SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 27th February to 27th March 2014

Class F (USD): MTD return: 0.84% YTD 2014 return: 2.79% NAV per Share: 116.92

Class D (EUR): MTD return: 0.77% YTD 2014 return: 2.70% NAV per Share: 116.15

Portfolio and Market Commentary:

Mirroring the first quarter as a whole, March was another volatile but ultimately solid month for global credit markets. EM IG and HY markets, having been down as much as 0.50% and 1% at one point, rebounded strongly during the last week to return 0.28% and 0.70%, respectively. Euro high yield returned 0.68%, although most of that performance was front-loaded, with the market treading water during the second half of the month, as the reluctance of the ECB to ease policy seems to have left investors with no clear catalyst to bring yields even lower. Finally, in the US, high yield credit tracked listless equities to end marginally down in price terms, although carry brought total returns to 0.22% (*).

The tentative stabilization of the crisis in Ukraine and hopes that the Chinese government could soon launch stimulus measures provided the immediate triggers for the rebound of EM assets during the last week of the month. In a scenario which has kept repeating itself over the past six months, investors were again forced into sharp portfolio repositioning on concerns about tail risks – this time of an escalation of the tensions between Russia and Western countries - which failed to materialize. Similarly, with the likelihood of a full-blown EM capital account crisis receding, investors have been gradually forced to cover expensive EM shorts at the same time as they have become more willing to differentiate between vulnerable and stronger economies: year-to-date returns have ranged from –1.7% (for the Turkish Lira) to +6.9% for the Rupiah among the so-called "Fragile Five" currencies, leaving the moniker already irrelevant. That decline in correlation is, in our view, one of the more encouraging signs that the wholesale de-rating of EM may have largely run its course.

While the crisis in Ukraine proved a mere distraction for global markets, the evolution of rates in the US and economic developments in China are likely to remain the two key drivers of risk during the remainder of 2014.

The stable performance of the treasury market provided an important tailwind for credit markets during the first quarter. As discussed in our previous letter, treasuries may have in part been supported by one-off factors. More fundamentally, the drivers of the yield curve may have changed since last year's "taper tantrum": while the short-end remains vulnerable to perceived changes in the Fed outlook, the long-end appears to be less driven by the Fed than by growth and inflation expectations. That return to a more "traditional" curve behaviour was particularly evident on March 19th, when Fed Chair Yellen hinted that the first rate hike could happen rather sooner than market participants had been expecting so far ("around six months" after the wind-down of asset purchases, which would imply the first hike could occur as early as April 2015). Although the implications of a further bear flattening for credit are ambiguous, we are getting more comfortable that the normalization of monetary policy in itself should be less disruptive for credit markets than could be expected only three months ago.

Several disappointing activity surveys, signs of financial stress (such as the near-default of a Trust Loan or the collapse of Zhejiang Xingrun, a regional developer), and the declines of "China-sensitive" commodities such as copper (-10.8% year to date as of the end of March) and iron ore (-16%) have been interpreted as signs that the Chinese economy was headed for a deeper-than-expected downturn. We have held the Fund's direct exposure to China at a de minimis level over the past year (it was 4% of NAV at the end of March), and do not believe that year-to-date developments are calling for an even more cautious positioning. We are not concerned about default risk per se, given the relatively strong quality of the Chinese issuers that the Fund typically considers for investment; however, we remain wary about increasing asset volatility and limited potential for spread tightening, as investors grapple with the implications of the Chinese leadership's effort to rein in credit growth and improve capital allocation in the economy: even if China reaches its official growth target of "around 7.5%" this year – which remains our base case, given our belief that the Chinese government will ultimately prioritize that objective over others –this won't in itself ensure benign outcomes for all private investors, as the 2.3% depreciation of the Yuan since January or the default of Chaori Solar Energy, the first ever onshore default in China, illustrated during the quarter.

Regional allocation was the single biggest factor in explaining the performance of the Fund during March: the Fund currently holds no exposure to Russia, and has limited exposure to China, with both countries underperforming global credit markets during the month, while Latin America, where the Fund held 35% of the NAV at the end of the period, benefited from better sentiment towards EM as well as outflows out of Russia. Most of the positions performed well, although our exposure to two Chinese Real Estate developers detracted 10 basis points from the Fund's performance, following the failure of Zhejiang Xingrun. Our best performers during the month were all in Latin America, and included core positions held in Atento, the provider of business services, Banco ABC, the Brazilian midsize lender, Afren, the independent oil & gas company, and Credito Real, the Mexican payroll lender.

(*) Bank of America Merrill Lynch indexes H0A0, HP00 and EMHB.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	104.5	3.9	5.6 %	6.2 %	417	100 %
Largest 5 Positions								
	B+	20 %	106.6	4.5	6.8 %	7.7 %	522	22 %
Regions								
Latin America	BB	35 %	103.7	5.1	6.7 %	7.4 %	487	62 %
Developed Europe	B	16 %	112.2	4.4	6.9 %	8.5 %	529	21 %
Treasury bills	AAA	15 %	100.0	0.0	0.0 %	0.0 %	0	0 %
Eastern Europe / CIS	B+	10 %	105.0	4.8	6.6 %	7.2 %	529	5 %
North America	B+	10 %	104.2	5.5	7.1 %	7.6 %	498	9 %
Asia ex-Japan	BB-	6 %	102.0	3.2	8.4 %	8.8 %	707	-4 %
Cash	AA	4 %						0 %
Middle East / Africa	B+	4 %	101.3	5.2	6.4 %	6.5 %	423	7 %
Corporates/Financials								
Corps	B+	62 %	104.7	5.2	7.0 %	7.7 %	531	72 %
Financials	BB	19 %	107.2	3.9	6.4 %	7.7 %	472	28 %
Treasury bills	AAA	15 %	100.0	0.0	0.0 %	0.0 %	0	0 %
Cash	AA	4 %						0 %
Sectors								
Treasury bills	AAA	15 %	100.0	0.0	0.0 %	0.0 %	0	0 %
Real Estate Management & Development	BB	11 %	102.1	6.2	7.9 %	8.2 %	616	-5 %
Media	BB-	10 %	105.3	5.2	6.3 %	7.0 %	470	12 %
Consumer Finance	BB-	10 %	108.5	4.1	6.8 %	8.1 %	499	12 %
Food Products	BB-	10 %	104.3	5.6	7.5 %	8.2 %	555	7 %
Commercial Banks	BB	9 %	105.8	3.6	5.9 %	7.3 %	442	16 %
Telecommunications	B+	8 %	105.7	5.0	6.9 %	7.6 %	481	23 %
Oil, Gas & Consumable Fuels	B+	8 %	103.1	4.9	6.5 %	6.9 %	445	13 %
IT Services	CCC+	4 %	112.0	4.3	7.2 %	8.8 %	623	5 %
Cash	AA	4 %						0 %
Environmental Services	B+	3 %	110.8	4.9	6.4 %	7.7 %	525	6 %
Auto Components	B+	3 %	102.0	3.3	7.1 %	7.6 %	581	4 %
Transportation Infrastructure	B	3 %	102.3	3.9	9.4 %	9.8 %	774	1 %
Building Products	BB-	1 %	101.6	5.8	5.0 %	5.2 %	370	2 %
Airlines	BB+	1 %	105.4	5.5	5.1 %	5.7 %	292	2 %
Industrial Conglomerates	-	0 %						2 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Ratings								
B+	B+	19 %	104.2	4.4	7.0 %	7.5 %	536	16 %
BB	BB	20 %	103.9	5.1	6.9 %	7.7 %	519	34 %
AAA	AAA	15 %	100.0	0.0	0.0 %	0.0 %	0	0 %
BB-	BB-	14 %	106.9	5.2	6.8 %	8.0 %	498	17 %
B	B	7 %	105.0	4.4	7.9 %	8.6 %	629	4 %
BB+	BB+	7 %	104.9	5.8	6.3 %	6.8 %	400	14 %
B-	B-	5 %	108.8	5.2	6.7 %	7.8 %	451	9 %
AA	AA	5 %						0 %
CCC+	CCC+	4 %	112.0	4.3	7.2 %	8.8 %	623	5 %
BBB-	BBB-	2 %	103.1	3.1	3.8 %	4.6 %	261	2 %
NR	-	2 %	100.6	3.9	7.3 %	7.5 %	570	-1 %
Currencies								
USD	BBB-	73 %	103.0	3.8	5.3 %	5.8 %	391	75 %
EUR	B+	18 %	106.9	4.4	6.0 %	6.7 %	492	15 %
GBP	B+	9 %	112.7	4.3	6.9 %	8.6 %	485	10 %

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%	1.08%	0.84%										**2.79%**

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%	1.06%	0.77%										**2.70%**

Past Performance is no guarantee of future results.

Performance figures are net of all fees.