EDISON

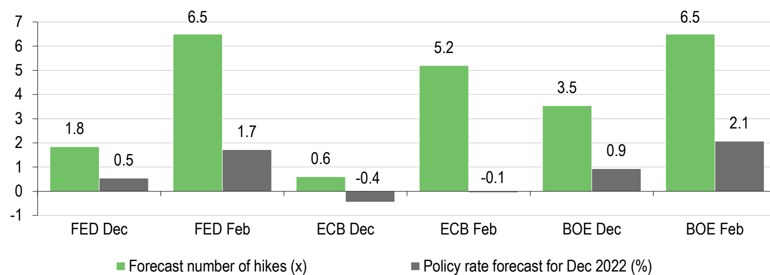
CVC Credit Partners European Opps

Floating rate advantage in 2022

Investment trusts

Despite the COVID-19 challenge, 2021 was a good year for CVC Credit Partners European Opportunities (CCPEOL). NAV total return was 12.2%, outperforming the high-yield debt indices. While the manager remained positive throughout 2021, the portfolio closed the year more defensively – the credit opportunities basket was 49% of gross assets versus 67% in February and 55% in July. Management is nevertheless encouraged by the supportive economic outlook, the floating rate nature of leveraged loans and active corporate loan debt markets. CCPEOL's dividend yields are 4.7% and 5.1% on its sterling and euro shares, respectively.

Policy rate expectations have risen sharply in the last few months



Source: Refinitiv. Note: Based on overnight index swaps, 24 February 2022. US Federal Reserve and Bank of England hikes are assumed at 25bp each, European Central Bank at 10bp.

Why invest in high-yield debt now?

Most leveraged loans are floating – their coupon rates go up with policy rate increases. This is an advantage with rising inflation expectations. Leveraged loans carry a premium yield despite rising loan prices – CCPEOL had a yield to maturity (YTM_ of 8.3% and a cash yield of 7.9% at the end of the year. Investment opportunities are expected to remain strong: corporate debt issuance was very active in 2021 and is expected to increase further in 2022 driven by M&A activity and private equity deals.

The analyst's view

The base case outlook is positive, with economic recovery expected to continue and COVID-19 risks receding. Governments have cut back most support but likely to turn their attention to the vulnerable sectors of the economy. Default levels were low in 2021 and should remain so in 2022. Inflation is both an opportunity and a risk. It is an opportunity because rising inflation should lead to interest rate hikes and hence increase the yield on the portfolio. In contrast, it will put pressure on profit margins and cash flows, which could increase default risk.

Valuation: Dividend yield 4.7%/5.1%

Both CCPEOL's share classes have traded close to NAV (apart from during exceptional market turbulence) 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). The recent dividend increases due to resilient portfolio performance result in yields of 4.7% (CCPG) and 5.1% (CCPE).

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2 March 2022

Price	**107p/€0.96**
Market cap	**£146m/€105m**
AUM	**£151m/€113m**
CCPG NAV per share	1.09p
Discount to NAV	2%
CCPE NAV per share	1.01c
Discount to NAV	5%

Excluding income. At 7 February 2022.

Yield	4.7%*/5.1%**
Ordinary shares in issue	136.5m*/109.2m**
*CCPG. **CCPE	€1.19/£
Code	CCPG/CCPE
Primary exchange	LSE
AIC sector	Debt – Loans and Bonds

Gearing

Gross and net gearing at CCPEOL level	0.0%

Fund objective

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 Western European 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.

Bull points

- Investment manager has 15 years' experience.
- Debt specialist with relatively unconstrained mandate, so can invest in situations where technicals diverge from fundamentals.
- The fund has historically outperformed high-yield debt indices.

Bear points

- Higher default rate risk as government and central bank support measures taper off.
- Inflation risks could lead to higher interest rates, which could hurt corporate loan quality.
- Macro shocks can affect risk perception.

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Edison profile page

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

Market outlook: Supportive, but inflation is risk factor

Base scenario is supportive

The leveraged loan industry had a good year in 2021, showing resilience in an active issuance market and with better-than-expected default rates. Looking ahead, the base scenario remains supportive for European leveraged loans, although the war in Ukraine is likely to have some adverse effect due to the associated sanctions and even higher energy prices.

As COVID-19 fears are now receding and strong GDP growth is forecast for 2022, analysts expect default rates to increase but remain relatively low. In its latest European At-Risk Leveraged Credit report in January 2022, Fitch Ratings reported that trailing 12-month (TTM) defaults had fallen to 2% for leveraged loans at end 2021 (down from 3.7% at end 2020). We note that recovery rates for defaulted leveraged loans tend to be about 75%.

In its 2022 Outlook: European High-Yield and Leveraged Credit published in December 2021, Fitch forecasts that default rates will rise to 2.5% for leveraged loans in 2022 after the 2% it estimated for 2021. We note that recovery rates for defaulted leveraged loans tend to be about 75%, so a 2.5% default rate can be expected to lead a to a loss rate of around 0.62% across an average portfolio. Fitch sees new issuance declining in 2022 ‘as valuation gaps increase between vendors and financial sponsor buyers’. It expects financial markets to be more volatile in 2022 and 2023 due to inflation concerns as threats of new COVID variants recede. Fitch’s sector and ratings outlook are both ‘neutral’.

As expected, government and central banks have been pragmatic in their support for the economy. Although they are now cutting back on this support, they are expected to continue to help the more vulnerable sectors. This includes significant EU aid packages expected to be disbursed this year for the weaker EU economies such as Spain, Portugal and Greece. GDP forecasts are upbeat – in its latest report, the IMF forecasts 3.9% growth for the eurozone area, 4.7% for the UK and 4.4% globally.

The outlook for loan supply and investment opportunities also seems positive. European leveraged loan issuance rose by a quarter to €289.7bn (according to Debtwire) in 2021 compared to 2020 and further growth is expected in 2022, driven by strong demand from elevated levels of M&A and private equity activity.

Inflation is a risk factor…

Unfortunately, amid all this good news, inflation concerns are coming to the fore. Leveraged loans have a great advantage in that they are floating rate (81.3% of CCPEOL’s portfolio is floating rate). On the other hand, high-yield bonds tend to be fixed rate. This difference has contributed to the outperformance of leveraged loans versus high yield bonds in recent quarters.

However, leveraged loans are not immune to inflation-driven negative macro growth shocks and the knock-on effect of higher default rates. A cycle of rising policy rates can often lead to choppy markets, especially if investors believe central banks are behind the curve.

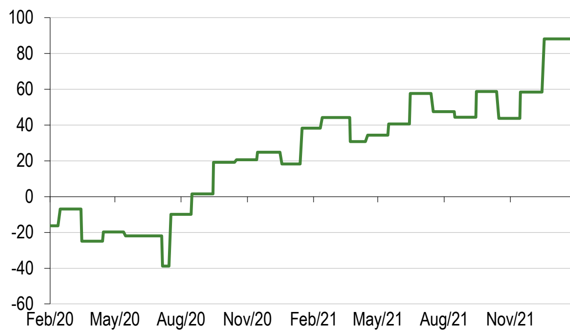
Economic growth could be hit by falling private consumption if price inflation continues above wage growth (ie negative real wage growth) coupled with rate hikes (eg higher mortgage rates) that could squeeze consumers. Growth could also be affected by central banks being forced to compensate for the excessively accommodative policy actions with very punishing interest rate hikes to contain inflation.

…but how much is transient is still unknown

The consensus forecasts are that inflation will peak in the first half of 2022. However, the debate has been and continues to be about how much of this inflation is transient and how much will linger. The transient element is driven by supply chain constraints as economies rebound from various lockdowns, and as consumers spend the money they saved during the pandemic.

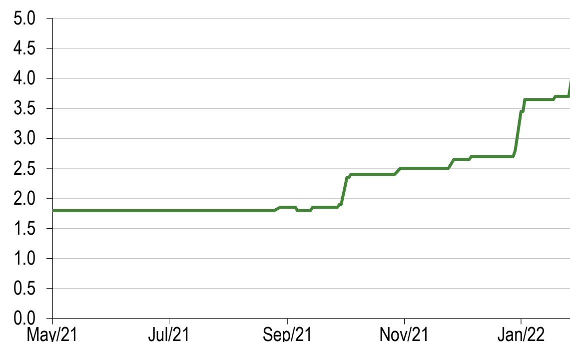
These supply side problems have led to soaring materials and food prices. Some of this has now subsided, but there are other sources of elevated inflation such as energy and commodity prices. These are also expected to come down as bottlenecks are resolved. The Ukrainian crisis has pushed up oil and gas prices, but this should also be (hopefully) a transitory effect.

Exhibit 1: Citi Global Inflation Surprise Index



Source: Refinitiv

Exhibit 2: UK Q422 consensus inflation forecast



Source: Refinitiv

Policy rate expectations going up

As Exhibit 1 shows, inflation has been coming in above forecasts for quite a while now and has been increasing in recent months. Exhibit 2 shows the Q422 inflation forecast for the UK, which has increased from less than 2% in October 2021 to almost 4.5% in February 2022. This is a clear indication that some of this inflation is becoming more than transitory.

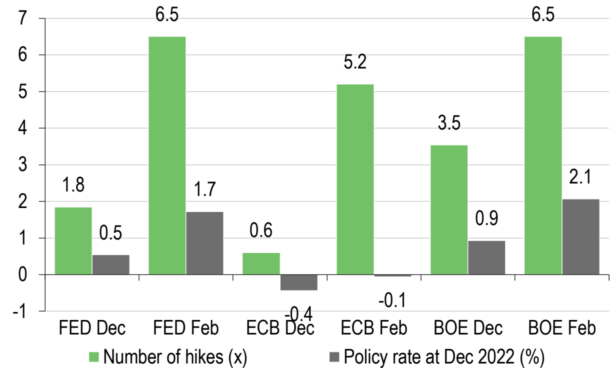
Exhibit 3 shows the Goldman Sachs US Financial Conditions Index, which gives an idea of how restrictive or expansionary economic conditions are and clearly there has been an uptick in recent months (although on balance conditions are still not considered to be restrictive at the moment). Exhibit 4 shows how policy rate expectations have risen from the US Fed, European Central Bank (ECB) and Bank of England (BoE) in recent months. For example, at the beginning of December 2021, the market was pricing in 3.5x rate hikes (each 25bp) from the BoE during 2022, adding to a 0.9% UK policy rate forecast by the end of 2022. As of 24 February, expectations have moved to 6.5x hikes and a 2.1% end of 2022 policy rate.

We believe these types of rate hike remain supportive of an economic recovery (and base forecasts are still for strong economic growth this year for all key economies) and of the leveraged loan market. However, they illustrate how expectations have been shifting, and this may lead to some volatility in financial markets.

Exhibit 3: Goldman Sachs US financial conditions Index

Source: Refinitiv

Exhibit 4: Fed, ECB and BoE – December 2022 policy rate expectations (at 1 December 2021 and 24 February 2022)



Source: Refinitiv Note: Based on overnight index swaps, Fed and BoE hikes are assumed to be 25bp, ECB are 10bp.

Exhibits 5 and 6 illustrate the rise in high-yield bonds in recent months. The ICE BofA Euro High Yield Index rose from 285bp in mid-September 2021 to 425bp in end of February 2022. For the corresponding US index, the rise was less dramatic (from 304bp to 362bp) but followed a similar trend.

Exhibit 5: ICE BofA US High Yield Index

Source: Refinitiv

Exhibit 6: ICE BofA Euro High Yield Index

Source: Refinitiv

In its Global Credit Outlook 2022 (December 2021), S&P forecast that the world would enter 2022 'with largely positive credit momentum, reflecting favourable financing conditions and a powerful economic recovery' that could be 'derailed' by high inflation. S&P notes that the trend in speculative-grade debt (leveraged loans and high-yield bonds) upgrades in Europe has been outpacing downgrades.

In its Credit Conditions Europe Q4 2021 view from September 2021, S&P identified the top two current risks as 'supply chain constraints and other inflation pressures leading to downside risk for earnings', rated as 'high' (the maximum is 'very high') but 'improving' and 'accumulated corporate and government debt creates fragility on the path to policy normalisation', also rated 'high' with the trend 'unchanged'.

The fund manager: CVC Credit Partners

CVC Credit Partners is a subsidiary of CVC Capital Partners, a global investment manager with nearly US$122bn of assets under management (US$29bn in credit) at September 2021, specialising in private equity and private debt. CVC Capital Partners employs more than 250 investment professionals across 24 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 based on in-depth fundamental analysis.

Manager's view: Cautious, but opportunities increasing

CEC noted in recent monthly comments the strong performance of leveraged loans as an asset class and how resilient asset quality has been throughout 2021. CEC believe that 'even as government support is removed, we do not expect default rates to rise significantly because economic growth looks encouraging'. It notes that as price levels have rebounded, riskier loans have performed better than expected.

This has been mostly due to pragmatic support from governments and central banks. CEC believes that 'policymakers clearly intend to run their economies hot for a time – there is little sign of significant fiscal tightening and central banks remain committed to providing support.'

While CEC believes that much of the elevated inflation is transient, it believes that 'central banks will not tolerate an inflation overshoot indefinitely and will raise rates to meet the challenge'. CEC views leveraged loans as containing a 'hedge' against inflation due to the fact that most of these assets are floating rate.

CEC continues to expect that leveraged loan issuance will remain active, driven by strong growth in M&A and private equity activity. It therefore expects the supply of new investment opportunities to remain strong, while making the point that the relatively buoyant market has led to a greater amount of selectivity being required.

CEC sees itself as 'comfortably positioned' for 'an unstable macroeconomic and geopolitical backdrop'. The performing book is expected to deliver good income while the credit opportunities 'continue to be a great focus of the team amidst volatile markets'. CEC continues to find risk/reward in BB and B-rated CLO market 'interesting'.

Asset allocation

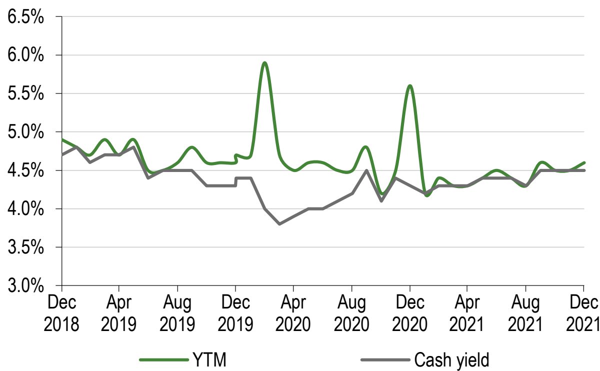
Portfolio positioning

CEC's base strategy is to target a broadly balanced allocation across performing and opportunistic instruments. CEC significantly rebalanced its portfolio weight towards opportunistic instruments in 2020 to take advantage of market dislocation due to the COVID-19 pandemic crisis. As a result, the opportunistic weight was as high as 67% in November 2020. CEC has reaped the rewards of this strategy but, as prices have rebounded and increased, CEC has adopted a more cautious stance. The opportunities portfolio was 56% by June 2021 and reduced to 49% at the end of 2021. This should provide the manager with some dry powder to increase the credit opportunities sleeve if there is more market volatility.

Exhibits 7, 8 and 9 show the extreme price volatility experienced in both the performing and leveraged loan markets during the peak of the COVID pandemic. At the end of January 2022, the average market price of the performing credit portfolio was 99.3. The performing portfolio has been trading close to par since January 2021. The YTM of the portfolio is 4.5%, with a cash yield of 4.5%. This is similar to 4.5% and 4.4% at the end of December 2020.

The average price of the credit opportunities portfolio is now 92.8, representing a significant rebound from the 73.0 trough at the end of March 2020. It is below the 94.8 reached in September 2021, as yields have compressed in the market. The portfolio's YTM was 8.9% and the cash yield was 7.8% at end-January 2022. In December 2020, these were 8.8% and 6.6%, respectively.

Exhibit 7: YTM and cash yield – performing credit

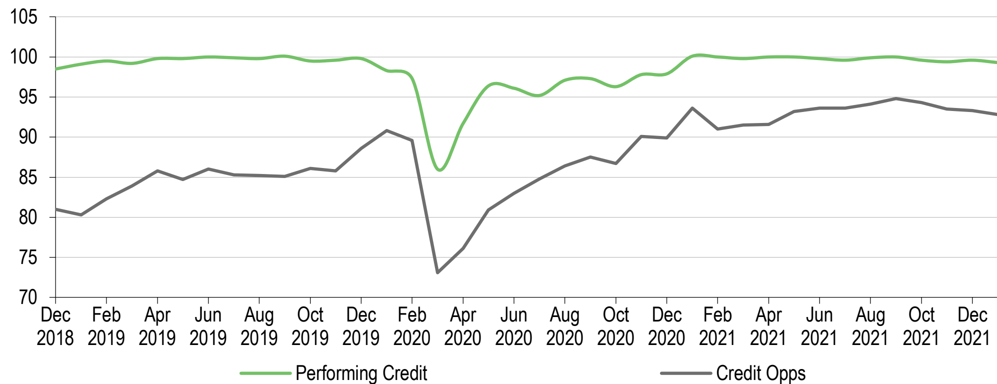


Source: CVC Credit Partners European Opportunities

Exhibit 8: YTM and cash yield – credit opportunities

Source: CVC Credit Partners European Opportunities

Exhibit 9: Average price – performing credit and credit opportunities



Source: CVC Credit Partners European Opportunities

Although CEC was bullish on the market in 2021, it remained overweight in defensive sectors such as healthcare, media, telecoms and food retail. There was no sizeable change in this position throughout the year.

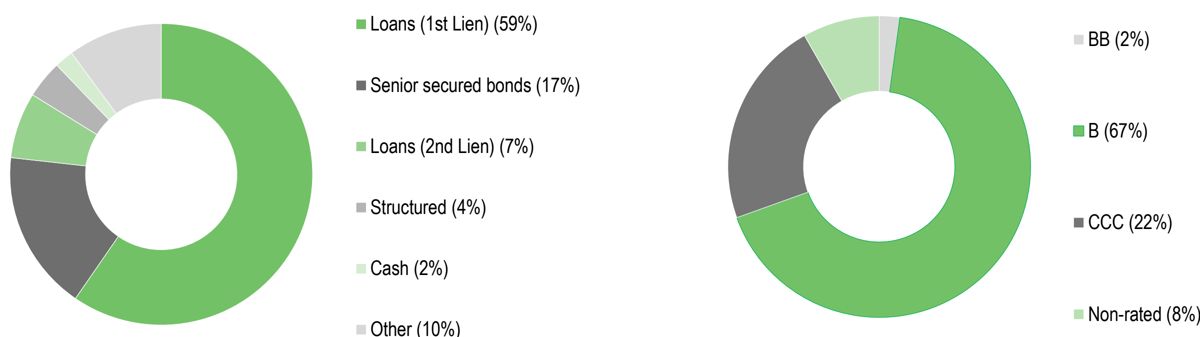
Reflecting greater caution towards the end of 2021, CEC reduced the weight of CCC- and NR-rated securities from 37% in July 2021 to 30% by the end of the January 2022. This weight is now similar to that at the end of December 2020 and January 2021 (both 29%). Correspondingly, the weight of B-rated securities has increased from 61% (July 2021) to 67% (January 2022).

Defensive assets (first-lien loans, senior secured bonds and cash) make up 78% of the portfolio. This is in line with its investment strategy of focusing on senior secured assets. This weight has been relatively stable at 78–81% since April 2021. However, we note that defensive assets comprised 88% and 85% of all assets at the end of December 2020 and January 2021, respectively.

As of end January 2022, 59% of the fund was in euros, 18% in sterling and 23% in US dollars, little changed in recent months.

Exhibit 10: Portfolio analysis

Asset breakdown at 31 January 2022	Loan rating breakdown at 31 January 2022



Source: CVC Credit Partners European Opportunities

Over the last 12 months, the most significant change in country weightings has been the reduction to the Netherlands from 18% to 11% and an increase in the weight to the US from 15% to 21%, as shown in Exhibit 11.

Exhibit 11: Portfolio geographic exposure by country of issuer

	End-January 2022	End-January 2021	Change (pp)
UK	25%	27%	-2
France	12%	10%	+2
Netherlands	11%	18%	-7
Germany	14%	11%	+3
US	21%	15%	+6
Spain	N/S	5%	
Finland	N/S	4%	
Luxembourg	6%	N/S	
Other	12%	11%	+1
Total	**100%**	**100%**	

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

Exhibit 12 details the breakdown of the portfolio's industry exposure, which continues to be broad, illustrating the diversified nature of CEC's portfolio. Over the last 12 months, the more significant reductions have been the hotels, retail stores, and beverage and construction segments. Healthcare (a defensive industry) and diversified/conglomerate manufacturing have seen the most significant increases.

Exhibit 12: Portfolio industry exposure

	Portfolio end-January 2022	Portfolio end-January 2021	Change (pp)
Healthcare & pharmaceuticals	15%	15%	0
Chemicals, plastics & rubber	10%	10%	0
Hotels, gaming & leisure	7%	10%	-3
Diversified/conglomerate manufacturing	6%	3%	+3
Electronics	5%	7%	-2
Finance	5%	6%	-1
Telecommunications	5%	6%	-1
Beverage, food and tobacco	5%	N/S	
Business Services	5%	3%	+2
Construction & building	4%	N/S	
Broadcasting & entertainment	4%	3%	+1
Retail store	4%	6%	-2
Other	26%	29%	-3

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

Exhibit 13: Top five issuers (at end-January 2022)

Company	Country	Sector	Portfolio weight %	
			January 2022	January 2021*
Doncasters	UK	Diversified/conglomerate manufacturing	5.5	2.9
Colouroz	Germany	Chemicals, Plastics and Rubber	3.8	3.2
Civica	UK	Electronics	3.4	30.0
Wella	Luxembourg	Cosmetics / Toiletries	2.4	N/A
Douglas	Germany	Retail	2.4	N/A
			17.5	**13.8**

Source: CVC Credit Partners European Opportunities, Edison Investment Research, Refinitiv. Note: *N/A where not in end-January 2021 top five.

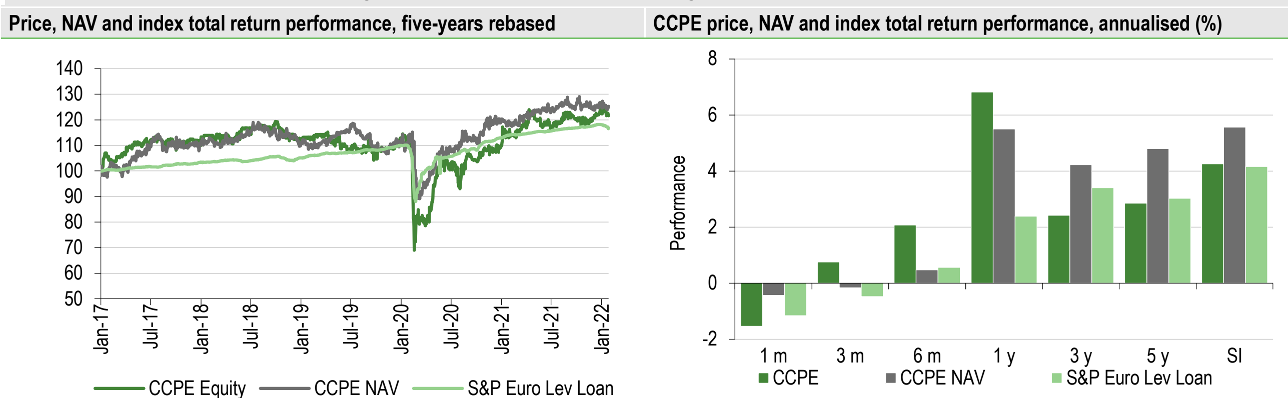
Performance

CCPG and CCPE shares have delivered a total return over the 12 months to 9 February 2022 of 8% and 6%, respectively. The NAV return has been 12% and 8% in the same period, also respectively. In Exhibits 14 to 16 we have used CCPE in the comparison since the two indices shown are in euros.

CCPEOL has continued to outperform the indices, as shown in Exhibits 15 and 16 over most periods shown. Outperformance has been stronger against the ICE BoA High Yield Index since leveraged loans as an asset class have outperformed high-yield bonds.

We note that as CCPEOL's portfolio consists of both loans and bonds (sourced from Europe and the US), none of the indices presented in Exhibit 15 is a perfect comparator.

Exhibit 14: Investment company performance to 28 February 2022



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

Exhibit 15: CCPE share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years
Price relative to S&P Euro Lev Loan	(0.4)	1.2	1.5	4.3	(2.8)	(0.9)
NAV relative to S&P Euro Lev Loan	0.7	0.3	(0.1)	3.0	2.4	8.9
Price relative to ICE BoA Euro HY EU & Western Europe	2.0	4.9	7.1	9.3	(1.3)	1.5
NAV relative to ICE BoA Euro HY EU & Western Europe	3.2	3.9	5.4	7.9	4.0	11.5

Source: Refinitiv, Edison Investment Research. Note: Data to 9 February 2022. Geometric calculation

Exhibit 16: CCPE NAV total return performance relative to S&P European Leveraged Loan Index over three years

Source: Refinitiv

Peer group comparison

Exhibit 17 compares CCPEOL's performance to the sector average and two of its closest peers. CCPEOL has outperformed the sector average across the various periods shown. Axiom European Financial Debt and NB Global Floating Rate, the two closest peers, have also performed well. However, we note that even these two peers have differences – for example, Axiom focuses just on debt from financial institutions, which is usually more subordinated than CCPEOL's investments and, unsurprisingly, Axiom's fund has had greater volatility in its performance.

CCPEOL's ongoing charge is around average for the sector and, like its peers, the portfolio is not geared. Although lower than Axiom's and NB's, its 4.7% sterling dividend yield) is above the sector average of 3.7%.

Although CCPEOL does not charge a performance fee or use leverage (as is shown in Exhibit 17 in the data from Morningstar), they are both applied at the investment vehicle level as discussed later in the note.

Exhibit 17: Selected peer group at 28 February 2022*

% 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
CCPEOL(CCPG) sterling**	**146.1**	**9.1**	**16.9**	**27.5**	**1.5**	**No**	**(1.6)**	**100**	**4.7**
CCPEOL (CCPE) euros**	**105.2**	**8.5**	**13.3**	**21.5**	**1.5**	**No**	**(5.0)**	**100**	**5.1**
Axiom European Financial Debt Fund	89.1	17.5	29.8	44.0	1.4	Yes	(4.1)	97	6.2
NB Global Floating Rate Income	220.0	4.8	19.5	23.8	1.1	No	(6.7)	97	5.6
Subgroup average (2 funds)	**154.5**	**11.1**	**24.6**	**33.9**	**1.3**		**(5.4)**	**97**	**5.9**
Sector average (10 funds)	**115.3**	**7.2**	**5.2**	**11.7**	**1.6**		**(11.9)**	**96**	**3.7**
CCPG rank in peer group	2	2	3	2	1		1	1	3
CCPE rank in peer group	3	3	4	4	1		3	1	3

Source: Morningstar, CVC Credit Partners European Opportunities, Edison Investment Research. Note: *Performance to 31 January 2022. 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.

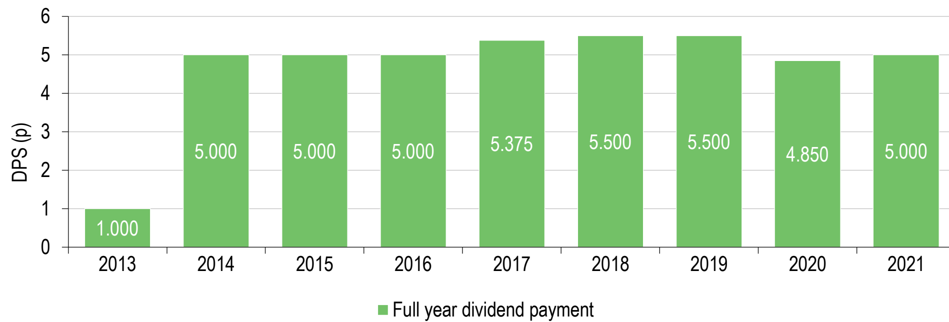
Dividend policy and record

CCPEOL raised its target annual dividend from 4.5p for CCPG and 4.5c for CCPE to 5.0p and 5.0c respectively in April 2021. This increase is underpinned by CCPEOL's strong portfolio performance

and better market conditions. This change came 12 months after CEC had reduced its target from 5.5p/5.5c to 4.0p/4.0c due to the pandemic. At the time, the board said it would retain the 8% total return target and that it planned to raise the dividend when market conditions justified it. CEC had already raised the dividend to 4.5p/4.5c in September 2020.

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 18: Dividend payments per share



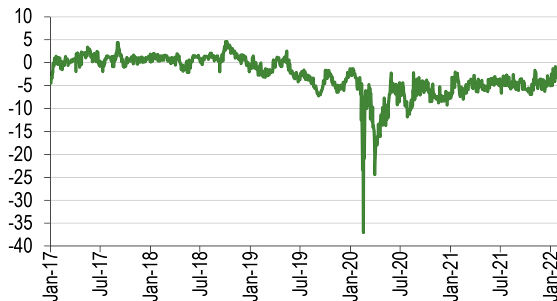
Source: CVC Credit Partners European Opportunities

Discount

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 include share conversions and the placing of treasury shares.

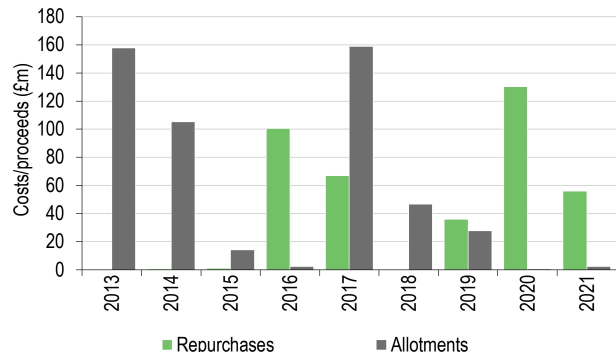
CCPEOL's conversion facilities minimise NAV discount/premium fluctuations. Since inception, CCPG shares traded at an average discount of 1.1% to cum-income NAV until end February 2020, before the COVID-19 crisis, with the discount widening in more distressed environments. During the COVID-19 crisis, the discount was as high as 38% on 19 March 2020. The discount has now declined and has ranged between 2% and 6% over the last 12 months.

Exhibit 19: CCPG share price premium/discount to NAV (cum-income) over five years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 20: Buybacks and issuance



Source: Morningstar, Edison Investment Research

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 sometimes involved in restructuring activities to unlock the revaluation potential of 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 (minimum EBITDA of €50m), which had a weighted average EBITDA of more than €300m and 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 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.

Gearing

There is no gearing at the CCPEOL level, but the investment vehicle may gear up to 100% of net assets. At end June 2021, the investment vehicle had borrowings of 30.6% of NAV (December 2020: 27.7%)

Fees and charges

CCPEOL is a self-managed fund that delegates investment management to CVC Credit Partners, which also manages the investment vehicle. We calculated the ongoing charge at an annualised 1.5% in FY20 versus 1.19% in FY19 and FY18. This included 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%.

In April 2021, the board voted to reduce the management fee from 1.0% to 0.9% of NAV, effective 1 May 2021. The new fee structure allows for further step-down reductions if assets under management (AUM) increase beyond certain levels. The current ratchet marks are €500m, €750m and €1bn AUM. The management fee drops by 5bp at each point with a floor at 0.75% pa.

Capital structure

CCPEOL is a Jersey-domiciled, closed-end investment company with an unlimited life. However, the company intends 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.

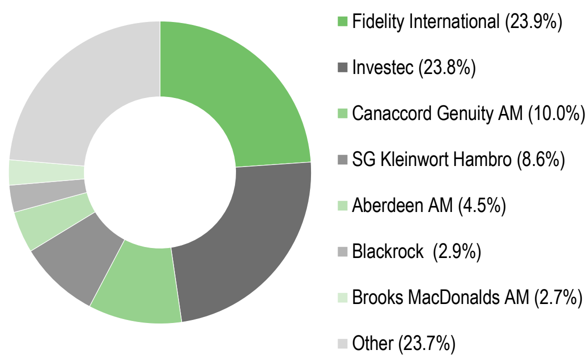
CCPEOL has two share classes: sterling shares (CCPG, 147.5m shares in issue) and euro shares (CCPE, 115.4m). CCPE shares carry one voting right compared with 1.17 for each CCPG share. The company actively manages its capital structure to reflect investor demand by running a quarterly tender facility, a monthly currency conversion facility, and purchasing and selling treasury shares. CCPG shares are hedged back to euros to eliminate exchange rate volatility.

Before the exceptional market turbulence in March 2020, every quarter investors could tender up to 24.99% of shares for repurchase at a price close to NAV. In April 2020, 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.

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%).

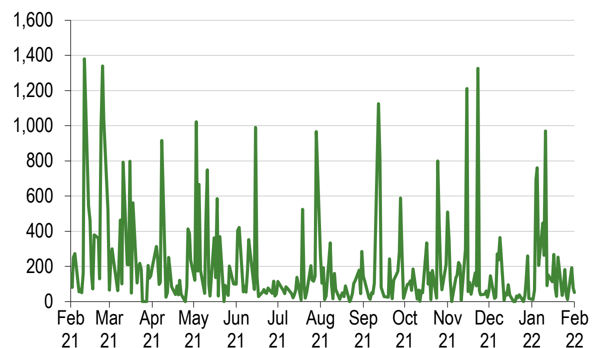
There are no loans at the CCPEOL level although, as previously mentioned, the investment vehicle itself uses gearing.

Exhibit 21: Major shareholders (December 2021)



Source: Refinitiv

Exhibit 22: Average daily volume, CCPG (£000s)



Source: Refinitiv

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