SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 30th November to 31st December 2012

Class D (EUR) MTD return	*+1.62%*	*YTD return*[(1)]	*+6.59%*	*NAV per Share $106.59*
Class F (USD) MTD return	*+1.72%*	*YTD return*[(1)]	*+6.90%*	*NAV per Share $106.90*

[(1)] YTD from inception on 2nd July 2012

Portfolio and Market Commentary:

Dear Investor,

We launched our new fund, the SphereInvest Global Credit Strategies Fund, six months ago on July 2nd 2012, at a time when the uncertainty surrounding the Eurozone debt crisis was close to its maximum intensity. The spring of 2012 had seen financial market stress re-emerge on concerns over Spanish banks' solvency and the political turmoil in Greece. By some measures the crisis was still worsening by mid-July 2012, when Spanish 10-year sovereign yields reached their highest in the Eurozone history. On July 26th, however, ECB President Mario Draghi declared that the ECB was "ready to do whatever it takes to preserve the Euro" in a speech which seems likely to go down in history as a decisive inflection point in the Eurozone crisis. In the words used by Mario Draghi in that same speech, the Euro remains "a bumblebee [which] shouldn't fly", and yet does. But the ECB successfully convinced markets that the Common Currency was here to stay, however far it may be from graduating "to a real bee". Most financial assets have performed strongly since then, chief among them credit markets. During December alone, Global High Yield corporate bonds returned 1.8%, while Global Investment Grade spreads tightened by 6 basis points. (*)

One well understood aspect of that strong market performance is that it occurred against a background of pessimism about growth in the developed world. The rally in corporate bonds was fed by inflows into bond funds, driven by the expectation that central banks in the Developed World will keep intervention rates low for the foreseeable future. The rally was also a catch-up process. Bonds from the peripheral countries of the Eurozone, which had been pricing in a high likelihood of default, performed strongest after Mr. Draghi's speech. A more puzzling aspect of the rally has been the lack of market volatility during the second half of 2012 in spite of lingering, indeed largely unaddressed, risks. December provided another case in point. High yield markets shrugged off the fiscal cliff negotiation impasse even though the near-term path of the US economic recovery is so heavily dependent on the outcome (still uncertain at the time of writing) of those negotiations. Investors' optimism appears to have been supported by alternative expectations that the impasse was a negotiating ploy, that an eleventh hour deal would be reached, that an interim mini deal could be struck in time and leave the first months of 2013 to reach a "Grand Bargain" - or, all else failing, by the dubious reasoning that even though potentially dramatic, a policy-induced US recession would be short-lived and pass without too much damage for global corporate issuers' credit quality.

Inevitably the continuous fall of risk premiums is giving rise to concerns about market complacency, or indeed about the formation of a “credit markets bubble”. We do not believe we are there yet. Aside from the US high yield market, where the incomparably greater depth has been accommodating transactions popularly considered as hallmarks of boom-time markets (such as “payment-in-kind” or “recapitalisation” deals), we have seen little signs of credit quality deterioration among the new issues we evaluated during the second half of 2012. On an anecdotal basis it was noteworthy that numerous issuers were pushed back and had to shelve their issuance plans, showing that credit markets did indeed maintain their powers of discrimination in spite of investors’ unquenchable thirst for yield. Only time will tell how good the 2012 issuance vintage was, but we do expect default incidence among recently issued bonds to remain very low. We do also anticipate some dilution of credit quality among new issuers in 2013, as the well-established and strong corporate issuers, which represented the bulk of the primary markets in 2012, are followed by maiden, smaller issuers with riskier business profiles. This will bring more risks, but many opportunities too for discerning investors.

2012 was an exceptionally strong year for credit investors, leaving little hope that 2013 can bring the same rewards. Since recent credit markets performance was in part born out of pessimism, a repetition of that performance in 2013 would arguably have worrisome implications for the global economy. What to wish for, then? Reasons to worry abound, but so do reasons for optimism. Most Emerging Markets, despite some disappointments in 2012, are proving resilient to the ongoing deleveraging taking place in the Developed World. The hard landing scenario for the Chinese economy, still a real possibility in early 2012, appears much less likely now. The correction of the Eurozone’s internal imbalances is progressing slowly, even though it is coming at the cost of a dismal economic outlook for 2013. Assuming the fiscal cliff issue is settled, the US economy should continue to be driven by the strength of its private sector, notably in the all-important housing market. Our main aspiration for the SphereInvest Global Credit Strategies Fund and for our investors in 2013 would be that after several years of having the Eurozone crisis as the single most relevant driver of our asset class, credit markets will revert to what they should be, that is expressions of the evolving creditworthiness of corporate issuers.

(*) Bank of America Merrill Lynch data.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
	BB	100 %	105.6	4.6	5.5 %	6.0 %	447	100 %
Largest 5 Positions								
	B+	21 %	108.6	6.3	7.3 %	8.1 %	598	37 %
Strategies								
Low Vol Portfolio	BB	45 %	105.3	6.1	6.6 %	7.2 %	534	42 %
High Vol Portfolio	B+	33 %	108.3	5.6	7.5 %	8.5 %	631	58 %
Cash and Equivalents	AA+	22 %						0 %
Regions								
Latin America	BB	44 %	106.9	6.8	6.4 %	7.1 %	500	45 %
Cash and Equivalents	AA+	22 %						0 %
Eastern Europe / CIS	B	14 %	107.6	4.9	8.3 %	9.1 %	730	33 %
Asia ex-Japan	BB-	9 %	101.1	5.4	8.0 %	7.7 %	673	8 %
Developed Europe	BB	5 %	112.5	3.2	6.8 %	9.9 %	605	5 %
Middle East	BB	3 %	106.1	5.3	6.8 %	7.4 %	558	4 %
North America	B	3 %	103.1	4.1	6.5 %	7.0 %	571	5 %
Corporates/Financials								
Corps	BB-	57 %	106.7	6.3	7.0 %	7.6 %	572	83 %
Cash and Equivalents	AA+	22 %						0 %
Financials	BB	21 %	106.3	4.7	6.9 %	8.1 %	588	17 %
Sectors								
Cash and Equivalents	AA+	22 %						0 %
Commercial Banks	BB+	10 %	105.9	6.1	5.8 %	6.5 %	447	9 %
Oil, Gas & Consumable Fuels	B	8 %	104.1	4.0	6.6 %	7.4 %	578	9 %
Consumer Finance	BB-	8 %	109.5	3.4	8.9 %	11.1 %	810	8 %
Media	BB	6 %	107.1	4.9	6.3 %	7.2 %	523	7 %
Real Estate Management & Development	BB	6 %	106.4	10.8	8.8 %	8.8 %	653	8 %
Chemicals	B	5 %	110.1	5.1	7.6 %	8.6 %	656	14 %
Utilities	BBB	4 %	108.2	12.3	4.9 %	5.1 %	245	7 %
Road & Rail	B	4 %	103.4	2.3	9.1 %	10.2 %	859	1 %
Food Products	B	4 %	108.8	5.2	7.5 %	8.4 %	644	10 %
Building Products	B	4 %	112.9	6.4	7.5 %	8.3 %	592	8 %
Beverages	BB+	4 %	108.6	7.0	5.3 %	6.0 %	374	2 %
Hotels, Restaurants & Leisure	B	3 %	105.4	4.0	6.6 %	7.5 %	578	8 %
Pharmaceuticals	BBB-	3 %	104.4	7.7	4.6 %	4.9 %	288	5 %
Financials	BBB-	3 %	99.1	4.2	5.4 %	5.2 %	458	-1 %
Metals & Mining	BB	3 %	106.1	11.4	8.1 %	8.1 %	581	4 %
Auto Components	B-	3 %	100.8	1.4	8.8 %	7.9 %	834	1 %

	Average Rating	Market Value %	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Ratings								
B	B	26 %	107.2	4.6	7.4 %	8.2 %	639	49 %
AAA	AAA	13 %	100.0	0.1	0.0 %	0.0 %	0	0 %
BBB-	BBB-	9 %	101.3	6.4	5.1 %	5.2 %	374	7 %
AA	AA	9 %						0 %
BB	BB	9 %	107.4	9.2	7.5 %	7.7 %	558	10 %
BB-	BB-	9 %	108.0	4.1	7.1 %	8.3 %	621	9 %
BBB	BBB	8 %	109.1	10.1	4.7 %	5.2 %	266	9 %
BB+	BB+	7 %	111.1	4.8	5.4 %	7.9 %	432	2 %
NR	-	5 %	103.5	6.9	8.8 %	9.5 %	732	7 %
B-	B-	5 %	102.2	2.6	11.0 %	10.8 %	1030	7 %
Currencies								
USD	BB+	86 %	104.8	4.6	5.2 %	5.5 %	417	73 %
EUR	B+	12 %	110.7	4.3	7.0 %	8.9 %	609	25 %
GBP	BB-	2 %	110.6	4.5	8.5 %	9.7 %	737	2 %

Performance Table since Inception:

2012	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
Class D (Euro)							0.20%	0.66%	0.70%	2.04%	1.20%	1.62%	6.59%
Class F (USD)							0.15%	0.72%	0.78%	2.11%	1.24%	1.72%	6.90%

Past Performance is no guarantee of future results.

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