SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 2nd August to 29th August 2013

Class F (USD): MTD return: -0.06% YTD 2013 return: 2.08% NAV per Share: 109.13

Class D (EUR): MTD return: -0.07% YTD 2013 return: 1.86% NAV per Share: 108.57

Portfolio and Market Commentary:

Risk assets performed poorly during August on higher geopolitical risks in the Middle East and continued uncertainty about the withdrawal of the Federal Reserve's accommodative policies. US Treasury yields were again volatile, with 10-year treasury yields nearing 2.9% following the publications of the minutes from the Fed's July meeting, before stabilizing in a 2.70-2.80% range on safe-haven demand as investor sentiment weakened over the month. With the exception of European High Yield, which returned 0.1%, corporate credit markets produced negative total returns: global investment grade markets returned -0.2%, with spreads marginally wider, while US HY and EM HY returned -0.7% and -1.1% respectively (1).

As explained in our previous investor letter, we felt July's rally had left valuations in EM vulnerable and materially reduced our more generic market exposures in the first week of the month. Although spreads improved during August, the threshold above which we feel valuations would become attractive again has now risen, too. The steady weakening of EMFX since May turned into a rout for several currencies during August. The Indian Rupee, the Indonesian Rupiah, and the Turkish Lira all experienced dramatic falls to reach multi-years lows against the US Dollar. Concerns that time is running short for those countries to correct their external imbalances is being compounded by underwhelming (in Indonesia and Brazil) or confusing (in Turkey and India) policy responses, as EM policymakers are reluctant or unable to implement the monetary tightening and structural reforms necessary to stabilize their currencies. The EM asset corporate asset class is hostage to such macro developments, and likely to face a no-win alternative in the near term, in our view. On the one hand, policy inaction would leave EM currencies even more vulnerable; on the other hand, monetary tightening will inevitably reduce growth expectations further, while structural reforms can be disruptive and, historically, have been a factor of default for leveraged EM credits.

With the Euro HY market's yield to worst hovering around its all-time lows at 5.3%, and spreads to worst at 380 basis points barely 50bps above their post-crisis tights (2), we remain wary of the valuations reached by the European High Yield asset class. We believe those valuations are more reflective of the ECB's accommodative stance than of expectations of improving credit fundamentals, echoing market developments in US$ credit markets earlier this year. We note, however, that the ECB is only proving partly successful in decoupling its monetary policy from the Fed: since mid-July, 10 year Bund yields have risen 40 basis points, while expectations of the next ECB rates hike have actually been moving forward again due to improving activity indicators and hawkish signals from Germany's Bundesbank in its latest monthly report.

In both EM and Europe, in the absence of compelling value at the market level, our near term involvement is likely to remain limited to more idiosyncratic and less investor-crowded credits. We see good value in selected Eastern European Euro-denominated corporate bonds, which we believe are benefiting from the improving outlook in Developed Europe, without suffering from the remaining leverage overhang across much of that region. We are also taking a more positive stance on Chinese industrial credits, having largely avoided that segment of the market over the past year. In selected cases, first half results showed a combination of strong cash management and deleveraging efforts, which should allow valuations to reprice to tighter levels on signs that economic activity in China is now stabilizing.

Most of the fund's positions performed in line with our expectations during August, with the ten worst performing holdings generating 25 basis points of negative return in aggregate. Our position in Pacific Rubiales, the Colombian oil & gas producer, was the single worst contributor to the fund's performance. Although the company recently reported strong first half results, our holdings suffered from their negative convexity, compounding the price impact of wider market spreads. Our positions in Banco BMG and Hyva performed well and were the two strongest contributors to the fund's performance. As we reported in our previous letter, Banco BMG reported a second consecutive quarter of sound results at the end of July, which is giving investors more confidence that the bank has a solid credit origination platform. Our holdings have now repriced from a spread above 1,000bps in early August to around 930bps currently, a level we still believe is attractive for a six-year bond. Hyva, an international manufacturer of container lifting systems, reported improving first half results at the end of August, showing good sales momentum in China and strong working capital management, which alleviated investors' concerns about the manufacturer's exposure to India and Brazil. Although Hyva's leverage remains very high, we believe the absence of near-term liquidity concerns and improving investor expectations should help yields stabilize around their current level (reached after the end of the reporting period) of 11.5%, down from our entry point of 15%.

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

(2) Bank of America Merrill Lynch European Currency High Yield Index, Yield to Worst and Spread to Worst vs. Govt.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	B+	100 %	103.8	3.3	6.4 %	7.0 %	515	100 %
Largest 5 Positions								
	B	18 %	109.3	4.1	8.0 %	9.4 %	649	61 %
Regions								
Latin America	BB-	24 %	103.2	4.1	7.5 %	8.2 %	579	1 %
Developed Europe	B+	21 %	104.9	4.2	8.1 %	9.0 %	651	117 %
Eastern Europe / CIS	B+	20 %	105.0	4.5	8.2 %	8.9 %	654	-3 %
Cash	AA	15 %						0 %
Asia ex-Japan	B+	7 %	101.2	2.0	10.2 %	10.6 %	946	-8 %
North America	B	6 %	103.5	4.3	6.4 %	7.1 %	464	7 %
Treasury Bills	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Middle East	B-	2 %	108.4	5.1	8.3 %	9.1 %	606	-1 %
Africa	-	0 %						-13 %
Corporates/Financials								
Corps	B+	61 %	103.4	4.1	8.0 %	8.6 %	648	47 %
Financials	BB-	19 %	106.4	4.1	8.0 %	9.3 %	623	53 %
Cash	AA	15 %						0 %
Treasury bills	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Sectors								
Oil, Gas & Consumable Fuels	B+	15 %	102.8	4.3	7.1 %	7.7 %	533	-54 %
Cash	AA	15 %						0 %
Media	B+	12 %	106.9	3.4	8.2 %	9.7 %	689	1 %
Consumer Finance	B+	10 %	111.5	3.7	8.2 %	10.3 %	658	71 %
Commercial Banks	BB	9 %	100.4	4.6	7.8 %	8.1 %	582	-19 %
Chemicals	B	5 %	104.7	4.7	8.1 %	8.7 %	645	-17 %
Treasury bills	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Telecommunications	B+	4 %	101.6	4.8	8.4 %	8.5 %	633	11 %
IT Services	CCC+	4 %	105.1	4.5	8.8 %	9.4 %	729	3 %
Real Estate Management & Development	BB	3 %	97.0	5.1	7.3 %	7.0 %	571	8 %
Air Freight & Logistics	BB-	3 %	103.4	4.6	8.5 %	8.9 %	652	22 %
Hotels, Restaurants & Leisure	B	3 %	102.3	3.5	7.2 %	7.7 %	583	-4 %
Building Products	B+	3 %	106.4	2.8	7.3 %	8.9 %	624	21 %
Gaming	B+	3 %	104.0	3.6	8.7 %	9.4 %	748	29 %
Food Products	B	2 %	107.8	4.8	7.6 %	8.5 %	601	9 %

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	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Sectors (cont'd)								
Auto Components	B	2 %	98.8	5.0	9.2 %	9.1 %	762	-10 %
Machinery	B	2 %	89.5	2.1	13.6 %	9.6 %	1286	36 %
Beverages	-	0 %						1 %
Containers & Packaging	-	0 %						-9 %
Road & Rail	-	0 %						1 %
Ratings								
B	B	19 %	103.2	4.1	7.9 %	8.1 %	639	44 %
B+	B+	17 %	104.6	3.4	8.3 %	9.5 %	704	43 %
Cash	AA	15 %						0 %
BB-	BB-	14 %	105.9	3.9	7.8 %	8.7 %	612	56 %
B-	B-	10 %	106.9	4.3	9.5 %	10.4 %	766	42 %
BB+	BB+	8 %	103.2	5.1	6.3 %	7.3 %	416	-69 %
BB	BB	6 %	98.1	4.5	7.5 %	7.6 %	587	-3 %
Treasury bills	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
CCC+	CCC+	4 %	105.1	4.5	8.8 %	9.4 %	729	3 %
NR	-	2 %	100.7	3.7	8.3 %	8.4 %	677	16 %
BBB-	-	0 %						-32 %
Currencies								
USD	BB-	69 %	102.8	2.9	5.8 %	6.2 %	461	-29 %
EUR	B+	23 %	104.8	4.2	7.9 %	8.8 %	655	70 %
GBP	B+	8 %	108.6	4.5	7.9 %	8.9 %	599	59 %

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%	-0.04%	-2.16%	1.11%	-0.06%					**2.08%**

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%	-0.06%	-2.21%	1.16%	-0.07%					**1.86%**

Past Performance is no guarantee of future results.