SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

Weekly Performance Period: 3rd May to 30th May 2013

Class F (USD) MTD return: -0.04%   YTD 2013 return: 3.26%   NAV per Share: $110.39

Class D (EUR) MTD return: -0.06%   YTD 2013 return: 3.04%   NAV per Share: $109.83

Portfolio and Market Commentary:

May was a difficult month for global credit markets as perceived shifts in policy by the Federal Reserve forced investors to adjust their portfolio duration, but also their medium-term strategy for the credit asset class. Market positioning had become even more crowded during the prior month, in part on (largely frustrated so far) expectations of capital inflows from Japan, so that those portfolio adjustments resulted in a fairly typical cycle of drying up liquidity, volatile price action, and higher risk premiums across high yield markets. For the fund's performance period (from May 3rd to May 30th), global investment grade spreads tightened by 3 basis points (bps), representing 28 basis points of excess returns over treasuries, which fell 1.51%. EM and US high yield markets generated negative total returns of -1.23% and -1.24%, with spread widening by around 20bps. The European high yield market was up 0.07%, as carry offset marginally wider spreads and weaker German Bunds (1).

The key difference between May 2013 and the sell-off episodes which occurred around this time of the year in each of 2010, 2011, and 2012 is obviously that the ongoing market weakness is occurring against a backdrop of optimism about economic conditions in the US, rather than as a result of tail risks in the Eurozone and fears about the US recovery. Credit markets have been buoyed since mid-2012 by two intertwined factors. The first was the crowding-in of investors induced by abnormally low risk-free-rates. We believe this will remain a supportive factor for the rest of the year at least. In spite of their sharp increase during May, treasury yields remain no higher than their average during the second half of 2011 and very low by any historical standards, bar the most recent period. The second key supportive factor had been a regime of suppressed rates volatility. We believe the volatility genie has now been let out of the bottle, and is unlikely to get back in. With key Fed officials at pain to emphasize during May that the timing and pace of the "tapering" of asset purchases will be data-dependent, bond prices look likely to remain very sensitive to actual economic outcomes in the coming months, as investors struggle to adjust their positioning in anticipation of the eventual normalization of monetary policy in the US.

At its most basic, the question which investors currently face is whether May has left high yield markets more rather than less attractive than they were during the previous four months, when yields were approximately

50bps lower (2). In our view, the risk of an earlier-than-expected tightening of monetary policy in the US is no higher than it was in previous months, although the perception of such risk, as reflected in credit spreads, increased during the month. Arguably tighter financial conditions in asset markets should actually have made a sooner-than-expected monetary tightening less, rather than more, likely, in a context where some Fed hawks had been publicly fretting about the froth in financial markets. We are therefore inclined to view May as nothing more than an overdue correction of valuations. We do not ignore that the ongoing sell-off entails in itself risks of further downside, notably due to the reduced ability of capital-constrained dealers to recycle the bonds recently bought from end investors. As following any market-wide repricing, risk ownership has been reshuffled in a hurry, and it will take some time for a clearer picture of technicals to emerge. We de-risked the portfolio materially during the third week of the month in anticipation of such developments, and believe we are now adequately positioned to patiently take advantage of better valuations in the month ahead.

Most positions in the fund performed satisfactorily during May, given the backdrop of general market weakening. The main exception was our investment in Bhakti Investama, an Indonesian media company which underperformed markets and generated 15bps of negative performance for the fund. Although Bhakti's two key operating companies, respectively the largest free-to-air and pay-TV broadcasters in Indonesia, again reported strong first quarter earnings during May, the bonds held by the Fund are structural deeply subordinated, making them higher beta and more vulnerable to market downturns. Our holding in Banco BMG, a mid-sized Brazilian payroll lender, was the main positive contributor to the fund's performance. Banco BMG reported stronger-than-expected first quarter earnings at the start of the month, which left investors more optimistic that the bank will successfully surmount in 2013 the funding and regulatory challenges which affected its 2012 results.

(1) Source: Bank of America Merrill Lynch indexes G0BC, HP00, H0A0, and EMHB.

(2) Emerging Markets Corporate High Yield Bond index.

Portfolio Composition:

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
SphereInvest Global Credit Strategies								
	BB-	100 %	104.2	2.6	4.3 %	4.9 %	363	100 %
Largest 5 Positions								
	B+	16 %	105.9	4.5	7.5 %	8.4 %	623	12 %
Strategies								
Low Vol Portfolio	B+	40 %	104.2	4.0	7.0 %	7.9 %	592	82 %
Cash and Equivalents	AA+	40 %						1 %
High Vol Portfolio	B+	20 %	106.3	4.8	7.4 %	8.4 %	614	17 %
Regions								
Cash and Equivalents	AA+	40 %						1 %
Latin America	B+	17 %	106.4	4.6	7.4 %	8.5 %	614	271 %
Eastern Europe / CIS	B+	17 %	106.6	4.0	7.3 %	8.5 %	629	123 %
Developed Europe	BB	17 %	103.8	4.4	6.9 %	7.7 %	571	-137 %
Africa	B	3 %	98.7	4.1	7.2 %	7.0 %	605	-16 %
North America	B	3 %	107.1	3.8	5.4 %	6.8 %	443	52 %
Asia Ex-Japan	BB	3 %	93.5	4.2	7.5 %	6.3 %	633	-229 %
Middle East	-	0 %						35 %
Corporates/Financials								
Corps	BB-	43 %	103.9	4.6	7.0 %	7.7 %	578	-92 %
Cash and Equivalents	AA+	40 %						1 %
Financials	B+	17 %	107.5	3.5	7.6 %	9.1 %	656	191 %
Sectors								
Cash and Equivalents	AA+	40 %						1 %
Telecommunications	BB-	8 %	101.6	5.0	6.3 %	6.5 %	491	7 %
Commercial Banks	B+	8 %	103.4	3.7	7.5 %	8.3 %	644	156 %
Oil, Gas & Consumable Fuels	B	8 %	105.1	3.6	6.3 %	7.8 %	525	121 %
Consumer Finance	B+	8 %	111.7	3.2	7.6 %	9.9 %	670	33 %
Chemicals	B+	6 %	107.3	5.1	7.3 %	8.1 %	597	25 %
Real Estate Management & Development	BB	4 %	103.4	8.4	7.4 %	7.3 %	542	-148 %
Media	BB	4 %	98.4	4.2	6.8 %	6.5 %	569	-134 %
Air Freight & Logistics	BB-	4 %	108.4	4.9	7.6 %	8.5 %	611	13 %
Road & Rail	B	3 %	103.9	2.0	8.6 %	10.1 %	807	23 %
Gaming	B+	2 %	102.4	4.0	8.2 %	8.5 %	725	-14 %
Hotels, Restaurants & Leisure	B	2 %	107.5	3.8	6.0 %	7.3 %	494	-55 %
Machinery	BB-	2 %	102.0	4.0	7.8 %	8.1 %	683	47 %

	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
Sectors (cont'd)								
Independent Power Producers & Energy Traders	-	1 %	100.3	4.0	7.5 %	7.6 %	644	-66 %
Food Products	-	0 %						14 %
Beverages	-	0 %						29 %
Auto Components	-	0 %						-8 %
Metals & Mining	-	0 %						12 %
Education	-	0 %						44 %
Ratings								
AA	AA	29 %						0 %
B	B	17 %	105.1	3.7	7.0 %	7.9 %	602	118 %
BB-	BB-	14 %	106.6	4.4	7.3 %	8.3 %	608	130 %
BB	BB	11 %	101.6	5.7	7.1 %	7.2 %	560	-197 %
AAA	AAA	11 %	100.0	0.2	0.0 %	0.0 %	0	1 %
B-	B-	7 %	108.4	4.0	8.7 %	9.9 %	759	231 %
BB+	BB+	4 %	104.6	4.5	4.5 %	6.5 %	322	22 %
B+	B+	4 %	105.2	2.9	6.6 %	8.8 %	586	-157 %
NR	-	3 %	100.7	3.9	8.0 %	8.2 %	693	-53 %
BBB-	-	0 %						5 %
Currencies								
USD	BB+	82 %	103.7	2.4	4.0 %	4.5 %	333	135 %
EUR	B+	16 %	105.8	3.3	5.4 %	6.3 %	466	-34 %
GBP	BB-	2 %	113.1	4.3	7.9 %	9.5 %	667	-1 %

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%								**3.26%**

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%								**3.04%**

Past Performance is no guarantee of future results.

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