SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 29th March to 2nd May 2013

Class F (USD) MTD return +1.64% YTD 2013 return +3.30% NAV per Share $110.43

Class D (EUR) MTD return +1.54% YTD 2013 return +3.10% NAV per Share $109.89

Portfolio and Market Commentary:

Risk assets performed strongly during April, following the large-scale QE program announced by the Bank of Japan at the start of the month, while soft economic data in the US, the evidence of recessionary conditions in Europe, and the confirmation of moderating inflationary pressures left investors confident that Central Banks would keep an accommodative stance for the rest of the year. US blue chip indices reached all time peaks in spite of underwhelming first quarter earnings. A "safety first bias" continued underpinning the rally, however, with defensive stocks outperforming cyclicals again last month: April's risk rally was driven by investors' search for income more than by their optimism about earnings growth. Data in Emerging Markets was mixed and largely country-specific. The fall in cyclically-sensitive commodities, notably oil and copper, on further signs of a "normalizing" growth outlook in China, provided the main unifying theme, and spurred renewed speculation about the likely winners (commodities importers such as Turkey, India or South Korea) and losers (commodities exporting countries such as Venezuela, Russia or Chile). In credit markets, both investment grade and high yield performed strongly: from March 29th to May 2nd, global investment grade spreads tightened by 9bps, representing an excess return of 0.6% over Treasuries. European and US high yield markets returned 2.6% and 2.2%, respectively, while EM high yield markets returned 0.9% (1).

We do not believe that the factors which led to the subdued performance of EM high yield markets during April have much significance for the outlook of the asset class as a whole. Developments in one particular sector (Mexican homebuilders) and one credit (OGX Petroleo e Gas, a Brazilian oil exploration & production company), impacted the market, both directly due to the sharp fall in the prices of the bonds affected, and indirectly through the negative sentiment generated. We have long regarded OGX as a mispriced credit whose cost of capital was much higher than implied by the trading levels of its international bonds before their recent correction. The company recently disclosed a series of poor operating results, as could have been expected from an early stage E&P company. OGX's debt duly re-priced to reflect its high operating risks, a fair development for a company which should have been entirely equity-funded in the first place, in our view. The case of Mexican homebuilders is more interesting, given that the sector had long been explicitly promoted by Government agencies keen to attract foreign capital to finance Mexico's large housing deficit. As a result of a change in governmental housing policies, Mexican homebuilders have been left with large inventories of houses they could no longer sell and landbank on which they could no longer build, making a restructuring of their financial liabilities unavoidable. Two of the largest listed homebuilders in the country announced their intentions to restructure during April, triggering sharp falls in their bond prices. While investors were reminded of the risks of investing in sectors too reliant on governmental policies, we do not believe that the market perception about the new reformist administration in Mexico or the outlook for the country is likely to be impacted in a meaningful way, if at all.

The close coincidence between sharp shifts in market sentiment and changes in expectations about Central Banks' policies leaves no doubt that risk assets, notably in Developed Markets, are being propped up by Central Banks' liquidity support more than by economic data or fundamental credit improvements. With fears of a rapid back-up in core rates receding, 2013 has so far been vindicating investors who focus on spreads as the main measure of a corporate bond's attractiveness: relative to long-term averages, spreads appeared to show high yield bonds were good value at the start of the year, and they still look fairly valued currently. All-in-yields, on the other hand, had already fallen to a record low of near 6% (2) by the end of 2012, only to break through new records as 2013 advanced, and have therefore proven a less effective valuation yardstick. We continue to believe that yield is the more appropriate measure for high yield bonds and therefore tend to find corporate markets are by-and-large fully valued. At the same time, we do not believe the credit cycle is mature enough for valuations to correct meaningfully in the absence of an exogenous shock, as credit fundamentals remain supportive (if no longer improving) and speculative default rates will remain low, in our base case. We therefore remain comfortable that a strategy focussed on carry and credit differentiation will likely result in attractive returns for the remainder of the year.

All positions in the portfolio performed satisfactorily during April, with only one generating a marginally negative return. Relative underperformers included most of the fund's short-dated positions, which did not benefit from the bid for duration generated by the resilient performance of Treasuries during the month. Our position in Grupo Cementos de Chihuahua, the Mexican cement company, was the only idiosyncratic underperformer, after the company reported disappointing first quarter earnings, partly as a result of unfavourable weather conditions in some of its markets during the period. Strong contributors to the fund's performance included our positions in consumer finance credits, although we pared our exposure during April given the sector's less attractive valuations. Our exposure in the bonds of Vimpelcom, the Russian telecom provider, performed well, as EM investors looked to add to non-commodity related credits in the EM space. Finally, our exposure in Braskem was another good contributor to the performance, as the outlook for the Brazilian petrochemicals company improved after the Brazilian government announced fiscal incentives to support the competitiveness of the local chemical industry.

(1) Source: Bank of America Merrill Lynch indexes G0BC, HP00, H0A0, and EMHB.

(2) Bank of America Merrill Lynch HW00 index, Yield-to-Worst as of 31/12/2012.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	105.9	4.1	5.8 %	6.7 %	500	100 %
Largest 5 Positions								
	B+	20 %	104.6	4.4	6.8 %	7.7 %	597	13 %
Strategies								
Low Vol Portfolio	BB-	52 %	107.0	4.3	6.6 %	7.8 %	572	46 %
High Vol Portfolio	B+	35 %	105.1	5.2	6.8 %	7.4 %	573	54 %
Cash and Equivalents	AA+	13 %						0 %
Regions								
Latin America	BB-	29 %	107.5	5.1	6.2 %	7.3 %	515	20 %
Eastern Europe / CIS	B+	21 %	105.8	4.7	6.8 %	7.9 %	588	32 %
Developed Europe	BB-	17 %	105.1	4.2	7.2 %	8.3 %	637	25 %
Cash and Equivalents	AA+	13 %						0 %
Asia Ex-Japan	B+	8 %	107.7	4.6	7.3 %	8.0 %	633	18 %
Africa	B	5 %	99.5	4.2	7.0 %	6.9 %	621	0 %
Middle East	BB	4 %	110.5	5.0	6.0 %	7.2 %	499	5 %
North America	B	3 %	105.8	3.8	5.8 %	6.9 %	509	0 %
Corporates/Financials								
Corps	BB-	67 %	105.5	4.9	6.6 %	7.4 %	557	71 %
Financials	BB-	20 %	108.8	4.0	7.1 %	8.5 %	623	29 %
Cash and Equivalents	AA+	13 %						0 %
Sectors								
Oil, Gas & Consumable Fuels	B	14 %	103.3	3.9	7.1 %	8.1 %	634	10 %
Commercial Banks	BB-	13 %	104.5	4.3	6.8 %	7.3 %	591	9 %
Cash and Equivalents	AA+	13 %						0 %
Real Estate Management & Development	BB	9 %	104.4	7.1	6.7 %	6.9 %	531	10 %
Telecommunications	BB-	9 %	103.0	5.5	6.5 %	6.8 %	537	11 %
Consumer Finance	B+	7 %	116.3	3.5	7.6 %	10.6 %	683	19 %
Media	BB	5 %	110.2	4.8	5.8 %	7.1 %	486	6 %
Beverages	BB+	4 %	109.8	6.7	5.1 %	5.9 %	358	3 %
Education	B	4 %	110.8	3.2	7.0 %	9.2 %	644	6 %
Road & Rail	B	3 %	103.9	2.1	8.6 %	10.1 %	823	2 %
Air Freight & Logistics	BB-	3 %	108.6	4.7	7.5 %	8.5 %	648	1 %
Chemicals	BBB-	3 %	108.3	6.4	4.5 %	5.3 %	311	8 %
Independent Power Producers & Energy Traders	-	3 %	104.1	4.1	6.6 %	7.3 %	588	6 %
Hotels, Restaurants & Leisure	B	3 %	107.9	3.7	5.9 %	7.3 %	518	1 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Sectors (cont'd)								
Metals & Mining	BB-	2 %	100.5	4.2	6.3 %	6.3 %	547	1 %
Food Products	B	2 %	111.8	5.0	6.9 %	8.2 %	596	5 %
Machinery	BB+	2 %	101.1	5.9	4.7 %	4.8 %	347	2 %
Auto Components	B+	1 %	100.0	5.8	5.6 %	5.6 %	440	0 %
Building Products	-	0 %						-1 %
Utilities	-	0 %						1 %
Ratings								
B	B	26 %	104.8	3.8	7.3 %	8.2 %	656	26 %
BB	BB	18 %	105.6	6.1	6.4 %	7.0 %	512	16 %
BB-	BB-	13 %	107.5	4.5	7.2 %	7.9 %	629	13 %
AA	AA	8 %						0 %
B+	B+	7 %	104.7	4.4	5.6 %	7.2 %	470	11 %
BB+	BB+	7 %	109.4	5.4	4.7 %	6.6 %	345	6 %
B-	B-	6 %	110.7	3.7	8.5 %	9.9 %	783	13 %
NR	-	5 %	102.5	4.0	7.4 %	7.9 %	666	8 %
AAA	AAA	5 %	100.0	0.0	0.0 %	0.0 %	0	0 %
BBB-	BBB-	5 %	109.2	6.2	4.5 %	5.4 %	313	7 %
Currencies								
USD	BB	81 %	105.8	4.2	5.9 %	6.7 %	505	76 %
EUR	BB-	13 %	106.4	4.5	6.3 %	7.6 %	549	15 %
GBP	BB-	6 %	113.9	1.8	3.1 %	3.8 %	271	9 %

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Performance Table since Inception:

Class F (USD)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	**YTD**
2012							0.15%	0.72%	0.78%	2.11%	1.24%	1.72%	**6.90%**
2013	0.97%	0.11%	0.54%	1.64%									**3.30%**

Class D (Euro)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	**YTD**
2012							0.20%	0.66%	0.70%	2.04%	1.20%	1.62%	**6.59%**
2013	0.87%	0.12%	0.54%	1.54%									**3.10%**

Past Performance is no guarantee of future results.