SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 1st August to 28th August 2014

Class F (USD): MTD return: 0.91% YTD 2014 return: 7.02% NAV per Share: 121.73

Class D (EUR): MTD return: 0.92% YTD 2014 return: 6.93% NAV per Share: 120.94

Portfolio and Market Commentary:

After a weak start to the month, credit markets rebounded during the next three weeks of August, as “buy-on-dip” strategies and expectations of continued monetary accommodation prevailed over concerns about the Eurozone’s deteriorating economic outlook and the escalating crisis in Ukraine. The rebound of US high yield markets, which returned 1.49% during the month, confirmed that July’s 1.3% sell-off was largely technical. European and Emerging Market HY, where ETFs play a more limited role, did not fall as much as US HY during July and also lagged on the upside: Euro HY returned 0.6%, while EM HY proved very volatile, falling nearly 1.4% during the first week before recovering to return -0.09% for the period. The overall performance concealed marked differences between Latin America and Asia, which returned -0.04% and 0.88% respectively, and Eastern Europe which suffered from the deterioration of the crisis in Ukraine and fell -0.93%. Finally, the rally in rates, which we discuss further below, ensured investment grade markets outperformed HY during the month, with global IG markets returning 1.37%, corresponding to a more modest excess return of 14bps as spreads weakened marginally during the month (*)

August broadly saw a continuation of the same themes which had dominated July.

Although the crisis in Ukraine has arguably worsened, markets’ reaction was apathetic, reflecting some fatigue about the 6-month old crisis and expectations that the crisis will not have a lasting impact on global growth. There were however increasing signs that the tensions between Russia and Western countries are having an impact on the Eurozone’s outlook, with expectations surveys across the region falling sharply during the month. August also confirmed that the Ukrainian crisis, nominally an “EM” phenomenon, is unlikely to have contagion effects on the asset class as a whole: parts of EM are actually set to be marginal beneficiaries from the crisis as capital gets reallocated away from Russia and EM agricultural exporters benefit from the Russian ban on imports from Western countries.

The continuing fall in risk-free rates during August has been nothing but impressive: 10-year treasuries extended their rally to 2.34% while 10-year Bund yields reached 0.89%, an all-time low, after ECB president Mario Draghi hinted that the ECB stood ready to engage in Quantitative Easing during his Jackson Hole address. The strength of treasuries has proved a resilient theme in 2014 and not one which can be explained away anymore with oneoff factors (treasury accumulation by China, safe-haven demand...) nor domestic developments: treasuries rallied during the Summer in spite of broadly stronger macro data, more hawkish Fed pronouncements, and was coincident with treasury-bearish signals such as the broad-based strengthening of the Dollar or the flattening of the yield curve. In our view, deflationary pressures in the Eurozone and increasing attractiveness to Bunds have emerged as the most plausible explanation for what had been a puzzling rally before the summer. We remain cautious which, between the gravitational pull exerted by Bunds and the improving US economy, is likely to prevail in determining UST yields in the coming months, and continue to believe that better risk/reward is achieved in credit than duration risk.

Our positions in Indonesia were coincidentally the best and worst performers of the fund during August. We chose to adjust our exposure to that country by selling our position in Pakuwon Jati, a developer, during the first week, which proved poor timing in hindsight; the position generated 5bps of negative performance. Our position in Modernland, another developer, performed strongly, generating 18bps of positive performance after the company exchanged the short-dated bonds held by the fund into new 5-year bonds (in essence a tender followed by a new issue) and subsequently reported good second quarter earnings. Most positions in the fund reported their second quarter earnings with outcomes generally uneventful. Among the fund’s largest positions, our position in Gol, the Brazilian airline, outperformed and contributed around 11bps to August’s performance after the company reported another good set of results. Finally, we took advantage of cheaper valuations during the month to increase the size of some of our holdings, notably in Digicel, the Central American telecom company, Rolta, the Indian IT company, and Global Cloud Exchange, the subsea cable company, which were among the fund’s five best performing holdings.

(*) Source: BofA Merrill Lynch indexes H0A0, HP00, EMHB, EMHL, EMHA, EMHE, G0BC, G0Q0.

Portfolio Composition:

SphereInvest Global Credit Strategies	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
	BB-	100 %	104.1	4.2	6.0 %	6.7 %	459	100 %
Largest 5 Positions								
	B+	19 %	103.1	6.5	8.0 %	8.7 %	617	14 %
Regions								
Latin America	BB-	26 %	102.5	5.8	7.1 %	8.0 %	518	20 %
Asia ex-Japan	BB-	21 %	104.4	5.2	6.7 %	7.4 %	514	39 %
Developed Europe	B+	19 %	106.5	3.8	7.3 %	8.5 %	589	18 %
Eastern Europe / CIS	B+	9 %	106.8	4.6	6.2 %	7.2 %	528	8 %
Cash	AA	8 %						0 %
Treasury Bills	AAA	7 %	100.0	0.2	0.0 %	0.0 %	0	0 %
North America	B-	7 %	104.9	4.8	7.3 %	7.9 %	538	16 %
Middle East / Africa	B	3 %	98.9	3.9	8.7 %	8.5 %	700	-1 %
Corporates/Financials								
Corps	B+	69 %	103.7	5.2	7.2 %	7.8 %	554	96 %
Financials	BB-	16 %	107.6	3.5	6.4 %	8.1 %	483	4 %
Cash	AA	8 %						0 %
Treasury Bills	AAA	7 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Sectors								
Real Estate Management & Development	BB-	12 %	105.6	6.2	7.4 %	8.2 %	587	21 %
Telecommunications	B	12 %	106.6	4.6	6.7 %	7.6 %	484	17 %
Consumer Finance	BB-	9 %	107.0	3.8	7.3 %	8.5 %	554	2 %
Cash	AA	8 %						0 %
Treasury Bills	AAA	7 %	100.0	0.2	0.0 %	0.0 %	0	0 %
IT Services	B	7 %	106.5	4.0	7.9 %	8.9 %	690	12 %
Communications Equipment	BB-	7 %	102.0	4.0	7.1 %	7.4 %	541	8 %
Commercial Banks	BB-	7 %	108.6	3.1	5.1 %	7.5 %	380	1 %
Media	B+	6 %	106.9	3.9	5.9 %	7.2 %	489	7 %
Food Products	B	4 %	108.2	4.9	7.7 %	8.8 %	577	2 %
Airlines	B-	4 %	87.6	9.6	10.0 %	10.0 %	745	10 %
Automobiles	BB+	4 %	99.3	5.9	4.2 %	4.2 %	354	0 %
Transportation Infrastructure	B	3 %	105.8	3.5	8.5 %	9.5 %	687	1 %
Machinery	B	3 %	102.9	1.4	6.6 %	8.4 %	599	3 %
Beverages	BB+	3 %	95.9	5.8	7.2 %	6.8 %	505	8 %
Utilities	-	2 %	104.7	12.5	7.1 %	7.2 %	426	2 %
Diversified Financial Services	BB-	2 %	99.8	4.1	6.3 %	6.3 %	460	2 %
Gaming	-	0 %						4 %
Ratings								
BB-	BB-	20 %	106.6	3.6	6.7 %	8.0 %	510	17 %
B	B	18 %	105.1	3.8	7.7 %	8.7 %	630	30 %
BB	BB	18 %	105.0	5.4	6.5 %	7.5 %	496	17 %
B-	B-	12 %	100.7	6.6	7.8 %	8.4 %	557	26 %
AA	AA	8 %						0 %
AAA	AAA	7 %	100.0	0.2	0.0 %	0.0 %	0	0 %
BB+	BB+	6 %	97.9	5.9	5.5 %	5.3 %	418	8 %
B+	B+	5 %	105.8	4.0	6.9 %	7.9 %	518	-1 %
CCC+	CCC+	4 %	108.0	4.0	8.0 %	9.1 %	745	1 %
NR	-	2 %	104.7	12.5	7.1 %	7.2 %	426	2 %
Ratings								
USD	BB	76 %	103.1	4.1	5.8 %	6.4 %	430	85 %
EUR	B+	14 %	104.4	4.7	6.1 %	6.7 %	551	12 %
GBP	B+	10 %	110.1	3.9	7.3 %	8.8 %	542	3 %

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%	1.70%	1.66%	0.14%	0.67%	**6.40%**
2014	0.84%	1.08%	0.84%	1.10%	1.20%	1.04%	-0.20%	0.91%					**7.02%**

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%	1.67%	1.66%	0.13%	0.65%	**6.11%**
2014	0.85%	1.06%	0.77%	1.09%	1.25%	1.01%	-0.21%	0.92%					**6.93%**

Past Performance is no guarantee of future results.
Performance figures are net of all fees.