SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 1st February to 28th February 2013

Class F (USD) MTD return +0.11%   YTD 2013 return +1.08%   NAV per Share $108.06

Class D (EUR) MTD return +0.12%   YTD 2013 return +0.99%   NAV per Share $107.65

Portfolio and Market Commentary:

The relative indifference with which global credit markets reacted to the outcome of the elections in Italy provided an interesting contrast to the jitters which followed Fed Governor Stein's remarks about financial excesses in credit markets and the publication of the Fed's January minutes which revealed "several participants" had expressed concerns about the open-ended nature of QE3. In spite of the renewed uncertainty in Italy, investors still appear confident that the crisis in the Eurozone has evolved from an acute phase involving the risk of its breakdown to a slow fuse of social tensions and economic decline in its periphery. Their focus has shifted to the risk of an earlier than expected withdrawal of the liquidity which has buoyed credit markets since QE3 was introduced last September. Timing the "tapering" of asset purchases and the risk of seeing long rates overshoot appear likely to remain a source of volatility during 2013. As things stand, Fed Chairman Bernanke provided no indication of a shift in policy during his testimony at the end of the month. Treasury markets, which had seen 10-year rates rise to as high as 2.03% during the month, were equally caught wrong-footed by the results of the Italian elections, and 10-year rates closed the month at 1.87%, helping global investment grade markets to return 0.9%, while US, European and EM high yield markets returned 0.5%, 0.6%, and 0.9%, respectively during February (1).

The performance of the SphereInvest Global Credit Strategies Fund for the month was driven by three main investment decisions.

The first driver of February's performance was our decision to reduce the duration of the fund in response to the increasing volatility observed in the Treasury market since mid-December. The average duration of our positions was reduced from 4.4 years in mid-January to 3.2 years in mid-February, mainly by selling down the fund's investment grade positions. Although the fund did not benefit from the corrective rally in the Treasury market at the end of February as a result, we see no reason to change our stance meaningfully and continue to believe the odds are stacked against "spread products" (mainly, investment grade bonds) to perform well in 2013.

Relative to the performance of EM high yield bonds, the universe most closely representative of the fund currently, the fund's performance was primarily explained by our decision to avoid holding positions in the Chinese property sector. Chinese property issuers have, over the past three years, grown into a market of around $35 billion of mostly high yield-rated Eurobonds. This, for comparison purposes, is a size equivalent to that of the entire Brazilian or Russian high yield markets – although, for obvious reasons, without providing the sector diversification of either. Following their poor performance during January, Eurobonds from Chinese property developers rebounded sharply during February, returning close to 2% (2). The sector has its attractions. Many bonds issued by Chinese property developers still offer a double digit carry, while the sector has reached a degree of stability and has confounded many commentators who have been forecasting its impending collapse for the past three years. However, its technicals remain fragile and driven by the large participation of short-term individual investors, making the volatility of those bonds somewhat ill-suited to our mandate. More importantly, we are yet to decide what a fair or attractive risk premium should be for businesses with slow turnovers and large inventories, leaving them particularly vulnerable to the intense government policy risk that Chinese property developers still face. On balance, we are still unconvinced the sector offers a risk/reward adapted to the fund's profile of concentrated positions.

Finally, relatively expensive valuations and the potential for more volatility had led us to await better entry points to open new positions, limiting the carry accrued by the fund during February. While we recognize many investors are positioned the same way as we are, which could in itself ensure the entry points we are expecting to not materialize within a reasonable timeframe, we also believe technicals have weakened somewhat since the start of the year, as shown by outflows out of EM hard currency and US high yield funds, which could reduce the market's cash balance. While we will look to increase the carry of the fund in coming weeks, we still believe keeping some liquidity in reserve is the right answer to the current market conditions.

Sources: (1) Bank of America Merrill Lynch (2) SphereInvest

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	105.6	3.6	5.1 %	5.8 %	426	100 %
Largest 5 Positions								
	B+	17 %	108.7	3.6	9.1 %	10.4 %	818	26 %
Strategies								
Low Vol Portfolio	BB-	44 %	106.3	4.9	7.3 %	8.3 %	622	63 %
Cash and Equivalents	AAA	30 %						0 %
High Vol Portfolio	BB-	26 %	108.0	5.3	7.3 %	8.5 %	604	37 %
Regions								
LATAM	BB-	36 %	106.0	5.8	6.9 %	7.8 %	563	61 %
Cash and Equivalents	AAA	30 %						0 %
Developed Europe	BB	13 %	108.5	4.4	7.3 %	8.8 %	613	25 %
Eastern Europe / CIS	B-	12 %	107.0	4.3	9.1 %	9.9 %	809	14 %
NJA	B	3 %	110.9	3.2	7.1 %	9.2 %	641	-7 %
MIDDLE EAST	BB	3 %	108.1	5.2	6.4 %	7.3 %	512	5 %
North America	B	3 %	105.3	3.9	5.9 %	6.9 %	510	2 %
Corporates/Financials								
Corps	BB-	52 %	106.4	5.5	7.1 %	7.9 %	588	57 %
Cash and Equivalents	AAA	30 %						0 %
Financials	BB-	18 %	108.5	3.9	7.8 %	9.6 %	684	43 %
Sectors								
Cash and Equivalents	AAA	30 %						0 %
Consumer Finance	B+	13 %	110.5	3.8	8.9 %	10.7 %	786	19 %
Commercial Banks	BB	9 %	106.2	4.4	6.4 %	7.8 %	535	27 %
Oil, Gas & Consumable Fuels	B	5 %	103.6	2.9	7.1 %	8.0 %	651	0 %
Media	BB	5 %	108.1	4.8	6.1 %	7.1 %	494	8 %
Food Products	B	5 %	106.0	5.1	8.0 %	8.7 %	682	32 %
Telecommunications	B+	4 %	102.4	4.7	7.1 %	7.4 %	617	5 %
Education	B	3 %	110.9	3.2	7.1 %	9.2 %	641	7 %
Road & Rail	B	3 %	103.6	2.1	8.9 %	10.1 %	840	5 %
Building Products	BB-	3 %	106.6	5.3	6.9 %	7.6 %	560	12 %
Utilities	BBB	3 %	105.7	12.0	5.0 %	5.2 %	246	-6 %
Chemicals	B	3 %	109.5	4.9	7.7 %	8.7 %	651	6 %
Beverages	BB+	3 %	109.5	6.9	5.2 %	5.9 %	347	-5 %
Hotels, Restaurants & Leisure	B	3 %	105.5	3.9	6.5 %	7.5 %	565	0 %
Paper & Forest Products	BB	2 %	100.0	5.3	7.2 %	7.3 %	604	7 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Real Estate Management & Development	BB	2 %	109.5	11.9	7.7 %	7.8 %	522	-27 %
Air Freight & Logistics	BB-	2 %	107.6	4.9	7.8 %	8.6 %	654	4 %
Metals & Mining	BB	2 %	106.7	11.5	8.0 %	8.1 %	558	0 %
Auto Components	-	0 %						2 %
Pharmaceuticals	-	0 %						4 %
Ratings								
B	B	36 %	106.8	3.9	7.5 %	8.6 %	657	31 %
BB-	BB-	18 %	108.6	4.4	7.3 %	8.5 %	624	22 %
BB	BB	16 %	105.5	7.0	6.9 %	7.5 %	527	23 %
AA	AA	13 %						0 %
B-	B-	7 %	105.0	3.8	10.3 %	11.0 %	952	9 %
BB+	BB+	5 %	112.1	4.6	5.0 %	7.8 %	378	1 %
BBB	BBB	3 %	105.7	12.0	5.0 %	5.2 %	246	-6 %
NR	-	2 %	101.8	1.8	8.3 %	9.1 %	796	-17 %
B+	-	0 %						23 %
BBB-	-	0 %						14 %
Currencies								
USD	BB-	80 %	106.8	3.4	4.6 %	5.1 %	378	78 %
EUR	B+	13 %	106.8	4.3	6.8 %	8.2 %	587	17 %
GBP	BB-	7 %	110.5	4.5	8.4 %	9.6 %	714	5 %

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%											**1.08%**

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%											**0.99%**

Past Performance is no guarantee of future results.

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