SphereInvest | GROUP

May 2015

# GLOBAL CREDIT STRATEGIES FUND

## Monthly Performance

| | MTD Return (Net) | YTD Return (Net) | NAV per Share |
|---|---|---|---|
| Class F (USD) | 0.93% | 5.66% | 128.07 |
| Class D (EUR) | 0.97% | 5.49% | 126.68 |
| Class E (GBP) | 0.69% | 0.69% | 100.69 |

## Performance Since Inception

Annualized Return: 8.8%
Annualized Volatility: 2.2%
Sharpe Ratio: 3.9

## Fund Terms

| Regulatory | UCITS IV |
|---|---|
| Liquidity | Weekly |
| Start Date | 2nd July 2012 |
| Management Fee | 1.5 % (Retail)<br>1% (Institutional) |
| Performance Fee | 5% Incentive Fee |
| Minimum Investment | Retail = 25,000 (GBP, EUR, USD, CAD, CHF)<br>Institutional = 200,000 (GBP, EUR, USD, CAD, CHF) |
| Domicile | Malta |
| Administrator | Equinoxe Investment Services (Ireland) Ltd. |
| Custodian | RBC International |
| Auditor | Deloitte & Touche |
| Legal Counsel | Ganado & Associates |

## Portfolio Commentary

With little decisive economic data, investors lacked direction during May. Risk appetite remained subdued following April's spike in volatility in "core" Sovereign bond markets and as the crisis in Greece showed little signs of resolution. 10-year treasuries ended the month broadly unchanged despite considerable intra-month volatility; 10-year bunds initially sold-off 30bps, before recovering to end the month 16bps higher. Currencies were volatile as well: EMFX, in particular, suffered from weak equity performance (away from China), renewed weakness in the commodity complex and the strengthening of the Dollar (the DXY index appreciated 2.4% during May). Credit markets were resilient, with spreads in US and Euro HY markets 9 and 6 bps tighter, respectively, helping both markets to return 0.24% for the month despite some price erosion. Finally, EM HY enjoyed the last leg of its recovery from January's lows, with spreads 22bps tighter, for a total return of 1.3%.

We believe May was a pivotal month. A number of consensus "themes", expected to shape 2015 as a whole, actually failed to play out or have exhausted themselves within the first few months. Recent seemingly confusing market action reflects the unwind of these consensus positions; still remarkably uncertain economic data out of the US, alternatively feeding optimism and pessimism without allowing momentum to build either way; as well as, an "elephant in the room" looming ever larger- the first rate hike by the Fed since 2006. Although the timing of "liftoff" in September is one of the few remaining consensus in the market (encouraged by Fed Chair Yellen, who suggested in May the Fed expects to normalize monetary policy at "some point this year"), this does not mean it is inconsequential for risk assets: much will depend on how data develops in the months leading to it, whether investors agree data is strong enough to justify lift-off, and how it shapes expectations about the monetary cycle after that. This should both ensure rates remain volatile over coming months and risk appetite limited.

The case for EM credit remains nuanced. As noted in previous letters, we believe the strong performance of EM HY year-to-date is due to a correction from distressed valuations: credits, which were challenged, were often pricing an excessive risk of near-term default. This explains why the rally has been led by lower-quality segments of the market (i.e., "single-B and lower" EM credits have returned 10.8% since the start of February, vastly outperforming BBB credits' return of 1.8%), while the still difficult outlook and generally cautious investor sentiment towards the asset class could have been expected to favour more resilient credits. That normalization has run its course, in our view. "External" drivers of EM performance, such as the Dollar, US rates, or commodities, could again prove headwinds to the asset class in coming months. While reform momentum across EM provides a mixed picture at best, and has recently been more cause for disappointments than positive surprises, given this backdrop, our current focus in EM continues to be on idiosyncratic situations and to limit beta.

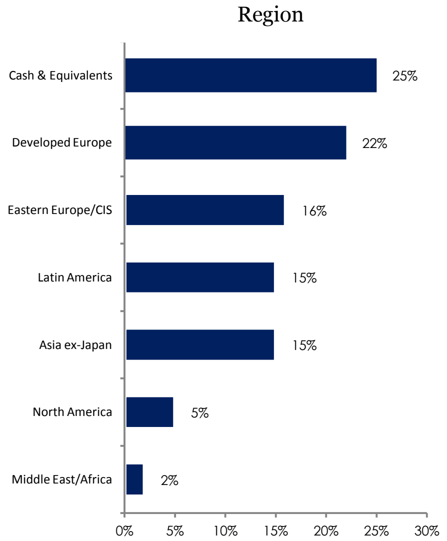
Recent developments in the Eurozone are supportive for Euro HY, in our view. The sell-off in rates has been unnerving only because of its velocity; it can't be dissociated from the preceding 15-month rally, which had brought rates to levels not justified - at least in hindsight. Although risk appetite is likely to return only when rates have settled into a new range, this would leave the market in a risk-supportive configuration: a very accommodative central bank (in early June, ECB President Draghi confirmed the Bank's commitment to see their asset purchases programme through), combined with an improving economic backdrop. A few considerations mitigate that broad picture. Spreads in Euro HY already reflect such a scenario, explaining their resilience since April: credit investors have been taking the view the rates sell-off corrected excesses specific to that market, while it validated their confidence in the improving Eurozone. The continuing stalemate between Greece and its creditors remains a "wild-card". As often in the recent history of the Eurozone, the crisis owes more to political than economic considerations, making it very difficult to assess the probability and severity of possible outcome, from a chaotic "Grexit" to another fudge allowing for an extension of negotiations after Greece's bailout programme expires at the end of June. Developments since early June continue to justify our "wait-and-see" approach, noting that the Fund has no direct exposure to Greece.

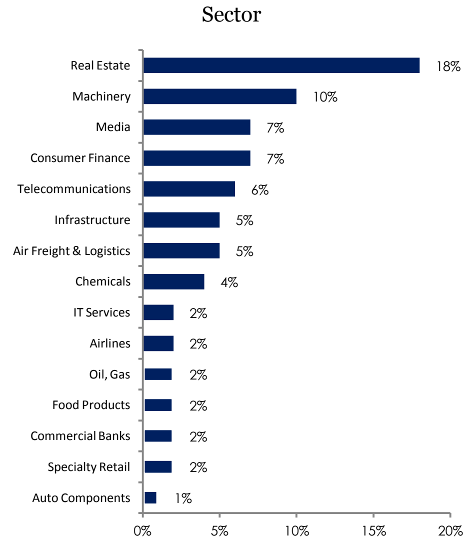
The fund benefited from its exposure to two Russian credits, which were realized towards the end of the period: Borets, a manufacturer of electric submersible pumping systems, and TMK, a pipe manufacturer. Topaz Marine, a Dubai based offshore support vessel company, and Global Ship Lease, the container ship leasing company, reported good first quarter results, strong performers as well. Our position in Gol, the Brazilian airlines, continued to recover on expectations pricing is stabilizing in the competitive Brazilian market. May's main performance detractors included Global Ports Holdings, the Turkish containers and cruise ports operator, which disappointed investors after it failed to complete its IPO at the start of the month. Our position in Unity Euro-denominated bonds due 2025, the German cable company, underperformed as rising hope of a merger with Vodafone – a positive credit outcome – were not enough to offset the price depreciation due to the bonds long duration.

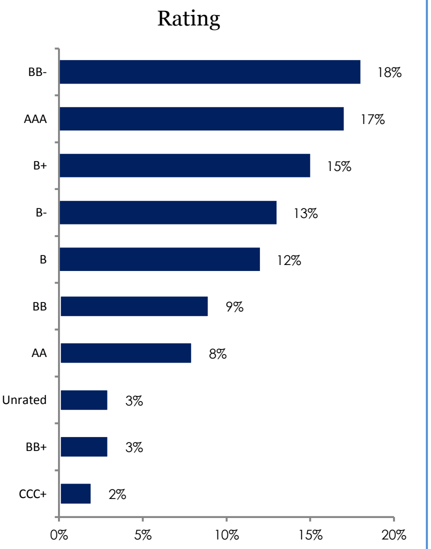
## Portfolio Composition

Portfolio Yield: 5.7%
Portfolio Duration: 3.8

Average Rating: BB-
Number of Holdings: 32




## Monthly Performance 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% | 1.10% | 1.20% | 1.04% | -0.20% | 0.91% | -0.51% | 0.14% | 0.66% | -0.71% | **6.56%** |
| **2015** | -0.22% | 1.80% | 1.38% | 1.66% | 0.93% | | | | | | | | **5.66%** |

### Class D (EUR)

| | 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% | 1.09% | 1.25% | 1.01% | -0.21% | 0.92% | -0.62% | 0.12% | 0.59% | -0.79% | **6.18%** |
| **2015** | -0.29% | 1.82% | 1.33% | 1.55% | 0.97% | | | | | | | | **5.49%** |

### Class E (GBP)

| | Jan | Feb | Mar | April | May | Jun | July | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | 0.69% | | | | | | | | **0.69%** |

## Contact Details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