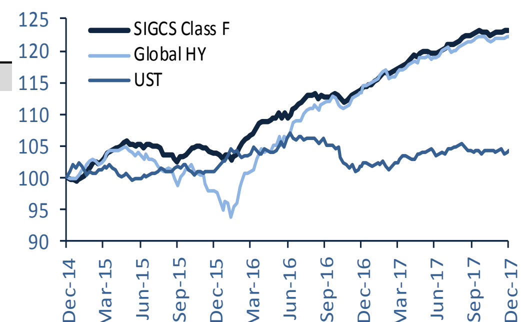
SphereInvest | GROUP

GLOBAL CREDIT STRATEGIES FUND

Monthly Performance

Class F (USD): MTD return: 0.44% 2017 return: 8.33% NAV per Share: 149.50
Class D (EUR): MTD return: 0.22% 2017 return: 6.15% NAV per Share: 141.54
Class E (GBP): MTD return: 0.29% 2017 return: 7.17% NAV per Share: 115.16

	2017	1-year		3 years		Since Inception	
	Return	Return *	Sharpe	Return *	Sharpe	Return *	Sharpe
SIGCSF Class F (US$)	**8.3%**	**8.3%**	**5.19**	**7.1%**	**2.63**	**7.5%**	**2.99**
BOFA Global High Yield	7.6%	7.6%	2.88	6.8%	1.31	7.1%	1.55
BOFA EM High Yield	8.8%	8.8%	3.38	9.5%	1.73	7.4%	1.24
BOFA Europe High Yield	6.9%	6.9%	3.74	5.8%	1.45	8.5%	1.52
BOFA US High Yield	7.5%	7.5%	2.32	6.3%	1.04	6.6%	1.30
Barclays US Treasury Total Return	2.3%	2.3%	0.40	1.4%	0.19	1.2%	0.22
MSCI World	20.1%	20.1%	3.28	7.4%	0.58	9.9%	0.83
MSCI Emerging Markets	37.5%	37.5%	3.37	7.2%	0.39	4.2%	0.24



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

Source: SphereInvest Group; Bank of America Merrill Lynch

Portfolio and Market Commentary

2018 has started as 2017 ended, with optimism about global growth helping equities reach new highs and commodities recover further, while concerns about tighter monetary policies and inflation are tempering the appeal of corporate credit.

If strong asset performance implies some imbalance – between expectations and reality, or supply and demand – the obvious loss of momentum in credit markets since late 2017 reflects a stable equilibrium, in our view.

On the one hand, optimism is widespread – demonstrated both by strong equity markets and business surveys – likely to prove self-fulfilling in the near-term (the next six months at least, and possibly all of 2018). There is no reason, on such a backdrop, to expect spreads to widen meaningfully. While credit investors bemoan tight valuations, spreads are in truth largely in line with low risk premiums across the board – from equity markets to options volatility. In other words, betting against credit at this stage is a generic bet against risk asset valuations: being bearish may yet pay-off in 2018, but we do not believe it will be for reasons specific to credit markets.

On the other hand, credit is conspicuously lacking a trigger to outperform further. This is not so much because spreads are already tight – records exist to be broken – than because there is no scenario in which further tightening could bring outperformance, in our view. Spreads can tighten in two (not mutually exclusive) scenarios: an improvement in average creditworthiness; or a rise in government bond yields. We believe the business cycle will prove too advanced for either scenario. Higher corporate profitability at this stage will likely translate into more aggressive financial policies (dividends/share buybacks), or capacity expansion. This is as it should be: a focus on improving balance sheets, while ostensibly rewarding debtholders, would make little financial sense now (borrowing rates on offer are already very low); worse, it would probably kill any reflation hope.

This leaves higher government bond yields as the more plausible driver for tighter spreads. The path of least resistance currently points toward higher core rates: investors face the uncertain impact of the Fed's balance sheet reduction and signs the ECB is preparing to normalize; while hope tighter labour markets eventually bring higher inflation may be last to die in this cycle. We continue to believe a material rates sell-off is unlikely, however. This is because time is running out for nominal growth to accelerate, central banks to tighten and government bond

curves to steepen at the same time. We do not wish to rule out that scenario. We simply recognize investors are unlikely to make it their base case until structural changes (such as productivity gains accelerating) give them the confidence DM economies can shift to a higher rates environment without tipping into recession. More likely, expectations will coalesce around one of two scenarios: inflation pressures could remain subdued in 2018, allowing CBs to tighten - mostly out of financial stability concerns- in line with market expectations; or inflation could rise faster than expected, bringing overheating and recession concerns to the fore. For the sake of completeness, we do not believe the recent tax reform in the US will lead to higher rates beyond the rise already witnessed since December: the tax cuts are consensually believed to be unfunded (rather than "paying for themselves" through higher growth), implying markets are already priced for additional borrowings by the US government in 2018.

How to position in high yield at this juncture? One strategy is to maximize carry, on the expectation the current low volatility will last over the foreseeable future. In the absence of volatility, market yields become acceptable proxies for expected returns: on that metric, both US and EM HY are expected to return around 5.5%, while Euro HY - penalized by ultra-loose ECB policy - yields around 3%. Those figures compare with annualized nominal returns of 4.89% (in real terms: 2.76%) and 7.07% (real: 4.9%) for US equities and HY bonds since 2000, according to Deutsche Bank. While many caveats apply, notably around the period considered for calculating those returns, they show expected returns for HY credit are lower than long-term averages, although maybe less dramatically so than the current investor focus on elevated valuations would imply.

We believe many credit funds offer such a benchmarked exposure to credit markets already, which may yet again prove the right one in 2018. We would rather offer an alternative strategy: one which recognizes it is probably too early to be bearish on credit, yet too late to take full beta exposure. Our investors know the Fund is built on a "best ideas" basis, having historically held significant positions in cash & short-dated government bonds, which has allowed us the flexibility to take advantage of market sell-offs, notably in 2013 and 2015. 2018 may, or may not, bring such opportunities.

Monthly Performance since Inception

Class F (USD, MT7000005617)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	**YTD**
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**
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**
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.

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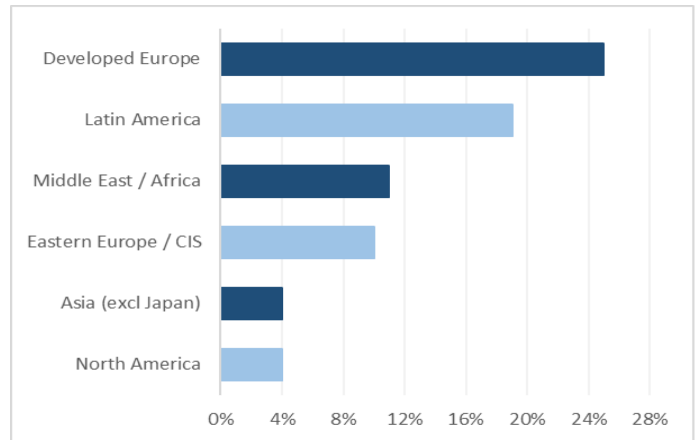
Portfolio Composition

	Rating	NAV (%)	Price	Duration	Yield	Spread
SphereInvest Global Credit Strategies	BB-	100 %	102.4	3.1	4.9 %	350
Cash and Equivalents	AA+	27 %				

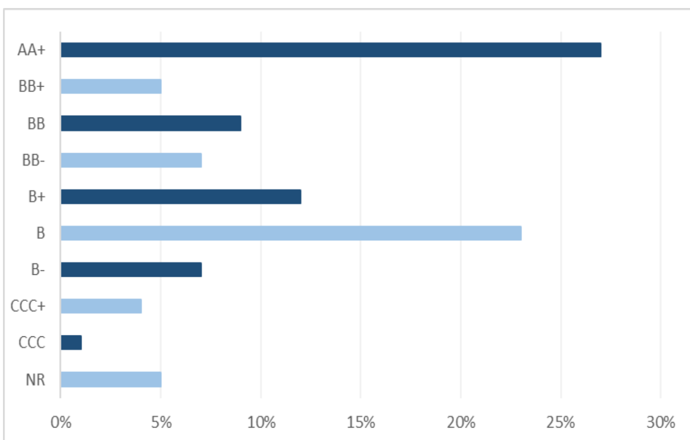
Top 10 Holdings (in % of NAV, 31/12/17)

5% IRSA Propiedades, 2020	3.3%
9.125% HTA Group Ltd, 2022	3.2%
10.5% Fidelity Bank PLC, 2022	3.2%
4.204% Phosagro, 2018	2.8%
8.75% DNO ASA, 2020	2.8%
9.25% Tinkoff Bank, 2077	2.7%
7.375% Autopistas del Sol SA, 2030	2.6%
8.25% Verallia, 2022	2.6%
8.25% Banco Votornatim, Perp	2.6%
8.625% Banglalink Digital Comm, 2019	2.5%

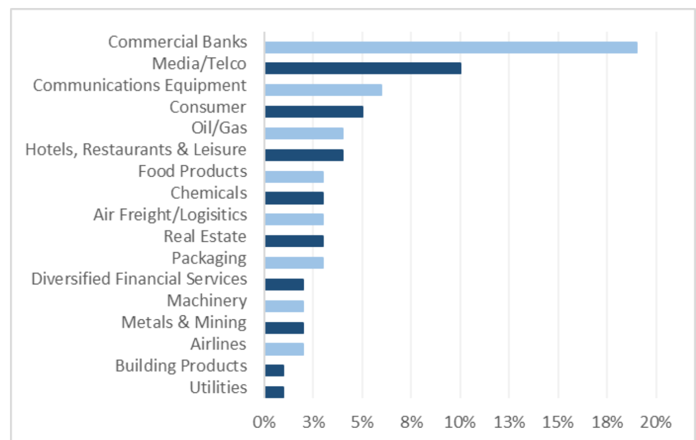
Regional Allocation (excl. cash & equiv)



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 (Ireland) Ltd.
Minimum Investment	Retail = 25,000 (GBP, EUR, USD, CAD, CHF) Institutional = 200,000 (GBP, EUR, USD, CAD, CHF)		

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