

SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 1st March to 28th March 2013

Class F (USD) MTD return +0.54% YTD 2013 return +1.63% NAV per Share \$108.65

Class D (EUR) MTD return +0.54% YTD 2013 return +1.54% NAV per Share \$108.23

Portfolio and Market Commentary:

For a few days during March, it seemed as if the crisis in Cyprus could force investors into pricing “Eurozone tail risks” into valuations again. Despite the chaotic way in which its bail-out was conducted, however, Cyprus was quickly recognized as a non-systemic issue. Certainly, the imposition of losses on depositors and the introduction of capital controls within the Eurozone were reminders that the single currency remains a vulnerable and flawed construction. But they were reminders only, rather than unknown risks. Assets most closely linked to the crisis in Cyprus were duly impacted, from European bank shares to the sovereign bonds of countries with troubled banking systems. In Emerging Markets, Russian bank shares and bonds also fell, reflecting the financial links between Russia and Cyprus. At the aggregate level, however, Cyprus played at most a marginal role in explaining the performance of credit markets during March, notably the lacklustre performance of Emerging Markets. For the month (*), global investment grade bonds returned 0.1%, while US, European, and EM high yield markets returned 1%, 0.7%, and -0.2%, respectively.

The underperformance of EM risk assets – both equities and, to a lesser extent, external credit - relative to developed markets was a notable development during the first quarter of 2013. While we do not wish to read too much into three months of underperformance, we do believe the investment case for EM is becoming more nuanced. Tactically, with flows notoriously following performance, EM assets may struggle to regain their shine in the near term, as investors continue to focus on the radical change of monetary policy in Japan or as confidence in the US recovery grows. More fundamentally, it has become evident in recent months that the global recovery, if this is one, is not going to be driven by China. The country did avoid a hard-landing during 2012, but recent activity data has been consistently pointing towards stable - rather than accelerating - growth. The new leadership of the country has failed to announce the growth boosting initiatives some investors were hoping for towards the end of 2012, instead emphasizing macroeconomic stability. The transition of the country towards a more domestic, less capital-intensive growth model, whether myth or already reality, seems likely to lead to a further unwind of proxy-bets on Chinese growth such as commodities and commodity export-reliant countries – still the defining model for part of the EM World.

The main common point between many emerging markets remains their investor base, however, and we would struggle to find unifying fundamental developments justifying the recent underperformance of EM assets. While resurging inflation in Brazil shows the country is still bumping up against capacity constraints, partly the result of policy choices, Mexico's new administration has recently announced ambitious reforms for some of its more monopolistic industries, from energy to telecoms. Making the latter alone more competitive could boost the country's growth by as much as 1.8% a year, according to OECD estimates. While many East European countries still struggle with ongoing bank deleveraging and government financing pressures, the upgrade during March of the Philippines to Investment Grade and of Turkey to BB+ (by Fitch and Standard & Poor's, respectively) served to illustrate the better debt dynamics across much of EM vs. the developed markets. Against such varied backdrop, we do not believe a generic rebalancing of the fund away from Emerging Markets would be justified. The outlook for many EM countries remains vastly more favourable than in Developed Europe, while valuations also appear less vulnerable than in the US HY markets, where the re-leveraging cycle is already well engaged.

The drivers of the fund's performance during March were mostly idiosyncratic. Our consumer finance related positions performed well, either following the release of good results (Cabot Credit Management, a UK-based loans collection agency) or a rating upgrade (Tinkoff Credit Systems, a Russian credit card company). The fund's single largest position, Grupo Cementos de Chihuahua, a Mexican cement producer which generates 65% of its revenues in the US, also contributed positively to the fund's performance. Our position in OSX-3, bonds secured by a first lien on an 87%-completed FPSO vessel, was the main detractor from the fund's performance, as investors grew increasingly concerned about the financial standing of the vessel's charterer, OGX, a Brazilian oil & gas firm. We disposed of the position towards the end of the month, mostly reflecting our view that it would command a higher risk premium than current trading levels over the foreseeable future.

(*) Performance period from March 1st to March 28th; source: Bank of America Merrill Lynch.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	106.5	3.6	5.2 %	6.0 %	434	100 %
Largest 5 Positions								
	BB-	18 %	107.8	4.6	6.9 %	7.9 %	574	29 %
Strategies								
Low Vol Portfolio	BB-	38 %	106.9	4.2	6.9 %	8.2 %	592	38 %
High Vol Portfolio	BB-	36 %	107.0	5.5	7.1 %	7.9 %	578	62 %
Cash and Equivalents	AA	26 %						0 %
Regions								
Latin America	BB-	33 %	106.8	5.1	6.7 %	7.7 %	546	47 %
Cash and Equivalents	AA	26 %						0 %
Eastern Europe / CIS	B	16 %	106.7	4.5	7.5 %	8.7 %	642	21 %
Developed Europe	BB	11 %	110.1	4.4	7.0 %	8.8 %	590	22 %
Asia Ex-Japan	B+	7 %	103.0	4.8	8.3 %	8.2 %	714	2 %
Middle East and Africa	BB	4 %	108.5	5.1	6.4 %	7.3 %	514	3 %
North America	B	3 %	106.2	3.9	5.7 %	6.8 %	487	5 %
Corporates/Financials								
Corps	B+	59 %	106.3	5.0	6.9 %	7.8 %	567	70 %
Cash and Equivalents	AA	26 %						0 %
Financials	BB-	15 %	109.4	4.0	7.6 %	9.2 %	663	30 %
Sectors								
Cash and Equivalents	AA	26 %						0 %
Consumer Finance	B+	10 %	112.3	3.9	8.3 %	10.4 %	735	39 %
Telecommunications	BB-	9 %	101.7	5.6	6.7 %	6.9 %	535	1 %
Commercial Banks	BB	8 %	106.5	4.5	6.8 %	7.6 %	578	-3 %
Real Estate Management & Development	BB-	6 %	104.6	7.6	7.7 %	7.8 %	596	11 %
Oil, Gas & Consumable Fuels	B	6 %	107.6	3.0	5.3 %	7.7 %	458	-4 %
Building Products	BB-	5 %	107.2	5.2	6.2 %	7.0 %	496	18 %
Media	BB	5 %	108.6	4.8	6.1 %	7.2 %	499	5 %
Food Products	B	5 %	105.2	5.0	8.2 %	8.8 %	696	8 %
Beverages	BB+	4 %	108.4	6.8	5.3 %	6.0 %	359	-2 %
Road & Rail	B	4 %	103.7	2.1	8.8 %	10.1 %	833	3 %
Air Freight & Logistics	BB-	3 %	108.5	4.8	7.6 %	8.5 %	634	3 %
Chemicals	B	3 %	110.4	4.8	7.5 %	8.6 %	635	6 %
Hotels, Restaurants & Leisure	B	3 %	108.0	3.8	5.9 %	7.3 %	505	10 %
Education	B	2%	107%	3.3	8.0%	9.5%	728	-8%

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Sectors continued								
Utilities	BBB-	1 %	100.0	8.0	4.4 %	4.4 %	244	3 %
Paper & Forest Products	-	0 %						5 %
Financials	-	0 %						7 %
Metals & Mining	-	0 %						1 %
Health Care Providers & Services	-	0 %						-3 %
Ratings								
AA	AA	21 %						0 %
B	B	20 %	106.5	3.9	7.5 %	8.6 %	657	24 %
BB-	BB-	19 %	108.6	4.7	7.4 %	8.3 %	627	29 %
BB	BB	14 %	105.9	6.4	6.5 %	7.2 %	498	9 %
B+	B+	7 %	104.0	3.9	6.3 %	7.8 %	534	9 %
B-	B-	6 %	106.6	3.8	9.4 %	10.3 %	861	24 %
AAA	AAA	5 %	100.0	0.1	0.1 %	0.0 %	0	0 %
BB+	BB+	5 %	111.0	5.3	4.8 %	7.2 %	347	3 %
BBB-	BBB-	3 %	104.5	6.8	4.6 %	5.1 %	299	7 %
NR	-	0 %						-8 %
BBB	-	0 %						3 %
Currencies								
USD	BB	83 %	105.7	3.4	4.8 %	5.4 %	395	76 %
EUR	B+	11 %	108.6	4.3	6.7 %	8.3 %	577	10 %
GBP	BB-	6 %	111.5	4.7	8.2 %	9.4 %	700	14 %

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%										1.63%

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%

Past Performance is no guarantee of future results.

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