

SphereInvest | GROUP

SPHEREINVEST GLOBAL CREDIT STRATEGIES (UCITS) FUND

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

Class F (USD): MTD return: 0.14% YTD 2013 return: 5.69% NAV per Share: 112.99

Class D (EUR): MTD return: 0.13% YTD 2013 return: 5.42% NAV per Share: 112.37

Portfolio and Market Commentary:

US\$ credit markets lacked direction during November, with sharp moves after the publication of better-than-expected October payrolls, the confirmation hearing of Janet Yellen, or the publication of the FOMC's October meeting minutes proving largely transitory. EM high yield and investment credit gave back some of the gains recorded during the previous two months, generating negative returns of -0.75% and -0.53% respectively. Amid subdued sentiment towards the asset class, optimism on the potentially far-reaching economic reforms following the conclusion of the Third Plenum session in China was not enough to offset renewed concerns about the impact of higher yields on current account deficit countries, as well as some negative idiosyncratic developments, such as the failure of Ukraine to sign an association agreement with the EU. In Europe, credit markets were buoyed by the ECB's surprise rate cut on November 7th as well as by comments from Governing Council members that the Central Bank stood ready to provide further accommodation, including asset purchases. The Merrill Lynch European High Yield index returned 0.87% during November (1).

November's data did not bring conclusive new information to gauge the timing and magnitude of tapering by the Fed, with the Treasury market unsure whether to rally (after Janet Yellen's testimony was perceived as "dovish") or sell-off (after the October minutes suggested FOMC participants were keen to taper sooner rather than later). Overall, the steepening of the Treasury curve and Fed fund futures appear to indicate the Fed has succeeded in decoupling tightening expectations from the upcoming reduction of asset purchases. Equity markets' strong performance during November may also indicate that risk assets have now graduated to a "good news is good news" stance, as opposed to the "bad news is good news" framework which had characterized them since the Fed introduced QE-3 in September 2012. This would imply that a December tapering should not prove disruptive for risk assets, as it would need to be preceded by an unambiguously strong series of data in the few weeks leading to the FOMC meeting on December 18th, starting with the November payroll to be published on December 6th.

Although monetary policy in the US remains firmly at the forefront of fixed income investors' concerns, we will use the relative respite provided by November to focus the rest of our letter on the more micro drivers of the fund. Most of our holdings reported their third quarter earnings during the month, with results generally of good quality.

Among our largest EM positions, Severstal, the Russian steel producer, outperformed expectations, as strong cost management helped to offset lower steel product prices. Topaz Marine and Offshore Drilling Holdings, two oil services companies respectively based in Dubai and Mexico, both recorded strong Ebitda expansion as a result of recent capacity additions and good utilization rates. Our EM financials positions performed consistently, with the exception of Tinkoff Credit Systems (TCS, a Russian credit card firm), which we discuss below. Bank St Petersburg, the regional Russian bank, showed further signs of asset quality stabilization, following the issues experienced in 2011, while Banco ABC, the Brazilian mid-sized lender, reported inline results at the start of the month, which allowed us to cut our position by two-thirds on valuation grounds. Our holdings in TCS performed poorly during November, detracting 13 basis points from the fund's

return, after articles in the Russian press reported Duma lawmakers were considering banning the distribution of credit cards by mail, which appeared to put TCS's branchless model at risk. The authors of the draft law on consumer lending subsequently clarified their intention was to target unsolicited credit cards mailing, which would not affect TCS's operations. TCS had only in October conducted a high-profile IPO in London, valuing the lender at \$3.2 billion, or an elevated price-to-book multiple of 3.5 times. Although that valuation vindicated our own long-standing thesis that TCS's business model provides significant junior capital behind our debt investment, TCS' new public listed status ironically compounded the poor performance of our holdings during November, as the stock's performance proved extremely volatile and attracted negative press coverage. We do not expect our holdings to recover to the level reached in October, at least until the final contours of the draft law on Consumer Lending and the impact of the slowdown of growth in Russia on TCS' cost of risk become known. We are however comfortable that those risks remain mostly a concern for equity investors, and are adequately reflected in the c. 13% running yield on the bonds we hold. Among the largest positions in our European high yield book, the results of TMF Group, the professional services group, came slightly below our expectations, following a promising first half of the year, as margins remain pressured and the fund services business continues to be suffering from contract losses. TMF's business remains highly cash generative, however, allowing credit metrics to remain stable on a quarter-to-quarter basis. Manutencoop, the Italian provider of facility, laundering and sterilization services, surprised positively on strong working capital management benefiting from the Italian government's programme aimed at settling overdue amounts owed by public entities, triggering around 80 basis points of spread compression during the month. Finally, our holdings in Intralot, the Greece-headquartered, global gaming company, were supported by good third quarter earnings, with Ebitda expanding 28% year-on-year, and net leverage declining slightly from year-end to 2 times. The spread on the bonds we hold ended the month around 10 basis points tighter, having rallied c. 170 basis points since they were issued last August.

Looking forward, the expected return of the Euro high yield class is bumping against obvious mathematical limits, as the market's yield-to-worst reached an all-time low of 4.5% at the end of November, and with more than 50% of the investment universe now trading above call price (2), leaving the risk/reward ratio unfavourable. We know from similar "grab-for-yield" episodes experienced in US and EM markets in late 2012-early 2013 that calling a floor on yields is futile. As we enter the seasonally strong month of December, and with deflation the more pressing concern facing the ECB, we do not see near-term triggers for valuations to correct. We expect the Euro HY market to remain technically well supported, but do also believe valuations have reached fundamentally stretched levels across rating categories. Valuations in EM are fundamentally more attractive in our view, but have failed to reach levels which would more obviously compensate for the high volatility we continue to expect from the asset class in 2014. On balance, our medium-term effort is likely to replace our current Euro HY positions as we identify new opportunities, which could result in a higher weight for EM corporate positions in early 2014.

(1) Source: Bank of America Merrill Lynch indexes GOBC, HP00, HOA0, and EMHB.

(2) BNP Paribas calculations

Portfolio Composition:

| | Average Rating | Market Value (%) | Price | Mod. Dur. | Yield | Carry | Z-Spread | PnL Contrib. |
|---------------------------------------|----------------|------------------|-------|-----------|-------|--------|----------|--------------|
| SphereInvest Global Credit Strategies | | | | | | | | |
| | B+ | 100 % | 104.5 | 3.3 | 6.1 % | 7.0 % | 507 | 100 % |
| Largest 5 Positions | | | | | | | | |
| | B | 20 % | 106.2 | 3.6 | 9.5 % | 10.4 % | 824 | -2 % |
| Regions | | | | | | | | |
| Developed Europe | B+ | 26 % | 107.6 | 4.4 | 7.3 % | 8.6 % | 585 | 62 % |
| Eastern Europe / CIS | B+ | 21 % | 104.1 | 3.7 | 8.8 % | 9.5 % | 769 | -26 % |
| Latin America | BB | 20 % | 103.9 | 4.5 | 6.4 % | 7.1 % | 489 | 10 % |
| Treasury bills | AAA | 11 % | 100.0 | 0.1 | 0.0 % | 0.0 % | 0 | 0 % |
| Asia Ex-Japan | B+ | 11 % | 104.5 | 2.5 | 7.8 % | 9.6 % | 718 | 33 % |
| Cash | AA | 7 % | | | | | | 0 % |
| North America | B+ | 3 % | 104.9 | 5.1 | 6.6 % | 7.1 % | 464 | 9 % |
| Africa | B+ | 1 % | 100.3 | 5.5 | 6.6 % | 6.6 % | 452 | 12 % |
| Corporates/Financials | | | | | | | | |
| Corps | B+ | 58 % | 105.0 | 4.3 | 7.1 % | 8.0 % | 580 | 117 % |
| Financials | BB- | 24 % | 105.7 | 3.4 | 8.4 % | 9.7 % | 725 | -17 % |
| Treasury bills | AAA | 11 % | 100.0 | 0.1 | 0.0 % | 0.0 % | 0 | 0 % |
| Cash | AA | 7 % | | | | | | 0 % |
| Sectors | | | | | | | | |
| Consumer Finance | B+ | 16 % | 107.8 | 3.7 | 8.9 % | 10.5 % | 747 | -13 % |
| Oil, Gas & Consumable Fuels | B+ | 14 % | 104.0 | 4.5 | 7.1 % | 7.9 % | 554 | 21 % |
| Media | B+ | 13 % | 102.8 | 4.0 | 7.8 % | 8.7 % | 671 | 7 % |
| Treasury bills | AAA | 11 % | 100.0 | 0.1 | 0.0 % | 0.0 % | 0 | 0 % |
| Commercial Banks | BB | 9 % | 102.3 | 2.9 | 7.7 % | 8.4 % | 691 | -4 % |
| Cash | AA | 7 % | | | | | | 0 % |
| Food Products | BB- | 5 % | 108.2 | 4.0 | 6.8 % | 8.0 % | 564 | 6 % |
| Telecommunications | B+ | 5 % | 104.4 | 4.7 | 7.8 % | 8.3 % | 596 | -1 % |
| IT Services | CCC+ | 4 % | 108.5 | 4.5 | 8.1 % | 9.1 % | 685 | 2 % |
| Gaming | B+ | 3 % | 108.7 | 3.4 | 7.3 % | 9.0 % | 646 | 9 % |
| Environmental Services | B+ | 3 % | 105.9 | 5.0 | 7.4 % | 8.0 % | 602 | 33 % |
| Metals & Mining | BB+ | 3 % | 107.7 | 3.4 | 4.5 % | 6.2 % | 355 | 9 % |
| Machinery | B+ | 3 % | 104.2 | 2.2 | 6.6 % | 8.2 % | 612 | 6 % |
| Utilities | BBB- | 3 % | 103.1 | 6.2 | 5.6 % | 5.9 % | 335 | -13 % |
| Airlines | BB+ | 1 % | 102.5 | 5.7 | 5.6 % | 5.9 % | 354 | 11 % |
| Chemicals | - | 0 % | | | | | | 3 % |

| | Average Rating | Market Value (%) | Price | Mod. Dur. | Yield | Carry | Z-Spread | PnL Contrib. |
|--------------------------------------|----------------|------------------|-------|-----------|-------|--------|----------|--------------|
| Sectors (cont'd) | | | | | | | | |
| Real Estate Management & Development | - | 0 % | | | | | | 13 % |
| Specialty Retail | - | 0 % | | | | | | 11 % |
| Ratings | | | | | | | | |
| B+ | B+ | 26 % | 104.5 | 3.9 | 7.8 % | 8.8 % | 656 | 91 % |
| BB- | BB- | 15 % | 105.8 | 3.2 | 7.9 % | 9.1 % | 692 | 35 % |
| AAA | AAA | 11 % | 100.0 | 0.1 | 0.0 % | 0.0 % | 0 | 0 % |
| B- | B- | 9 % | 106.9 | 3.9 | 9.3 % | 10.3 % | 788 | -25 % |
| BB | BB | 9 % | 103.6 | 4.0 | 7.2 % | 8.0 % | 579 | 3 % |
| BB+ | BB+ | 8 % | 106.5 | 4.1 | 5.2 % | 7.1 % | 379 | 0 % |
| B | B | 7 % | 104.4 | 5.0 | 7.4 % | 7.9 % | 597 | 0 % |
| AA | AA | 7 % | | | | | | 0 % |
| BBB- | BBB- | 4 % | 102.3 | 5.2 | 5.2 % | 5.5 % | 341 | -4 % |
| CCC+ | CCC+ | 4 % | 108.5 | 4.5 | 8.1 % | 9.1 % | 685 | 2 % |
| NR | - | 0 % | | | | | | -7 % |
| BBB | - | 0 % | | | | | | -6 % |
| CCC | - | 0 % | | | | | | 11 % |
| Currencies | | | | | | | | |
| USD | BB+ | 69 % | 103.0 | 2.8 | 5.8 % | 6.4 % | 484 | 32 % |
| EUR | B | 22 % | 106.5 | 4.2 | 6.7 % | 7.8 % | 559 | 43 % |
| GBP | B+ | 9 % | 111.0 | 4.4 | 7.3 % | 8.7 % | 548 | 25 % |

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% | | 5.69% |

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% | | 5.42% |

Past Performance is no guarantee of future results.

Performance figures are net of all fees.

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