

# SphereInvest | GROUP

## Global Credit Strategies Fund

Performance Period: 2<sup>nd</sup> July – 2<sup>nd</sup> August 2012

**Class D (EUR) return** +0.20%                      **NAV per Share** 100.20

**Class F (USD) return** +0.15%                      **NAV per Share** 100.15

The SphereInvest Global Credit Strategies Fund (SGCSF) was launched on July 2nd, 2012, days after yet another Eurozone summit was held to tackle the Eurozone debt crisis. The summit was greeted by a strong rally in credit markets, which has also defined the tone over much of the month of July. The measures announced during the summit, and later hints of more Central Bank activism to come, were short on detail and long on execution risk but still perceived as making a disorderly breakdown of the single currency less likely. While scepticism around Eurozone indecisiveness remains high, we also sense some investor fatigue around the now three year old debt crisis, and a more blasé attitude towards its impact on global risk premia. Global credit proved noticeably resilient to renewed tensions in the Spanish and Italian sovereign bond markets during the second part of July.

High Yield corporate credit, in particular the “upper non investment grade” (B+ to BB+ rating) categories, seem to have acquired a consensual, almost “safe-haven” like aura, in an environment where cash is being forced out of traditional safe-haven but very low yielding assets, while the disappointing global growth outlook limits the appeal of equities. Strong inflows into the asset class, combined with seasonally reduced primary market activity, are providing a very strong technical background, which may well continue to define the tone of credit markets in the coming months.

While SGCSF’s high cash balance as a result of initial fund subscriptions and the fund launch currently represents a performance drag, and the recent strong market rally a challenge to deploy capital, our focus will remain on patiently buying positions at the right price. High yield valuations are now neutral, rather than outright stretched, but the cushion provided against a worsening of the eurozone crisis, the global growth outlook, or negative surprises at the micro level has, in our view, become too narrow. We believe the relative illiquidity of high yield markets is now a structural feature, and means bouts of high volatility are inevitable. This will open opportunities to buy the good quality bonds that we target at the right levels in the coming weeks or months.

Meanwhile, SGCSF’s investment activity will be opportunistic or focused on building exposure to the countries, sectors, or themes we like. During July, the fund bought its first core positions in the hotel, consumer finance, oil and autoparts sectors, the performance of which we believe is more likely to be resilient in an episode of market weakening. The fund also invested opportunistically in Emerging Europe, where valuations had most room to benefit from an improvement of the eurozone crisis, before paring that exposure towards the end of the month. The fund is also likely to continue overweighting Emerging Market credit over US or European High Yield. While there is currently much talking about the economic slowdown of emerging giants such as China, India or Brazil, a number of other countries, such as Indonesia or Turkey, continue exhibiting strong, domestically driven economic momentum, or, in the case of Mexico or Poland, are reaping the benefits of their structural reforms and global competitiveness.

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The SphereInvest investment program is speculative and involves a high degree of risk. The emerging market’s high yield and distressed debt sectors are highly volatile and subject to sustained periods of illiquidity. Investors must be prepared to lose all or substantially all of their investment.

# INVESTOR LETTER

|  | Average Rating | Market Value (%) |
|--|----------------|------------------|
| <b>SphereInvest Global Credit Strategies</b> |                |                  |
|  | B+             | 100%             |
| <b>Largest 5 Positions</b>                   |                |                  |
|  | BB-            | 19%              |
| <b>Strategies</b>                            |                |                  |
| Cash   | AA             | 74%              |
| High Vol Portfolio                           | B+             | 16%              |
| Low Vol Portfolio                            | B              | 10%              |
| <b>Regions</b>                               |                |                  |
| Cash   | AA             | 74%              |
| LATAM  | CCC+           | 12%              |
| Eastern Europe / CIS                         | BB             | 6%               |
| North America                                | B              | 4%               |
| Asia   | B-             | 4%               |
| <b>Corporates/Financials</b>                 |                |                  |
| Cash   | AA             | 74%              |
| Corps  | B-             | 19%              |
| Banks  | BBB-           | 7%               |
| <b>Sectors</b>                               |                |                  |
| Cash   | AA             | 74%              |
| Automotive                                   | B-             | 7%               |
| Oil/Gas                                      | CC-            | 6%               |
| Agriculture                                  | B+             | 4%               |
| Large Cap Latam Banks                        | BBB+           | 4%               |
| Consumer Finance                             | BB+            | 3%               |
| Consumer Cyclical                            | B-             | 2%               |
| <b>Ratings</b>                               |                |                  |
| AA   | AA             | 74%              |
| B  | B              | 7%               |
| B-   | B-             | 5%               |
| B+   | B+             | 4%               |
| BBB+   | BBB+           | 4%               |
| BB+  | BB+            | 3%               |
| NR   | NR             | 3%               |
| <b>Currency Exposure</b>                     |                |                  |
| USD  | B+             | 97%              |
| EUR  | BB+            | 3%               |