EDISON

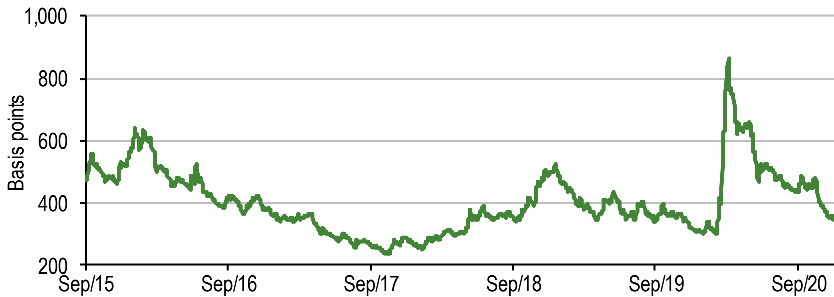
CVC Credit Partners European Opps

Remaining positive on the market

Investment trusts

CVC Credit Partners European Opportunities (CCPEOL) has achieved a total NAV return of 1.9% (target 8% annual return) in the last 12 months. Its index outperformance was helped by sector rotation early in the COVID-19 crisis and by staying positive on the market. The manager sees the greatest opportunity in the upper CCC and lower B segments and in structured finance. CCPEOL remains optimistic in the credit opportunities segment, despite the market recovery. It expects 2021 will bring more leveraged loan issuance from broader industrial segments, thus providing greater investment prospects. Portfolio resilience led CCPEOL to raise its annual dividend from 4p/4c per share to 4.5p/4.5c in September 2020.

ICE BofA Euro High Yield Index – crash and recovery



Source: Refinitiv

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 credit opportunities because of market dislocation. The manager knows the segment well, can leverage its restructuring expertise there and believes it can deliver returns above the 8% plus target in the next 12–18 months.

Why consider investing in CCPEOL?

- Investment manager has 15 years' experience.
- Debt specialist with relatively unconstrained mandate, so can 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 above 5%

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 now trades at c 5–6%. The recent dividend increases due to resilient portfolio performance result in a yield of 5.1–5.4%.

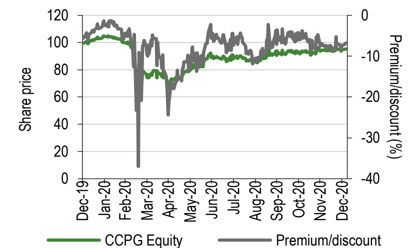
14 January 2021

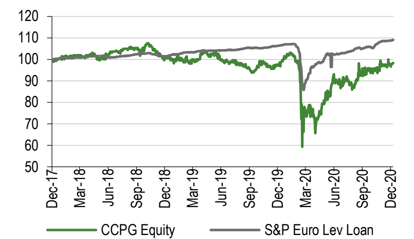
Price	**95.8p/€0.91**
Market cap	**£186.7m/€113.5m**
AUM	**£196.6m/€118.1m**
NAV*	102.3p
Discount to NAV	6.4%
NAV**	0.96c
Discount to NAV	5.2%

*CCPG. **CCPE. Excluding income. At 13 Jan 2021. €1.10/£

Yield*	5.1%/5.4%
Ordinary shares in issue	194.8m/124.8m
Code	CCPG/CCPE
Primary exchange	LSE
AIC sector	Debt – Loans and Bonds

Share price/discount performance





52-week high/low	105.3p/€1.01	60.0p/€0.61
NAV* high/low	107.0p/€1.01	82.2p//€0.78

*Including income.

Gearing

Gross*	0.0%
Net*	0.0%

*At CCPEOL level.

Analyst

Pedro Fonseca +44 (0)20 3077 5700

investmenttrusts@edisongroup.com

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.

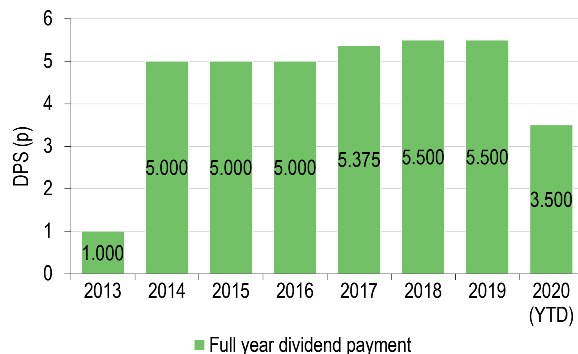
Recent developments

- 22 December 2020: November NAV: +0.3% YTD, +5.1% month (CCPE), -1.3% YTD, 5.1% month (CCPG).
- 20 November 2020: October NAV: -4.5% YTD, 0.1% month (CCPE), -3.6% YTD, 0.2% month (CCPG).
- 03 November 2020: interim dividend declared at 1.125p/€0.01125.
- 27 October 2020: half year report publication: NAV return at -8.45% (CCPE) and -7.95% (CCPG).
- 25 September: target annual dividend increased from 4c to 4.5c (CPPE) and from 4p to 4.5p (CCPG).

Forthcoming		Capital structure		Fund details	
AGM	April 2021	Ongoing charges	1.28% (FY19: 1.19%)	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

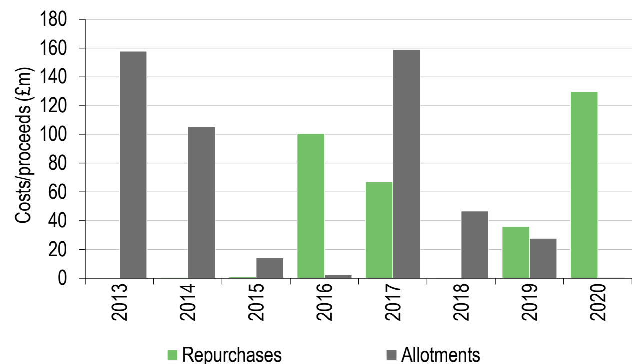
Dividend policy and history (financial years)

In Q220, CCPEOL cut its full-year dividend target to 4p/4c per share citing market turbulence from the COVID-19 pandemic. On 25 September, the dividend was raised from 4p/4c to 4.5p/4.5c. It aims to return to 5.5p/5.5c per share as soon as market conditions allow. Dividends have been paid quarterly since H216, in February, May, August and November.

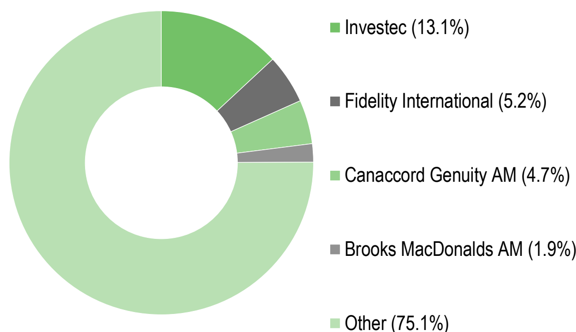


Share buyback policy and history (financial years)

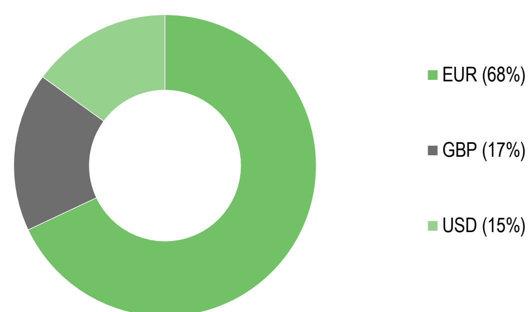
CCPEOL operates a contractual quarterly tender system, a monthly conversion facility between sterling and euro share classes and may issue shares from treasury in response to market demand. The chart below is for sterling shares (CCPG); repurchases include tendered shares and repurchases and allotments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



Shareholder base (CCPG and CCPE) at 31 December 2020



Currency breakdown at 30 November 2020



Top five issuers (at 30 November 2020)

Company	Country	Sector	Portfolio weight %	
			November 2020	November 2019*
Keter Group	Netherlands	Chemicals, plastics and rubber	3.5	N/A
Colouroz	Germany	Chemicals, plastics and rubber	3.1	N/A
Concordia	UK	Healthcare and pharmaceuticals	3.1	2.7
Civica	UK	Electronics	2.9	2.8
D&G	UK	Finance	2.2	N/A
Top five (% of holdings)			**14.8**	**12.5**

Source: CVC Credit Partners European Opportunities, Edison Investment Research, Refinitiv. Note: *N/A where not in end-October 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, CEC 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 senior assets in the capital structure of the issuer: first-lien loans and senior secured bonds (87% of NAV at end-November 2020).

The portfolio is skewed towards floating-rate assets and issuers domiciled (or with 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.

Andrew Davies, CCPEOL's manager since inception, has moved from managing the portfolio to being promoted within CVC Credit Partners to take full charge of the stressed credit/credit opportunities portfolios across the CVC credit platform; in essence, it is a wider responsibility over and above this strategy in isolation. Davies is on the investment committees for credit opportunity strategies within CVC so he is still very relevant to that part of this portfolio, which continues to have a ~50% allocation to credit opportunities.

Pieter Staelens has taken over the role of portfolio manager. He is a managing director of CVC Credit's Performing Credit team based in London and joined CVC in 2018. Before joining CVC, he worked at Janus Henderson Investors in London, where he was involved in various high-yield strategies and a credit long/short strategy.

The fund manager: CVC Credit Partners

CVC Credit Partners is a subsidiary of CVC Capital Partners, a global investment manager with nearly US$109.1bn of assets under management (US$27bn in credit) at 30 September 2020, 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's view that the dislocation caused by COVID-19 has created interesting market opportunities seems to have paid off in the fund's outperformance of sector indices this year. The manager remains positive on the market and says 'opportunities remain abundant, despite the wider rally in credit markets, in both segments of the portfolio'. The performing book is well placed for stable income over the longer term, while credit opportunities remain a fundamental alpha driver in the short to medium term.

An important driver of the market rally in risk assets has been developed market central-bank support in terms of stimulus and liquidity and the CEC's base case is 'the status quo will be maintained in the short to medium term' to avoid 'creating cliff-edge risks for their economies'.

CEC believes issuance in the leveraged loan market will increase in 2021 and provide more investment opportunities for the fund. CEC's view remains that the best opportunities are in lower B- and CCC-rated investments as well as structured investments such as collateralised loan obligations (CLOs). The current existing yields (average yield to maturity (YTM) for portfolio 7.1%, with a 7.0% cash yield) and the scope for further price increases in loan prices (the performing book is still at 97.8, while the credit opportunities at 90.1) encourages CEC to believe the fund can deliver on the 8% plus target return for the next 12 to 18 months.

Market outlook: Positive but impairments a key risk

The high-yield loan market has continued to rally since our last note in September. The approval and rollout of the COVID-19 vaccines has significantly boosted the market. The Brexit deal has reduced uncertainty. The US presidential and congress elections have also been viewed favourably by the market. The ICE BofA European High Yield Index, which was 481bp at the end of October 2020, was 339bp at the end of the first week of January 2021. The corresponding US index fell from 525bp to 378bp in the same period.

Supportive government and central bank actions and rhetoric helped kickstart the market recovery back in April. Looking ahead, we feel these will remain in place as there is still a significant lack of clarity on the effect of ongoing COVID-19 lockdowns and trading restrictions and possible further actions in the future. It will take some time before the vaccine take-up levels are sufficiently high to make lockdowns and trading restrictions unnecessary.

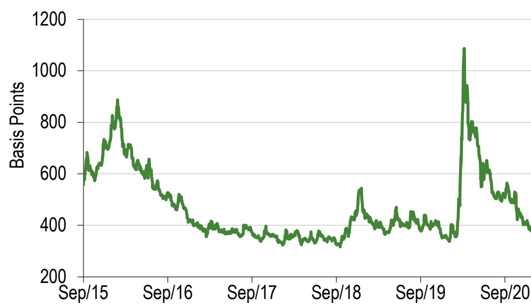
The timeline and progress in ending the support scheme for corporate and household borrowers could also affect markets. Furthermore, traditionally, loan impairments are a lagging phenomenon in the economic cycle and while markets are likely to see through this, actual credit events clearly affect related investments.

We note that US trade and political tensions with several key partners (including China and Europe) remain a concern, although they are now likely more muted and predictable with the new US president. Although the Brexit deal was good news, on balance it is still a negative for the British economy. Trade with the EU is hampered, the UK is exposed to regulatory pressure from the EU and the financial industry (by far the biggest source of positive trade flows with the EU) is among the service industries with little protection from the deal.

Default rates are expected to continue to grow. In its December 3 Global Credit Outlook note, S&P forecast the 12-month high yield ('speculative grade') loans default rate would reach 8.0% by September 2021 in Europe, compared to 4.3% in September 2020.

S&P seems to be on the bearish side of market forecasts. There are other more optimistic views with a relatively wide range of expectations. Fitch Ratings and Moody's are forecasting default rates of 4–6% for European leveraged loans in 2021. However, Credit Suisse is forecasting European leveraged loan impairments will be only 1.1% in 2021 and this is closer to CEC's own view.

Exhibit 2: ICE BofA US High Yield Index



Source: Refinitiv

Exhibit 3: ICE BofA Euro High Yield Index

Source: Refinitiv

The IMF's October 2020 report showed relatively small changes in its forecasts compared to its June update. World GDP growth forecasts are now -4.4% (for 2020) and 5.2% (2021), up from -4.9% and 5.4%, respectively. The forecasts for the euro area (-10.2% for 2020, 6.0% for 2021) and the UK (-10.2% and 6.3%) are also little changed. These forecasts were made before there was improved newsflow on the COVID-19 vaccine.

In its 30 September 2020 Europe Credit Markets Update, S&P Global Ratings highlighted the challenges in the oil and gas segment, but CVC has little exposure to this. S&P believes the automotive, transportation and media and entertainment (mostly leisure and lodging) sectors are the hardest hit from COVID-19 and have the most downgrade potential in ratings. In general, S&P sees 2021 getting worse before it gets better for non-financial corporates.

S&P continues to rate European credit risk levels as 'very high' (the highest category), with the risk trend considered 'improving'. However, it also has maintained its risk trend for companies vulnerable to insolvency as 'worsening' and backs a view that there are still considerable levels of unfavourable credit events ahead.

Issuance should improve in 2021

High-yield (also known as leveraged) loan issuance in Europe remained below average in recent months, although it is rebounded since the trough in March 2020 when only €7bn was raised. Leveraged loan issuance according to Association for Financial Markets in Europe was €29bn in Q320, down 38% from Q319.

This has put some upward pressure on loan prices because the biggest buyers of leveraged loans are CLOs, where demand has remained strong for these loans.

It seems likely that high-yield loan issuance will strengthen in 2021 as the markets start to normalise as the pandemic plays out and there is greater clarity on the economic consequences. This should create more investment opportunities for investors such as CVC without oversaturating the demand. Greater diversity is expected in sectors seeking financing, including those currently out of favour (usually due to greater exposure to the economic cycle and COVID-19 restrictions). In contrast to the high-yield segment, the loan and bonds issuance has remained strong in the investment-grade market and well above 2019 levels.

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 credit opportunities in recent months due to market conditions. This is similar to what happened in 2009, 2020 and 2011 after the financial crisis of 2008/09.

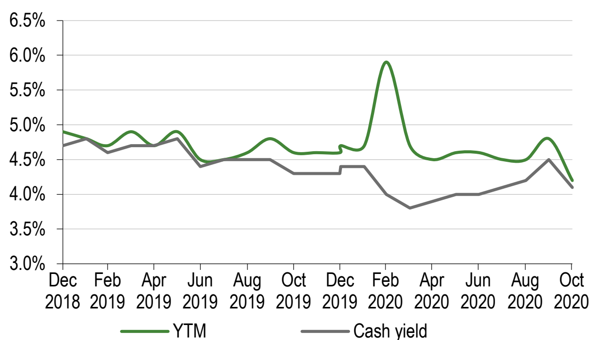
CEC has positioned the portfolio to take advantage of the exceptional investment opportunities created by the market displacement caused by COVID-19. The weighting of the performing credit and credit opportunities folders changed significantly between the beginning of 2020 and May, reversing it from 61–39% to 35–65%, respectively. This split was little changed at 33–66% at the end of November. The cash position fell to record lows in 2020 and was 1.7% at the end of November. As we discuss in the performance section, this repositioning enabled the fund to have a positive performance in 2020 despite the pandemic crisis and the market collapse in March 2020.

Exhibits 3, 4 and 5 show the extreme price volatility that we have seen in both the performing and leveraged loan markets.

At the end of November, the performing credit portfolio average market price was 97.8, still below the level at the beginning of 2020 (99.8). The YTM of the portfolio is 4.2%, with a cash yield of 4.1%. This compares with 4.6% and 4.3% at the beginning of 2020, with greater impairments affecting the total yield.

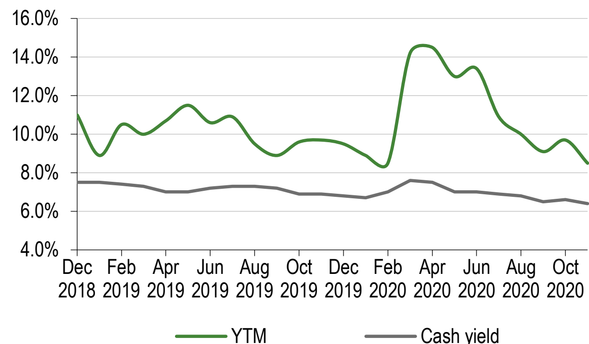
The credit opportunities portfolio's average price is now 90.1 (it troughed at 77.0 at the end of March 2020), with a YTM of 8.5% and a cash yield of 6.4%. At the beginning of the year, these were 9.5% and 6.8%, respectively.

Exhibit 4: YTM and cash yield – performing credit



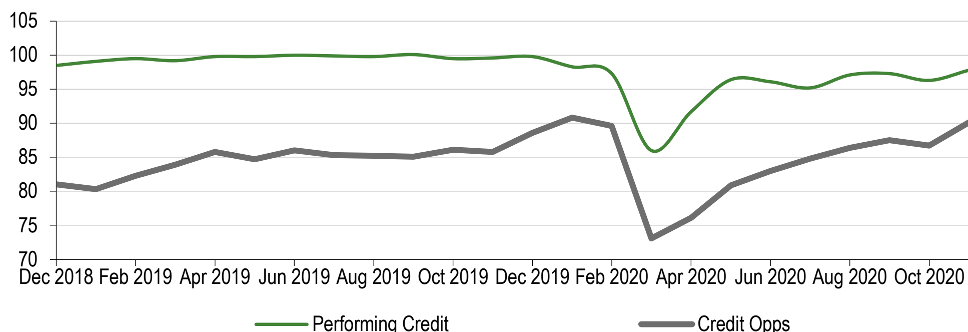
Source: CVC Credit Partners European Opportunities

Exhibit 5: YTM and cash yield – credit opportunities



Source: CVC Credit Partners European Opportunities

Exhibit 6: Average price – performing credit and credit opportunities



Source: CVC Credit Partners European Opportunities

Although CEC has remained positive on the markets in general, in the performing credit portfolio it rotated away from COVID-19-affected sectors and geographies and those at risk of a downgrade to CCC rating. Accordingly, early in the crisis the fund reduced its exposure to sectors such as leisure and entertainment, retail and travel (except for niches that benefited from COVID-19 restrictions) and cut exposure to Italy and Spain. CEC has rotated into defensive sectors such as healthcare,

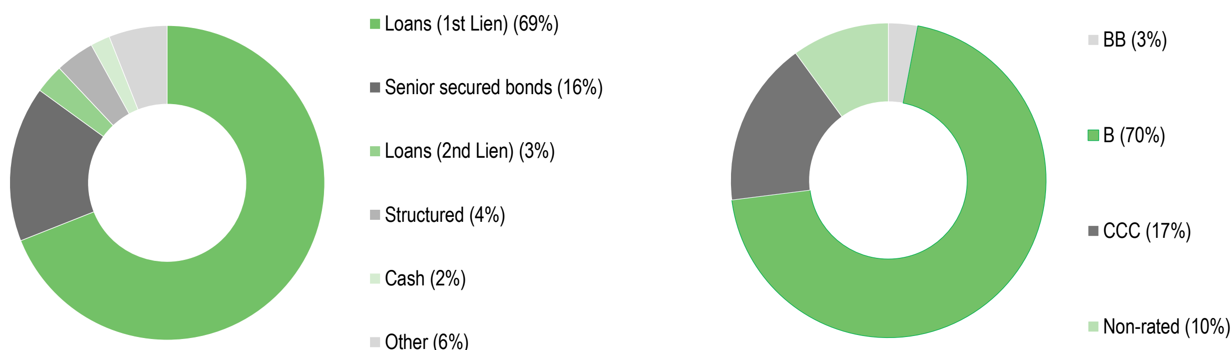
media, telecoms and food retail. It has focused on defensive and stable issuers and maintained this strategy since the crisis.

A reflection of the strategy of seeking opportunities in the market dislocation and where relative value seemed most attractive, the weight of CCC-rated investments rose from 11% at the beginning of 2020 to 17% by end April. The CCC-rated weight has remained in a relatively tight 16–18% range since then.

In contrast, CEC has reduced the weight of non-rated (NR) loans in 2020, which it has seen offering less value for risk than CCC-rated loans. The weight dropped from 14% at the beginning of 2020 to 10% at the end of November. Therefore, if we combined the CCC and NR loans, the weight has moved little since the beginning of the year (from 25% to 27%).

The deployment of its cash position was mostly into mostly first-lien loans in 2020. First liens rose from 61% in April to 70% in May and have stayed at 68–73% since then. Otherwise, the structure has remained broadly the same and is in line with its investment strategy of focusing on senior secured assets (first-lien loans, senior secured bonds and cash). These accounted for 87% of all assets in November, which is the similar to the beginning of 2020 (88%).

Exhibit 7: Portfolio analysis



Source: CVC Credit Partners European Opportunities

Over the last 12 months, the most significant change in country weightings has been the increase in the weight of UK from 23% to 27% and the Netherlands from 14% to 20%, as shown in Exhibit 8.

Exhibit 8: Portfolio – geographic exposure by country of issuer

	End-November 2020	End-November 2019	Change (pp)
UK	27%	23%	4
France	12%	14%	-2
The Netherlands	20%	14%	6
Germany	12%	14%	-2
US	11%	12%	-1
Spain	6%	9%	--3
Finland	3%		
Other	9%	14%	-5
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 3% to 10%) and chemicals (from 7% to 10%). The biggest reduction was diversified/conglomerate service (10% to 3%). CEC shifted away from COVID-19-exposed sectors early in the pandemic. The increase in the hotels sector was mainly due to an investment in European Camping Group, a company that CEC knows well and had benefited 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 the 'other' category fell from 28% a year ago to 19% at end November 2020.

Exhibit 9: Portfolio industry exposure

	Portfolio end-November 2020	Portfolio end-November 2019	Change (pp)
Healthcare & pharmaceuticals	14%	13%	1
Chemicals, plastics & rubber	10%	7%	3
Hotels, gaming & leisure	10%	3%	7
Retail store	8%	10%	-2
Electronics	6%	5%	1
Telecommunications	6%	N/S	
Finance	5%	4%	1
Broadcasting & entertainment	4%	6%	-2
Cargo transport & logistics	4%	N/S	
Diversified/conglomerate mfrg	4%	N/S	
Automobile	4%	N/S	
Diversified/conglomerate service	3%	10%	-7
Insurance	3%	5%	-2
Other	19%	28%	-9

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

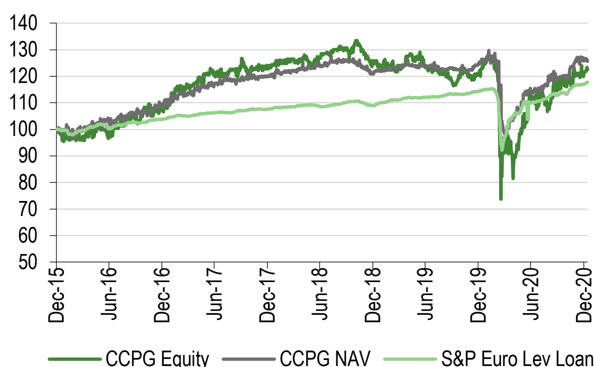
Performance

CCPG shares have delivered a -0.3% market total return in the 12 months to 13 January 2020. There has been much price volatility due to the COVID-19. At one point, the price was down to 60p (19 March). The price is now 95.8p, up 6.1% in the last three months. This was helped by positive newsflow, including a 5.1% increase in NAV in the month of November 2020. CCPG's NAV total return was 1.9% in the last 12 months and this has grown by 13.5% in the last three months to 30 November.

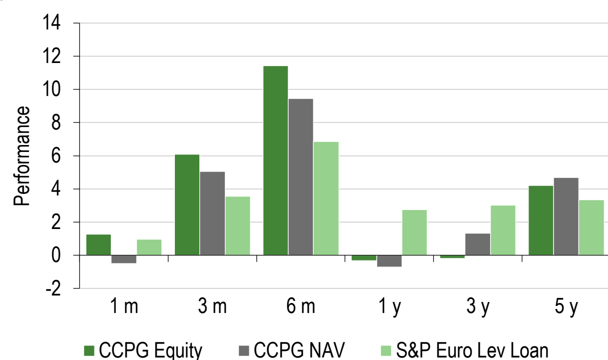
The fund had a gross return of -7.5% in the first six months to H120, with the performing credit book contributing -0.1% and credit opportunities -7.4%. We calculate operating expenses and management fees at the investment vehicle level (CEC) as an annualised 1.28% of average NAV in H120. This reflects the state of the markets at end June, before they recovered further in the second half of the year.

Exhibit 10: Investment company performance to 13 January 2021

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



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



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

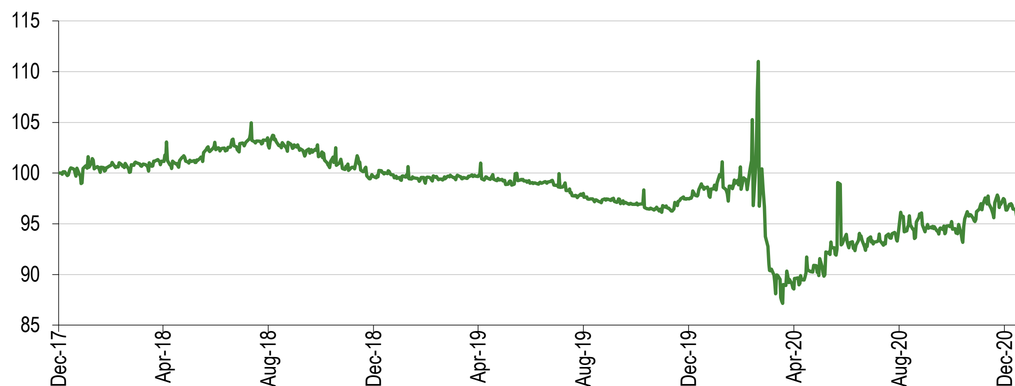
Exhibit 11: CCPG share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI*
Price relative to S&P European Lev Loan	0.3	2.5	4.6	(3.1)	(9.9)	5.0	(1.0)
NAV relative to S&P European Lev Loan	(1.4)	1.5	2.6	(3.4)	(5.3)	7.8	4.1
Price relative to Credit Suisse Lev Loan	1.3	6.1	9.8	1.9	(4.0)	8.8	11.0
NAV relative to Credit Suisse Lev Loan	(0.5)	5.1	7.8	1.5	0.7	11.6	16.1
Price relative to CS Western European HY	1.3	6.1	8.9	2.9	(4.2)	0.7	(2.3)
NAV relative to CS Western European HY	(0.5)	5.1	6.9	2.5	0.5	3.6	2.8

Source: Refinitiv, Edison Investment Research. Note: Data to 13 January 2021. Geometric calculation. SI, since inception. Inception date is 25 June 2013.

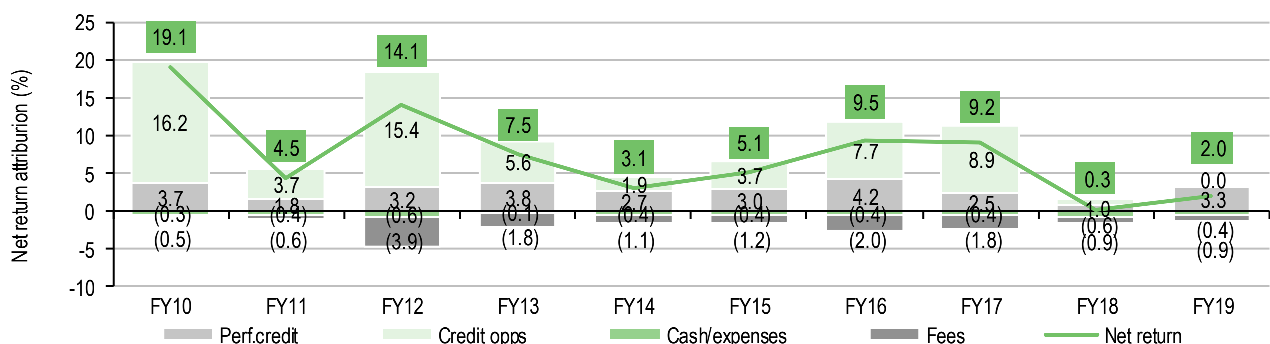
CCPG shares and NAV have generally outperformed the leveraged and high yield indices shown in Exhibits 11 and 12 over the last six months and five years and since the market crash in March and April. The performance has been positively affected by the fund's leverage at the investment vehicle level (explained below) and the heavier weighting towards the CCC- and lower B-rated opportunistic investments as well as structured credit and mezzanine loans as opposed to BB and upper B rated products. CCPEOL adjusted its portfolio in terms of sector exposure because of the pandemic, but stayed positive on the market. As such, by placing greater weights on the credit opportunity portfolio it has been able to outperform the indices during the rebound. 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 11 is a perfect comparator.

Exhibit 12: CCPG NAV total return performance relative to S&P European Leveraged Loan Index over three years



Source: Refinitiv

Exhibit 13: Historical net return attribution (investment vehicle)

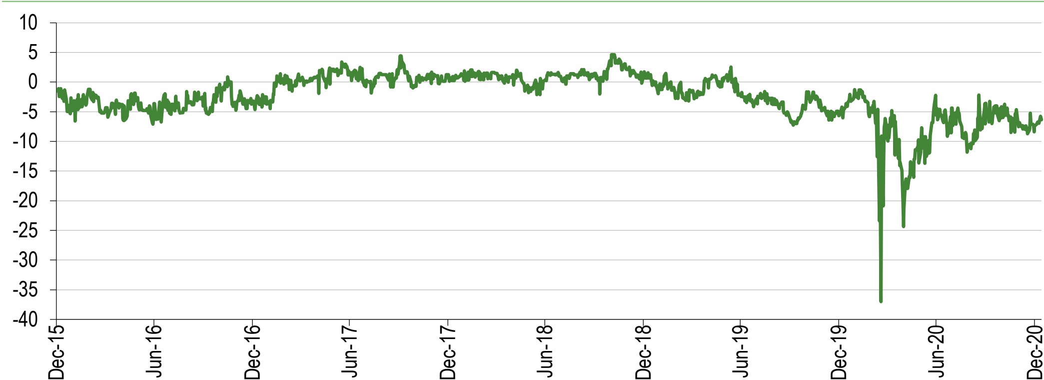


Source: CVC Credit Partners, Edison Investment Research. Note: Data from first full year of operation.

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 more distressed environments (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 38% on 19 March. The discount has declined to a 4–8% range for both classes of shares since 19 June. 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. That said, the investment manager has highlighted the whole strategy (including CCPEOL) saw net inflows year-to-date, despite the overall risk-off mood.

Exhibit 14: 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 fall below €75m (€338.3m at end of November 2020).

CCPEOL has two share classes: sterling shares (CCPG, 194.8m shares in issue at 31 December 2020) and euro shares (CCPE, 124.8m). 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 and purchasing and selling treasury shares. CCPG shares are hedged back to euros to eliminate exchange rate volatility.

CCPEOL is a self-managed fund that delegates investment management to CVC Credit Partners, which also manages the investment vehicle. We calculate the ongoing charges at an annualised 1.28% of average NAV in H120; this was 1.19% in FY19 and FY18. This includes an annual management fee of 1.0% pa, charged at the investment vehicle level. CEC's operating expenses are not accounted for in these ongoing charge calculations and instead are 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 if 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 FY19, the investment vehicle had borrowings of 21.62% of NAV. There is a €175m line

from Bank of America Merrill Lunch at Euribor +170bps (zero floor) with a maturity of June 2022. CCPEOL can repay and redraw up to 30% of this amount. There are various collateral and portfolio tests, but CCPEOL has retained significant borrowing headroom even through the peak of the crisis.

Before the exceptional market turbulence last March, every quarter investors could tender up to 24.99% of 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%. 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%).

Dividend policy and record

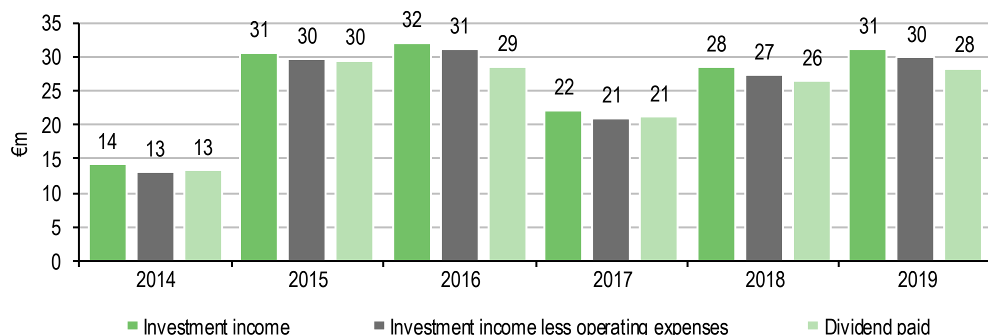
In April 2020, CCPEOL reduced its target annual dividend from 5.5p per CCPG and 5.5c per CCPE share to 4p and 4c, respectively, to reflect market conditions and better align dividend payments with the volatility and timing of cash flow. This was implemented with immediate effect from Q220 (Q120 dividend was 1.375p/1.375c and valid for 12 months). The board stated that the 8% total return target is unchanged and it plans to reinstate the previous 5.5 p/c dividend if and when market conditions justify it.

With market conditions improving and the portfolio remaining resilient, on 25 September CCPEOL announced it was increasing the target dividend from €4c to €4.5c (CPPE) and from 4p to 4.5p (CCPG). On 3 November it paid a 1.125p/1.125c dividend, already reflecting this raise.

We calculate that on average CCPEOL was able to cover more than 80% of its dividend (at the 5.5p/5.5c 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 15: 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 sector peers. Annualised NAV total return since inception (June 2013) stands at a creditable 4.9% given the recent turbulence. The dividend yield is currently above the average of peers in their segment (debt funds investing in loans and bonds) but below its two closest peers. A return to a 5.5p/5.5p dividend per share would raise its yield above one of these two peers, NB Global Floating Rate Income (5.1%).

Although CCPEOL does not charge a performance fee or use leverage (as is shown in Exhibit 16 in the data from Morningstar), they are both applied at the investment vehicle level as discussed earlier in the note.

Exhibit 16: Selected peer group at 13 January 2021*

% 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	**186.7**	**2.8**	**5.8**	**26.6**	**1.2**	**No**	**(6.4)**	**100**	**5.4**
CVC Credit Partners Euro Opps EUR	**113.5**	**3.5**	**3.6**	**26.2**	**1.2**	**No**	**(5.2)**	**100**	**5.1**
Axiom European Financial Debt Fund	82.7	8.3	13.6	34.1	1.4	Yes	(9.8)	91	6.7
NB Global Floating Rate Income	205.2	1.9	10.1	21.9	1.2	No	(13.8)	100	5.1
Subgroup average (2 funds)	**97.3**	**5.1**	**11.9**	**28.0**	**1.2**		**(10.1)**	**97**	**5.8**
Sector average (10 funds)	**105.3**	**(8.6)**	**(9.4)**	**17.1**	**1.9**		**(14.2)**	**99**	**3.8**
CCPG rank in peer group	2	3	3	2	2		3	1	3
CCPE rank in peer group	3	2	4	3	2		1	1	2

Source: Morningstar, Edison Investment Research. Note: *Performance to 30 November 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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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia