January 2021

Dynamic Credit Diversified Loan Fund

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The Diversified Loan Fund is an open-ended sub-fund of Dynamic Credit Funds Irish Collective Asset Management Vehicle (ICAV). The Fund is authorized by the Central Bank of Ireland as an internal managed "Qualifying Investor" AIF pursuant to the AIFMD Regulations.

Fund Objective

The Fund's investment objective is to achieve positive total returns.

Investment Approach

The Fund will seek to generate returns by building and optimizing a portfolio of loans and other receivables originated by banks and non-bank lenders to consumers and small businesses, primarily in Europe and the United States.

Portfolio Managers

Mike Li
Portfolio Manager

Tonko Gast
Portfolio Manager

Market Commentary

While the market was captivated by the GameStop saga, which indirectly led to a temporary market selloff towards the end of January, global stock markets have since returned to setting new all-time highs. Credit markets have followed suit with investment grade and high yield spreads continuing to tighten aggressively which highlights the strong relative value of the Diversified Loan Fund and other non-CUSIP opportunities. There was also continued positive COVID-19 news as new cases and hospitalizations have fallen dramatically in most of Europe and the US while vaccination rates continue to improve. At the same time, we are seeing relaxed lockdown restrictions which hopefully marks the beginning of resumption of normal economic activity in the second half of the year. In the US, negotiations on a new stimulus package continue which would provide additional direct cash payments and enhanced unemployment benefits, among other additional spending, which will continue to be supportive of borrower finances as well as consumer spending.

The combined effect with previous stimulus and falling restrictions on movement across the United States has led to a strong reversal in economic activity according to early indicators. According to MasterCard, US retail sales in January increased 9.2% y-o-y which was driven by a dramatic 62% increase in online spending. This recovery in consumer activity was also reflected immediately in US unemployment rates, which resumed its recovery after flatlining in the previous months. U-3 (the official unemployment rate) fell to 6.3% in January from 6.7% in December while U-6 (which measures underemployment as well) decreased to 11.1% from 11.7% over the same period. Continuing claims for unemployment insurance exhibited the same trend, decreasing m-o-m to 4.5 million in the week ended January 30 from 5.3 million the previous month. This is positive news, albeit with the context that unemployment remains elevated and much of the turmoil in the labor force is concentrated in lower wage jobs in certain industries. According to the New York Fed, while employment gains have continued in high wage segments (>85,000) into the new year, the overall positive trends in unemployment are masking renewed deterioration in low wage employment levels since October (Exhibit A). We remain constructive on prime consumer credit, particularly in the US as additional stimulus checks reach most borrowers and enhanced unemployment benefits help those who have lost income. While we are encouraged by the recent improvement in the broader economic environment, we continue to take advantage of the ability to remain conservative in our investment selection criteria as COVID-19 remains an ongoing issue (with some concern over new more contagious variants) and the pace of vaccine distribution, while improving, is not likely to result in herd immunity type levels until the second half of 2021.

Exhibit A: Steeper Job Losses for Lower-Wage Workers

Source: IPUMS-CPS and IPUMS-USA, University of Minnesota, www.ipums.org.

Source: *Some Workers Have Been Hit Much Harder than Others by the Pandemic.* Liberty Street Economics by Federal Reserve Bank of New York. https://libertystreeteconomics.newyorkfed.org/2021/02/some-workers-have-been-hit-much-harder-than-others-by-the-pandemic.html

Type of Fund
Open-ended investment fund, with limited liquidity

ISIN
Class A1: IE00BMHMW625
Class A2: IE00BMHMW732
Class B1: IE00BMHMW849
Class C1: IE00BMHMW955

Launch Date
8 June 2020

Currency
EUR denominated

NAV Calculation
As of the last business day of each month

Investment Manager
Dynamic Credit Partners Europe (DCPE) B.V. based in The Netherlands

Administrator
SEI Investments – Global Fund Services Limited

Depositary
SEI Investments – Depositary and Custodial Services (Ireland) Limited

Legal Advisor
Pinsent Masons

Auditors
PricewaterhouseCoopers Ireland

Fee structure*
Management Fees:
Class A1, Class A2, and Class B1 Shares: 0.70% per annum
Class C1 Shares: 0.55% per annum

Service Fee: 0.30% per annum

Redemption Charge: 1%

* These are the maximum redemption charges. These charges are for the benefit of the Fund and not for the Investment Manager.

In line with improving unemployment rates and additional fiscal stimulus, US consumer loan impairment rates improved in January as the total impairment rate decreased by 70 basis points to 7.4% from 8.1% at the end of December while the delinquency rate decreased 10 basis points to 3.9% m-o-m[1]. Much of the improvement was concentrated in the riskiest loans which likely benefitted most from stimulus payments and enhanced unemployment benefits, all borrower cohorts saw improvements as close to 90% of COVID-19 modified loans have now resumed making payments. While we continue to expect depressed levels of economic activity until there is widespread vaccination, it is clear the recently passed and new proposed stimulus packages have already provided significant support for struggling consumers while also providing much needed additional stimulus for consumer spending. It has been amazing to observe the near instantaneous feedback mechanism of fiscal stimulus on consumer loan performance which highlights the anemic response by governments in the aftermath of the financial crisis in retrospect. The Fund saw a slight decrease in portfolio exposure to impaired loans and credit performance continues to be in line with our current base case projection of a 7.7% cumulative default rate. Impaired loans comprise 0.67% of the invested portfolio NAV with 0.25% of delinquent loans and 0.42% of loans of modified loans (60% of which are making partial payments with the remaining on a short-term payment holiday).

Loan volumes have recovered dramatically in January and we estimate origination volumes have returned to near pre-pandemic levels. Based on conversations with originators, assuming credit performance continues to recover, we expect origination volumes to exceed pre-pandemic levels this year but diversified amongst a larger group of originators. This is a positive development for the Fund as it creates additional opportunities for active selection across more originators at higher volumes. This is a key feature of our investment strategy as loan credit quality in aggregate weakens as origination volume increases (albeit from historically tight levels). However, we reiterate that our strategy explicitly addresses evolving loan quality through our internal loan scoring model which assesses the relative value of each loan (expected loss vs. expected return) across lenders and independently of the lender assigned credit grades.

[1]dv01 Insights COVID-19 Performance Report Volume 20

Market Outlook

We have now onboarded our first European originators in the last week of January and in line with the implementation of US loan purchases, we will be conservative in the pace of investment and selection criteria and scale up purchases based on quality of origination and other performance metrics. The underlying strategy remains consistent as we target higher income borrowers with appropriate levels of debt to income which we believe to be less sensitive to the current economic environment. While we continue to engage with and onboard other consumer lenders, we are also cautiously evaluating an initial investment in unsecured SME loans which we expect will provide compelling value with more widespread vaccine distribution (especially with regards to businesses that have now survived or even thrived through the pandemic economy over the last year). As previously noted, we are also engaged on several secondary portfolios with one transaction in advanced discussions. We do not expect to submit bids for all, or even most, of the loans under evaluation in the near term, but there is a strong likelihood of completing at least one purchase of a seasoned loan pool at a discount to par. Our efficient bidding and due diligence process are key components to both the near-term goal of sourcing an attractive secondary portfolio as well as creating a pipeline of future opportunities through our reputation as a responsive partner for potential sellers.

Our long-standing relationships across alternative credit markets will drive value for investors as we continue to source attractive opportunities, while the Fund strategy provides the flexibility to engage in primary origination while being patient on secondary opportunities. Our investment strategy has been running well since late June as we have established a prudent and consistent process on purchasing loans that meet our strict criteria multiple times a day, 7 days a week, in real-time. We are actively evaluating emerging opportunities from originators in the US and Europe and while our strategy may adapt according to market conditions, the DLF is well positioned to both capture higher volumes as origination rates increase and/or buy attractively priced secondary portfolios at discounts. In Europe, the DLF is now actively investing with a near-term focus on Swiss and Finnish consumer loans as we maintain continuous dialogue with consumer and SME loan originators. We continue to closely monitor both public health and market developments, but the Fund is well positioned to generate attractive risk-adjusted returns through changing market conditions.

DYNAMIC

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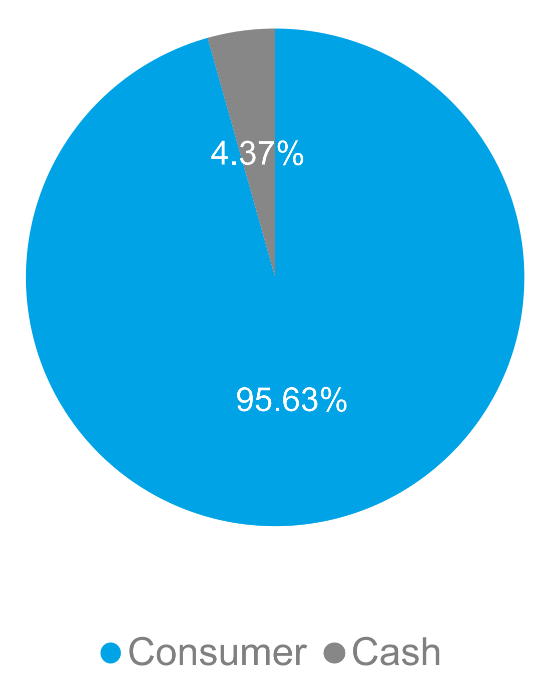
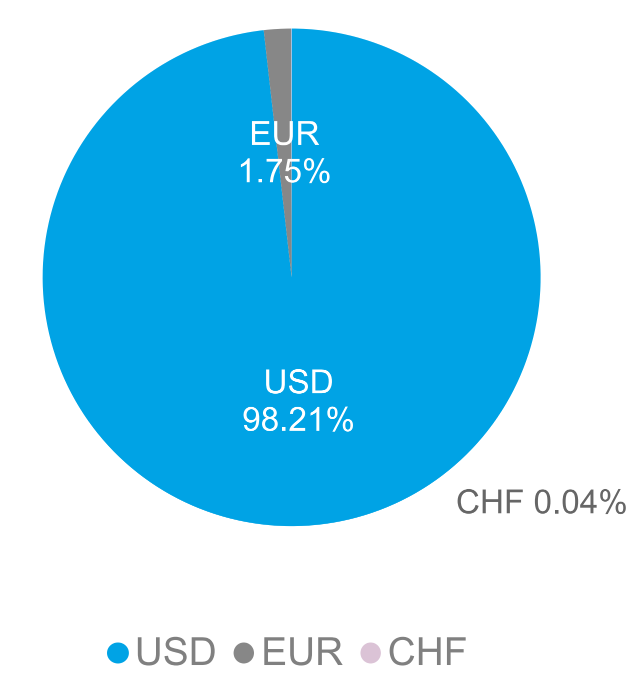
Portfolio Characteristics

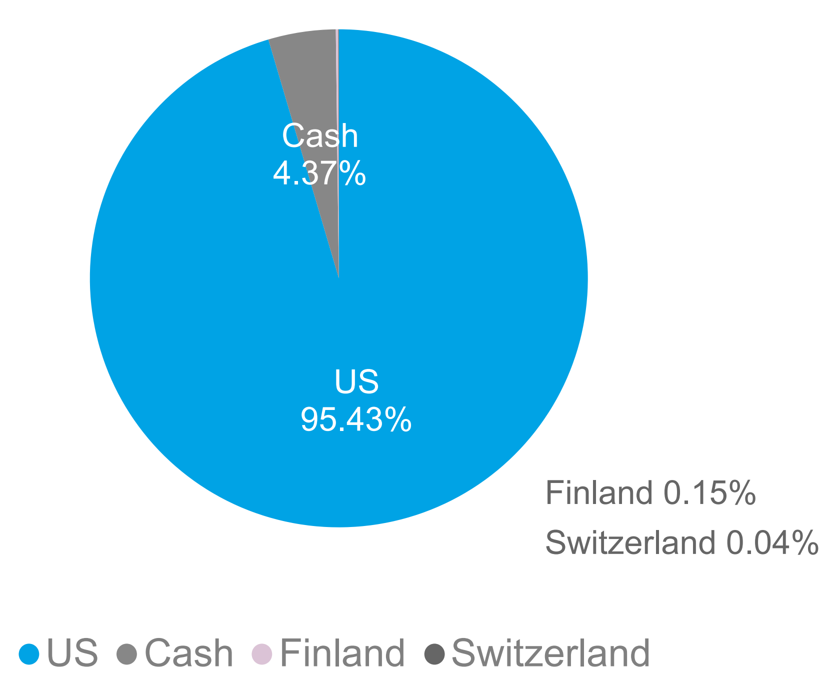
Asset Class Allocation



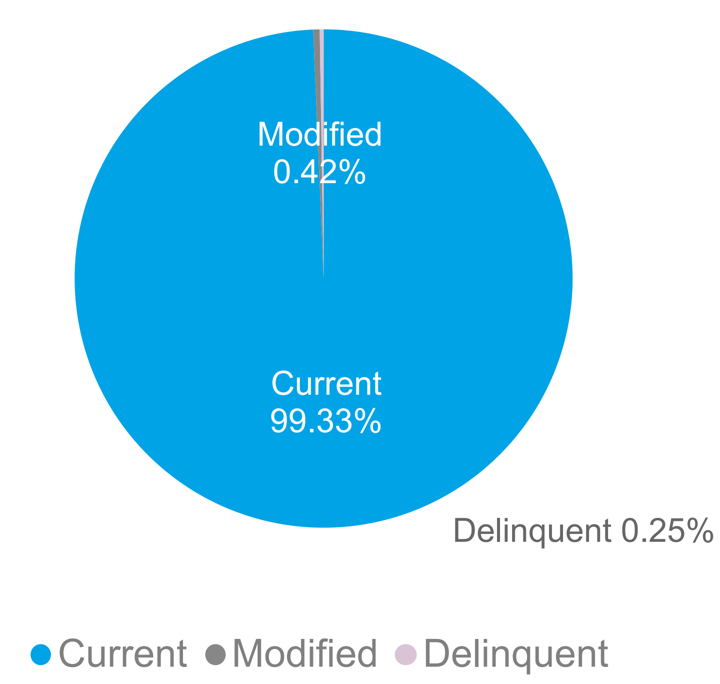
Currency Allocation



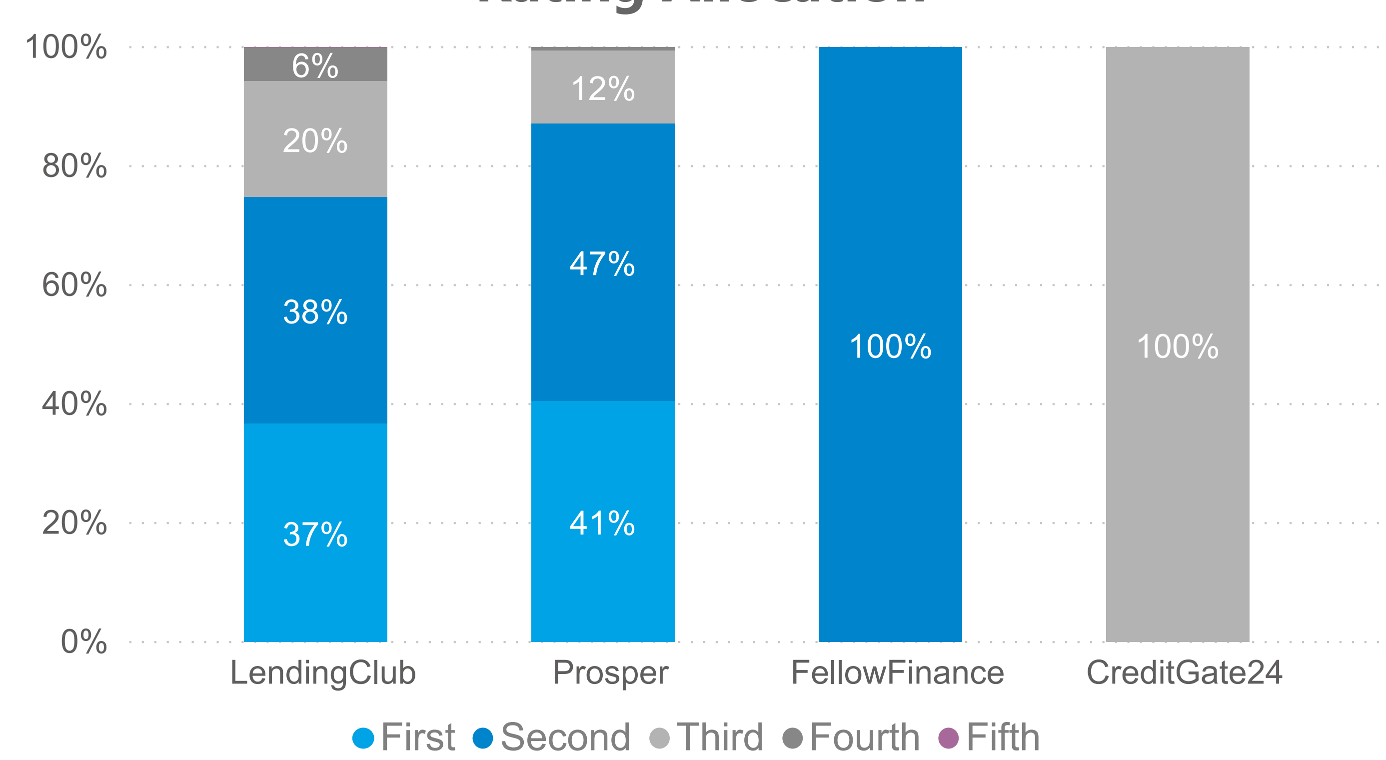
Jurisdiction



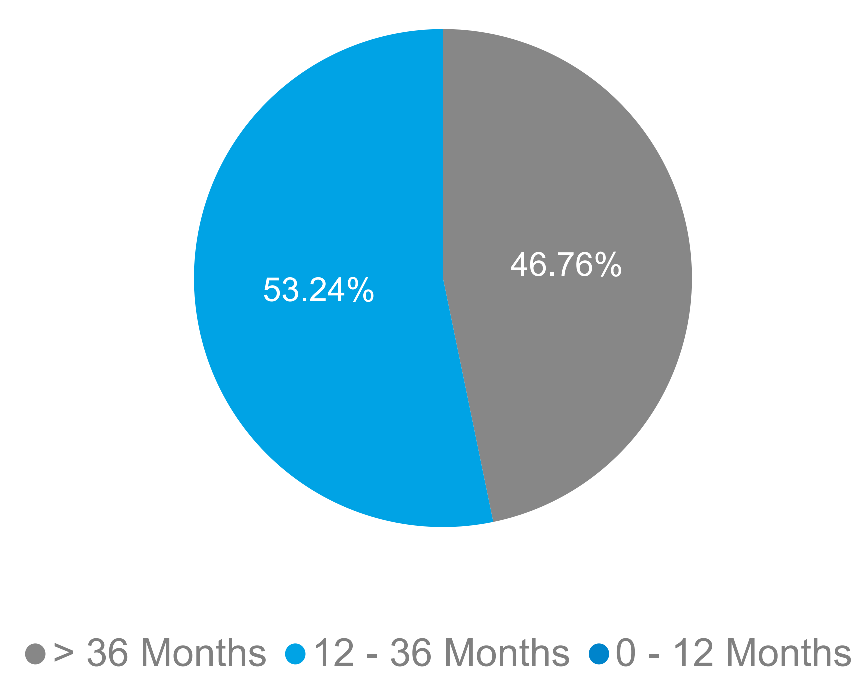
Loan Status



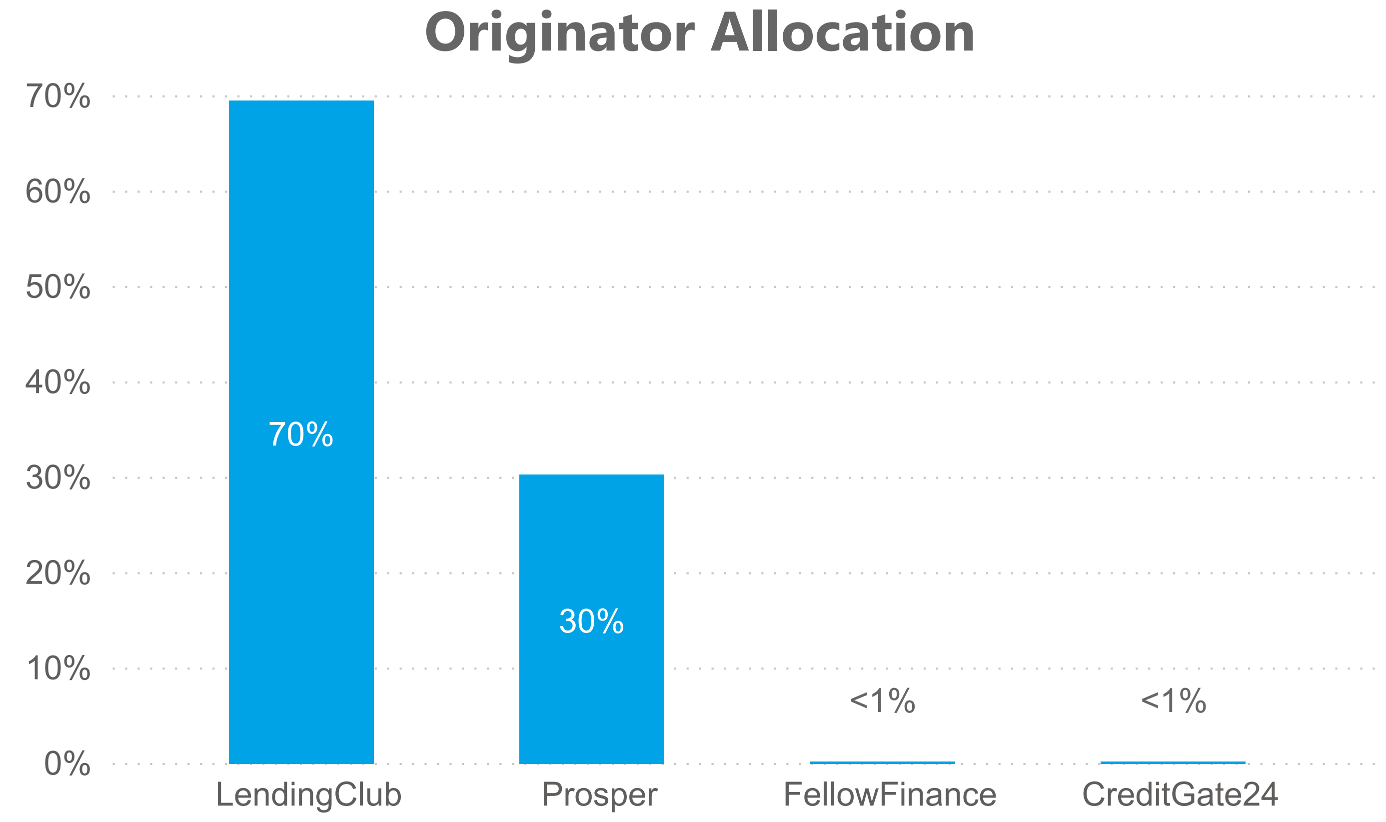
Rating Allocation



Remaining Months Allocation



Originator Allocation



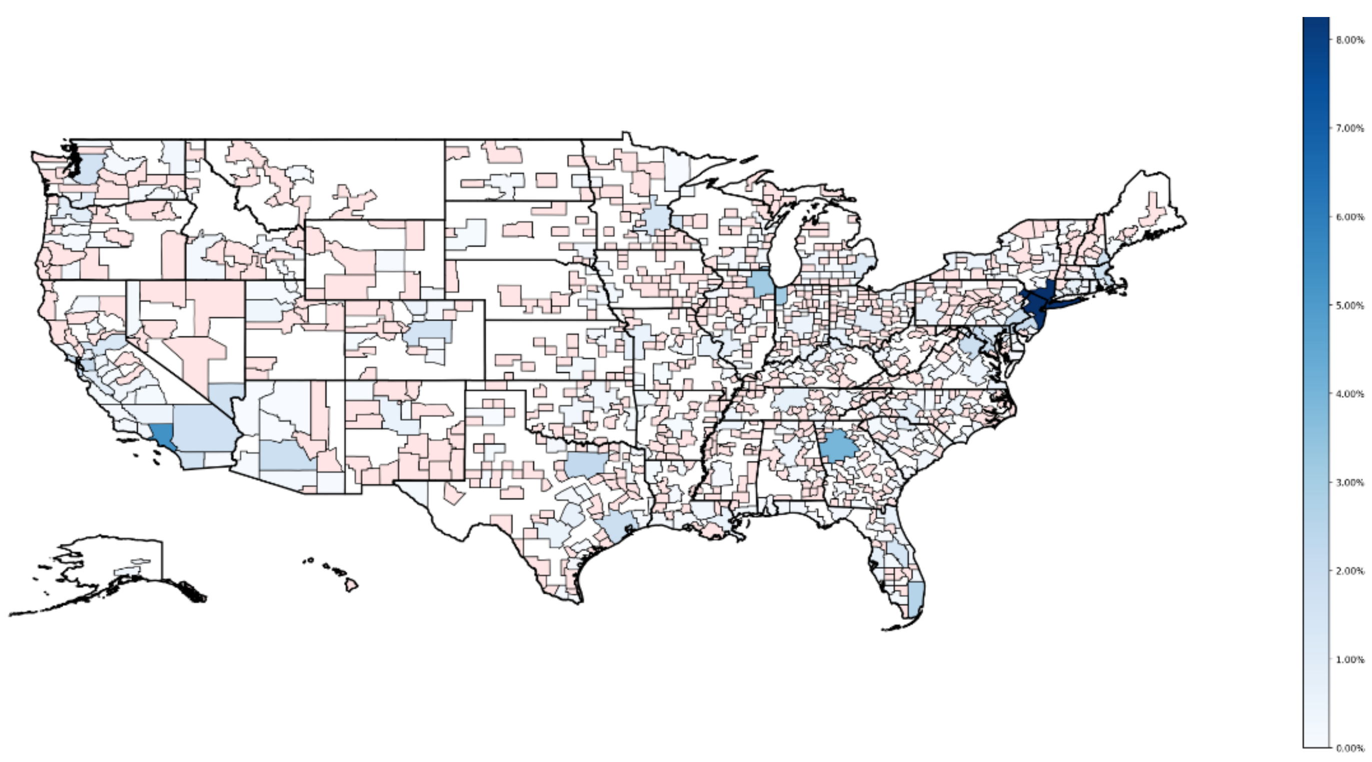
Fund Facts	Value
Fund AuM (EUR mm)	35.70
NAV Class B1 (EUR)	1024.96
NAV Class C1 (EUR)	1025.95
Average Price (incl. accrued)	96.1
Number of Positions	3256
Yield (%)*	10.20%
Weighted Average Life (years)	1.36
Modified Duration	1.31

*The yield is estimated and unaudited and therefore subject to change.

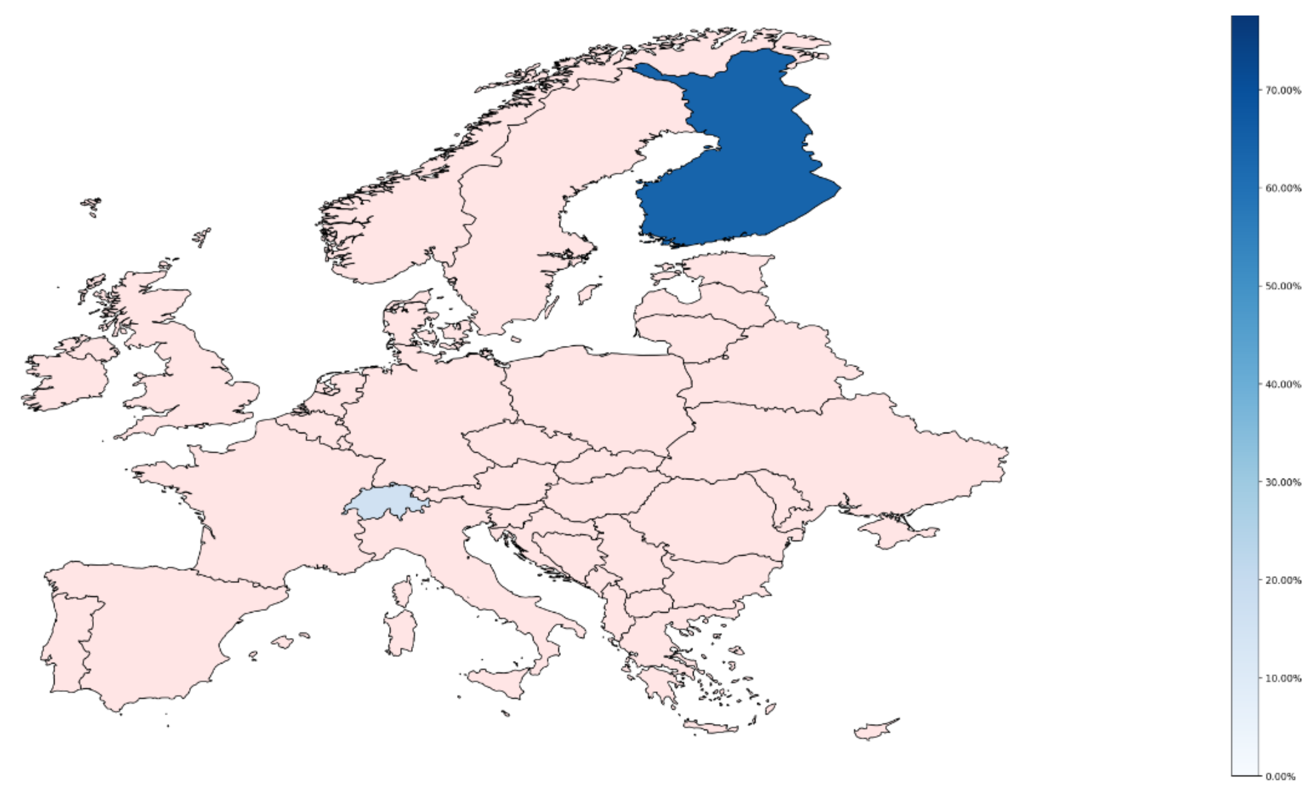
Date: As Per 31 January 2021
Source: Dynamic Credit

Purchased Loan Balance

United States (by MSA)



Europe (by Country)

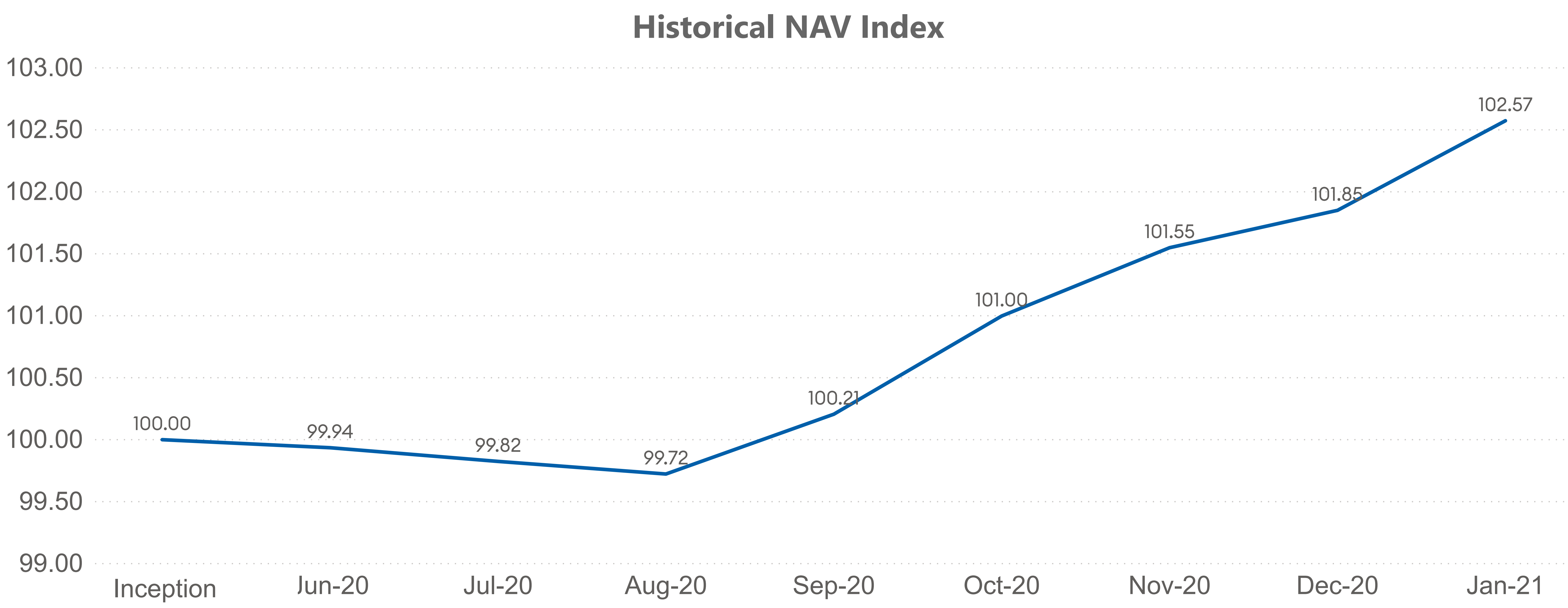


Note: Some loans which are pending or not in a defined jurisdiction are not included. Red areas have no exposure. In the United States, white areas are not in a defined MSA. The scale on the right of each map refers to weight within the US and Europe map respectively.

Source: Dynamic Credit, January 2021

Performance Commentary

January volume rebounded over 50% to EUR 7.7 million from EUR 5.0 million in December including the first Swiss and Finnish loans in the last days of the month. Consistent execution of the investment strategy as well as strong fundamental credit performance contributed to a monthly return equivalent to 8.5% on an annualized basis. While our long-term expectation of 5-7% net returns is unchanged, we continue to be encouraged by performance to date as we hopefully have now passed through the worst period of this unprecedented health and economic crisis. We are now purchasing loan purchases from four originators daily and continue to work towards agreements with additional lender partners. As previously noted, we are also engaged on several secondary portfolios with one transaction in advanced discussions. There were no subscriptions in January and the Fund ended the month with 4.4% cash as we continue to minimize cash drag for investors by aligning inflows with the pace of investment. In January, the Fund added 672 loans with invested principal of EUR 7.7 million with a weighted average coupon of 12.1% and a weighted average term of 44.6 months. The monthly performance of the Fund was +0.71% net of fees. As of the end of January, the loan portfolio (settled and pending purchases) totaled EUR 34.1 million with a Fund cash position of EUR 1.6 million.



2021 Monthly Fund Returns (%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Class B1	0.70 %												0.70 %
Class C1	0.71 %												0.71 %

Cumulative Performance (%)	1M	3M	6M	1Y	3Y	Since Inception
Class B1	0.70 %	1.53 %	2.69 %			2.50 %
Class C1	0.71 %	1.57 %	2.77 %			2.60 %

Returns are net of fees and expenses and before tax implications

Disclaimer

Authorisation of the Fund by the Central Bank of Ireland is not an endorsement or guarantee nor is the Central Bank of Ireland responsible for the contents of the prospectus. Authorisation by the Central Bank of Ireland shall not constitute a warranty as to the performance of the Fund and the Central Bank of Ireland shall not be liable for the performance or default of the Fund. Shares in the Fund cannot be offered in any jurisdiction in which such offer is not authorised or registered. The investments of the Fund are subject to market fluctuations and the risks inherent in all investments and there can be no assurance that an investment will retain its value or that appreciation will occur. The price of shares and the income from shares can go down as well as up and investors may not realize the value of their initial investment. Accordingly, an investment in the Fund should be viewed as a medium to long-term investment. Past performance may not be a reliable guide to future performance. Prospective investors should consult a stockbroker, bank manager, solicitor, accountant, financial adviser or their professional advisers accordingly.