SphereInvest | GROUP

MORNINGSTAR ★★★★★

# GLOBAL CREDIT STRATEGIES FUND

## Monthly Performance

Class F (USD): MTD return: 0.03% 2016 return: -0.31% NAV per Share: 125.57

Class D (EUR): MTD return: -0.01% 2016 return: -0.43% NAV per Share: 123.58

## Portfolio and Market Commentary

Risk appetite remained volatile during February. After deteriorating further during the first days of the month, investor sentiment rapidly improved as commodities stabilized, China's central bank governor broke silence to express confidence in the fair value of the Yuan, while activity indicators in the US showed little sign of having been affected by financial markets upheaval since the start of 2016. In spite of their recovery, the performance of high yield credit in Developed Markets remained negative during the Fund's performance period (28/01 to 25/02), with US HY and Euro HY returning -0.46% and -0.92%, respectively. The Sterling HY market underperformed on concerns about "Brexit", losing -1.31%, and was one of the main detractors from the Fund's performance in February as detailed further below. EM HY outperformed and returned 1.01%, thanks notably to the strong performance of metals & mining and energy credits.

For a brief period during February, it seemed that concerns around "Brexit" could derail the global risk rally, as PM Cameron announced he would hold an "in/out" referendum in June. We would like to briefly address the topic here, since the Fund has held and continues to hold a significant proportion of Sterling-denominated positions (approximately 9% of NAV), which have accounted for most of the Fund's negative performance year-to-date (approximately -25basis points on a gross basis). The fund's GBP positions include Arrow Global, the publicly listed debt purchaser, Cognita, the operator of private-pay K-12 schools, and Keepmoat, the housing and construction company. Although we feel speculating about the fundamental impact of Brexit on such credits is futile, we also recognize Brexit would almost certainly cause UK-based and Sterling-denominated assets to underperform in its aftermath. We currently see tactical scope for Sterling HY to recover in coming weeks, as investors' usually narrow attention span is diverted away from Brexit risks towards nearer-term events such as the upcoming ECB and Fed's meetings. However, we no longer see strong merits for a global credit fund to maintain exposure to Sterling assets (even FX-hedged, as is our policy) and will look to sell-down our exposure ahead of June.

With risk assets having continued their strong recovery again during the first week of March, the sense of a repeat of October 2015's rally is inescapable. This year again, the commodities rebound - albeit off historically depressed levels - and the stabilization of the Dollar - are triggering sharp relief rallies, as investors take advantage of oversold conditions. This time again, however, the synchronized recovery of risk across both DM and EM appears unsustainable, as monetary policies remain bound for divergent directions. While the ECB has all but committed itself to loosen at its March meeting, most of the Fed's communication continues to emphasize its comfort about the underlying strength of the US economy and inflation prospects, and its concerns about international developments and financial markets.

Risk assets could benefit from a near-term window where the Fed remains on hold and the ECB somehow manages to beat market expectations (despite having already guided those to very high levels), but the rally will likely soon bump against it inherent contradictions. We know, since 2015, the "divergence trade" did not lead to equilibrium, as the strengthening Dollar pressures US manufacturing, crimps much of the EM's growth prospects, and, ultimately, cause investors to fear the Fed is only bringing forward the end of the cycle. A sustainable rally, in our view, would require signs growth outside the US is accelerating. Yet, recent data, across Western Europe and China, is still consistent in pointing towards mediocre growth and the need for policy support.

While the recent recovery has been opening short-term trading opportunities, we are therefore not making broad adjustments to the Fund's positioning towards more cyclically sensitive assets. We remain focused on credits with idiosyncratic drivers of spread compression. One of the most interesting themes we have recently identified is the increasing number of companies, who are recognizing that, if unable to grow enterprise value, the best way to increase shareholder value is to deleverage: some of the fund's best performing positions include Cemex and Votorantim Cimentos, both cement producers; Senvion, the wind turbines manufacturer; and Hypermarcas, the Brazilian pharmaceutical company. All are variations on this theme.

## Portfolio Composition

| | Rating | NAV (%) | Price | Duration | Yield | Spread |
|---|---|---|---|---|---|---|
| SphereInvest Global Credit Strategies | B+ | 100 % | 97.6 | 2.8 | 6.0 % | 546 |
| Largest 5 Positions | BB- | 21 % | 101.0 | 3.5 | 7.8 % | 683 |
| Regions | | | | | | |
| Latin America | BB- | 31 % | 94.0 | 4.4 | 9.0 % | 792 |
| Developed Europe | B | 20 % | 101.2 | 3.8 | 7.9 % | 752 |
| Asia Ex-Japan | BB- | 9 % | 97.9 | 3.1 | 9.7 % | 878 |
| Eastern Europe & CIS | B+ | 6 % | 101.6 | 3.7 | 7.8 % | 719 |
| North America | B | 3 % | 93.7 | 3.7 | 9.3 % | 894 |
| Corporates/Financials (ex Cash & Equivalents) | | | | | | |
| Corps | B+ | 58 % | 97.0 | 4.1 | 8.8 % | 802 |
| Financials | BB | 11 % | 98.7 | 3.4 | 7.9 % | 708 |
| Sectors | | | | | | |
| Telecommunications | BB- | 14 % | 94.2 | 3.6 | 8.8 % | 795 |
| Media | B | 7 % | 93.0 | 6.0 | 8.4 % | 748 |
| Consumer Finance | B+ | 7 % | 97.4 | 4.0 | 8.9 % | 844 |
| Air Freight & Logistics | BB | 6 % | 101.5 | 3.3 | 8.7 % | 788 |
| Commercial Banks | BBB- | 5 % | 99.9 | 2.9 | 7.2 % | 619 |
| Real Estate Management & Development | B+ | 5 % | 95.0 | 4.6 | 9.9 % | 888 |
| Consumer | BB | 5 % | 103.9 | 4.2 | 5.6 % | 455 |
| Education | B | 4 % | 99.0 | 4.4 | 8.0 % | 705 |
| Hotels, Restaurants & Leisure | B | 3 % | 93.6 | 4.8 | 9.2 % | 804 |
| Specialty Retail | B | 3 % | 105.9 | 3.6 | 7.4 % | 744 |
| Food Products | B | 2 % | 105.4 | 3.3 | 7.3 % | 629 |
| Auto Components | B | 2 % | 91.3 | 2.9 | 16.9 % | 1666 |
| IT Services | CCC | 2 % | 107.0 | 3.1 | 7.7 % | 778 |
| Energy Equipment & Services | B | 2 % | 103.1 | 3.9 | 5.9 % | 588 |
| Building Products | B | 1 % | 89.3 | 4.9 | 7.0 % | 692 |
| Diversified Financial Services | BB | 1 % | 92.9 | 2.9 | 8.7 % | 781 |
| Ratings (ex Cash & Equivalents) | | | | | | |
| B | B | 37 % | 96.8 | 4.1 | 9.2 % | 850 |
| BB | BB | 27 % | 96.7 | 3.9 | 8.4 % | 745 |
| BBB | BBB | 3 % | 100.3 | 4.3 | 5.3 % | 424 |
| CCC | CCC | 2 % | 107.0 | 3.1 | 7.7 % | 778 |
| Currencies | | | | | | |
| USD | BB+ | 66 % | 96.0 | 2.7 | 6.1 % | 539 |
| EUR | B | 25 % | 101.5 | 2.7 | 5.0 % | 498 |
| GBP | B | 9 % | 100.2 | 3.6 | 8.0 % | 720 |

 

## Monthly Performance since Inception

**Class F** (USD, MT7000005617)

| | 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%** |
| **2015** | -0.22% | 1.80% | 1.38% | 1.66% | 0.93% | -0.54% | -0.19% | -1.19% | -1.27% | 1.82% | 0.73% | -0.99% | **3.91%** |
| **2016** | -0.34% | 0.03% | | | | | | | | | | | **-0.31%** |

**Class D** (Euro, MT7000005591)

| | 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%** |
| **2015** | -0.29% | 1.82% | 1.33% | 1.55% | 0.97% | -0.63% | -0.50% | -1.27% | -1.46% | 1.77% | 0.91% | -1.13% | **3.35%** |
| **2016** | -0.42% | -0.01% | | | | | | | | | | | **-0.43%** |

**Class E** (GBP, MT7000005609)

| | Jan | Feb | Mar | April | May | Jun | July | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | 0.69% | -0.51% | -0.17% | -1.21% | -1.29% | 1.86% | 0.68% | -1.02% | **-1.01%** |
| **2016** | -0.38% | -0.08% | | | | | | | | | | | **-0.46%** |

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

## Fund Terms

| | |
|---|---|
| **Regulatory** | **UCITS IV** |
| **Liquidity** | Weekly |
| **Start Date** | 2nd July 2012 |
| **Management Fee** | 1.5 % (Retail) 1% (Institutional) |
| **Performance Fee** | 5% Incentive Fee |
| **Minimum Investment** | Retail = 25,000 (GBP, EUR, USD, CAD, CHF)<br>Institutional = 200,000 (GBP, EUR, USD, CAD, CHF) |
| **Domicile** | Malta |
| **Administrator** | Equinoxe Investment Services (Ireland) Ltd. |
| **Custodian** | RBC International |
| **Auditor** | Deloitte & Touche |
| **Legal Counsel** | Ganado & Associates |