SphereInvest | GROUP

MORNINGSTAR ★★★★★

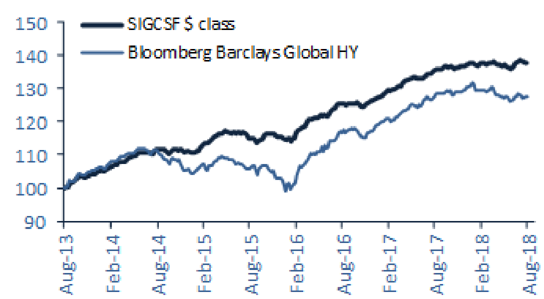
GLOBAL CREDIT STRATEGIES FUND

Monthly Performance

Class F (USD): MTD return: -0.54% 2018 return: 0.67% NAV per Share: 150.49
Class D (EUR): MTD return: -0.66% 2018 return: -1.14% NAV per Share: 139.93
Class E (GBP): MTD return: -0.74% 2018 return: -0.68% NAV per Share: 114.37

	2018	1-year		3 years		Since Inception	
	Return	Return *	Sharpe	Return *	Sharpe	Return *	Sharpe
SIGCSF Class F (US$)	0.67%	2.0%	-0.04	6.1%	2.17	6.8%	2.64
Bloomberg Barclays Global HY	-1.9%	-0.3%	-0.77	6.3%	1.03	5.9%	1.16
BOFA EM High Yield	-4.2%	-2.8%	-1.82	6.6%	1.20	5.8%	1.02
BOFA Europe High Yield	-0.2%	1.1%	-0.44	4.6%	0.97	7.2%	1.82
BOFA US High Yield	2.0%	3.3%	0.50	6.9%	1.07	6.2%	1.22
Barclays US Treasury Total Return	-1.4%	-2.2%	-1.05	0.6%	-0.17	0.8%	0.04
MSCI World	3.7%	11.3%	1.03	10.2%	0.78	9.5%	0.78
MSCI Emerging Markets	-10.8%	-2.7%	-0.32	9.4%	0.48	1.9%	0.08

* Annualized Weekly Returns and Sharpe Ratios; Fund Inception: July 2012



Source: SphereInvest Group; Bank of America Merrill Lynch

Portfolio and Market Commentary

At the end of a very volatile summer, with EM on the verge of another fully-fledged crisis, the contrast is striking between the sharp deterioration in investor sentiment and fundamentals which have by-and-large, evolved in line with expectations at the start of the year. Economic growth and corporate earnings have remained resilient, including in China and its all-important property sector. The pace of tightening by the Fed has remained gradual, with little market concern so far, the Fed is at risk of falling behind the curve. To the contrary, the flattening of the yield curve betrays some anxiousness it may be tightening too quickly. Even trade tensions between the US and many of its commercial partners have played out largely as per our expectations, with a gradual narrowing of the US focus on its dispute with China and some tentative easing on other fronts, such as Nafta or with the EU. Away from the EM storm, volatility has remained subdued: both on equity and sovereign bond markets, and in measures of economic output. EM entered 2018 with broadly positive or balanced current-accounts; significantly cheaper currencies than at the start of the 2013 “taper tantrum”; generally sound banking systems; and a de-emphasizing of the US for EM’s prospects and increase of China’s, which appeared to augur well for 2018, given the stabilization of China since 2015.

Why did it go wrong? EM investors were clearly unable to overcome the quick succession of hurdles thrown up during 2018: from the uncertainty brought by heavy election calendars (Colombia, Mexico, Turkey, Brazil in 2018, while investors are also fretting about elections in Nigeria, Argentina and Indonesia in 2019); to the US imposing or threatening sanctions on various EM countries, from Iran and Russia to Turkey; the constant background noise of trade wars; to the drought in Argentina, which starved the economy of dollars at probably the worst time given the Fed’s tightening. Contrasting the recent acute stress in Brazilian markets, as investors grow anxious the next president may not be able to pass necessary fiscal reforms, with the equanimity with which markets treat the dysfunctional coalition in Italy, another fiscally challenged country, investors’ sensitivity to negative developments obviously isn’t the same whether shocks occur in countries reliant on US dollar liquidity, or in countries funding in their own currencies. For all the hope EM could escape stress once dollar liquidity tightens, this time wasn’t different after all: whenever the Fed tightens, only the most solid EM countries are able to escape stress.

We are not optimistic this storm will pass quickly. Your Fund Manager must admit he was too optimistic on EM going into the summer, and still considers the recent sell-off too indiscriminate and often not fundamentally justified. For instance, investors' focus on negative current-accounts largely ignores the drivers behind such deficits. In some cases, as in Turkey, the deficit is a sign the economy was over-heating and foreign capital was being sucked in to finance consumption and projects with declining returns. In others, like Indonesia, the deficit reflects strong economic prospects and a lack of local savings: there is no rational reason for investors to decline to fund sound projects over time. Clearly, indiscriminate selling will offer opportunities to generate strong returns once sentiment recovers; in the near-term, however, this does leave markets vulnerable, since fundamentals do not provide any strong anchor at this juncture.

The second reason for our caution is the US is currently booming, maybe too much for the good of the global economy. As we explained in our June letter, the "America First" agenda effectively exports tighter financial conditions, but not growth: while Trump can be credited for propping up domestic confidence in the US to record levels, he is also undermining confidence in key other countries, starting with China. The largest, wealthiest country on earth is now growing at EM-like levels, while developing countries are stuck at mediocre levels (Russia, Brazil, Mexico...) or most-likely already in recession (Argentina, South-Africa, or Turkey). Besides undermining the EM investment case (higher risks for higher growth), the prospect the wealthiest economy can outgrow low-income countries raises many questions –including, ironically, that it should lead to an increase of migration pressures into the US. From the narrower perspective of markets, the dynamic of capital flowing back to the US and out of EM has further to run, in our view, and the end-game is impossible to know at this juncture. In a benign scenario, EM could slow-down further, given less abundant and more costly capital availability, leading to some rebalancing of external accounts. In a less benign scenario, the "sudden-stop" of foreign flows could lead to a negative loop of recessionary conditions, sharp depreciation of currencies, defaults in externally indebted issuers, and banking systems stress: effectively the scenario threatening Argentina and Turkey. Our base case is markets will oscillate in coming months between fearing the worst, and the greed triggered by sharply higher prospective returns, in particular if the economic boom in the US peters out.

How to position now? Our Fund remains very liquid, with 22% in cash and equivalents at the end of August, and a further 18% of positions with very low duration – of which 9% are due to mature by the end of the year. Around 20% of the portfolio are in credits with no direct or indirect EM exposure – such as our positions in UK consumer lenders NewDay and Together, Italian services company Rekeep, or KME, the German copper products manufacturer. This leaves 40% of the portfolio exposed to EM risk – including 10% oil & gas credits largely insulated from the recent turmoil. While we explained above we are cautious about EM, we believe our investors remain better served by keeping some exposure rather than throwing in the towel at this juncture. First, we remain concerned about the possibility of a severe correction of valuations in Euro credit next year, in particular in the higher-quality parts of the market. Time and again, markets prove that investors can be collectively aware of a risk without being able to adequately price that risk for a long time: we believe many investors share our view current valuations are inadequate, once the ECB starts normalizing, even if at a snail's pace, but markets' technicals don't allow valuations to correct yet. We see no good rationale to sell our EM exposures where risks are well priced in, in exchange for bonds which fail to reflect significant risks on the horizon. Until we get more visibility on the direction of key EM countries, our focus in EM will be to buy credits we believe could thrive in the next months and years, and have been unduly punished due to their "wrong zip-code". Such credits include Global Ports Holdings, the cruise ports operator which benefits from resurgent tourism in the Mediterranean and earns all its revenues in hard currencies, but saw its bond yields rise from 7.5% in June, to almost 11% currently due to the Turkish lira crisis; or CSN, the Brazilian steelmaker, which we believe will be able to deleverage significantly by year-end thanks to its asset-sales programme, enjoys a favourable steel prices environment, and saw its yield jump some 200bps on concerns about the fiscal outlook in Brazil. While such positions may take some time to recover, we do believe they provide compelling double-digit returns for investors able to ride the near-term volatility.

Monthly Performance since Inception

Class F (USD, MT7000005617)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
2018	0.49%	-0.09%	-0.08%	0.39%	-0.71%	-0.75%	1.98%	-0.54%					**0.67%**
2017	1.12%	1.30%	0.50%	0.98%	1.28%	-0.10%	0.66%	0.94%	0.48%	0.63%	-0.19%	0.44%	**8.33%**
2016	-0.34%	0.03%	2.86%	2.12%	0.55%	0.03%	1.96%	1.18%	-0.14%	0.36%	-0.72%	1.36%	**9.56%**
2015	-0.22%	1.80%	1.38%	1.66%	0.93%	-0.54%	-0.19%	-1.19%	-1.27%	1.82%	0.73%	-0.99%	**3.91%**
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%**
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%**
2012							0.15%	0.72%	0.78%	2.11%	1.24%	1.72%	**6.90%**

Class D (Euro, MT7000005591)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
2018	0.32%	-0.36%	-0.32%	0.19%	-1.04%	-0.99%	1.75%	-0.66%					**-1.14%**
2017	0.82%	1.05%	0.40%	0.85%	1.13%	-0.23%	0.50%	0.78%	0.34%	0.42%	-0.29%	0.22%	**6.15%**
2016	-0.42%	-0.01%	2.57%	1.92%	0.39%	-0.08%	1.81%	0.98%	-0.25%	0.15%	-1.01%	1.23%	**7.44%**
2015	-0.29%	1.82%	1.33%	1.55%	0.97%	-0.63%	-0.50%	-1.27%	-1.46%	1.77%	0.91%	-1.13%	**3.35%**
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%**
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%**
2012							0.20%	0.66%	0.70%	2.04%	1.20%	1.62%	**6.59%**

Class E (GBP, MT7000005609)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
2018	0.39%	-0.24%	-0.23%	0.30%	-0.84%	-1.09%	1.80%	-0.74%					**-0.68%**
2017	1.01%	1.21%	0.40%	0.94%	1.21%	-0.18%	0.56%	0.85%	0.33%	0.57%	-0.24%	0.29%	**7.17%**
2016	-0.38%	-0.08%	2.79%	2.07%	0.48%	0.03%	1.95%	1.01%	-0.22%	0.29%	-0.94%	1.30%	**8.55%**
2015					0.69%	-0.51%	-0.17%	-1.21%	-1.29%	1.86%	0.68%	-1.02%	**-1.01%**

Past Performance is no guarantee of future results.
Performance figures are net of all fees.

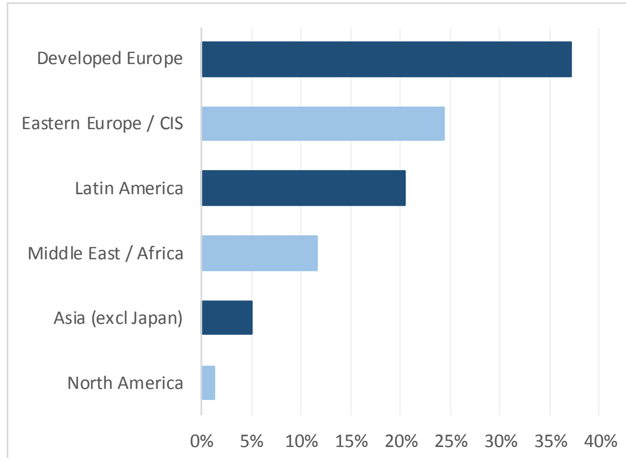
Fund Information as of August, 2018

	Rating	NAV (%)	Price	Duration	Yield	Spread
SphereInvest Global Credit Strategies	B+	100 %	98.1	1.7	7.2 %	565
Cash and Equivalents	AA-	22 %				

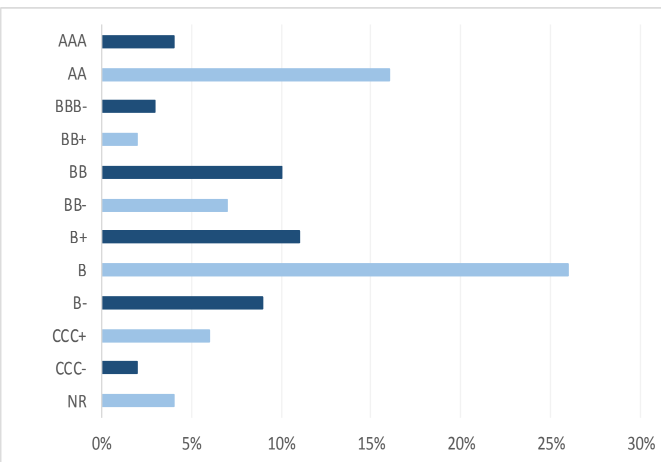
Top 10 Holdings (in % of NAV, 30/08/18)

Bond	%
9.25% Tinkoff Credi, 2077	3.7%
8.625% Banglalink Digital Comm, 2019	3.5%
4.75% Coca-Cola Icecek AS, 2018	3.4%
9.125% HTA Group Limited, 2022	3.3%
8.125% Global Liman Isletmeleri, 2021	3.3%
6.75% Telfon Celuar del Paragu, 2022	3.2%
8.25% Horizon Parent Holdings, 2022	3.1%
6.75% Hercule Debtco SARL, 2024	3.0%
9.25% Seplat Petroleum Dev Co, 2023	2.8%
8.75% DNO ASA, 2020	2.7%

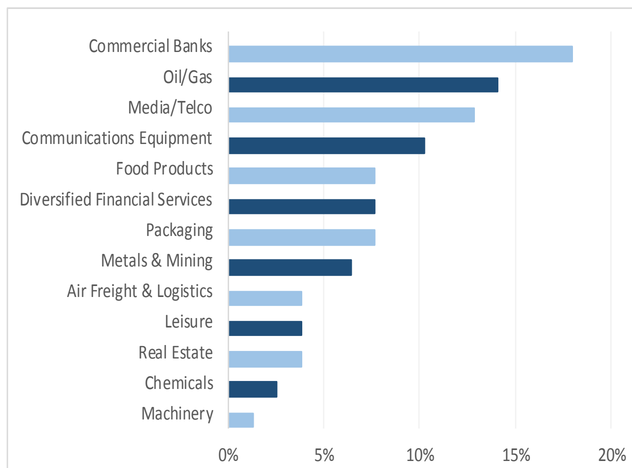
Regional Allocation (excl. cash & equiv)



Credit Quality



Sector Allocation (excl. cash & equiv)



Fund Terms

Regulatory	UCITS V	Domicile	Malta
Liquidity	Weekly	Custodian	RBC International
Start Date	2nd July 2012	Auditor	Deloitte & Touche
Management Fee	1.5% (Retail) 1% (Institutional)	Legal Counsel	Ganado & Associates
Performance Fee	5% Incentive Fee	Administrator	Equinoxe Alternative Investment Services (Part of the Apex Group)
Minimum Investment	Retail = 25,000 (GBP, EUR, USD, CAD, CHF) Institutional = 200,000 (GBP, EUR, USD, CAD, CHF)		