EDISON

CVC Credit Partners European Opps

Credit expert with 5% yield and growth potential

Investment companies

CVC Credit Partners European Opportunities (CCPEOL) aims to achieve a blend of capital growth and income (target total returns of 8–12% pa, with c 5pp from income) by investing in high-yielding debt instruments such as senior secured loans and sub-investment grade bonds. The portfolio is biased towards large, liquid issuers (€600m weighted average EBITDA) in Western Europe, although up to 40% may be allocated to non-European markets. The underlying investment vehicle holds a blend of investments in performing credit, where returns come mainly from income, with a credit opportunities portfolio made up of discounted assets that offer higher yields and the potential for capital growth. CCPEOL's performance since launch in 2013 has been solid, although the broad-based sell-off in late 2018 has affected returns more recently. The fund has sterling (CCPG) and euro (CCPE) share classes, which have tended to trade close to NAV, and currently yields just over 5%.

12 months ending	CCPG share price (%)	CCPG NAV (%)	S&P Euro Lev Loan index (%)	CS Lev Loan index (%)	CS Western Euro HY index (%)
31/01/15	1.2	3.3	4.7	1.8	4.7
31/01/16	(2.3)	4.2	3.9	2.4	(0.7)
31/01/17	14.6	12.6	5.1	7.9	11.8
31/01/18	14.5	8.3	3.4	2.9	5.7
31/01/19	(1.5)	0.7	1.7	1.0	(1.6)

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

Investment strategy: Flexible specialist credit vehicle

CCPEOL is managed by CVC Credit Partners, a specialist global asset manager with a large team and a proprietary database covering c 4,000 credits. The fund invests through a Luxembourg-based investment vehicle, CVC European Credit Opportunities (CEC). It has two pools of assets; performing credit consists mainly of senior secured loans from large, liquid European issuers, while credit opportunities offers capital upside from investment in credits that are priced well below par but have recovery potential. The managers allocate flexibly between the two portfolios.

Market outlook: Threats and opportunities

Loan and high-yield bond markets were not immune to investor risk-aversion in the latter half of 2018, leading to capital outflows, price declines and a dramatic slowing of new issuance. Although macro and political worries remain, a likely pause in US rate hikes could provide support for high-yield credit, and the more difficult market conditions could prove favourable for opportunistic investors in distressed assets.

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

Both CCPEOL's classes of share have traded close to NAV on average since the fund was launched in June 2013 (average premiums of 0.1% for CCPG and 0.5% for CCPE), and began 2019 similarly, with CCPG shares at a 1.1% discount and CCPE shares at a 1.4% premium to NAV at 1 February (based on 18 January NAVs). A quarterly tender facility acts to limit any potential discount and shares may be issued on an ad hoc basis to satisfy excess demand. Both classes of share currently yield a little over 5%, with dividends paid quarterly.

5 February 2019

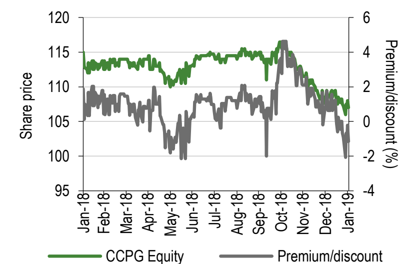
Price	**107.0p €1.06**
Market cap	**£367.5m €133.0m**
AUM	**£369.8m €131.8m**

NAV*	108.2p
Discount to NAV	1.1%
NAV**	€1.05
Premium to NAV	1.4%

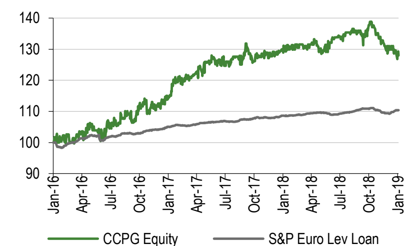
*CCPG. **CCPE. Including income. As at 18 January 2019.

Yield	5.1% 5.2%
Ordinary shares in issue	343.4m 126.0m
Code	CCPG CCPE
Primary exchange	LSE
AIC sector	Sector specialist: Debt

Share price/discount performance



Three-year performance vs index



52-week high/low	116.5p/€1.14	106.0p/€1.05
NAV* high/low	113.9p/€1.10	107.6p/€1.04

*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

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.

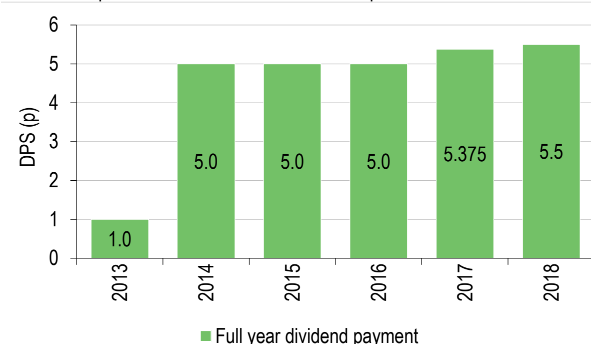
Recent developments

- 29 January 2019: Fourth quarterly dividend of 1.375p/€0.01375 per share declared, to be paid on 22 March 2019.
- 19 December 2018: 189,746 CCPG shares issued as a result of the conversion of 221,038 CCPE shares to the sterling class.
- 14 December 2018: 314,613 CCPE shares and 34,641 CCPG shares issued as scrip dividends in respect of November's quarterly dividend.
- 16 November 2018: Proposal of placing programme approved at EGM.

Forthcoming		Capital structure		Fund details	
AGM	April 2019	Ongoing charges	1.2%	Group	CVC Credit Partners
Annual results	February 2019	Gearing	Not at CCPEOL level	Manager	Team-managed
Year end	31 December	Annual mgmt fee	1.0% at underlying fund level	Address	111 Strand,
Dividend paid	Quarterly (since FY16)	Performance fee	See page 11		London, WC2R 0AG
Launch date	25 June 2013	Company life	Indefinite	Phone	+44 (0) 20 7420 4200
Continuation vote	See page 11	Loan facilities	None at CCPEOL level	Website	www.ccpeol.com

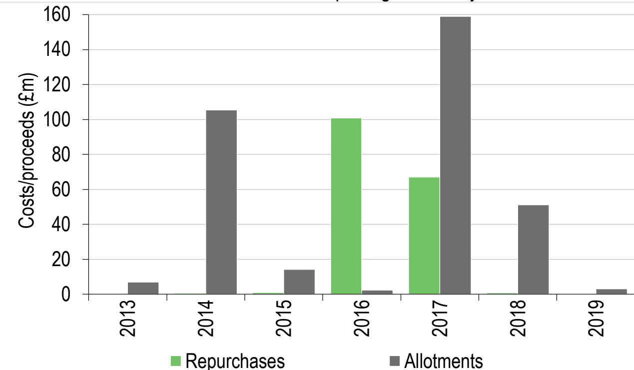
Dividend policy and history (financial years)

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.

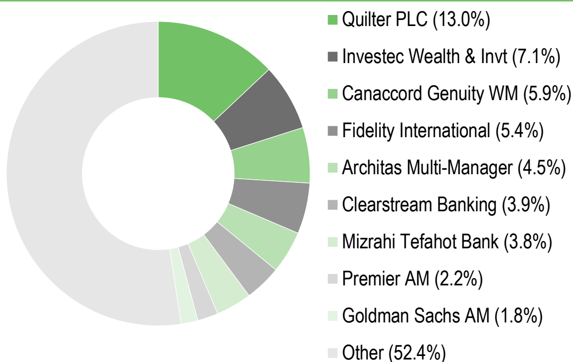


Share buyback policy and history (financial years)

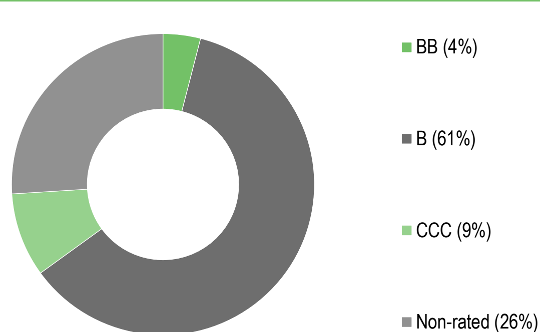
CCPEOL operates a contractual quarterly tender system, a monthly conversion facility between sterling and euro share classes, and may issue shares from treasury in response to market demand. The chart below is for sterling shares (CCPG); repurchases include tendered shares and both repurchases and allotments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



Shareholder base (CCPG and CCPE, as at 31 December 2018)



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



Top five issuers (as at 31 December 2018)

			% of gross asset value	
Company	**Country**	**Sector**	**31 December 2018**	**31 December 2017***
Dubai World	UAE	Diversified/conglomerate service	2.8	2.9
Civica	UK	Electronics	2.7	N/A
Celsa	Spain	Metals & mining	2.6	N/A
Nidda Healthcare	Germany	Healthcare & pharma	2.6	N/A
Ambac	US	Finance	2.2	3.0
Top five			**12.9**	**17.1**

Source: CVC Credit Partners European Opportunities, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-December 2017 top five.

Background to European leveraged credit investing

While many investors will be familiar with government bonds and investment grade corporate bonds, there are many more elements that make up global credit markets, including high-yield bonds and leveraged loans. Leveraged lending broadly describes lending to companies that are deemed sub-investment grade because they already have a high level of borrowings. Historically, much of this lending came from banks, but the market has changed dramatically since the global financial crisis, owing to increased regulatory pressure on banks and the low level of interest rates.

While banks are keen to move loans they have originated off their balance sheets, to avoid fluctuations in value caused by 'mark to market' accounting (see our initiation note for a fuller explanation), institutional investors are attracted by the yields available on such loans, which may be sourced directly from banks, or accessed indirectly via structured investments known as collateralised loan obligations (CLOs). The US has been ahead of Europe in the evolution of these secondary loan markets; on average from 2002 to 2016, only 19% of US leveraged lending was accounted for by banks, compared with 54% in Europe. However, by 2016, CLOs and other institutions made up 71% of European leveraged lending, albeit the corresponding figure for the US was 90%. Banks remain an important source of primary loan funding, although it is not commercially attractive for them to retain leveraged loans on their balance sheets in the long term, and the pace of asset dispositions is likely to increase when borrowers become stressed or distressed. This means there should continue to be opportunities for institutional investors to purchase sub-investment grade debt – both performing and non-performing – from lending banks, as well as originating loans themselves.

Loan investments are typically floating-rate, which makes them more attractive than fixed-coupon bonds in a rising interest rate environment. First-lien senior secured loans (and senior secured bonds) are first in the queue for repayment, meaning they are lower-risk than bond or equity investments in the same company. Second-lien or subordinated debt offers a higher yield, but carries greater risk because, in the event of bankruptcy or default, it would only be repaid if there was money left over after repaying the first-lien creditors.

All debt is issued at a par value (expressed as 100), which is the amount redeemed by the borrower at the end of the loan term, but may be sold at a price above or below par. The debt of financially strong companies may be priced above par, particularly if the yield is high. Debt may be priced below par if the borrower is experiencing stress or if it is in an industry where fundamentals are viewed as unattractive. Falling prices will increase yields and vice versa. Where debt is acquired at a price below par, there is the opportunity for capital gain through revaluation or by holding it to maturity, as well as an income return.

Market outlook: Opportunities among the threats

Investor risk aversion in the last quarter of 2018 resulted in a sell-off across a broad range of asset markets, driven by fears over the sustainability of growth in both the US economy and the country's largest technology stocks, as well as global trade tensions, moderating expansion in China, and political risks related to Brexit and the unconventional government in Italy. High-yield bonds and loans were not immune to this bout of risk-off sentiment, with the S&P European Leveraged Loan index declining by 1.0% in the last three months of 2018, and the Credit Suisse Western European High Yield index falling by 4.1% (total returns in euro terms). However, both indices have staged something of a recovery so far in 2019, with the S&P loans index up 1.0% and the Credit Suisse high-yield index up 2.5% from 31 December 2018 to 31 January 2019.

While European leveraged loan issuance grew in the first six months of 2018 (up 6.0% compared with H117, at €62bn), a dramatic slowdown between July and November (-44.6% compared with

the same period in 2017) saw year-to-date total issuance (30 November) down 19.1%, with high-yield bond issuance down 27.9% compared with the first 11 months of 2017. Merger and acquisition (M&A) activity remains relatively robust (early January 2019 saw the largest-ever deal between pharmaceutical and biotechnology companies, for instance), which could support a recovery in the issuance of loans, which are often used to finance M&A transactions. Meanwhile, with Federal Reserve Chairman Jerome Powell indicating the Fed may take a more measured approach to raising US interest rates in 2019 than had hitherto been expected, fundamentals look better for high-yield bonds, whose (generally) fixed coupons look less attractive on a risk-adjusted basis as risk-free rates rise.

The factors that lay behind the risk aversion of late 2018 have not entirely faded away, and with expectations of moderating economic growth in developed economies in 2019, investor fear may yet win out over greed. However, flexible investors with a selective approach backed up by thorough fundamental research may still find attractive opportunities in leveraged credit markets.

Fund profile: Daily traded fund with senior loans focus

CVC Credit Partners European Opportunities (CCPEOL), launched in June 2013, is a Jersey-domiciled, London-listed closed-end investment company with a focus on opportunities in leveraged credit. It invests through a Luxembourg-based investment vehicle, CVC European Credit Opportunities fund (CEC, or 'the investment vehicle'), which was set up in 2009 by CVC Cordatus, a European credit investment manager (renamed CVC Credit Partners in 2012). CVC Credit Partners is a subsidiary of CVC Capital Partners, a global investment manager with nearly $70bn of assets under management, specialising in private equity and private debt.

CCPEOL invests in CEC via preferred equity certificates (PECs), giving investors access to the vehicle through a listed fund with daily pricing and liquidity. It has two classes of share – sterling (CCPG) and euro (CCPE), with separate quotes on the London Stock Exchange. CEC has an actively managed portfolio, investing in senior secured loans and other assets such as high-yield bonds and structured finance, primarily (a minimum of 60%) from issuers who are domiciled in, or do the majority of their business in, Western Europe. The vehicle has two pools of assets, one invested in performing credit (with asset prices close to their par value) and one focusing on credit opportunities (discounted assets with revaluation potential). Returns come from a mixture of income and capital appreciation. The majority of investments are senior in the capital structure of the issuer and pay floating, rather than fixed rates of income, which can be of benefit in a rising interest rate environment. The investment vehicle targets 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 to come in the form of income, and the rest from capital growth. The portfolio is managed by Andrew Davies and Mark DeNatale, who are respectively head of Europe and global head of special situations at CVC Credit Partners.

CEC offers investors a quarterly realisation opportunity, which is matched by a quarterly tender facility at the CCPEOL level, whereby investors can realise up to 24.99% of their investment (subject to an annual 50% maximum) at a price close to NAV. (As a listed fund, CCPEOL shares may be traded daily, although the price will depend on the availability of buyers and sellers.) The fund has traded close to NAV on average since launch, and may issue shares to meet demand in the market. CCPEOL does not use gearing, although the investment vehicle may gear up to 100%. Currency exposure is hedged back to euros.

The fund manager: CVC Credit Partners

The manager's view: Focus on the fundamentals

Recent developments in credit markets seem to vindicate CVC Credit Partners' expectation that any slowdown would be a fast 'decompression' rather than the start of a prolonged downturn. Data from the US – the biggest market for both bonds and loans – show that leveraged loan and high-yield bond indices had reversed all of December's losses by 10 January, suggesting that recent warnings from high-profile commentators over the risk of a 2008-style meltdown in leveraged loans may have been overdone.

As well as fears over a liquidity mismatch between the underlying loans and the open-ended funds (such as ETFs) through which many US investors own them, some of the negative comment – from current and former central bank committee members in the US and UK, among others – has focused on the strength (or otherwise) of borrower covenants. The manager points out that liquid sub-investment grade credit has always been relatively 'covenant-lite', and that restrictive covenants would be more of an indication of fundamental weakness in the borrower – showing that it had to submit to more onerous terms from lenders – than a comfort.

The economic outlook remains mixed, with the US holding up reasonably well but continued uncertainty in the UK and Europe. Given rising interest rates tend to put pressure on credit markets, there should arguably be better investment opportunities in Europe than in the US, as ECB rate normalisation still seems a relatively distant prospect. However, Davies says the CCPEOL team is still finding attractive investments for the credit opportunities portfolio coming from US issuers.

In terms of risks, the manager says rising US interest rates may cause problems for issuers who face refinancing in 2020–22 on capital structures where borrowing was taken out at very low cost. This is less of a problem in Europe, where central bank rates remain low. The scheduled departure of Mario Draghi as ECB president in October 2019 is a potential banana skin for markets, should his successor indicate any radical changes in policy. However, Davies says CCPEOL's flexible approach, covering both performing credit and credit opportunities, means the fund is well placed to benefit from any exogenous shocks causing downward pressure on loan prices.

Asset allocation

Investment process: Flexible allocation across capital structures

CCPEOL is managed by CVC Credit Partners, a specialist global leveraged finance fund manager, with c $20bn of assets under management (at 30 September 2018) spread across three main areas: performing credit ($15.3bn), credit opportunities and special situations ($3.3bn) and private debt ($1.6bn). The investment vehicle (CEC) and, by extension, CCPEOL focus on the first two of these areas, holding a diversified portfolio of performing leveraged loans, high-yield bonds, structured corporate credit and credit opportunities in both senior and subordinated debt. CVC Credit Partners has more than 250 investment professionals across 14 offices in the US and Europe and maintains a database of more than 4,000 credits from which it selects investment opportunities on the basis of deep, fundamental analysis.

Performing credit comprises mainly senior secured, floating rate credits, from liquid, large-cap issuers (weighted average EBITDA of €600m), at prices ranging from just below to just above par. The portfolio is actively managed, and the managers may move around the capital structure of an issuer (for example, between euro and dollar credits, or between loans and bonds) in order to maximise returns, rather than simply buying a credit and holding it until maturity. Because purchase prices are usually close to par, the majority of returns from performing credit come in the form of income (interest payments or coupons).

The credit opportunities part of the strategy focuses on discounted assets that have the potential to re-rate (resulting in capital appreciation) as a consequence of cyclical recovery, restructuring, refinancing or M&A activity. At 31 December 2018, the average price of assets in the credit opportunities portfolio was 81.0, compared with a par value of 100. Credits in the credit opportunities portfolio may be fixed or floating rate, senior secured or subordinated, and usually offer an income return alongside capital growth potential.

The investment process has four main stages: sourcing, screening, fundamental analysis and monitoring. Many (although by no means all) investments are sourced from banks that have originated loans (for example, for leveraged buyouts) but do not want to carry them on their balance sheets. Sourcing teams on both sides of the Atlantic identify deals through CVC Credit Partners' large proprietary network, as well as through relationships with banks, institutions and borrowers, and the wider CVC Partners group.

Once these opportunities are identified, they go through a screening process, focusing on topics such as management and industry risks, and reviewing borrower information. Analysts present the results of the screening to either the performing credit or the credit opportunities investment committee, which determines if the idea is worthy of further investigation. The next step is detailed fundamental analysis, looking at jurisdiction, industry sector, capital structure and the quality of the business and its management. Analysts build models to assess likely returns and recoverability in the event of default, and stress-test these for a variety of scenarios. The idea then goes back to the relevant investment committee and a decision is made on whether to invest.

After an investment is made, the development of the investment thesis is continually monitored by the analyst, looking at factors such as how recovery is progressing and whether the investment offers value relative to peer companies and those on similar yields. This information is fed through on a daily basis to portfolio managers, who can buy, sell or trade within the capital structure (for example, between euro and dollar credits) in order to enhance returns.

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 collateralised loan obligations (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.

These parameters and the high level of detailed due diligence aim to ensure a conservative style of management, which is also evident in the performing portfolio's bias towards liquid, large-cap issuers. CVC Credit Partners may also take an active role with investee companies, to accelerate or improve the recoverability of credits, or to drive forward restructuring or corporate activity.

Current portfolio positioning

At 31 December 2018, the investment vehicle portfolio split was 64% in performing credit and 36% in credit opportunities. (Performing credit includes cash, which stood at 15% of the portfolio, so the net figure is 49%.) This was close to the highest proportion in performing credit (on either a gross or a net basis) during FY18, and compares with averages of 55.5% (45.2% net) in performing credit and 44.5% in credit opportunities for the full year (FY18). Floating rate assets made up 86.5% of the portfolio at 31 December, compared with an FY18 average of 89.5%, while fixed rate assets, at 12.8%, were higher than the FY18 average of 10.2%. At 31 December 2018, the average price of

assets in the credit opportunities portfolio was 81.0, compared with a par value of 100. This was significantly lower than the FY18 average of 90.4, partly as a result of a decline in loan prices affecting existing holdings, but also because of opportunistic purchasing of credits that had sold off. Short positions, which are used to mitigate anticipated volatility, made up 6.9% of the portfolio at 30 November, compared with 3.2% at the start of the year.

Exhibit 2: Portfolio geographic exposure by country of issuer (% unless stated)

	Portfolio end-December 2018	Portfolio end-December 2017	Change (pp)
UK	23.0	22.0	1.0
US	17.0	23.0	(6.0)
France	12.0	24.0	(12.0)
Germany	12.0	6.0	6.0
Netherlands	11.0	7.0	4.0
Luxembourg	8.0	5.0	3.0
Spain	6.0	6.0	0.0
UAE	3.0	3.0	0.0
Other	8.0	4.0	4.0
	100.0	**100.0**	

Source: CVC Credit Partners European Opportunities, Edison Investment Research

Although it has recently decreased its minimum permitted weighting in Western European securities (from 70% to 60%), CCPEOL's US weighting fell (-6pp) over the 12 months to 31 December 2018 (Exhibit 2), partly as a result of increased swap costs. However, the biggest fall was in exposure to France (-12pp), 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 31 October) by private equity firm EQT, as well as a fall in the value of another French asset after the issuer sought protection from creditors. Exposure to Germany, the Netherlands and Luxembourg increased over the 12 months, while the weightings in the UK, Spain and the United Arab Emirates were largely unchanged.

Exhibit 3: Portfolio industry exposure (% unless stated)

	Portfolio end-December 2018	Portfolio end-December 2017	Change (pp)
Healthcare & pharmaceuticals	12.0	N/S	N/A
Retail store	10.0	11.0	-1.0
Broadcasting & entertainment	9.0	6.0	3.0
Chemicals, plastics & rubber	8.0	5.0	3.0
Diversified/conglomerate service	8.0	11.0	-3.0
Electronics	7.0	10.0	-3.0
Health, education & childcare	6.0	4.0	2.0
Telecommunications	5.0	N/S	N/A
Business services	4.0	5.0	-1.0
Utilities	3.0	N/S	N/A
Cargo transport & logistics	3.0	4.0	-1.0
Metals and mining	3.0	N/S	N/A
Diversified/conglomerate mfrg	3.0	N/S	N/A
Hotels, gaming & leisure	3.0	5.0	-2.0
Other	16.0	23.0	-7.0
	100.0	**100.0**	

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

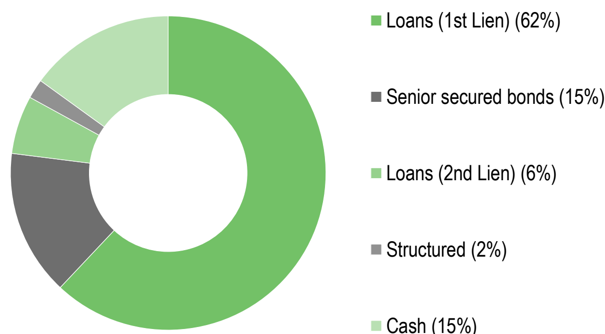
From an industry perspective (Exhibit 3), healthcare & pharmaceuticals is currently the largest exposure, at 12% (31 December 2018) compared with 5% six months earlier. Issuers include Nidda Healthcare (now among the top five issuers), a private equity-owned German company that produces generic and branded drugs. While retail is the second-largest exposure, Davies explains that holdings in this area are more weighted towards retail services (such as marketing), and there is relatively little exposure to high-street shops or casual dining, both areas that are vulnerable to declines in consumer sentiment. The industry exposure is broad, illustrating the diversified nature of the CEC portfolio.

As shown in Exhibit 4 (left-hand chart), the vast majority of holdings are in senior secured assets (first-lien loans, senior secured bonds and cash made up 92% of the portfolio at 31 December 2018). This compares with 84% a year earlier, illustrating a move towards more defensive

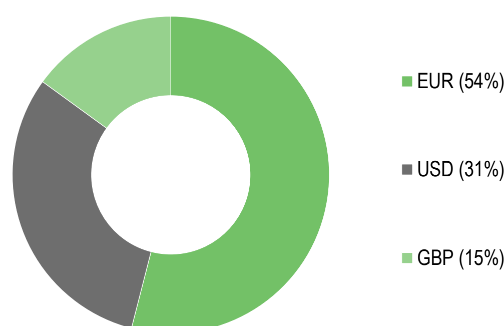
positioning (including a 1pp increase in cash). Currency exposure (right-hand chart) has changed quite dramatically over the past 12 months, with euro holdings up 11pp, US dollar down 9pp (euro and dollar exposures were respectively 43% and 40% of the portfolio at 31 December 2017), and sterling down 2pp. While the investment vehicle primarily focuses on Western European issuers, these companies are typically large (average €600m EBITDA) and may have borrowings in multiple currencies, which explains the mismatch between US issuers (17%) and US dollar assets (31%). Davies says the US exposure has shifted more towards the credit opportunities side of the portfolio in recent months.

Exhibit 4: Portfolio analysis

Asset breakdown at 31 December 2018



Currency breakdown at 31 December 2018

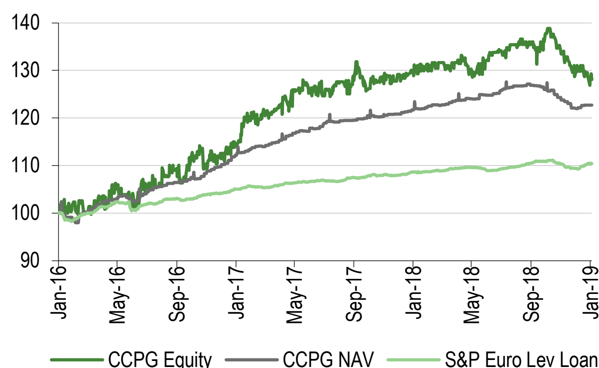


Source: CVC Credit Partners European Opportunities, Edison Investment Research

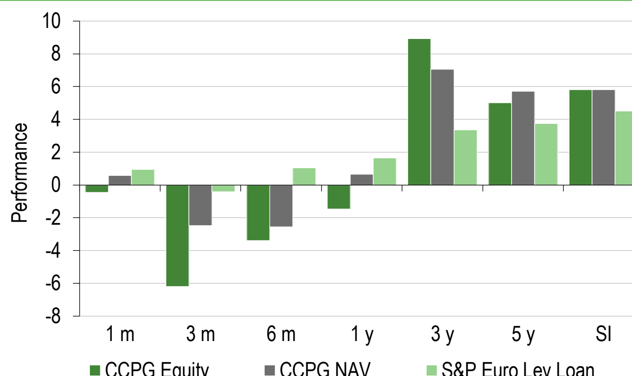
Performance: Solid medium-term record despite sell-off

Exhibit 5: Investment company performance to 31 January 2019

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



Price, NAV and index total return performance (%)



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

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

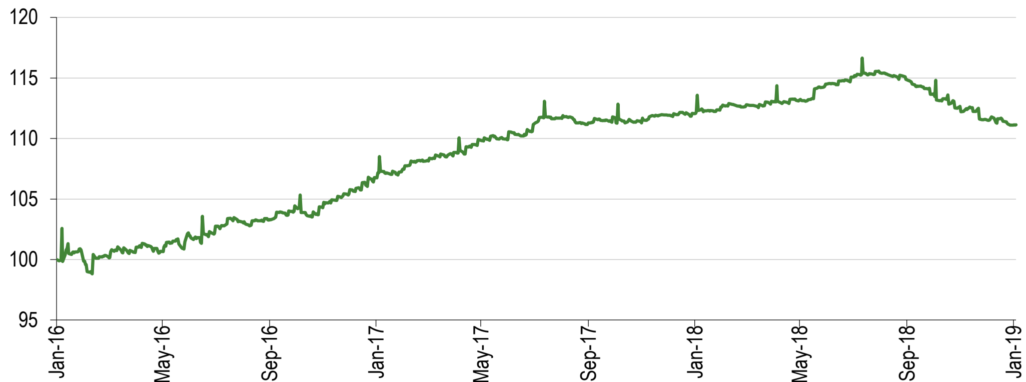
	One month	Three months	Six months	One year	Three years	Five years	SI*
Price relative to S&P Euro Lev Loan	(1.4)	(5.8)	(4.4)	(3.1)	17.0	6.3	7.3
NAV relative to S&P Euro Lev Loan	(0.4)	(2.1)	(3.6)	(1.0)	11.1	9.8	7.2
Price relative to Credit Suisse Lev Loan	(1.6)	(5.4)	(3.7)	(2.5)	15.1	9.2	11.8
NAV relative to Credit Suisse Lev Loan	(0.6)	(1.7)	(2.8)	(0.4)	9.3	12.8	11.8
Price relative to CS Western European HY	(2.9)	(5.9)	(2.0)	0.2	11.2	5.7	4.5
NAV relative to CS Western European HY	(1.9)	(2.2)	(1.1)	2.3	5.5	9.2	4.5

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-January 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 CCPEOL failed to achieve its target gross (pre-fees) annual return of 8–12% in

FY18. However, its longer-term track record remains intact, with gross returns from the investment vehicle of c 11% in both FY17 and FY16 supporting an NAV net total return for the sterling shares of 7.1% pa over three years and 5.8% pa since inception (Exhibit 5). Share price net total returns have been equal or higher (at 8.9% pa over three years and 5.8% pa since inception), as the shares have tended to trade at a premium to NAV. The comparable figures for the euro shares are NAV net total returns of 6.3% pa over three years and 5.1% pa since inception, and share price net total returns of 8.4% pa over three years and 5.2% pa since inception.

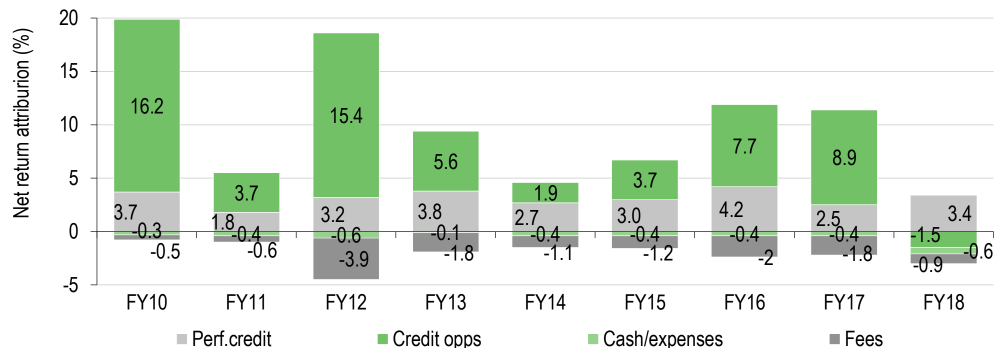
Exhibit 7: NAV TR performance relative to S&P Euro Leveraged Loan index over three years



Source: Thomson Datastream, Edison Investment Research

As shown in Exhibits 6 and 7, relative performance versus loan indices has been slightly negative over one month and one year, and positive over three years and longer, although CCPEOL has underperformed over periods of three and six months. This is partly attributable to a general decline in loan prices towards the end of 2018, which will have had a greater effect on the more challenged credits on which CCPEOL's credit opportunities portfolio focuses. 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 over three and six months. While difficult loan market conditions may put pressure on the value of existing holdings, they also provide an increased pool of potential investments for the credit opportunities portfolio. CCPEOL's performance versus high-yield bonds, which are more sensitive to moves in equity markets, has been positive over all but the most recent periods shown in Exhibit 6. 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 these indices is a perfect comparator.

Exhibit 8: Historical net return attribution (investment vehicle)



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

Exhibit 8 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 all but two of the full years shown. Returns from the performing credit portfolio tend to come mainly

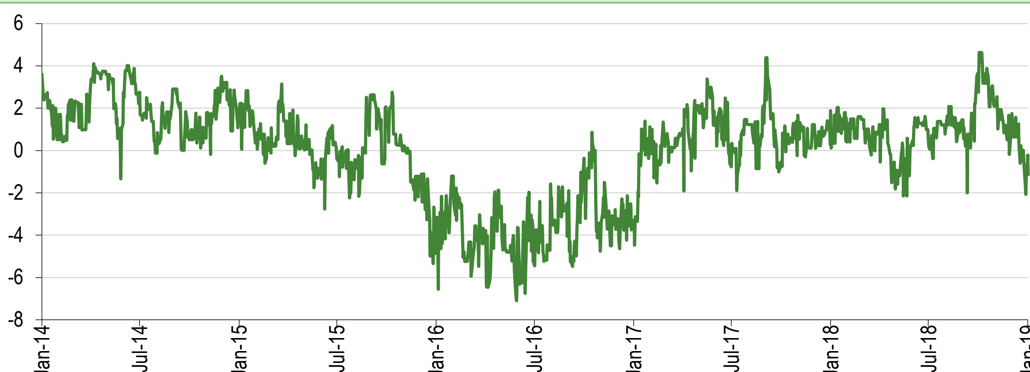
from income. The market sell-off in the last quarter of the 2018, as well as the stock-specific decline in October, meant that in FY18 the credit opportunities portfolio produced a negative annual return for the first time, bringing the investment vehicle net return for the year (after expenses) down to just 0.4%.

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 80.3% 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 shares have traded close to or above NAV for most of the fund's life to date, with the exception of the more 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. At 1 February 2019, CCPE shares stood at a 1.4% premium to the 18 January 2019 cum-income NAV, while CCPE shares were at a 1.1% discount. On average, CCPG shares have traded at a 1.0% premium over one year, a 0.7% discount over three years, at par over five years and at a 0.1% premium since launch in June 2013. CCPE shares have traded on average at a 1.4% premium over one year, at par over three years, and at a 0.5% premium over five years and since launch. CCPG shares reached an all-time high premium to NAV of 4.6% in November 2018, before moving to a slight discount following December's broad market sell-off.

Exhibit 9: CCPG share price premium/discount to NAV (cum-income) over five years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

CCPEOL is a Jersey-domiciled closed-end investment company, listed on the Main Market of the London Stock Exchange. It has two classes of share – sterling (CCPG) and euro (CCPE). At 1 February 2019, there were 343.4m CCPG shares and 126.0m CCPE shares in issue. 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. Investors have the opportunity each month to switch between the two share classes; during 2018, the holders of 1.44m euro shares converted to sterling shares at an average ratio of 1:0.858, while 149,325 sterling shares were converted to euros at an average ratio of 1:1.165. No conversions took place in February, July, August, September and November. There is also a quarterly tender facility allowing investors to exit up to 24.99% (subject to an annual 50% maximum) of their holding at NAV. This is designed to match the quarterly liquidity profile of the investment vehicle (CEC). During 2018, 3.93m CCPE shares were tendered (all of them in the first half of the year), and 169,542 CCPG shares were tendered (most of them in December). 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. The fund may also issue shares out of treasury on an ad hoc basis in order to meet demand and limit the premium to NAV. During 2018, the net effect of all changes in the share base (conversions, tenders, issuance and scrip dividends) was a 2.32% increase in the number of CCPE shares and a 14.99% increase in the number of CCPG shares. A special purpose vehicle was established in FY17 to allow treasury shares to be converted from one currency to another. At end-FY18 there were 5.2m CCPE shares and 18.6m CCPG shares held in treasury.

CCPEOL has an unlimited life. The board would be required to propose a continuation vote if the average discount to NAV exceeded 10% over any rolling 12-month period (in practice the discount to cum-income NAV has never exceeded c 7%), or if net assets fell below €75m (currently c €536.5m).

CCPEOL is a self-managed fund, which delegates investment management to CVC Credit Partners (CVC), also the manager of the investment vehicle. CVC is paid an annual fee of 1.0%, charged at the investment vehicle level but accounted for in CCPEOL's ongoing charges, which we calculate at 1.21% pa based on the H118 accounts. A performance fee (subject to a high watermark) 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 CCPEOL's end-FY17 (the latest available data), the investment vehicle had borrowings of €173.7m, equivalent to 24.5% of NAV (FY16: 28.3%).

Dividend policy and record

CCPEOL currently targets an annual dividend of 5.5p per CCPG share and €0.055 per CCPE share. This revised target has been in place since May 2017 and is an increase from the previous 5p/€0.05. Dividends are paid quarterly (twice a year until end-H116), in May, August, November and February. For FY17, one dividend was paid at the previous rate of 1.25p/€0.0125, and three at 1.375p/ €0.01375, making a total of 5.375p/€0.05375. So far three dividends of 1.375p/€0.01375 have been paid in respect of FY18, with a fourth at the same level to be paid in March 2019. Based on the current share price and the FY18 total dividend of 5.5p/€0.055, CCPG shares have a prospective dividend yield of 5.1% and CCPE shares yield 5.2%. Dividend payments of c €12.7m in H118 were more than covered by c €14.1m of investment income in the period.

Since Q417, CCPEOL has offered investors a scrip dividend (the facility to receive further 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 December, the reference price translated into an entitlement to one new CCPG share for each 85 shares held, or one new CCPE share for each 82 shares held.

Peer group comparison

CCPEOL is a member of the Association of Investment Companies' Sector Specialist: Debt sector. This is a large group of c 30 funds with a range of differing mandates, so below in Exhibit 10 we show a smaller group of peers that broadly focus on leveraged loans and other opportunities arising from bank deleveraging. CCPG (sterling shares) ranks third for NAV total return performance over one year and first over three and five years, while CCPE (euro shares) ranks fourth, third and second, respectively. Both share classes have performed broadly in line with or ahead of the average for the peer group shown below, although they both trail the average for the broader AIC sector (which includes funds focusing on areas such as CLOs and property debt). Ongoing charges

are below average for the selected peer group. There is no performance fee at the CCPEOL level, although one may be paid at the CEC level. In common with the rest of the peer group, the listed fund does not use gearing. Both share classes currently trade close to par, whereas the close peers are all trading at a wider discount. CCPEOL's dividend yield is in line with the average of the close peers, and below the average of the broader sector, where several of the constituents have double-digit yields.

Exhibit 10: Selected peer group as at 1 February 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	**367.5**	**0.2**	**22.0**	**31.1**	**1.2**	**No**	**(1.0)**	**100**	**5.1**
CVC Credit Partners Euro Opps EUR	**116.5**	**(0.6)**	**19.6**	**26.4**	**1.2**	**No**	**0.9**	**100**	**5.2**
Alcentra Eur Floating Rate Inc	136.5	3.7	13.7	22.4	1.2	No	(6.6)	100	4.6
Axiom European Financial Debt Fund	76.9	(6.8)	20.3	--	1.5	Yes	(3.3)	100	6.7
Chenavari Capital Solutions	40.9	3.5	16.6	24.9	1.7	Yes	(13.4)	100	4.2
NB Global Floating Rate Income	629.1	(1.2)	13.1	13.4	1.2	No	(4.5)	100	4.5
Peer group average (6 funds)	**227.9**	**(0.2)**	**17.6**	**23.6**	**1.3**		**(4.7)**	**100**	**5.1**
Whole sector average (31 funds)	**232.1**	**3.2**	**26.8**	**32.2**	**1.8**		**(5.0)**	**100**	**6.7**
CCPG rank in peer group	**2**	**3**	**1**	**1**	**3=**		**2**	**1=**	**3**
CCPE rank in peer group	**6**	**4**	**3**	**2**	**3=**		**1**	**1=**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 January 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

The three directors on CCPEOL's board 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 three directors are non-executive and deemed independent of the manager.

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