SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 28th November to 31st December 2014

Class F (USD): MTD return: -0.71% *YTD 2014 return: 6.56%* *NAV per Share: 121.22*

Class D (EUR): MTD return: -0.79% *YTD 2014 return: 6.18%* *NAV per Share: 120.09*

Annualized Return since inception: 7.9% *Annualized Volatility: 2.2%* *Sharpe Ratio: 3.5*

Portfolio and Market Commentary:

December concluded 2014 on a volatile and weak note for global high yield markets, with EM HY falling more than 5%, bringing total return to -1.4% for the year; US HY gave back 1.66% (2014 total return: 2.5%); while Euro HY once again proved more resilient, falling 20 basis points to return 5.5% for the year. The following table provides a more comprehensive overview of global credit markets' performance during 2014.

				December (2)		2014	
Ticker		Yield	OAS (1)	Total Return	Chg in OAS	Total Return	Chg in OAS
SIGCSFF MV	SphereInvest Global Credit Strategies Fund	5.5	448	-0.71%	n/r	6.56%	n/r
H0A0	US High Yield	6.6	504	-1.66%	48	2.50%	104
HP00	Euro High Yield	4.5	417	-0.20%	27	5.51%	56
EMHB	High Yield Emerging Markets	10.0	886	-5.07%	162	-1.41%	252
G0Q0	US Treasury	1.5	-1	0.48%	0	6.02%	0
G0BC	Global Corporate	2.6	131	0.26%	8	7.80%	7

(1) Option Adjusted Spread; (2) From 27/11/2014 to 31/12/2014; Source: Bank of America

We provide below our strategy for 2015, as well as a more detailed outlook by region.

Global strategy 2014 started with an apparently simple, but ultimately wrong, playbook (centred on long rates rising over the course of the year); in contrast, investors start 2015 better aware of the wide range of possible scenarios, with each carrying very different implications for investment positioning. The interplay between the normalization of monetary policy in the US, the economic stalemate in Developed Europe, and the struggle of Emerging Markets against a backdrop of lower investment rates in China, resulted in a few notable market developments during 2014, such as the rise of the Dollar, the fall in the price of oil (which, for all its abruptness, seems consistent with trends observable across the commodity complex) and the continuing fall of core rates in Developed Europe. Other indicators, however, have been less easy to reconcile with that broad picture, most prominently long Treasury rates falling below 2% at the start of 2015 – a level last seen in May 2013 - or the yield curve reaching its flattest since mid-2012, and appear to challenge the assumption that the US can be an isolated island of growth amid weak global economic conditions; they also raise anew the question of the impotence of monetary policy after six years of extraordinary accommodation in the US, and at a time when investors are pinning their hopes on central bank activism in Europe and Japan.

The perception of higher uncertainty has recently fed a rise in realized volatility, leaving carry strategies less appealing and justifying higher risk premiums. As repeatedly taught, however, low volatility can be a marker of complacency and mispriced risks: while we recognize the headwinds currently faced by the Global High Yield asset class, a starting point of higher risk premiums does also provide the potential for strong returns, should some of the risks which we outline in the current sections become less likely to materialize.

Euro High Yield Euro high yield starts 2015 underpinned by expectations that asset purchases by the ECB will provide the same boost as the Fed's "QE3" programme after 2012: by limiting the availability of high quality assets, the ECB should crowd investors into riskier assets, including corporate bonds. That narrative is likely to prove valid and justifies remaining tactically engaged in the asset class, in our view. Fundamentally, however, we believe that Euro HY is unattractive, in particular for non-Euro-funded investors such as our Fund. First, QE in the US may have proved a powerful driver for valuations because it happened on a background of lower growth globally; should a the divergence between the US and Europe confirm itself, as remains our base case, we believe QE in Europe may ultimately translate into higher capital outflows (which are already apparent in the fall of the Euro), rather than making low-yielding European assets more attractive to foreign capital. Second, we believe that the very conditions which are justifying QE in the first place – very low nominal growth – are likely to continue challenging leveraged European corporates. Ultimately, we believe that leveraged credits need expectations of stronger economic growth to thrive, and that assumption is too challenged in Developed Europe at this point to make us more positive on Euro HY.

US High Yield The larger weight of energy bonds (to around 13% of the market, at current market prices) has left US HY more vulnerable than Euro HY to the recent oil price collapse. With oil still struggling to find a floor, its stabilization appears increasingly likely to require a supply response, in particular among US shale producers: this, indeed, seems to be the gamble the Opec took when it left production quotas unchanged last November. High yield investors are wary inevitable defaults in the energy sector could result in an acceleration of the credit cycle: losses in investor portfolios could force liquidations, feeding risk aversion, making refinancing more difficult, and ultimately leading to higher default rates, including among credits otherwise unaffected by the decline of oil prices. As often, uncertainty about the distribution of economic losses is even more damaging for broader markets than their actual extent: we believe that a stabilization of oil – even at a lower level – could finally allow investors to determine viable credits in the energy sector and differentiate more clearly between energy bonds and credits which should benefit from the continued US recovery and lower oil prices. Following its subpar performance during 2014, such a scenario should see US HY outperform Euro HY in our view, as attractive valuations meet more supportive macro conditions.

EM high yield Emerging Markets continue to face serious challenges which will likely justify elevated risk premiums throughout 2015. The narrowing growth differential between EM and DM, expectations of rising rates in the US, lower commodity prices, and the stronger dollar (making dollar-denominated debts harder to service) are likely to continue driving capital out of the asset class, in our view. Many large EM countries "wasted" the 2010-2012 window of opportunity to improve their growth potential and are now compelled to implement pro-cyclical policies – such as Brazil, where the new administration has vowed to repair the country's fiscal accounts, or in Russia, where the Central Bank raised rates to 17% during December to stabilize the Ruble, making a recession inevitable in 2015. While covering micro-developments is beyond the scope of our letter, we note rising idiosyncratic risks – as lean times expose more vulnerable credits: 2015 started with two large public debt defaults (the Brazilian engineering & construction company OAS, and the Chinese developer Kaisa Group), which both appear to be due to companies falling foul of their respective governments' anti-corruption drive. While the overall picture is undeniably difficult, markets remain forward-looking: current positioning, notably in USD-EM or in commodities, likely partly reflects investor herding into well-performing trades; any sign that the narrative justifying a a continuing rally of the dollar, or fall of commodity prices, could in our view quickly translate into an unwinding of those positions and a rally for EM assets.

Portfolio Composition:

SphereInvest Global Credit Strategies	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
	BB+	100 %	100.6	3.3	5.5 %	5.7 %	448	-100 %
Largest 5 Positions								
	B+	17 %	106.4	4.5	6.7 %	7.7 %	568	5 %
Regions								
Treasury Bills	AAA	26 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Latin America	BB-	20 %	99.1	5.7	7.6 %	8.2 %	582	-40 %
Eastern Europe / CIS	B+	14 %	100.7	4.6	7.1 %	7.3 %	588	-9 %
North America	B+	12 %	101.8	5.3	7.0 %	7.2 %	548	-17 %
Developed Europe	B+	12 %	106.8	3.8	7.8 %	9.0 %	665	19 %
Asia ex-Japan	B+	9 %	99.2	3.0	9.4 %	9.2 %	800	-25 %
Cash	AA	4 %						0 %
Middle East / Africa	B	3 %	87.5	3.4	12.0 %	9.6 %	1043	-28 %
Corporates/Financials								
Corps	B+	53 %	100.1	4.8	8.0 %	8.1 %	653	-108 %
Treasury Bills	AAA	26 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Financials	BB-	17 %	102.9	4.4	7.4 %	8.4 %	586	8 %
Cash	AA	4 %						0 %
Sectors								
Treasury Bills	AAA	26 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Telecommunications	B+	13 %	98.4	4.9	7.8 %	7.7 %	607	-23 %
Consumer Finance	BB-	10 %	104.7	3.6	7.6 %	8.4 %	615	-5 %
Real Estate Management & Development	BB-	9 %	102.6	5.0	8.0 %	8.4 %	674	-30 %
Commercial Banks	BB-	7 %	100.5	5.4	7.2 %	8.4 %	545	13 %
Auto Components	B+	6 %	99.7	4.3	7.9 %	7.4 %	620	3 %
Communications Equipment	B+	6 %	97.2	5.3	7.9 %	7.1 %	684	-26 %
Media	BB-	6 %	103.0	3.8	6.6 %	7.3 %	573	-9 %
Food Products	B	5 %	106.9	4.1	7.2 %	8.3 %	551	0 %
Cash	AA	4 %						0 %
Transportation Infrastructure	B	3 %	101.3	3.3	9.6 %	9.9 %	808	-2 %
Airlines	B-	3 %	83.9	9.4	10.5 %	10.4 %	820	-22 %
IT Services	CCC+	2 %	102.6	3.8	9.2 %	9.6 %	887	2 %
Consumer	-	0 %						-1 %
Ratings								
AAA	AAA	26 %	100.0	0.2	0.0 %	0.0 %	0	0 %
B	B	17 %	100.7	4.0	8.9 %	8.8 %	717	-38 %
B+	B+	14 %	99.1	5.0	8.2 %	8.1 %	673	-30 %
BB	BB	13 %	103.8	4.7	6.6 %	7.6 %	529	-23 %
BB-	BB-	13 %	105.1	4.1	6.7 %	7.6 %	549	-8 %
B-	B-	8 %	96.7	6.3	8.6 %	9.0 %	669	-26 %
AA	AA	4 %						0 %
BBB-	BBB-	2 %	80.2	6.5	8.3 %	6.2 %	621	6 %
CCC+	CCC+	2 %	102.6	3.8	9.2 %	9.6 %	887	2 %
BB+	BB+	1 %	103.6	4.2	7.0 %	7.6 %	529	17 %
Ratings								
USD	BBB-	78 %	99.2	3.1	5.1 %	5.2 %	407	-120 %
EUR	B+	12 %	103.1	4.9	6.4 %	6.8 %	596	7 %
GBP	B+	10 %	107.8	3.7	7.5 %	8.8 %	612	13 %

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%	-0.51%	0.14%	0.66%	-0.71%	**6.56%**

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%	-0.62%	0.12%	0.59%	-0.79%	**6.18%**

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

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