SphereInvest | GROUP

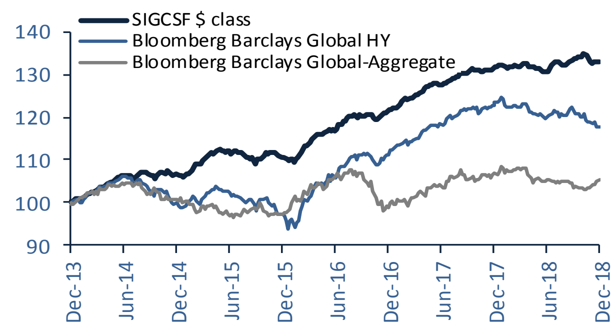
GLOBAL CREDIT STRATEGIES FUND

Monthly Performance

Class F (USD): MTD return: 0.07% 2018 return: 1.26% NAV per Share: 151.39
Class D (EUR): MTD return: -0.20% 2018 return: -1.56% NAV per Share: 139.34
Class E (GBP): MTD return: -0.66% 2018 return: -1.14% NAV per Share: 113.85

	2018	3 years		Since Inception	
	Return	Return *	Sharpe	Return *	Sharpe
SIGCSF Class F (US$)	**1.3%**	**6.2%**	**2.2**	**6.5%**	**2.5**
Bloomberg Barclays Global HY	-4.1%	6.5%	1.1	5.3%	1.0
ICE EM High Yield	-2.3%	7.5%	1.6	5.8%	1.0
ICE Europe High Yield	-3.6%	3.8%	0.7	6.2%	1.5
ICE US High Yield	-2.3%	7.1%	1.1	5.2%	1.0
Bloomberg Barclays Global-Agg.	-1.2%	2.6%	0.3	0.8%	0.0
MSCI World	-10.4%	4.2%	0.2	6.6%	0.5
MSCI Emerging Markets	-16.6%	6.6%	0.3	0.4%	0.0

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



Source: SphereInvest Group; Bank of America Merrill Lynch

Portfolio and Market Commentary

After a fairly traumatic 2018, when virtually all financial assets, from junk bonds to safe-havens, generated negative total returns, markets have now reached an interesting juncture: investors are facing the same familiar questions, but can, at last, afford to focus solely on the direction of fundamentals, in our view. That comment may sound mundane – it isn't. Fundamentals are only one part of investing: 2018 proved the risk too high valuations can wreak. To a large extent, last year's curse was it came after 2017, a year of strong and synchronized global growth which encouraged a complacent narrative about the global economy – papering over numerous fractures, from the tensions between the US and China to unresolved social tensions and populist policies in Europe. Partly because the US economy continued to outperform the rest of the world, that optimism proved difficult to kill and contributed to financial markets volatility, as investors were caught off guard by disappointing earnings, the slowdown in the Eurozone and China, and the hawkish Fed. 2019 starting point couldn't be more different. The Fed is, under duress, reaching the end of its hiking-cycle – with the justification for further hikes getting much more problematic as inflation expectations remain anchored below target and the perception of a policy mistake (signalled by the curve threatening inversion) much higher than at this time last year. Investors are now acutely aware of, and pricing in, challenges - both at sector and country levels. While global high-yield spreads are still looking "average" compared with recent history, this hides significant dispersion: spreads in cyclically challenged (but not distressed) high-yield credits are varying from 300-400bps (for "BB" ratings) to 600-1000+ bps for B ratings – often representing a near doubling vs. local lows. What is "in the price" is only ever-known after the fact. However, we see only limited room for further valuation adjustments based purely on fear: fundamentals will either vindicate current valuations (and generate further losses for individual credits, in particular if default rates pick-up), or high yield markets are likely to rally significantly through 2019.

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"Trade wars", to no surprise, were a major driver for markets last year. Timing was odd, however: trade wars concerns intensified after Trump and Xi called for a truce during their G20 meeting in early December. We see two reasons. First: by then, investors were already alarmed by disappointing third quarter earnings and the economic slowdown in China and unresolved trade tensions would only make matters worse. Second: investors had likely assumed Trump would not let his dispute with China stand in the way of the stock market. After all, the NAFTA issue – seemingly a more emotional issue for Trump than China – had been solved with only token improvements. That assumption was challenged when Trump declared himself a "tariff man" and tried to scapegoat the Fed – signalling he was readying for more turmoil. Our own assumption during 2018 was the dispute with China would evolve into a protracted, low-intensity conflict with no near-term resolution, given the structural issues the US was trying to address. Implicit in our assumption, however, was US financial markets could perform well despite the trade conflict. In our view, what investors emphatically told the White House during December is they won't cope with tensions between the two largest global economies: the slump in China, long presented by the US administration as proving its leverage, will – who could expect otherwise? - hurt the US, too! What will the US administration do in 2019? Aggressively forcing China to end its practices holds promises of near-term pain for all, in exchange for long-term benefits – which could potentially only accrue to Trump's successors. We know of no politician who would knowingly take such a trade-off, especially as they prepare their re-election. Financial market stress is providing some urgency to finding a solution, too. The moment for extracting real concessions from China may therefore have passed; our base case is the trade war will be "solved" by the second half of 2019, at the latest, and financial markets will trend towards such an outcome during the first half of this year.

If the trade war with China is likely solved this year, is the coast clear for risk assets? We do not pretend to know the exact incentives the US and China face. For instance, Trump is praised for his pugnacity, and may perversely conclude turmoil, including on financial markets, is beneficial to his re-election bid. Trump is also likely to assess some external opposition is helping him: the EU may emerge again as a softer target sometime later this year or in 2020, implying trade tensions are unlikely to fully fade away. More importantly, no one fully understands yet the extent to which trade tensions caused the slowdown in China or in the Eurozone last year – and, conversely, the extent to which their fading could help the global economy stabilize in 2019. This, in our view, is a key threat investors will be facing later this year: the near-term focus about trade could set the stage for renewed turmoil if data and earnings fail to pick-up despite lower tensions.

While we are optimistic risk-taking will be much better rewarded in 2019 than last year, making start-of-the-year forecasts remains a fool's game. We can make some key predictions about the Fund, however. As always since its inception, the Fund's core positions will remain high-carry, low-duration credits, which we believe are relatively unaffected by global markets developments. Those credits currently include African telecom tower companies, a leading retailer in Belarus, a Mexican consumer finance company, and oil companies with net cash positions (ie: with cash balances exceeding their debt). Each offer spread in excess of 500bps, which certainly implies they are not risk-free: however, their credit worthiness and bond performance will remain largely driven by idiosyncratic and clearly defined factors, rather than by markets volatility and global developments. Further, the Fund is likely to keep significant risk free/cash balances again this year. The Fund's performance last year was in part generated by being in a position to take advantage of volatility in Turkey, Brazil and Indonesia. We expect 2019 will be a long year, and patience is likely to be well rewarded.

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%	0.87%	0.46%	-0.81%	0.07%	**1.26%**
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%	0.68%	0.19%	-1.08%	-0.20%	**-1.56%**
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%	-0.20%	-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%	0.89%	0.34%	-1.02%	-0.66%	**-1.14%**
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	-0.39%	-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.

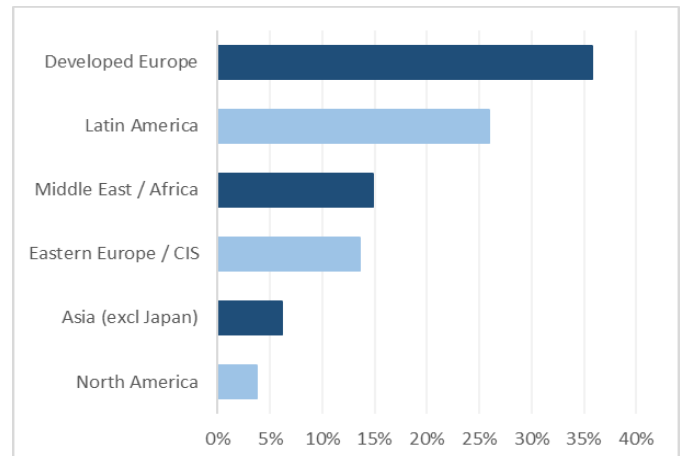
Fund Information as of December, 2018

	Rating	NAV (%)	Price	Duration	Yield	Spread
SphereInvest Global Credit Strategies	B+	100 %	95.0	2.8	7.8 %	617
Cash and Equivalents	AA+	19 %				

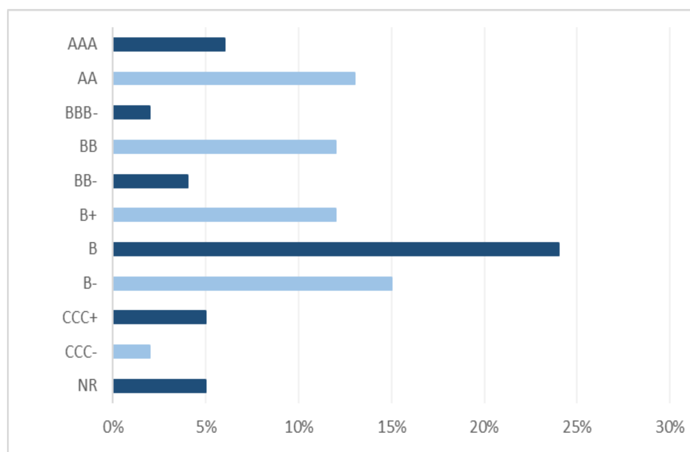
Top 10 Holdings (in % of NAV, 31/12/18)

Bond	%
6.75% Telfon Celuar del Paraguay, 2022	3.8%
7.625% Banco Mercantil del Norte, PERP	3.7%
9.50%, IHS Netherlands, 2021	3.6%
8.125% Global Liman Isletmeleri, 2021	3.4%
9.125% HTA Group, 2022	3.4%
8.75% DNO ASA, 2020	3.2%
9.25% Tinkoff Credi, 2077	3.2%
8.75% Eurotorg, 2022	3.2%
10.00% Crystal Almond SARL, 2021	3.1%
9.00% CMF Spa, 2022	2.9%

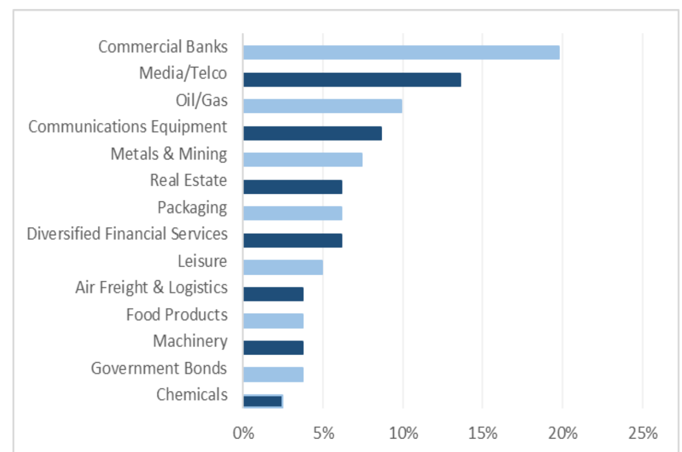
Regional Allocation (excl. cash & equiv)



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)		

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