CVC Credit Partners European Opps

Initiation of coverage

Income and growth from credit portfolio

Investment companies

CVC Credit Partners European Opportunities (CCPEOL) seeks returns of 8-12% a year by investing mainly in high yielding sub-investment grade loans. A focus on senior secured assets mitigates the higher risk from lower credit quality. The bias to floating rate credits means rising interest rates should be a benefit rather than a drag. The portfolio is split roughly 50/50 between performing credit, where returns come mainly in the form of income, and credit opportunities, where assets are priced below par and thus offer potential for capital appreciation and downside protection due to the discounted price. There are relatively few alternative ways for individual investors in Europe to access the senior loans market, since loans are not permitted investments in open-ended UCITS funds. Sterling and euro share classes are available, and a recent placing of treasury shares has increased the market cap of each class by £77.55m and €13.87m, respectively.

12 months ending	Share price (%)	NAV (%)	S&P Euro Lev Loan Index (%)	CS Lev Loan Index (%)	CS Western Euro HY Index (%)
30/06/14	7.5	6.4	8.7	(5.8)	13.0
30/06/15	2.7	5.2	6.1	11.1	1.5
30/06/16	0.3	2.7	1.2	19.6	2.3
30/06/17	20.9	14.1	5.9	9.6	10.3

Source: Thomson Datastream. Note: All % on a total return basis. Inception 25 June 2013.

Investment strategy: Intensive fundamental process

CCPEOL invests through CVC European Credit Opportunities (CEC), of which it represents c 75% of AUM. CEC's performing credit and credit opportunities portfolios are managed by specialist teams within CVC Credit Partners. Analysts monitor a universe of c 3,000 credits, of which c 600 are held across the firm's portfolios at any one time. Fundamental analysis is used to arrive at a diversified portfolio, spread across a core average of 60-65 issuers. Managers may trade within the capital structure of an issuer to take advantage of relative value opportunities.

Market outlook: Opportunities for flexible investors

Regulatory requirements continue to ensure a supply of loans to institutional investors as banks restructure their balance sheets. Meanwhile, demand for such floating rate assets is strong as the prospect of higher base interest rates makes low-coupon fixed rate bonds relatively less attractive. While high-yield spreads have tightened recently in both bond and loan markets, investors with a flexible, opportunistic approach may still obtain satisfactory returns from credit investments.

Valuation: Guaranteed liquidity keeps discount tight

At 13 July 2017, CCPG (sterling) and CCPE (euro) shares traded respectively at a 1.0% and a 3.7% premium to NAV. A quarterly redemption facility for up to 25% of shares at close to NAV helps limit discount volatility and matches the liquidity profile of the investment vehicle. The company announced the placing of 69.2m CCPG and 12.6m CCPE treasury shares at a 0.75% premium to NAV on 30 June 2017. The yield to maturity on the portfolio is c 8.5%, meaning the 8-12% return target does not look unrealistic. The sterling and euro shares currently each yield 4.8%.

14 July 2017

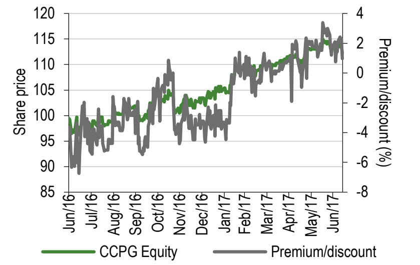
Price	**112.3p**	**€1.13**
Market cap	**£305m**	**€146m**
AUM	**£302.3m**	**€141.4m**

NAV*	111.2p
Premium to NAV	1.0%
NAV**	€1.09
Premium to NAV	3.7%

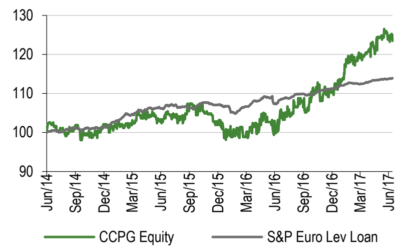
*CCPG **CCPE. Including income, as at 13 July 2017. NAVs at 23 June.

Yield	4.8%	4.8%
Ordinary shares in issue	271.8m	129.8m
Code	CCPG	CCPE
Primary exchange		LSE
AIC sector		Sector Specialist: Debt

Share price/discount performance



Three-year performance vs index



52-week high/low	115.0p/€1.13	96.3p/€0.96
NAV* high/low	111.3p/€1.09	101.8p/€1.00

*Including income.

Gearing

Gross*	0.0%
Net*	0.0%

*At CCPEOL level

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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 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.

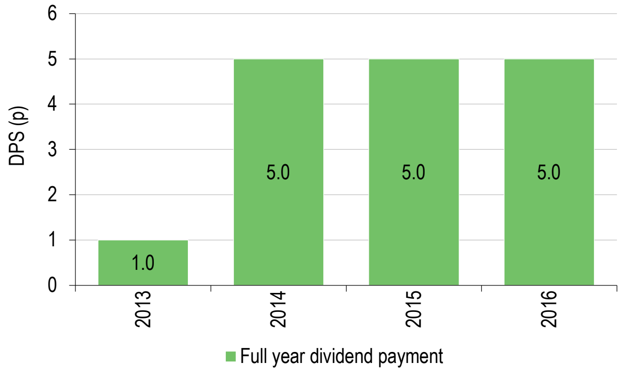
Recent developments

- 30 June 2017: Results of share placing – 69.2m sterling shares sold from treasury at 112.07p and 12.6m euro shares at €1.0994 (in both cases a 0.75% premium to NAV), raising £77.55m and €13.87m.
- 20 June 2017: No conversion requests received for monthly share conversion facility due on 31 July.
- 19 May 2017: Change to dividend target, from 5p/€0.05 to 5.5p/€0.055, effective from quarter ending 30 June 2017. Proposed capital raise through placing of treasury shares.
- 18 May 2017: No conversion requests received for monthly share conversion facility due on 30 June.

Forthcoming		Capital structure		Fund details	
AGM	April 2018	Ongoing charges	1.21%	Group	CVC Credit Partners
Interim results	September 2017	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 12		London, WC2R 0AG
Launch date	25 June 2013	Trust life	Indefinite	Phone	+44 (0)20 7420 4200
Continuation vote	See page 11	Loan facilities	None at CCPEOL level	Website	www.ccpeol.com

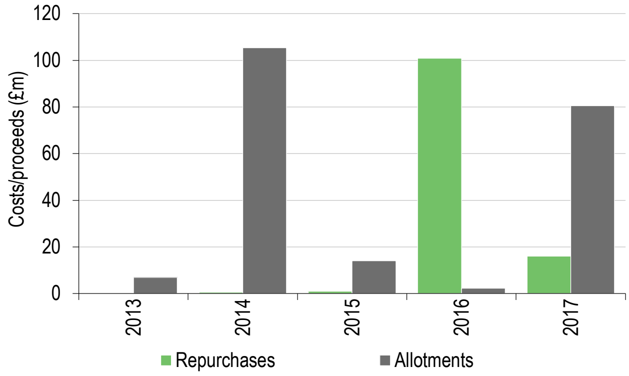
Dividend policy and history (financial years)

Since its first full financial year, CCPEOL has paid dividends at an annual rate of 5p/€0.05 per share. Originally paid in two instalments in July/August and February, from H216 the company has moved to quarterly dividend payments (three dividends paid in FY16). Under the new schedule, dividends will be paid in May, August, November and February.

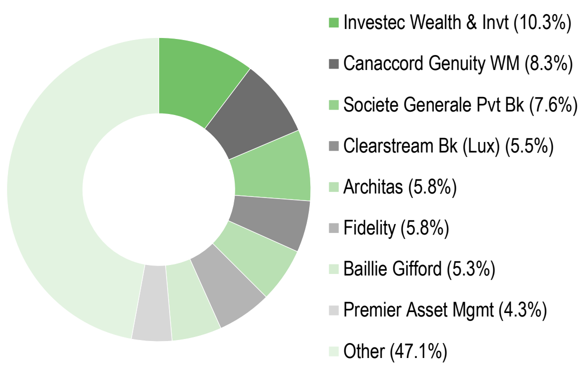


Share buyback policy and history (financial years)

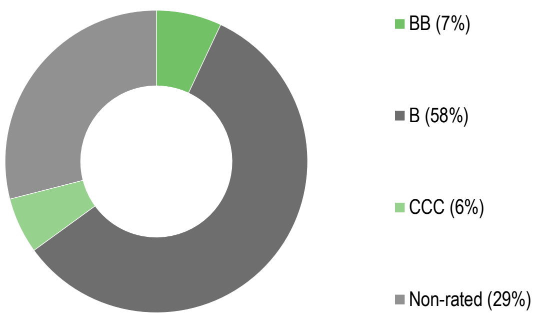
CCPEOL operates a contractual quarterly tender system (amended for FY17), a monthly conversion facility between sterling and euro share classes, and may issue shares from treasury in response to market demand. See page 12 for details. Chart below is for sterling shares (CCPG); repurchases include tendered shares and both repurchases and allotments include share conversions and placing of treasury shares.



Shareholder base (CCPG and CCPE, as at 31 March 2017)



Look-through credit rating (as at 31 May 2017)



Top 5 issuers (as at 31 May 2017)

Company	Country	Sector	% of gross asset value 31 May 2017
Saur	France	Ecological	3.8
Ambac	US	Finance	3.6
Ceva	UK	Transport & logistics	3.1
Tipico	Luxembourg	Gaming	2.9
Cortefiel	Spain	Retail	2.8
Top five			**16.2**

Source: CVC Credit Partners European Opportunities, Edison Investment Research, Bloomberg, Morningstar

The European credit market backdrop

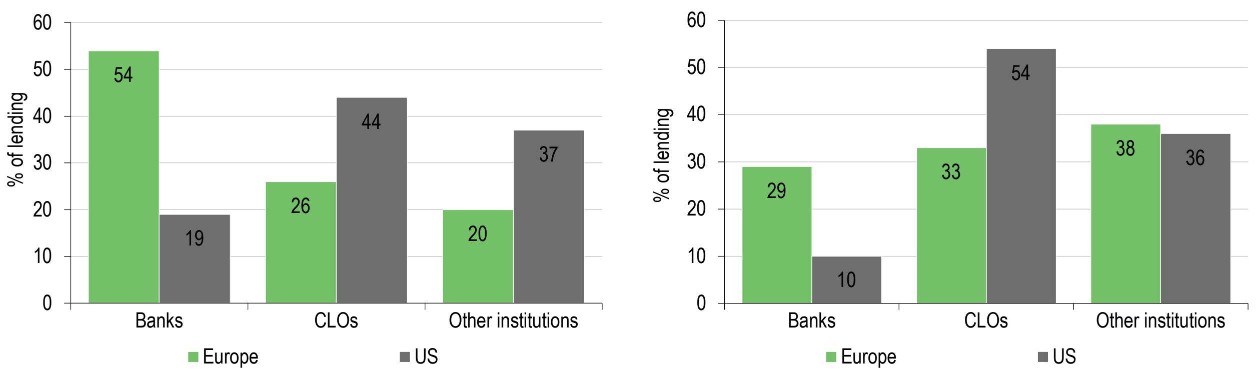
While most investors may be familiar with government and investment-grade corporate bonds, which are often the mainstay of pension portfolios, there are many more elements that make up global credit markets. However, many of these may be relatively new to European investors, where the lending market has been heavily dominated by banks.

Leveraged lending (Exhibit 2) broadly comprises lending to companies that are deemed sub-investment grade because they already have a high level of borrowings. As shown in the left-hand chart, the leveraged lending market in Europe has been heavily dominated by banks (chart shows the average from 2002 to 2016), whereas in the US, collateralised loan obligations (CLOs) – which are structured credit investments made up of loan pools put together by a CLO manager – and direct lending by institutions have been more prevalent. However, as shown in the right-hand chart, Europe is catching up with the US, with CLOs and other institutions each taking a greater share of the market than banks in 2016.

The principal drivers behind this are regulatory pressures on banks, and the continued low level of interest rates meaning that institutional investors are looking beyond traditional, investment-grade bond investments for sources of yield.

Exhibit 2: Evolution of leveraged lending markets in US and Europe

Average make-up of leveraged lending markets, 2002-16 | **Make-up of leveraged lending markets, 2016**



Source: CVC Credit Partners European Opportunities, S&P Leveraged Commentary & Data, Edison Investment Research

The global financial crisis in 2008/09 caused a large amount of bank lending to be written down in value as a result of 'mark to market' accounting, which requires assets to be revalued quarterly according to the price they would fetch on the open market. With the open market largely paralysed by the crisis, the 'fair values' of loans were marked down substantially, causing the value of the banks' assets to fall, even where the loans were still being serviced and the borrowers were in no financial distress. In the wake of the financial crisis, factors such as the higher bank capital ratios demanded under the Basel III accord, and the European Central Bank's Asset Quality Review, markedly decreased the appetite for banks to retain these assets on their balance sheets. This created an opportunity for secondary investors to enter the market.

While banks remain an important source of primary loan funding for companies, it is not commercially attractive for the banks to retain these loans on their balance sheets over the long term. Where borrowers become stressed or distressed, the speed of asset dispositions is likely to increase. Thus, there should continue to be opportunities for institutions to purchase sub-investment grade debt – both performing and non-performing – from lending banks, as well as originating loans themselves.

With interest rates having started to rise from historic lows in the US, other Western markets face the possibility of following suit over the medium term. In such an environment, and with inflation also rising, returns from fixed-rate bonds with ultra-low coupons will look less attractive. Loan investments are typically floating rate and thus have little duration risk (the risk that market interest rates will rise before the end of the investment period). They are also usually senior in the capital structure to bonds, meaning that interest and principal repayments to lenders rank above coupon and par value repayments to bondholders.

A company may offer lenders a variety of ways to invest. First-lien senior secured loans are at the front of the queue for repayment. Second-lien loans offer higher yields but would only be repaid in the event of a bankruptcy if there were sufficient assets remaining after repaying first-lien lenders. Senior secured bonds also rank highly in the capital structure. A PIK (payment in kind) loan is a higher-risk instrument because all of the return to the lender comes at the end of the term, rather than in the form of regular repayments or coupons.

Primary investments are based on the par value of the debt. However, secondary investments – which an investor buys from the original lender or another investor – may be made at below face value if the trading outlook or the creditworthiness of the borrower has declined. This gives the secondary market investor the potential for capital appreciation (principal repayment is usually based on the par value), as well as limiting downside compared with an investor who had bought at par.

The size of the loan market in Europe is well below that of the US and, with European loans excluded from UCITS (open-ended) funds because of a lack of liquidity (settlement of trades can take 15-30 days in Europe, whereas US trades are settled on an exchange in T+5), opportunities to access the market are limited. The corollary to this is that managers are able to take a longer-term view because the closed-ended structure of European funds means they do not have to cope with frequent inflows and outflows of capital. With spreads on investment-grade and high-yield corporate bonds currently at low levels, and risk-free rates (above which the spread is measured) also close to historic lows, a fund with the ability to invest more flexibly across credit markets may hold greater appeal for investors.

Fund profile: Flexible Europe-focused credit investor

CVC Credit Partners European Opportunities (CCPEOL) was launched in 2013 as a listed vehicle investing in the CVC European Credit Opportunities fund (CEC). CCPEOL is domiciled in Jersey and listed on the London Stock Exchange. CEC was set up in 2009 as a Luxembourg company by CVC Cordatus, a European credit investment manager, and today has more than $100m of CVC partners' personal capital invested in the vehicle, further aligning interest with investors. The management group was renamed CVC Credit Partners in 2012 after it acquired US CLO manager Apidos, a subsidiary of Resource America, and combined the two businesses. CVC Credit Partners is a subsidiary of CVC Capital Partners, a global investment manager with c US$70bn of assets under management, focused on private equity and debt. CVC Credit Partners manages c US$16bn of these assets, with c 50 investment professionals based in London and New York, and a network of 12 offices throughout Europe giving the group extensive deal-sourcing capability.

CCPEOL gives access to the CEC strategy (the investment vehicle) with daily price transparency and exchange trading. CEC is an actively managed portfolio of mainly European leveraged loans and high-yield bonds. The portfolio is managed in two pools, a performing credit segment and a credit opportunities segment, with a broadly equal split between the two in normal market conditions. Returns from the former come principally in the form of income, while the latter focuses on credits that are priced materially below their par value, offering potential for capital appreciation. CEC invests in a mix of floating- and fixed-rate assets, principally senior secured loans originated by banks, but also high-yield bonds, subordinated debt and structured corporate credit (CLOs). The investment vehicle targets total returns of c 8-12% pa, with c 5pp expected to come from income and the balance from capital appreciation.

The investment vehicle portfolio is managed by Jonathan Bowers, CVC Credit Partners' head of European performing credit; Mark DeNatale, global head of special situations; and Andrew Davies, senior managing director and portfolio manager. Between them, the managers have more than 60 years' credit investment experience.

While the investment vehicle's portfolio is built from the bottom up, based on assessment of individual credits, there are certain limits in place:

- A minimum of 50% of the portfolio must be in senior secured assets (this may include cash).
- A minimum of 70% of the portfolio must be invested in credits from issuers domiciled or with the majority of their business in Western Europe.
- Borrowing is permitted up to 100% of net asset value at the time of borrowing.
- No more than 7.5% of the portfolio may be invested with a single issuer (an exception allows one investment of up to 15% to be made as long as this is sold down to 7.5% within 12 months).
- No more than 7.5% of the portfolio may be invested in CLOs, and no primary investments may be made into CVC-managed structured finance transactions.

While CCPEOL may be traded daily, the investment vehicle has only quarterly liquidity. In order to match this liquidity profile, CCPEOL offers contractual quarterly tenders under which up to 24.99% of shares outstanding (subject to an annual maximum of 50%) may be tendered at NAV. Gearing is not permitted at the CCPEOL level.

The fund manager: CVC Credit Partners

The managers' view: Opportunities even as spreads tighten

The volatility across credit in 2015 was largely driven by the energy sector, linked to a falling oil price. In European credit, however, markets were less affected than their US counterparts, because energy accounts for a much higher proportion of high-yield issuance in the US than in Europe. Loan markets were also more insulated from the problems than bond markets, with almost one-fifth of US high-yield bonds being issued by energy-related companies, compared with c 5% of US leveraged loans.

After an energy market-triggered sell-off in late 2015 and the subsequent recovery of energy, continued support by central bank policy and positive investor sentiment on growth expectations, the investment vehicle managers comment that both equity and credit markets have performed strongly, with equity indices reaching record highs and credit spreads seeing multi-year lows.

Portfolio manager, Andrew Davies, says that despite these tight markets, opportunities across the credit spectrum will continue to present themselves, driven by the regulatory changes affecting the European banking sector, macro events, central bank policy moves, structural shifts in specific industries and performance concerns surrounding individual issuers.

Within the performing strategy of the portfolio, the manager comments that due to the size and complexity of capital structures where the strategy focuses, there are continued opportunities to actively seek out relative value trades across the euro, dollar, floating and fixed rate tranches with different coupons and different maturities across the capital structure. Broadly speaking, he says, high-yield bond investors stick to high-yield bonds and senior loan investors stick to senior loans, but the flexibility to invest across both increases the opportunity set as well as the potential return profile. In addition, with a strong primary pipeline and positive technical backdrop for the loan asset class, the trading activity in the primary market will be an ongoing theme through 2017. Weightings to high yield will remain light in the performing segment; however, when volatility does present itself in the sub-investment grade market, this will provide the opportunity to move from the less volatile asset class of loans and into high yield.

Across the opportunistic strategy of the portfolio, the manager is monitoring over €160bn of corporate capital structures, where access direct through CVC's broad and deep sourcing network as well as the secondary market builds a strong pipeline. The perception is that this segment carries a higher risk profile than performing credit; however, due to the discount at which these assets are purchased, the downside has already been evaluated and considered. The active approach to managing the positions and exit thesis are the drivers of the return profile.

The manager argues that the combination of an actively managed portfolio across large capital structures in performing and credit opportunities has been effective at delivering a low-volatility, high income-generating total return profile in the 8-12% range over the life of the fund so far.

Asset allocation

Investment process: Seeking return across the capital structure

CVC Credit Partners organises its business into three principal areas: credit opportunities and special situations (c $3bn AUM in European and global strategies), performing credit (c $12bn AUM in US, European and global strategies) and private debt (c $1bn AUM in US and European strategies, lending directly to small and medium-sized enterprises). The CEC investment vehicle invests across the first two areas, and is the only CVC strategy to combine exposure across credit opportunities, special situations and performing credit.

On the performing credit side, managers seek mainly senior secured, floating rate credits from liquid, large-cap issuers, offering stable and consistent income generation. These may be sourced in the primary or secondary markets. Return comes mainly through income. The managers look for credits trading from 97 (based on a par value of 100) to just above par, and may take advantage of opportunities to move between different credits within the same capital structure (for example euro or dollar issues, or loans or bonds) to lock in trading gains. In credit opportunities (which for the purposes of the investment vehicle includes special situations), credits may be senior secured or subordinated, fixed or floating rate, offering a mix of income generation and capital gains. This portfolio may include event-driven, opportunistic positions. Positions in the credit opportunities portfolio are usually bought at well below par value, with returns coming through merger and acquisition activity, refinancing, restructuring or a fundamental improvement allowing an exit.

The bias of the portfolio is to floating rate, senior secured debt. The outlook for floating rate assets (which make up a huge majority of the opportunity set in loans), where the interest rate on borrowings can rise and fall according to prevailing market rates, is more favourable given the beginning of normalisation in developed market monetary policy. In a rising interest rate environment the managers are cautious on the outlook for sub-investment grade fixed rate debt, and tend to limit the fixed rate exposure to a maximum of 30%. A minimum of 70% of the portfolio by value must originate from Western European issuers. The credit rating of the portfolio tends to be BB and below, with the majority in B-rated issues, although a significant portion (29% at 31 May 2017; see Exhibit 1) is in credits that do not have an official rating.

Exhibit 3: Core market segments

Market	Asset	Source	Target yield*
European performing leveraged loans	Floating rate, senior secured	Primary/secondary	4-7%
European high yield	Fixed rate, senior secured and subordinated	Primary/secondary	4-15%
European credit opportunities/regulatory driven	Fixed/floating, senior secured, subordinated (Equity, PIK)	Direct	10%+
Structured corporate credit	Floating rate secured/equity	Primary/secondary	6-20%

Source: CVC Credit Partners European Opportunities. Note: *Target yields based on CVC Credit Partners' observations of the market; there is no guarantee the investment vehicle will hold investments with these characteristics.

The CEC investment approach centres on fundamental, bottom-up analysis of more than 3,000 credits, with around 600 being held in CVC funds at any one time and the rest being monitored as former or potential future investments. There is a bias towards larger-cap, higher-quality companies (particularly on the performing side), which may offer more liquidity than other issuers. Detailed due diligence aims to ensure a vigilant and conservative management style.

There are four main stages to the investment process.

- **Sourcing:** CVC Credit Partners can source deals through its extensive network as part of the wider CVC Capital Partners group, as well as relationships with global and regional banks and institutions, and directly with issuers. Sourcing teams operate from both the US and European offices.
- **Screening**: Analysts prepare a high-level overview based on a review of borrower information, producing a summary credit analysis and a screening paper, focusing on topics such as management or industry concerns, which are presented to the relevant investment committee (performing credit or credit opportunities) to decide if further analysis should be undertaken.
- **Fundamental analysis**: CVC Credit Partners' US-based performing credit analysts are sector specialists, while the European-based analysts are generalists focusing on either the performing credit or credit opportunities segments. If the investment committees approve an idea for further research, the analysts undertake a more detailed due diligence process, focusing on the quality of a company's business and management, its capital structure, sector, and where it is based. Models are built to analyse recoverability and likely returns, and stress-test different scenarios. Investments may be sourced in the primary or secondary markets, and where CEC would be investing alongside others, the composition of the syndicate is also analysed. Following this deeper analysis, ideas are referred back to the investment committees, which make a decision as to whether or not to invest.
- **Monitoring**: The analyst teams continually monitor all invested assets, using multiple metrics to analyse the development of an investment thesis. Once an investment is in the portfolio, the portfolio managers can buy, sell or trade within the capital structure (for instance moving between US and euro-denominated issues) where better relative value can be found. Many European credit issues are private rather than public, and investors can elect to receive information more frequently than the statutory quarterly updates typically received by US investors. Because of this, CVC Credit Partners' European analysts typically cover 15-20 credits each, while their US counterparts, who have less frequent information to analyse, cover 40-45. Monitoring is an iterative process, with analysts assessing factors such as the progress of recovery, rating categorisations, and relative value versus peer companies and those on comparable yields. Analysts enter the information into a global database, which pushes out real-time information to portfolio managers via email, to assist them in making timely investment decisions.

As a major investor in assets that rank highly in the capital structure, CVC Credit Partners may take an active role to drive restructuring or corporate activity to accelerate or strengthen the recoverability of credits. Some investments are held for many years (although the actual asset may vary over time as the managers seek to unlock relative value within the capital structure), while others may reach an exit event, such as a refinancing or takeover approach, more quickly than expected. Across the portfolio, turnover is c 100% a year.

While essentially a long-only strategy, a small number of short positions (4.5% in May 2017) may be held to offset industry-level risk to favoured issuers in areas such as energy or retail.

Current portfolio positioning

At 31 May 2017, the investment vehicle portfolio was diversified across issuers from more than 12 business areas (Exhibit 4) and more than seven countries (Exhibit 5). The largest individual issuer exposure was 3.8% of gross asset value (Exhibit 1). While the investment policy requires the portfolio to be at least 70% invested in Western Europe, a major change over the past 12 months has been the increase in US exposure, which now represents the largest single country at 23%. The managers comment that with spreads over US Libor and Euribor being at similar levels, superior returns are available from US assets of a similar credit quality, because the three-month US Libor rate is c 1.2% while the Euribor floor is zero.

Exhibit 4: Portfolio sector exposure (% unless stated)

Sectors	Portfolio end-May 2017	Portfolio end-May 2016	Change (pp)
Retail store	11.0	10.0	1.0
Finance	10.0	10.0	0.0
Electronics	9.0	N/A	N/A
Broadcasting & entertainment	7.0	10.0	-3.0
Hotels, motels, inns & gaming	6.0	8.0	-2.0
Buildings & real estate	6.0	8.0	-2.0
Chemicals, plastics & rubber	6.0	9.0	-3.0
Diversified/conglomerate service	5.0	N/A	N/A
Ecological	5.0	3.0	2.0
Leisure & amusement	4.0	11.0	-7.0
Health, education & childcare	4.0	8.0	-4.0
Transportation & logistics	4.0	N/A	N/A
Automobile	N/A	3.0	N/A
Other	23.0	20.0	3.0
	100	**100**	

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

At end-May 2017, the performing portfolio accounted for c 58% of assets (including cash balances), up from an average of 44% during FY16, driven by new issue flows and strong market momentum. The first quarter of 2017 saw the highest new issue volume since 2007, with a high level of demand causing yield spreads to fall.

Exhibit 5: Portfolio geographic exposure by country of issuer (% unless stated)

Country	Portfolio end-May 2017	Portfolio end-May 2016	Change (pp)
US	23.0	12.0	11.0
France	20.0	23.0	(3.0)
UK	18.0	19.0	(1.0)
Spain	9.0	13.0	(4.0)
Germany	8.0	N/S	N/A
Luxembourg	7.0	7.0	0.0
Sweden	N/S	11.0	N/A
Other	15.0	15.0	0.0
	100	**100**	

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

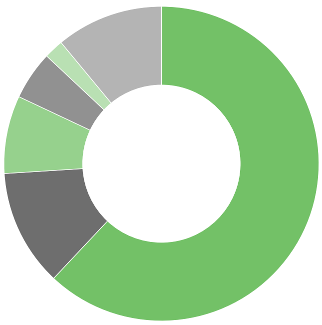
Across the portfolio, more than 70% is invested in senior secured assets (Exhibit 6, left-hand chart), with more than 80% in floating rate. Only 5% was held in structured finance/CLOs. The currency breakdown (right-hand chart) has altered significantly over the past 12 months (comparable figures for 31 May 2016 were 64% euro, 18% US dollar, 17% sterling and 1% other), partly because of the increase in US-based issuers, but also because of opportunities to move within the capital structure of issuers who have both US dollar and euro-denominated debt. The fact that loans can be held by mutual funds in the US means that pricing can be more vulnerable to sentiment, so in a risk-off move a US dollar loan could move to a discount to its par value while a euro-denominated loan within the same capital structure could remain near par. Assuming that the company fundamentals are unchanged, switching from the euro to the US dollar part of the capital structure gives the managers a yield pick-up as well as capital growth potential. UK exposure is usually in the 20-25% range because of strong corporate governance, higher yields and an illiquidity premium due to the relatively small size of the sterling market; however, a strong recovery has reduced the number of opportunities available, and the managers are happy to remain at the current lower level while uncertainty over Brexit negotiations remains a risk.

At 31 May 2017, the weighted average price of issues across the investment vehicle was 95.0% of par, indicating capital upside of c 5pp. Within the credit opportunities portfolio, where more of the return is expected to come from capital appreciation, the weighted average price was 89.3% of par.

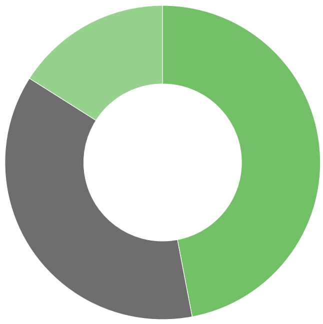
The investment vehicle focuses on large, liquid issuers, which helps to create a favourable risk profile. These issuers have bigger balance sheets, better access to international capital markets, strong management teams, diverse cash flows and supportive private equity sponsors.

Exhibit 6: Portfolio analysis

Asset breakdown at 31 May 2017



Currency breakdown at 31 May 2017

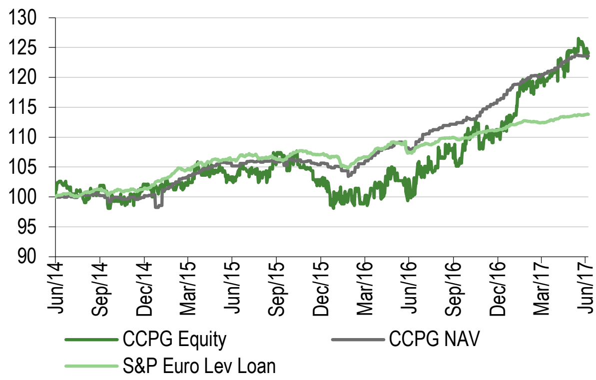


Source: CVC Credit Partners European Opportunities, Edison Investment Research

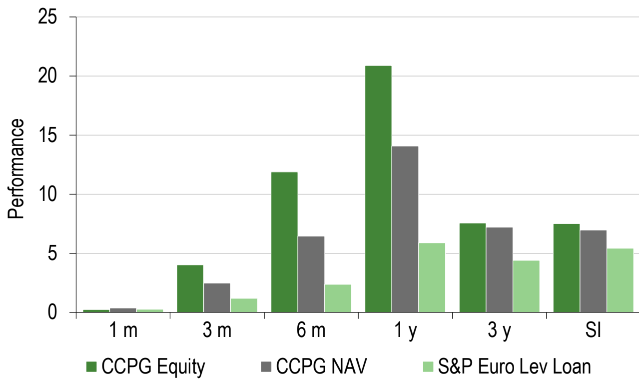
Performance: Returns within target range

Exhibit 7: Investment company performance to 30 June 2017

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



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised. SI=since inception. Inception date is 25 June 2013.

CCPEOL aims to achieve gross (pre-fees) returns of c 8-12% per annum on a five-year view, with the performing credit portfolio mainly supplying income returns (target gross return of 4-7% pa), and added capital growth potential coming from the discounted assets in the credit opportunities portfolio (target gross return of 7-20% pa). As shown in Exhibit 7 (right-hand chart), NAV and share price total returns over the four years since launch have been c 7-8% pa for CCPG, well ahead of the total return from the S&P European Leveraged Loan index (S&P ELLI). For CCPE, the annualised share price total return since inception has been 7.0%. Over 12 months to 30 June

2017, sterling NAV and share price total returns of 14.1% and 20.9% respectively (CCPE share price return of 18.7%) have been above the target range and are strong in both absolute and relative terms, with the S&P ELLI returning 5.9% for the 12 months. While the share price has historically moved closely in line with the NAV, the outperformance over the past 12 months largely reflects discount management. Both the sterling CCPG share class and the S&P ELLI are fully hedged back to euros, so there has been no effect from the lower level of sterling since the UK's vote to leave the European Union.

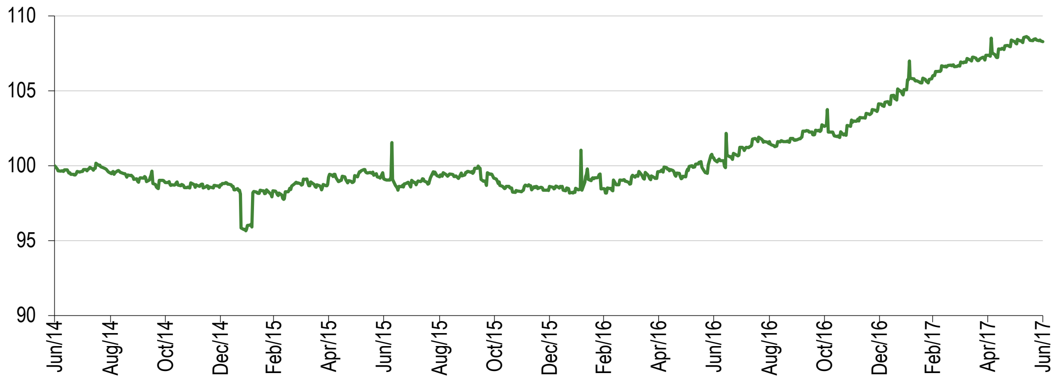
Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	SI*
Price relative to S&P Euro Lev Loan	(0.0)	2.8	9.3	14.1	9.4	8.2
NAV relative to S&P Euro Lev Loan	0.1	1.4	3.9	7.9	8.6	6.4
Price relative to Credit Suisse Leveraged Loan Index	(0.5)	0.2	6.7	8.2	1.2	9.2
NAV relative to Credit Suisse Leveraged Loan Index	(0.3)	(1.1)	1.5	2.3	0.5	7.4
Price relative to Credit Suisse Western European HY Index	0.1	1.9	7.5	9.6	8.7	2.4
NAV relative to Credit Suisse Western European HY Index	0.3	0.5	2.2	3.6	7.9	0.7

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2017. Geometric calculation. *SI=since inception. Inception date is 25 June 2013.

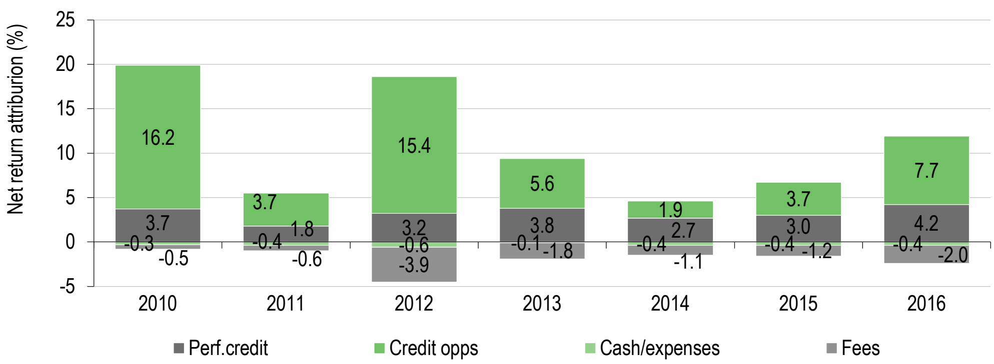
Exhibit 8 shows CCPG returns relative to three euro-hedged loan (S&P ELLI and Credit Suisse Leveraged Loan) and high-yield bond (Credit Suisse Western European High Yield) indices over a range of periods from inception. CCPEOL's diversified portfolio of mainly floating-rate loan and bond assets, as well as its mix of underlying currencies, has differentiated its performance versus the indices, which focus on individual asset classes.

Exhibit 9: NAV TR performance relative to S&P European Leveraged Loan Index over three years



Source: Thomson Datastream, Edison Investment Research.

Exhibit 10: Historic net return attribution (investment vehicle)



Source: CVC Credit Partners, Edison Investment Research. Shows six full years of operation.

Longer-term performance versus the S&P ELLI (Exhibit 9) has been relatively steady until the very strong recent period. Over 46 months to end-April 2017, 10 months had produced a negative return, meaning net performance was positive in 78.3% of months. Only two of the 10 down months saw negative returns of more than 1% and the largest monthly loss was 1.6%. So far, positive returns have been achieved every year.

Exhibit 10 shows net return attribution for the investment vehicle in each of its six full years of operation, while Exhibit 11 looks at attribution in the context of allocation between the performing credit and credit opportunities portfolio over the last four full years (covering the period for which CCPEOL has existed as a listed entity). This shows that the credit opportunities portfolio has produced higher returns than the performing credit portfolio not just in buoyant markets such as 2016, but also in more difficult market conditions such as 2015, illustrating the cautious and active approach taken by the manager in volatile market environments. The past two years have seen a move to a more even split between the two portfolios, which allows the managers to take full advantage of the capital growth potential of the credit opportunities portfolio.

CCPEOL's managers comment that in the overall tight credit market conditions of recent years, 4.5-5.0pp of the gross annual return has come from income, principally from the performing part of the portfolio, while capital gains from the opportunities portfolio have pushed the overall return to at least the lower end of the target range, and in some cases – such as in the 12 months to 31 May 2017 – significantly higher.

Exhibit 11: Allocation and attribution (investment vehicle)

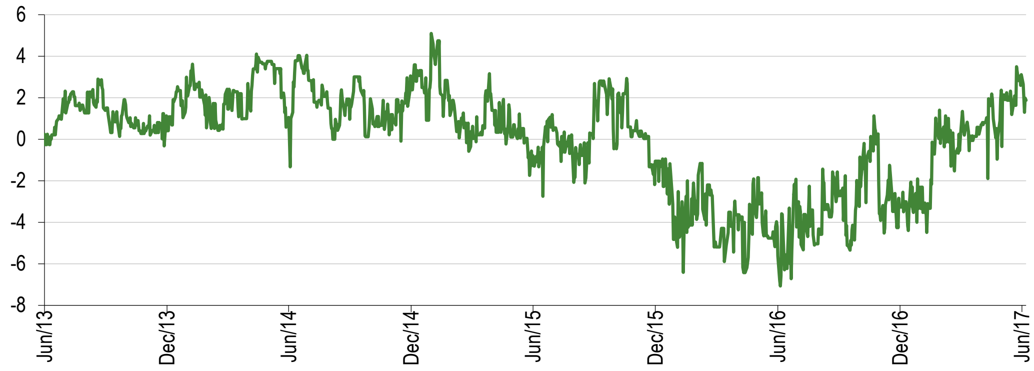
	2013 (%)			2014 (%)			2015 (%)			2016 (%)		
	Alloc.	**Attrib.**	**Return**	**Alloc.**	**Attrib.**	**Return**	**Alloc.**	**Attrib.**	**Return**	**Alloc.**	**Attrib.**	**Return**
Performing	56.0	3.8	7.0	57.0	2.7	5.0	44.0	3.0	7.0	44.0	4.2	9.0
Credit opps	33.0	5.7	17.0	38.0	1.9	5.0	46.0	3.7	8.0	47.0	7.7	16.0
Cash/expenses	11.0	(0.1)		5.0	(0.4)		10.0	(0.4)		9.0	(0.4)	
Total gross rtn	**100.0**	**9.4**		**100.0**	**4.2**		**100.0**	**6.3**		**100.0**	**11.5**	
Fees		(1.8)			(1.1)			(1.2)			(2.0)	
Total net return	**100.0**	**7.6**		**100.0**	**3.1**		**100.0**	**5.1**		**100.0**	**9.5**	

Source: CVC Credit Partners, Edison Investment Research. Shows data for each year of CCPEOL (listed fund) operation.

Discount: Close to par; back in longer-term range

At 13 July 2017, CCPG and CCPE shares traded respectively at a 1.0% and a 3.7% premium to the latest reported NAV. Exhibit 12 below shows the CCPG discount over the last three years. The current premium compares with a long-term average discount of 0.1% since launch (CCPE: 0.1% average premium), and is a higher rating than the one-year average discount of 1.6% (CCPE: 1.1%). The shares traded at a premium for most of the period from launch until mid-2015, when more difficult high-yield credit market conditions led to a lack of investor appetite for many strategies investing in these areas. Volatility continued into 2016 amid an equity market sell-off (high-yield credit is more sensitive than investment grade credit to equity market performance), and the CCPG discount to NAV reached an all-time widest point of 7.1% immediately after the UK's EU referendum. Since the beginning of 2017, the shares have moved back into the longer-term range of a 2% discount to a 2% premium. The contractual quarterly tender facility (see Capital structure and fees, below) should have a limiting effect on the discount.

Exhibit 12: Share price premium/discount to NAV (including income) since inception (%)



Source: Thomson Datastream, Edison Investment Research. Note: Inception date is 25 June 2013.

Capital structure and fees

CCPEOL is a closed-ended investment fund, domiciled in Jersey and listed in London. It has two classes of share: sterling (CCPG) and euro (CCPE), both with no par value. Each CCPE share carries one voting right, while each CCPG share has 1.17 voting rights, reflecting the approximate euro/sterling exchange rate at CCPEOL's launch. At 13 July 2017, there were 271.81m CCPG shares and 129.76m CCPE shares in issue, with a further 1.04m CCPG shares and 97.39m CCPE shares held in treasury. A 'C' share issue in March 2014 raised an additional €111m; these shares were converted into ordinary shares in July 2014. There is a monthly opportunity for investors to convert between the two share classes. The fund invests in the portfolio of unlisted Luxembourg fund CEC (the investment vehicle), which is established as a 'compartmentalised securitisation company', via preferred equity certificates (PECs) issued by the investment vehicle in sterling and euro-denominated series. CCPEOL's investment in CEC accounts for c 75% of the investment vehicle's assets and there are rolling forward hedging contracts in place to hedge out all non-euro exposures back to the shareholder's currency.

The fund has an unlimited life, although there is a requirement for the board to propose a continuation vote should the net assets (across both share classes) fall below €75m, or should either class of share trade at an average discount to NAV or more than 10% over any rolling 12-month period. The investment vehicle is scheduled to wind up in 2030.

There is a contractual quarterly tender facility allowing investors to exit their holding at NAV. No more than 24.99% of the shares in issue of each share class may be tendered each quarter, with a limit of 50% in any one year. The quarterly schedule matches the liquidity profile of the investment vehicle, from which investments must be liquidated in order to repurchase the tendered shares. A change to the terms of the quarterly tender, agreed at the 2017 AGM, means that investors must have held their shares for at least six months before they can be tendered. This move was aimed at reducing the opportunities for discount arbitrage – that is, buying shares that are trading at a discount with the aim of swiftly redeeming them at close to par, rather than holding them as a longer-term investment.

The contractual quarterly tender facility offers the certainty of an exit at NAV, which should limit the possibility of the shares trading at a wide discount. Equally, in order to meet excess demand, CCPEOL may reissue shares from treasury from time to time at a small premium. The fund has recently undertaken a successful capital raise through a placing of treasury shares at a 0.75% premium to NAV, which raised £77.55m and €13.87m respectively for the sterling and euro share classes. Following the placing, CCPEOL may choose to cancel any or all of the remaining treasury shares.

For the purposes of the Alternative Investment Fund Management Directive (AIFMD), CCPEOL is a self-managed fund, although investment management is undertaken by CVC Credit Partners (CVC). CVC is paid a 1% annual management fee, which is charged at the investment vehicle level but accounted for as part of CCPEOL's ongoing charges (1.21% for FY16). A performance fee (also charged at the investment vehicle level), may be paid if total annual returns are more than 5%. The fee is equal to 15% of the return in excess of 5%, and is subject to a high watermark.

CCPEOL is ungeared and has no borrowing facility. The investment vehicle is permitted to gear up to 100%. It currently has a €150m loan facility, collateralised primarily on the performing part of the portfolio, which if fully deployed would equate to c 30% gearing. CCPEOL reports a monthly gross invested assets figure (stated as a multiple), which mirrors the level of gearing on the investment vehicle; at 31 May 2017 this stood at 1.3x (30%). The managers comment that one of the principal purposes of the gearing is to offset the effect of fees.

Dividend policy and record

With the exception of the period from launch in June 2013 to 31 December 2013, CCPEOL has targeted and paid a dividend of 5p per CCPG share and €0.05 per CCPE share in each financial year. For FY14 and FY15, dividends were paid half-yearly in June/July and February. In the second half of FY16, CCPEOL announced it would pay dividends quarterly. Three dividends were paid for FY16 and from FY17, quarterly dividends will be paid in May, August, November and February. On 19 May 2017, CCPEOL announced it would change the dividend target from 5p/€0.05 to 5.5p/€0.055. It is expected that the first dividend to be declared under the new target will be the August 2017 payment (in respect of the quarter to 30 June). A first quarterly dividend of 0.125p/€0.0125 was paid in May 2017 for the quarter ended 31 March. Given the timing of the announcement of the new target dividend, it would be reasonable to assume that dividends for the balance of FY17 will be paid at a rate of 0.1375p/€0.01375, giving a total dividend for the year of 5.375p/€0.05375. Based on this calculation and the current share price, CCPG shares have a prospective yield of 4.79% and CCPE shares have a prospective yield of 4.76%.

Peer group comparison

The AIC Sector Specialist: Debt sector has 37 constituents (30 distinct funds, some of which, like CCPEOL, have more than one share class). The sector contains funds with a wide variety of investment strategies, including those focusing on collateralised loan obligations (CLOs) and property debt. Exhibit 13 below brings together a group of peers focusing on leveraged loans or specifically on opportunities arising from bank deleveraging as a result of more stringent capital requirements. Specialist debt is a relatively new area of focus for investment trusts/companies, and none of the peers shown below has a 10-year track record, with only two in existence for more than five years. Within the selected peer group, CCPEOL's sterling shares have the second-highest NAV total return over one year and rank top over three years. Because of the effect of currency hedging, returns from the euro shares are very similar. Returns were below the average for the whole sector over one year and above the average over three years. Ongoing charges are in line with the average for similar funds and below the weighted average for the whole sector. While CCPEOL itself does not charge a performance fee, one may be paid to the underlying investment vehicle (CEC). CCPEOL currently trades at a small premium to NAV, compared to a small average discount for both the close peer group and the sector as a whole. The dividend yield is largely in line with the average for the close peer group, but somewhat lower than the whole sector weighted average.

Exhibit 13: Selected peer group as at 13 July 2017*

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Ongoing charge	Performance fee	Disc/prem (ex-par)	Net gearing	Dividend yield (%)
CVC Credit Partners Euro Opps GBP	**305.1**	**16.3**	**25.6**	**--**	**1.2**	**No**	**1.5**	**100**	**4.9**
CVC Credit Partners Euro Opps EUR	**147.1**	**15.6**	**23.7**	**--**	**1.2**	**No**	**3.5**	**100**	**4.9**
Alcentra Eur Floating Rate Inc	169.9	5.0	12.7	36.3	1.0	No	(1.0)	100	5.1
Axiom European Financial Debt Fund	59.4	16.4	--	--	1.8	Yes	(1.7)	100	6.2
Chenavari Capital Solutions	113.4	2.5	18.2	--	1.5	Yes	(0.1)	100	8.2
NB Global Floating Rate Income GBP	955.2	6.4	9.4	19.8	0.9	No	(2.1)	100	3.8
Peer group weighted average (6 funds)		**8.8**	**14.5**	**22.3**	**1.1**		**(0.8)**	**100**	**4.6**
Whole sector weighted avg (37 funds)		**13.2**	**24.9**	**22.3**	**1.4**		**0.8**	**104**	**6.4**
CCPG rank in peer group	**2**	**2**	**1**	**N/A**	**3**		**2**	**1**	**4**
CCPE rank in peer group	**4**	**3**	**2**	**N/A**	**3**		**1**	**1**	**4**

Source: Morningstar, Edison Investment Research. Note: 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). *Performance data as at 30 June 2017.

The board

CCPEOL has three non-executive directors, all of whom have served on the board since launch in 2013. Chairman Richard Boléat (Jersey resident) qualified as a chartered accountant and has spent his career in financial services, including a period as a high-yield credit analyst. Mark Tucker (Jersey resident) worked as a hedge fund and derivatives broker/dealer and is a chartered fellow of the Chartered Institute for Securities and Investment. David Wood was a founding partner of CVC Cordatus (a predecessor to CVC Credit Partners) and is former co-head of European leveraged finance at Deutsche Bank. The regulatory requirements for listed funds incorporated in Jersey state that two of the directors must be resident in Jersey, and a majority of the board must be independent (not having been employed by the manager, investment manager or its associates in the past five years). While David Wood was previously deemed non-independent, it is now more than five years since his retirement from CVC Cordatus in April 2012, so CCPEOL's board is now fully independent of the management group.

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