SphereInvest | GROUP

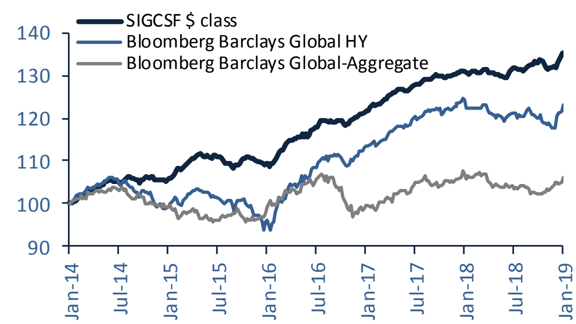
# GLOBAL CREDIT STRATEGIES FUND

## Monthly Performance

| | | | | | | |
|---|---|---|---|---|---|---|
| Class F (USD): | MTD return: | 2.34% | 2019 return: | 2.34% | NAV per Share: | 154.92 |
| Class D (EUR): | MTD return: | 2.14% | 2019 return: | 2.14% | NAV per Share: | 142.32 |
| Class E (GBP): | MTD return: | 2.26% | 2019 return: | 2.26% | NAV per Share: | 116.42 |

| | 2019 | 1-year | 3 years | | Since Inception | |
|---|---|---|---|---|---|---|
| | Return | Return * | Return * | Sharpe | Return * | Sharpe |
| **SIGCSF Class F (US$)** | **2.3%** | **3.1%** | **7.1%** | **2.6** | **6.8%** | **2.6** |
| Bloomberg Barclays Global HY | 4.4% | -1.0% | 8.5% | 1.5 | 5.9% | 1.1 |
| ICE EM High Yield | 3.8% | 0.8% | 9.2% | 2.1 | 6.3% | 1.1 |
| ICE Europe High Yield | 2.2% | -1.9% | 5.1% | 1.1 | 6.5% | 1.6 |
| ICE US High Yield | 4.6% | 1.7% | 9.3% | 1.6 | 5.8% | 1.1 |
| Bloomberg Barclays Global-Agg. | 1.5% | -0.7% | 2.8% | 0.3 | 1.0% | 0.1 |
| MSCI World | 7.7% | -8.3% | 9.5% | 0.6 | 7.6% | 0.6 |
| MSCI Emerging Markets | 8.7% | -15.9% | 12.9% | 0.7 | 1.6% | 0.1 |

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




Source: SphereInvest Group; Bank of America Merrill Lynch

## Portfolio and Market Commentary

Fundamentally-focussed investors naturally look for fundamental drivers to explain the large market shifts of the past two months-December and January. After the recent risk assets round-trip, we believe, for once, investors shouldn't try to rationalize what was likely just noise. We are dubious about the recent narrative justifying January's strong markets by claiming fears of recession were always overdone. The "recession" word is used with some abandon and means many things to different people. If broadly understood as the turn of the business cycle, which is what matters to investors, one month of mixed economic data did not provide much insight into the age of this cycle. And if narrowly defined as two quarters of negative growth, January actually confirmed markets' concerns about Germany and Italy, while the extent of the slowdown in China remains a major question mark. Of course, the Fed's dovish turn was a key development supportive of risk assets – although it happened at the very end of January, after risk assets had already significantly rebounded. In truth, Fed officials, including well-known hawks, had already started signalling a possible rethink after Jay Powell's tone-deaf December conference. Markets were not positioned to listen to those signals then, but boy, did they enjoy them in January!

Rather than rationalizing last month's strong asset performance, we believe it helps to recognize volatility works both ways: on the way down, and on the way up. This, in our view, provides a better framework to analyse January's rally: it did not reflect fundamental improvements as much as a pattern of increasingly volatile markets. While measures of volatility (such as the VIX) have recently subsided to very low levels again as they tend to do whenever risk rallies, we remain convinced investors should expect markets to remain volatile this year. First, because volatility breeds volatility: spreads rarely wildly swing in a range of several hundred points only to settle at the tighter end. Second, and more importantly, volatility always rises in the last innings of any cycle.

The Brexit saga and trade wars are currently mostly helping to divert investors' attention, and likely fuelled January's rebound by giving cause for near-term optimism – which will actually prove self-fulfilling in our view. In the case of Brexit, "no-deal" obviously becomes more likely (but less painful) if economic agents expect (and prepare for) it. In the case of the US-China trade negotiations, January's rally happened because the US administration utterly failed to dampen down optimism a deal will be reached – both weakening the US leverage, but also making a deal – any deal- more likely than if the economic pain brought by a hike of tariffs in March was better priced in.

Those hurdles cleared, anxiety about the cycle is likely to rise again, in our view. 2018 brought many unanswered questions. The slowdown in China wasn't just caused by trade tensions – which, actually, may have forced the leadership into postponing its deleveraging effort. The country is clearly transitioning towards a slower, less capital intensive, economic model, already creating winners (tentatively, domestic consumption plays) and losers (capital goods, materials – and Germany). In Europe, we believe investors are likely to continue grappling with the region's fractured politics. This matters: 2017's strong market performance happened, in part at least, thanks to the hopes of a pro-business agenda in France, a new drive to reform the Eurozone, while, on the other side of the Atlantic, the US administration was still focused on tax reform and deregulation. Of those hopes, little remains. Brexit, the "Gilets Jaunes" crisis in France, and the dysfunctional administration in Italy all show the economic cost of simmering social tensions since the GFC. Certainly, the situation is fluid. Rising purchasing power in 2019 (thanks to generally low inflation and lower oil prices, still declining unemployment, and rock-bottom interest rates) may provide relief. Our concern, however, is the opportunity for supply-side reforms in Europe has already passed and economic actors may need to price in structurally lower asset returns.

Compared with DM, EM currently offers a seductively simple narrative, with many stars aligning. EM currencies have stabilized at cheaper levels after their 2018 mini-crisis, supporting external positions. Environment reforms in China are proving broadly supportive for commodities – although, often at considerably lower levels than prevailing before 2015, the last episode of China-focused growth concerns. After last year's heavy calendar, the election cycle is past its peak, offering some runway to reform in countries such as Brazil. Last but not least, interest rates may have already peaked in the US, helping to stabilise EM capital flows by increasing the carry trade appeal. What could go wrong? We believe valuations already reflect some creeping complacency, as generic EM optimism obscures pressing domestic challenges in countries such as Ukraine, Nigeria, or Turkey. As well, a pause in the Fed's hiking cycle won't be enough to lift EM through 2019: EM assets remain a higher beta play on global growth than Europe and will prove even more vulnerable should concerns about China intensify.

## Monthly Performance since Inception

**Class F** (USD, MT7000005617)

| | Jan | Feb | Mar | April | May | Jun | July | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | 2.34% | | | | | | | | | | | | **2.34%** |
| **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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | 2.14% | | | | | | | | | | | | **2.14%** |
| **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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | 2.26% | | | | | | | | | | | | **2.26%** |
| **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.

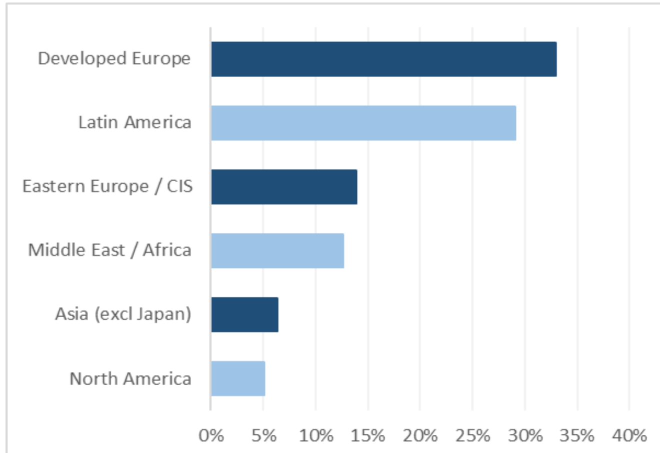
## Fund Information as of January, 2019

| | Rating | NAV (%) | Price | Duration | Yield | Spread |
|---|---|---|---|---|---|---|
| SphereInvest Global Credit Strategies | BB- | 100 % | 97.1 | 2.8 | 7.0 % | 546 |
| Cash and Equivalents | AA | 21 % | | | | |

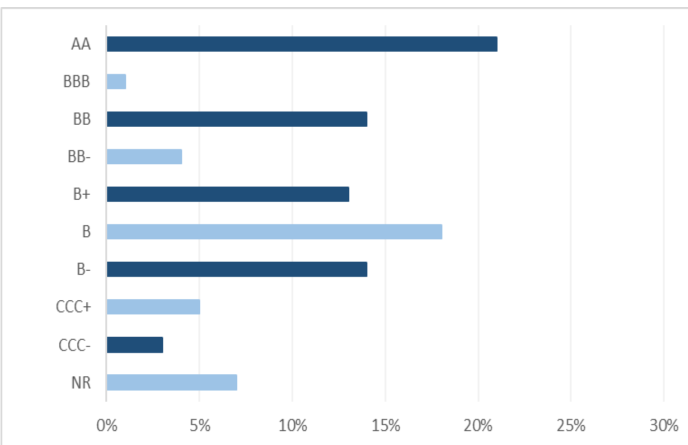
### Top 10 Holdings (in % of NAV, 31/01/19)

| Bond | % |
|---|---|
| 6.75% Telfon Celuar del Paraguay, 2022 | 3.8% |
| 7.625% Banco Mercantil del Norte, PERP | 3.7% |
| 9.875% Global Ship Lease, 2022 | 3.5% |
| 8.75% DNO ASA, 2020 | 3.5% |
| 8.125% Global Liman Isletmeleri, 2021 | 3.4% |
| 8.75% Eurotorg, 2022 | 3.1% |
| 10.00% Crystal Almond SARL, 2021 | 3.1% |
| 8.25% Horizon Parent Holdings, 2022 | 2.9% |
| 10.00% Prague CE, 2022 | 2.9% |
| 6.75% Codere, 2021 | 2.8% |

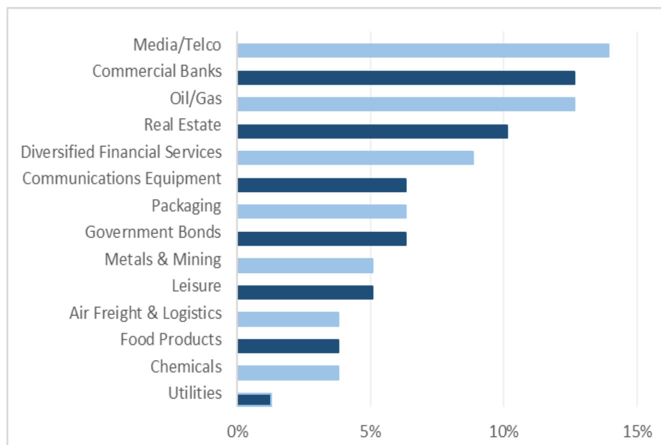
### Regional Allocation (excl. cash & equiv)




### 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 | Apex Fund Services (Ireland) Limited |
| Minimum Investment | Retail = 25,000 (GBP, EUR, USD, CAD, CHF)<br>Institutional = 200,000 (GBP, EUR, USD, CAD, CHF) | | |