SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 31st January to 27th February 2014

Class F (USD): MTD return: 1.08%   YTD 2014 return: 1.93%   NAV per Share: 115.94

Class D (EUR): MTD return: 1.06%   YTD 2014 return: 1.92%   NAV per Share: 115.27

Portfolio and Market Commentary:

After spending much of 2013 fretting over the impact of asset tapering on global markets and, at the start of 2014, the whiff of currency crises in some EM countries, investors in February seemed to make up their mind that, all taken into account, things were actually bright for all shades of assets across the risk spectrum, from global stocks, to corporate bonds, to EM currencies and even safe-havens, with gold rising 7% during the month and treasury 10-year yields stabilizing some 30bps below their peak reached at the start of January. In high yield credit markets, US, Europe and Emerging Markets performed strongly, returning 1.83%, 1.54% and 1.34% respectively (*)

We believe both macro data and market developments in January and February have been noisier than usual, and may have provided little insight into the true shape of the global economy or the likely behaviour of markets for the remainder of the year. In part, the strength seen in various markets during February only reversed the sharp moves seen at the end of January, which seemed overdone once EMFX stabilized. The support for the treasury market could prove temporary if, as many analysts suspect, harsh weather conditions were responsible for the somewhat soft data in the US since the start of 2014. Finally we believe credit markets, notably in Euro HY markets, have been helped by an obvious demand/supply imbalance, as the asset class continues attracting strong inflows, while supply, notably in the lower rated segments, has proved surprisingly scarce year-to-date. While we do not have convincing explanations for the current dearth of new issues, we believe structural factors which explained the rapid expansion of corporate bond markets since 2008 – notably the loan-to-bond migration caused by banks deleveraging - remain in place, while the economic recovery in Europe should also translate into higher funding needs over time. At this point, we are therefore inclined to believe the recent imbalance supporting Euro HY markets should correct in the near future.

With EMFX stabilizing, EM external debt traded on a stronger footing during the month. Main outperformers included Sovereign and corporate credits in countries where the first signs of economic rebalancing were most apparent, notably Indonesia, where all indicators, from current account deficit, trade balance and GDP growth have surprised on the upside since the start of the year. While in Brazil, Central Bank readiness to hike in the face of slowing growth and the announcement by the Government of a 1.9% GDP primary surplus target for 2014 appears to be winning back investors - or forcing them to reduce their underweight and short positions.

Our thoughts on ongoing events in Ukraine and effects elsewhere: the fund has not held any position in Ukraine for the past two years. Our interest is therefore limited to potential spill-over to other countries, most notably

Russia, and on the broader EM asset class. For Russia, we believe the coincidence of deteriorating macro conditions – which had already led us to reduce our exposure in January and exit entirely by mid-February – and unfavourable investor positioning, as the country migrates from a relative EM safe-haven to a problematic credit, means we are likely to require much higher risk premiums to re-engage there in the near-term – even assuming a benign outcome to the current tensions. On the Broader EM, we recognize the propensity of many countries to throw up negative headlines in recent months, from the ongoing political crisis in Turkey, Thailand and Venezuela, to, now, threats of war in Ukraine. At this still early stage, we observe that although sentiment towards EM could deteriorate again as a result, the fundamental contagion channels from a war between Ukraine and Russia are much more obvious to Western Europe than to Latin American or Asia-Ex-Japan countries. At this point, we therefore do not believe that wholesale repositioning along the DM/EM line is justified or advisable.

All positions in the fund performed satisfactorily during the month. Generically, our LatAm positions contributed most to the performance, with BR-Malls, the shopping centre operator, QGOG Constellation, the offshore services company, Banco ABC, the Brazilian mid-sized lender, and Comcel, the Guatemalan subsidiary of Millicom, the global telecom firm, among the fund's best performers. Our positions in Asia-ex-Japan were more mixed. In Indonesia, our investments in Alam Sutera, the real estate developer, and Gajah Tunggal, the tire manufacturer, experienced significant spread tightening, as the appreciation of the Rupiah reduces risks for US$-indebted local corporates. While our investments in Chinese developers Guangzhou R&F and Kaisa Group produced returns in line with carry, as improving standalone results were broadly offset by concerns about the direction of the broad Chinese economy in 2014.

(*) Bank of America Merrill Lynch indexes H0A0, HP00 and EMHB.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	104.0	3.6	5.4 %	5.9 %	413	100 %
Largest 5 Positions								
	B+	19 %	105.6	4.6	7.3 %	8.1 %	572	22 %
Regions								
Latin America	BB	25 %	103.4	5.1	6.6 %	7.3 %	488	40 %
Developed Europe	B+	24 %	108.6	4.5	7.1 %	8.2 %	554	27 %
Treasury bills	AAA	15 %	100.0	0.1	0.0 %	0.0 %	0	0 %
Asia ex-Japan	B+	12 %	101.4	4.0	7.5 %	7.8 %	606	12 %
Cash	AA	8 %						0 %
Middle East / Africa	B	7 %	101.8	4.6	7.0 %	7.3 %	526	7 %
Eastern Europe / CIS	B+	6 %	103.9	5.0	6.7 %	7.2 %	552	10 %
North America	B+	3 %	107.1	5.1	6.1 %	7.0 %	423	4 %
Corporates/Financials								
Corps	B+	62 %	104.1	4.9	7.0 %	7.6 %	541	80 %
Financials	BB	15 %	107.4	3.9	6.6 %	7.9 %	499	20 %
Treasury bills	AAA	15 %	100.0	0.1	0.0 %	0.0 %	0	0 %
Cash	AA	8 %						0 %
Sectors								
Real Estate Management & Development	BB-	15 %	101.5	5.9	7.5 %	7.7 %	566	11 %
Treasury bills	AAA	15 %	100.0	0.1	0.0 %	0.0 %	0	0 %
Oil, Gas & Consumable Fuels	B+	13 %	101.8	4.6	6.9 %	7.1 %	515	14 %
Media	BB-	11 %	104.5	5.2	6.6 %	7.2 %	504	27 %
Commercial Banks	BB	9 %	104.5	3.7	6.2 %	7.4 %	491	15 %
Cash	AA	8 %						0 %
Telecommunications	B+	6 %	104.5	4.6	7.5 %	8.0 %	559	10 %
Consumer Finance	BB-	6 %	112.0	4.1	7.1 %	8.8 %	514	5 %
Food Products	BB-	5 %	107.8	3.9	6.6 %	7.9 %	516	3 %
IT Services	CCC+	4 %	111.3	4.3	7.4 %	8.9 %	637	2 %
Environmental Services	B+	3 %	109.3	4.9	6.7 %	7.8 %	551	7 %
Auto Components	B+	3 %	101.1	3.3	7.4 %	7.7 %	628	4 %
Airlines	BB+	1 %	103.9	5.5	5.3 %	5.8 %	331	0 %
Communications Equipment	BB-	1 %	105.5	3.8	7.6 %	8.5 %	619	2 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Ratings								
B+	B+	20 %	104.3	4.5	7.0 %	7.6 %	548	29 %
AAA	AAA	15 %	100.0	0.1	0.0 %	0.0 %	0	0 %
BB	BB	15 %	101.6	5.6	7.1 %	7.6 %	536	18 %
BB-	BB-	13 %	107.1	3.7	7.2 %	8.4 %	570	15 %
AA	AA	8 %						0 %
BB+	BB+	7 %	103.2	5.8	6.6 %	6.9 %	441	16 %
B	B	6 %	105.9	4.9	7.1 %	7.8 %	564	9 %
B-	B-	6 %	108.4	4.1	7.3 %	8.4 %	553	8 %
NR	-	4 %	100.4	5.1	6.0 %	6.1 %	416	1 %
CCC+	CCC+	4 %	111.3	4.3	7.4 %	8.9 %	637	2 %
BBB-	BBB-	2 %	103.1	3.2	3.8 %	4.6 %	281	2 %
Currencies								
USD	BBB-	75 %	102.2	3.3	4.9 %	5.2 %	371	70 %
EUR	B	16 %	107.2	4.8	6.8 %	7.6 %	563	22 %
GBP	B+	9 %	112.2	4.3	7.0 %	8.7 %	505	8 %

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%											**1.93%**

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%											**1.92%**

Past Performance is no guarantee of future results.

Performance figures are net of all fees.