCPEOL's conversion facilities minimise the NAV discount/premium fluctuations. On average since inception CCPG shares traded at par to cum-income NAV. Following the Q418 downturn, the discount widened beyond 2% in March and April 2019 and now stands at 4.2%. This is the widest discount since the volatile market conditions of 2016, when CCPG shares reached an all-time widest discount of 7.1% following the UK's vote to leave the European Union. Similarly, CCPE's NAV discount has widened to 3.9% currently compared to an average premium of 0.5% since inception. Interestingly, CCPG shares reached an all-time high premium to NAV of 4.6% in November 2018, ie just before December's broad market sell-off.

Exhibit 16: 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 planned to wind up in 2031 (subject to extension on investment manager decision). CCPEOL's board would be required to propose a continuation vote if the average discount to NAV exceeded 10% over any rolling 12-month period (the actual discount to cum-income NAV has so far never exceeded c 7%) or if net assets fell below €75m (currently c €487.0m).

As at 30 June 2019 CCPEOL issued capital consisted of 359.2m CCPG and 128.2m CCPE shares. CCPE shares carry one voting right compared with 1.17 for each CCPG share, reflecting the approximate euro/sterling exchange rate at launch. CCPG shares are hedged back to euros to eliminate exchange rate volatility. 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.

The fund may sell shares out of treasury on an ad hoc basis in order to meet demand and limit the premium to NAV. Since the beginning of 2019, CCPEOL has sold 3.6m CCPG and 2.1m CCPE treasury shares, raising gross proceeds of £3.9m and €2.1m. As a result, CCPEOL reduced the number of treasury shares held to 21.0m CCPG and 4.7m CCPE as at 30 June 2019. In June 2019 CCPEOL also placed 21.9m new sterling shares on the market to address investor demand. The placing price represented a 1% premium to the end-May closing price and allowed the company to raise £23.7m of additional capital. Investors have the opportunity to exit up to 24.99% (subject to an annual limit of 50%) of their holding at NAV in a quarterly tender facility. This is designed to match the quarterly liquidity profile of the investment vehicle (CEC). In the tenders conducted in March and June 2019, 10.3m CCPG and 1.6m CCPE shares were tendered and accepted for purchase. Investors must have held their shares for six months before they can be tendered, which removes

the risk of the tender facility being abused by discount arbitrageurs. Investors have the opportunity each month to switch between the two share classes. Since the beginning of 2019 holders of 258k euro shares converted to sterling shares at an average ratio of 1:0.827, while 681k sterling shares were converted to euros at an average ratio of 1:1.208.

CCPEOL is a self-managed fund delegating the investment management to CVC Credit Partners (CVC), which is also the manager of the investment vehicle. CCPEOL calculates its ongoing charge at 1.07% pa based on the FY18 accounts (FY17: 1.19%), which includes its operating expenses and an annual management fee of 1.0% pa, charged at the investment vehicle level. The operating expenses of CEC 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 the investment vehicle level should total annual returns exceed 5%.

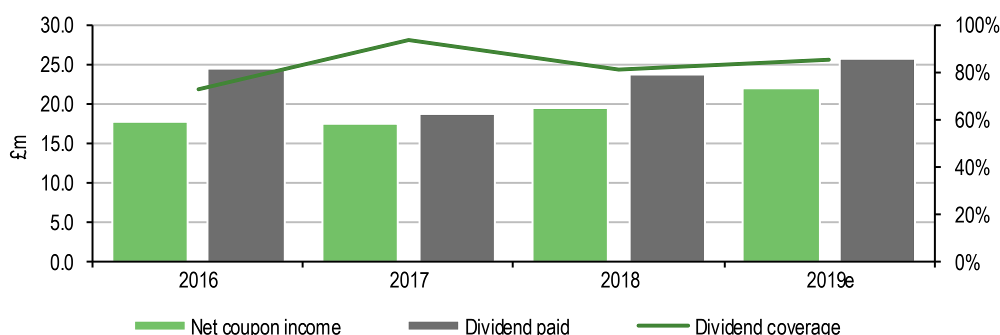
There is no gearing at the CCPEOL level, but the investment vehicle may gear up to 100% of net assets. At end-FY18, the latter had borrowings of €174.4m, equivalent to c 22.3% of NAV (FY17: 24.5%).

Dividend policy and record

CCPEOL targets an annual dividend of 5.5p per CCPG share and €0.055 per CCPE share, which currently translates into dividend yields of 5.3% and 5.6%, respectively. Dividends are paid quarterly, in May, August, November and February at 1.375p/ €0.01375 per CCPG/CCPE share. Since Q417, CCPEOL has offered investors a scrip dividend (the facility to receive additional shares rather than a cash dividend payment). The reference price for each quarterly scrip dividend is based on the average NAV in the first five days of May, August, November and February. For the most recent scrip dividends (issued in June), the reference price translated into an entitlement to one new CCPG share for each 79 shares held, or one new CCPE share for each 77 shares held.

We have decided to examine what part of CCPEOL's dividend payments is covered exclusively by its coupon income, ie excluding any capital gains from active trading and pull to par effect. We have started with calculating CCPEOL's share of CEC's coupon income based on its reported current yield and net asset value in sterling terms. We have then deducted all operating expenses at CCPEOL's level, as well as our estimated proportion of CEC's ongoing charges attributable to CCPEOL. We have also subtracted the management fee at 1.0% of NAV. We have excluded the performance fee from our calculations, as based on the applied high-water mark and hurdle rate (in line with the targeted coupon income), we believe it is largely charged on capital gains from the credit opportunities portfolio rather than coupon income. Consequently, we arrive at a coverage ratio of over 80% for the last three years (ie 2016-18), suggesting that CCPEOL was able to cover most of its dividend payment with its coupon inflows. As of end-June 2019, the current coupon yield at portfolio level stands at 6.1%, which we believe should largely cover the expected dividend payments for 2019. Please note that CCPEOL's reported current yield does not include income from its CLO equity tranches (received on a quarterly basis). We understand that these currently represent up to 2% of the portfolio and normally offer a yield at around 10–15%.

Exhibit 17: CCPEOL's estimated dividend coverage



Source: CVC Credit Partners European Opportunities, Edison Investment Research

Peer group comparison

CCPEOL is a member of the Association of Investment Companies' Sector Specialist: Debt, and the subgroup Debt – Loans and Bonds, which contains 11 debt funds. The subgroup excludes various investing mandates present in the broader sector, such as structured finance, direct lending and property debt. In Exhibit 18 we show an even smaller group of peers that broadly focus on leveraged loans and other opportunities arising from bank deleveraging. Over the period of one year both CCPEOL's share classes performed the weakest in the peer group, and below average for the AIC subgroup. In the longer term however, CCPEOL performed ahead of its peers on a three-year and five-year basis. CCPEOL performed somewhat below the broader AIC subgroup over the last three years, but broadly in line over a five-year period in the case of sterling shares. Ongoing charges are below average for the selected peer group and there is no performance fee at the CCPEOL level. As explained in the Capital structure and fees section, the company's ongoing charge does not account for operating expenses incurred at the investment vehicle's (CEC's) level and there is also a performance fee that may be charged at the CEC level. Both share classes trade at a narrower discount than peers and the sector average. In common with the rest of the peer group, the listed fund does not use gearing, although leverage is applied at the CEC level (22.3% of NAV at end-2018), as discussed earlier. CCPEOL's dividend yield is in line with close peers, and above the average for the broader sector.

Exhibit 18: Selected peer group as at 5 August 2019*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Ongoing charge	Perf. fee	Discount/ premium (cum-fair)	Net gearing	Dividend yield
CVC Credit Partners Euro Opps GBP	**370.0**	**(0.1)**	**21.3**	**31.0**	**1.1**	**No**	**(4.2)**	**100**	**5.3**
CVC Credit Partners Euro Opps EUR	**115.7**	**(1.1)**	**18.3**	**26.5**	**1.1**	**No**	**(3.9)**	**100**	**5.6**
Alcentra Eur Floating Rate Inc	122.0	4.0	14.5	22.9	1.2	No	(4.5)	100	4.6
Axiom European Financial Debt Fund	79.5	9.4	30.6		1.5	Yes	(11.4)	100	6.9
NB Global Floating Rate Income	495.6	6.2	15.1	18.4	1.3	No	(7.5)	100	5.1
Peer group average (3 funds)	**232.3**	**6.5**	**20.1**	**20.6**	**1.3**		**(7.8)**	**100**	**5.6**
Subgroup average (11 funds)	**159.3**	**1.7**	**23.5**	**28.4**	**2.1**		**(7.5)**	**100**	**4.5**
CCPG rank in peer group	**2**	**4**	**2**	**1**	**4**		**2**	**1**	**3**
CCPE rank in peer group	**4**	**5**	**3**	**2**	**4**		**1**	**1**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 28 June 2019. 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

CCPEOL's board was broadened to four directors on 21 February 2019 by appointing Stephanie Carbonneil. She currently serves as managing director and head of investment trusts at Allianz

Global Investors and has nearly 20 years of experience. The other three directors have all been in place since the listed fund's launch in 2013. The chairman, Richard Boléat, qualified as a chartered account and has spent his career in financial services. Mark Tucker is a former hedge fund and derivatives broker/dealer, and is a chartered fellow of the Chartered Institute for Securities and Investment (CISI). David Wood was a founding partner of CVC Cordatus (a predecessor to CVC Credit Partners), and also worked as co-head of leveraged finance at Deutsche Bank. All four directors are non-executive and deemed independent of the manager.

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