SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 1st January to 30th January 2014

Class F (USD): MTD return: 0.84% YTD 2014 return: 0.84% NAV per Share: 114.70

Class D (EUR): MTD return: 0.85% YTD 2014 return: 0.85% NAV per Share: 114.06

Portfolio and Market Commentary:

Although global credit markets started 2014 with a firm tone, the coincidence of renewed fears of hard-landing in China, the failure of the Turkish Central Bank to stabilize the Lira, and the devaluation of the Argentinean peso were the immediate triggers for a sharp reversal of sentiment during the third week of the month. While EM local currency and equity markets fared particularly poorly, the performance of EM external debt (EMED) remained comparatively benign. At the higher quality end of the market, the strength of the treasury market helped EM IG to return 0.5% during the period, despite spreads widening around 14bps. EM HY suffered from the deteriorating risk sentiment and specific weaknesses in a few segments (notably among Latin American high yield issuers) to return -0.48%. European and US high yield markets, having seen yields tighten by as much as 30bps during the first two weeks, corrected moderately and returned 0.72% and 0.78% for January as a whole (*).

We had started 2014 expecting a year of reduced macro uncertainty, with the distribution of possible scenarios narrowed around DM recovering more (in the US) or less (in Europe) strongly, a centrally-managed growth moderation in China, and a reduction of external imbalances across EM through higher real rates and – indeed – weaker currencies. Although it often came on the softer side, we believe economic data in January remained by-and-large consistent with that central scenario. However, we recognize that the recent episode of market volatility has increased the risk that ongoing capital outflows out of EM could feed on themselves and become disorderly. The pace of depreciation of a few currencies during the last week of January was troubling and, at the very least, signals that the external imbalances accumulated through the EM world are unlikely to correct as smoothly as we had previously assumed. Turning specifically to EMED (in which the fund is active), the muted reaction of spreads during January provided an interesting counterpoint to increasing talks of a broad "EM crisis" similar to the late 1990s. With the average CDS spread of the so-called "fragile five" countries considered most vulnerable ending the month around 230bps (**) - for reference, the CDS on Italy's debt was quoted above that level as recently as September 2013 - external debt markets' resilience in part reflects the still strong external position of EM. Less optimistically, however, it also reflects the difficulty to price adequately cusp situations: although the impact of weakening currencies on local borrowers can be ambiguous (and indeed positive), there is a tipping point beyond which balance sheet effects prevail and foreign currency debts become unsustainable. Even assuming a benign outcome to the current turmoil, we are increasingly struggling to see who the marginal buyer of EMED currently is, against a backdrop of volatility in connected markets, increased research intensity required by the complexity of many EM situations, and a risk/reward ratio which appears lopsided for the time being (markets are unlikely to immediately reward signs of external stabilization, while any deterioration is likely to cause a sell-off). Despite the fairly powerful recycling of coupons and bond redemptions which is currently supporting the asset class, we therefore believe valuations are likely to need to correct to more generous levels over the coming months.

Most positions in the fund performed satisfactorily during January. Generically, our Chinese positions were negative contributors, although partly as a result of transaction costs as we pared our exposure to the country during the month. Having performed strongly since it was opened during the fourth quarter of 2013, our position in Lonking Holdings, a Chinese wheel loader manufacturer, was the worst performing position and generated 3 basis points of negative return for the fund. Our position in Tinkoff Credit Systems continued to correct from its sell-off in November, adding 9 basis points to the P&L. We used the strength to exit our position, however, as we are growing concerned about the risks posed to small private Russian lenders by the Ruble depreciation and the deteriorating consumer spending outlook (we exited a small position in Bank St. Petersburg on similar rationale during the month, and hold no banking exposure in Russia at this point). Our positions in Atento and TMF Group, two international providers of business services were the two biggest contributors to January's P&L, respectively contributing 10bps and 11bps, largely on valuation grounds in the absence of credit specific developments.

(*) Bank of America Merrill Lynch indexes EMIB, HP00, H0A0, and EMHB.
(**) Bloomberg; average of the CDS spread of Brazil, Indonesia, Russia, South Africa and State Bank of India.

 | Suite 41B, Regent House, Bisazza Street, Sliema, SLM 1641, Malta | TEL +356 2258 1610 | www.sphereinvestgroup.com

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	103.4	2.6	4.3 %	4.7 %	336	100 %
Largest 5 Positions								
	B+	20 %	105.9	4.2	7.6 %	8.5 %	614	24 %
Regions								
Developed Europe	B+	22 %	107.6	4.6	7.4 %	8.3 %	570	47 %
Cash	AA	21 %						0 %
Treasury bills	AAA	19 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Latin America	BB	17 %	103.5	3.9	6.4 %	7.3 %	497	29 %
Eastern Europe / CIS	B+	8 %	102.4	3.6	8.1 %	8.8 %	714	22 %
Middle East/Africa	B	7 %	100.9	4.7	7.2 %	7.4 %	535	5 %
Asia ex-Japan	BB-	3 %	101.0	3.7	8.5 %	8.7 %	710	-3 %
North America	B+	3 %	105.8	5.1	6.4 %	7.1 %	439	2 %
Corporates/Financials								
Corps	B+	43 %	103.8	4.6	7.2 %	7.7 %	559	71 %
Cash	AA	21 %						0 %
Treasury bills	AAA	19 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Financials	BB-	17 %	106.4	3.3	7.2 %	8.5 %	583	29 %
Sectors								
Cash	AA	21 %						0 %
Treasury bills	AAA	19 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Oil, Gas & Consumable Fuels	B	13 %	102.2	4.7	7.0 %	7.3 %	514	21 %
Commercial Banks	BB	11 %	103.4	2.9	7.2 %	8.3 %	620	11 %
Media	B+	10 %	102.4	4.9	7.0 %	7.4 %	556	12 %
Telecommunications	B+	6 %	102.9	4.6	7.8 %	8.1 %	584	12 %
Consumer Finance	BB-	6 %	111.6	4.1	7.2 %	8.8 %	517	18 %
IT Services	CCC+	4 %	111.3	4.4	7.4 %	8.9 %	629	12 %
Environmental Services	B+	3 %	107.0	5.0	7.1 %	7.9 %	584	4 %
Food Products	BB	3 %	106.3	3.4	6.4 %	7.8 %	524	3 %
Real Estate Management & Development	BB-	2 %	99.8	3.6	8.7 %	8.7 %	734	-2 %
Airlines	BB+	1 %	103.9	5.6	5.3 %	5.8 %	321	1 %
Communications Equipment	BB-	1 %	103.6	3.9	8.1 %	8.7 %	660	2 %
Gaming	-	0 %						9 %
Machinery	-	0 %						-3 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Ratings								
AA	AA	21 %						0 %
AAA	AAA	19 %	100.0	0.2	0.0 %	0.0 %	0	0 %
BB-	BB-	17 %	105.4	3.4	7.7 %	8.7 %	639	15 %
B+	B+	15 %	103.9	5.0	6.9 %	7.3 %	510	18 %
BB	BB	7 %	101.7	3.7	7.1 %	8.0 %	571	26 %
B-	B-	6 %	107.2	4.2	7.6 %	8.5 %	575	19 %
B	B	5 %	101.9	5.0	7.4 %	7.6 %	594	6 %
CCC+	CCC+	4 %	111.3	4.4	7.4 %	8.9 %	629	12 %
BB+	BB+	2 %	101.5	6.2	6.1 %	6.3 %	374	3 %
BBB-	BBB-	2 %	101.4	3.3	4.3 %	4.7 %	322	0 %
NR	-	2 %	101.0	4.1	7.2 %	7.4 %	569	1 %
Currencies								
USD	BBB	74 %	101.5	2.1	3.7 %	3.9 %	287	59 %
EUR	B	17 %	106.3	3.7	5.5 %	6.1 %	458	33 %
GBP	B+	9 %	111.5	4.3	7.2 %	8.7 %	514	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%												**0.84%**

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%												**0.85%**

Past Performance is no guarantee of future results.

Performance figures are net of all fees.