

SphereInvest | GROUP

SphereInvest Global Credit Strategies (UCITS) Fund

Weekly Performance Period: 28th September to 1st November 2012

Class D (EUR) MTD return	+2.04%	YTD return ⁽¹⁾	+3.65%	NAV per Share	103.65
Class F (USD) MTD return	+2.11%	YTD return ⁽¹⁾	+3.81%	NAV per Share	103.81

⁽¹⁾ YTD from inception on 2nd July 2012

October was another strong month for credit markets, with spreads in global Investment Grade (IG) markets tightening by 18 bps, and global High Yield (HY) markets returning 1.4% for the month. In Emerging Markets, IG and HY yield credit returned 1.6% and 2.3%, respectively. The month was a tale of two parts, with striking episodes of “panic buying” during the first two weeks, as investors rushed to deploy record inflows into EM and high yield bond funds, followed by a more subdued risk tone during the last two weeks of the month.

While the narrative behind the strong performance of credit during the summer had revolved mainly around the removal of the “tail risk” of the breakdown of the Eurozone, economic data during October provided more tangible grounds for optimism and a healthier background for risk assets, in our view. In EM, improvements were most noticeable in China, where the October PMI moved into expansionary territory, and in Brazil, where hard indicators, from retail sales to industrial data, confirmed the economy is recovering. Among large EM countries, Argentina and South Africa were the glaring and sad exceptions to a general picture of steady fundamentals. In Argentina, erratic policy making has been increasingly clouding an otherwise promising cyclical outlook, while wildcat strikes in South-Africa’s mining sector have exposed deep-rooted social tensions and economic pressures. In Developed Markets, data out of the US also showed signs of improvement, from housing to job creation, although this was largely overshadowed by the uncertainty created by the “fiscal cliff”, or automatic spending cuts and tax increases which could derail the recovery if the new administration fails to reach a fiscal deal with Congress.

The performance of the fund during October was in part driven by our participation in the primary market, made attractive by lower cash prices and better liquidity than in secondary markets. Some of our core credit positions, including consumer lender International Personal Finance, tire manufacture Gajah Tunggal, or poultry producer MHP, continued performing well as those companies reported strong earnings or operating results. The main detractor from the fund’s performance during October was a small position held in IRSA Inversions, one of Argentina’s largest real estate companies. The position was closed and the fund currently holds no exposure to Argentina.

Readers of our previous investor letters will remember that we have held a cautious stance about market valuations over the past 3 months, as we felt credit spreads had tightened to levels which, on the whole, did not compensate investors enough for credit and liquidity risks inherent in the high yield asset class, and even less for the idiosyncratic risks the global economy still faces. In line with that stance, we have remained focused on disciplined profit taking and culling positions which had exceeded our fair value targets. That approach has so far been rather frustrating against a backdrop of relentless spread tightening, but will position us well during the last two months of 2012, as value and credit fundamentals come back to the fore in the sideways market we expect to prevail during the last two months of 2012.

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	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contr. (Oct)
	BB+	100 %	104.2	5.0	6.0 %	6.4 %	497	100 %
Largest 5 Positions								
	BB-	21 %	104.7	6.5	6.4 %	6.8 %	497	20%
Strategies								
Low Vol Portfolio	BB	54 %	103.1	6.2	6.4 %	6.8 %	515	54 %
High Vol Portfolio	B+	32 %	106.1	5.0	7.9 %	8.8 %	682	46 %
Cash	AA	14 %						-
Regions								
LATAM	BB	35 %	104.3	6.6	6.9 %	7.3 %	552	40 %
Developed Europe	BB-	26 %	104.2	4.7	6.7 %	7.5 %	562	20 %
Eastern Europe / CIS	BB-	18 %	105.7	4.8	7.4 %	8.0 %	629	33 %
Cash	AA	14 %						-
NJA	BB-	7 %	100.2	8.2	7.5 %	7.0 %	613	9 %
North America	-	0 %						-2 %
Corporates/Financials								
Corps	BB-	68 %	104.0	6.2	6.7 %	7.1 %	545	64 %
Financials	BB	18 %	104.9	4.0	7.8 %	9.0 %	690	36 %
Cash	AA	14 %						-
Sectors								
Cash	AA	14 %						-
Consumer Finance	BB-	10 %	106.9	3.0	8.6 %	10.3 %	781	10 %
Oil, Gas & Consumable Fuels	B	9 %	101.2	3.5	7.2 %	7.7 %	661	7%
Food Products	B	8 %	103.7	3.9	8.4 %	9.1 %	753	11 %
Commercial Banks	BB	8 %	102.2	5.4	6.9 %	7.2 %	572	25 %
Metals & Mining	BBB-	8 %	102.4	9.6	6.0 %	6.0 %	408	8 %
Chemicals	BB	5 %	102.5	6.2	5.1 %	5.4 %	372	1 %
Building Products	B	4 %	105.0	6.4	8.6 %	8.9 %	708	9 %
Transportation Infrastructure	BB-	4 %	112.5	6.8	6.0 %	6.9 %	448	1 %
Real Estate Management & Development	BB	4 %	109.3	12.0	7.7 %	7.8 %	553	-4 %
Telecommunications	BB	4 %	108.1	6.7	6.3 %	6.9 %	484	10 %
Media	BB-	4 %	105.6	4.4	6.3 %	7.1 %	540	3 %
Consumer	BB	4 %	105.2	5.5	5.8 %	6.4 %	468	6 %
Auto Components	B-	3 %	100.3	1.6	9.1 %	8.0 %	865	0 %
Beverages	-	3 %	103.6	5.9	3.9 %	4.3 %	256	3 %
Distributors	BBB	3 %	100.0	14.8	6.0 %	6.0 %	358	0 %
Utilities	BBB-	3 %	102.8	5.7	5.4 %	5.7 %	410	8 %
Hotels, Restaurants & Leisure	B-	2 %	104.0	1.9	7.2 %	8.9 %	680	2 %
Automobiles	-	0 %						0 %

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Ratings	Average Rating	Market Value (%)	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contr. (Oct)
B	B	19 %	102.7	4.3	8.5 %	8.9 %	757	25 %
BB	BB	19 %	105.9	8.2	6.6 %	6.9 %	491	21 %
BB-	BB-	15 %	107.0	4.9	7.3 %	8.1 %	624	20 %
AA	AA	14 %						-
NR	-	9 %	102.7	4.2	6.3 %	6.9 %	545	4 %
BBB	BBB	8 %	100.1	11.1	4.9 %	5.0 %	294	5 %
BBB-	BBB-	7 %	101.6	6.7	5.4 %	5.6 %	395	13 %
B-	B-	5 %	101.6	1.7	8.4 %	8.3 %	801	4 %
BB+	BB+	4 %	113.1	2.3	6.2 %	10.2 %	550	5 %
BBB+	-	0 %						9 %
B+	-	0 %						-6 %
Currencies								
USD	BB-	82 %	104.0	5.0	6.0 %	6.3 %	501	92 %
EUR	BB+	15 %	106.0	5.0	5.1 %	6.4 %	396	7 %
GBP	BB-	3 %	106.6	4.6	9.3 %	10.1 %	813	1 %

Performance Table since Inception:

2012	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
Class D (Euro)							0.20%	0.66%	0.70%	2.04%			3.65%
Class F (USD)							0.15%	0.72%	0.78%	2.11%			3.81%

Past Performance is no guarantee for future results.