

SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 28th June to 1st August 2013

Class F (USD): MTD return: 1.11% YTD 2013 return: 2.14% NAV per Share: 109.19

Class D (EUR): MTD return: 1.16% YTD 2013 return: 1.93% NAV per Share: 108.65

Portfolio and Market Commentary:

Global credit markets took advantage of the relative stability of treasury rates during July to recover from the losses experienced over the previous two months. The recovery was uneven, however. Generically, higher duration US-dollar denominated bonds recorded the strongest performance in price terms, before weakening again towards the end of the month. Although EM high yield bonds returned 1.43% (*) during the fund's performance period, the EM risk complex remained broadly under pressure, led by the renewed sell-off in EMFX during the second half of the month. Euro high yield returned 2.26% (*), and was buoyed by the improving economic outlook in Europe as well as by the ECB's success in decoupling expectations about Euro-rates from US Treasuries.

We believe July largely confirmed the fundamental trends which had emerged over the previous months. Although the most recent data points in the labour market were somewhat softer than expected, the recovery in the US appears solid enough to allow the Fed to reduce its pace of asset purchases by the end of 2013. In EM, the month confirmed that some of the largest developing economies are experiencing a cyclical slowdown (or a transition to a lower growth potential) at the very same time when the path of Fed policies is leading to tighter and out-of-synch monetary conditions for them. Finally, in Europe, economic data and corporate earnings continue to suggest that the region is being led by Germany out of its six-quarters-long recession, with the Euro area composite PMI improving to 50.5 during July.

Following the strong performance of credit during July, we are again turning more cautious on valuations.

In Europe, we believe investors may be overestimating the extent to which Euro High Yield stands to benefit from accommodative Central Banks policies and improving macro economic prospects. On the first point, we remain unconvinced that the current "safe-haven" bid for Euro HY may drive spreads much tighter. To the contrary, we believe investors are more likely to require similar all-in-yields for similar credit risk, whether denominated in Euro or in US\$, implying wider spreads for the former. On the second point, economic growth is, for obvious reasons, preferable to recession for cyclically sensitive assets such as speculative credit. However, European HY investors have been favouring issuers with geographically diversified business profiles and limited exposure to their struggling home markets for several years now, while purely domestic high yield credits have

tended to be limited to non-cyclical sectors, such as telecom or cable companies. This, in part, explains the resiliency of Euro HY, as an asset class, to the headwinds faced by the Eurozone in recent years. In turn, it now strikes us as inconsistent to expect the current stock of European high yield bonds to be much leveraged to a possible cyclical recovery in Europe.

The outlook for Emerging Market corporates remains mixed at best, too. On the one hand, the dynamic described in the second paragraph is proving particularly noxious for some of the largest developing countries which have accumulated external imbalances over the past five years, most prominently India and Turkey. At the micro level, we expect default rates to continue rising, as signs of stress accumulate in various parts of the market, from Asian coal producers to overleveraged Chilean retailers. While actual default rates are usually considered a dependent variable when it comes to their relationship with spreads, the pick-up in historical default rates is still likely to prevent a material recovery of valuations in the medium term. On the other hand, we also expect specific credits to continue reporting resilient or even improving results on cost control and added capacity, in spite of more challenging trading conditions.

The fund benefited from our tactical trading towards the end of June when we added to oversold situations, with Alfa Bank, the Russian private lender, Gajah Tunggal's, the Indonesian tire manufacturer, and Arqiva, the UK provider of TV and Radio Broadcast infrastructure, among the strongest contributors to performance. Some of the portfolio's core holdings also recovered well from June's sell-off, and were positive contributors: they included our positions in Pacific Drilling, the offshore drilling company, TCS Bank, the Russian credit card company, and Ciech, the Polish chemicals producer. Most of the portfolio's holdings are scheduled to report second half earnings during August and September, although the results already announced or pre-announced during July came out strong. International Personal Finance, the international door step lender, MNC Sky Vision, the Indonesian pay-TV provider, and Lowell Group, the UK purchaser of defaulted consumer debt portfolios all reported good results, although the low duration of the bonds we hold muted the benefit for the fund. Our holdings in Atento, the LatAm-focused provider of customer relationship management services, Nitrogenmuvek, the Hungarian fertilizers company, and Banco BMG, the Brazilian payroll lender, were the main detractors from the performance. The liquidity in Atento's and NitrogenMuevek's bonds, as indicated by their gappy price action, deteriorated during May and June, and we took the opportunity of normalizing trading conditions during July to reduce our positions. Our holdings in Banco BMG, after having performed well during the previous months, suffered during July on rising concerns about the deterioration of the Brazilian economy. The country's mid-sized banks are rightly considered vulnerable due to their lack of access to stable funding sources and concentrated asset profiles. However, we remain comfortable with our investment thesis on Banco BMG. The bank secured in late 2012 a stable source of funding through an agreement with Itau-Unibanco and focuses on payroll lending, a secured form of consumer lending which, in our view, is likely to prove much more resilient than corporate lending in the current challenging economic environment. We note that Banco BMG reported sound earnings during the first week of August which should support the price of its bonds.

(*) Source: Bank of America Merrill Lynch indexes.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	104.0	3.5	5.8 %	6.4 %	452	100 %
Largest 5 Positions								
	B	18 %	109.9	3.6	8.1 %	9.8 %	681	33 %
Regions								
LATAM	B+	23 %	103.5	4.9	7.5 %	8.2 %	573	9 %
Cash	AA	18 %						0 %
Eastern Europe / CIS	B+	21 %	105.6	4.8	7.8 %	8.6 %	616	45 %
Developed Europe	B+	15 %	104.8	4.3	7.9 %	8.9 %	636	20 %
NJA	BB-	8 %	101.1	3.4	7.8 %	8.8 %	659	8 %
North America	B	6 %	103.8	4.4	6.4 %	7.1 %	469	9 %
Treasury bills	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Middle East	B-	2 %	109.2	5.2	8.2 %	9.0 %	601	4 %
Africa	BBB-	2 %	103.4	5.6	5.4 %	5.8 %	322	5 %
Corporates/Financials								
Corps	B+	61 %	103.5	4.7	7.5 %	8.1 %	575	75 %
Cash	AA	18 %						0 %
Financials	B+	16 %	107.1	4.1	8.0 %	9.5 %	648	25 %
Treasury bills	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Sectors								
Cash	AA	18 %						0 %
Oil, Gas & Consumable Fuels	B+	15 %	103.4	4.7	6.7 %	7.2 %	487	17 %
Media	BB-	13 %	106.9	3.8	7.5 %	9.0 %	613	12 %
Consumer Finance	B+	10 %	111.3	3.7	8.2 %	10.3 %	684	21 %
Commercial Banks	BB-	6 %	100.6	4.5	7.7 %	8.2 %	593	4 %
Telecommunications	B+	6 %	103.0	5.3	7.8 %	8.0 %	570	5 %
Treasury bills	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
Chemicals	B	5 %	105.9	4.8	7.9 %	8.6 %	635	6 %
Auto Components	B+	5 %	100.4	4.3	8.2 %	8.3 %	675	4 %
Real Estate Management & Development	BB	4 %	98.4	8.5	8.0 %	7.9 %	556	5 %
Air Freight & Logistics	BB-	3 %	103.1	4.6	8.6 %	9.0 %	668	9 %
Hotels, Restaurants & Leisure	B	3 %	103.1	3.6	7.0 %	7.6 %	572	1 %
Building Products	B+	3 %	106.9	2.8	7.2 %	8.9 %	622	3 %
Food Products	B	2 %	107.9	4.9	7.6 %	8.5 %	615	4 %
Containers & Packaging	BB+	2 %	88.7	5.6	6.3 %	4.8 %	415	1 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Sectors (cont'd)								
Paper & Forest Products	-	0 %						2 %
Utilities	-	0 %						2 %
Environmental Services	-	0 %						4 %
Beverages	-	0 %						1 %
Road & Rail	-	0 %						-1 %
Ratings								
AA	AA	18 %						0 %
B	B	17 %	105.2	4.4	7.1 %	7.9 %	569	24 %
B+	B+	15 %	104.3	3.5	7.9 %	9.1 %	669	13 %
BB-	BB-	12 %	106.0	4.3	7.7 %	8.6 %	605	20 %
B-	B-	10 %	107.3	4.4	9.5 %	10.4 %	774	17 %
BB	BB	10 %	100.2	6.6	7.6 %	7.8 %	542	11 %
BB+	BB+	8 %	102.2	5.4	5.7 %	6.6 %	362	7 %
AAA	AAA	5 %	100.0	0.2	0.0 %	0.0 %	0	0 %
BBB-	BBB-	3 %	102.0	5.4	5.8 %	6.0 %	366	14 %
NR	-	2 %	100.3	3.7	8.4 %	8.5 %	697	-3 %
BBB	-	0 %						-3 %
Currencies								
USD	BB	74 %	103.2	3.5	5.7 %	6.2 %	434	53 %
EUR	B+	18 %	105.9	3.2	5.5 %	6.4 %	461	30 %
GBP	B+	8 %	108.1	4.5	8.0 %	9.0 %	637	17 %

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%						2.14%

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%						1.93%

Past Performance is no guarantee of future results.

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