SphereInvest | GROUP

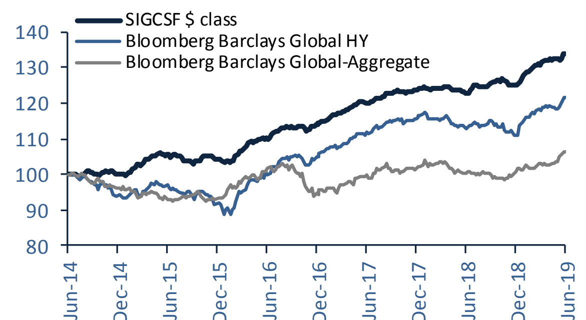
GLOBAL CREDIT STRATEGIES FUND

Monthly Performance

Class F (USD):	MTD return: 1.08%	2019 return: 6.95%	NAV per Share: 161.91
Class D (EUR):	MTD return: 0.94%	2019 return: 5.49%	NAV per Share: 146.98
Class E (GBP):	MTD return: 1.01%	2019 return: 5.98%	NAV per Share: 120.65

	2019	1 year	5 years		Since Inception	
	Return	Return *	Return *	Sharpe	Return *	Sharpe
SIGCSF Class F (US$)	**7.0%**	**9.1%**	**6.0%**	**2.1**	**7.0%**	**2.7**
Bloomberg Barclays Global HY	9.3%	7.7%	3.9%	0.6	6.2%	1.2
ICE EM High Yield	9.1%	10.7%	5.1%	0.8	6.7%	1.2
ICE Europe High Yield	7.5%	5.5%	3.9%	0.8	6.9%	1.7
ICE US High Yield	10.0%	7.5%	4.6%	0.7	6.2%	1.2
Bloomberg Barclays Global-Agg.	5.4%	6.0%	1.2%	0.0	1.5%	0.1
MSCI World	15.0%	4.2%	4.5%	0.3	8.2%	0.6
MSCI Emerging Markets	9.2%	0.8%	0.2%	-0.1	1.6%	0.0

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



Source: SphereInvest Group; Bank of America Merrill Lynch

Portfolio and Market Commentary

Beyond the many swings in sentiment triggered by near constant noise and conflicting signals from the US administration, we believe the strong performance of both safe-havens and risk assets during the first half was almost entirely driven by the repricing of global monetary policy expectations. The ECB's latest stimulus guidance was least surprising and a reaction to the unfortunately familiar mix of soft outlooks, collapsing inflation expectations, and policy inertia across much of the Eurozone. But it is in the US the shift was most striking: markets went from pricing in two more hikes last November; to no hike last December; to four cuts by December 2020. That's a cumulative shift of 150bps in expectations in a little more than 8 months – dramatic in itself, and even more so when considered relative to the strength of the US economy during the same period.

To be sure, fundamentals during the first half were often disappointing, with global manufacturing a key area of concern. Yet, domestic conditions across DM have remained resilient, supported by strong job markets. While junk bonds stand to benefit from looser monetary policy, that impact would be overwhelmed by the rise in defaults if a recession was around the corner: yet high yield spreads are back in their tightest quartile since the GFC. The message from junk investors is clear: they aren't concerned by a recession. The jury is out, then, why global central banks are easing at this point. The first, and most convincing answer, is simply the lack of inflation and expectations drifting again below targets, particularly relevant in the case of the ECB, which is conspicuously failing to deliver on its nominal mandate of price stability. The case of the Fed is more intriguing. This entire hiking cycle had occurred despite inflation stubbornly below 2%: the Fed was never hiking to fight inflation, but to give itself room to cut once the next recession occurred. What changed? A few of last year's hikes may have been mistakes. The Fed overestimated the neutral rate in a context where tight job markets are failing to ignite inflation

or the Fed may have overestimated, once again, its ability to hike while rates remain rock-bottom (or negative) in most other major economies. More troubling, the Fed may have been successfully bullied by markets into cutting just to normalise the yield curve. In all cases, our sense is the Fed will cut by September, but will be reluctant to fully validate market pricing in a context where financial stability concerns will soon be a problematic again, in our view.

Renewed central banks activism while economic conditions and corporate earnings are still by and large resilient is a potent combination, likely to spur more asset price inflation - if not the consumer goods inflation central banks are supposed to target. Central bank euphoria is bound to fade, however, and other themes, some less benign for risk assets, will likely come to the fore again. We explore below a few possible market drivers during the second half.

We had assumed at the end of last year “Trade Wars” wouldn’t be a significant driver for financial markets in 2019. It did seem, many times, the US administration was contriving to prove us wrong. With no trade deal reached between the US and China, unresolved tensions around automotive exports, and the occasional “black swan” (such as the threat of debilitating tariffs against all Mexican imports), trade tensions will likely remain a theme. The actual impact on risk assets, already debatable, seems bound to fade, however. While we expect Trump to keep trade a central theme in his re-election campaign, there are only so many times the same playbook can surprise. Trump has shown little willingness to carry through with his most damaging threats so far, and we doubt his calculation changes much as we approach November 2020.

“No-deal Brexit” will become a significant source of stress for European markets towards the end of the summer, in our view. We believe the likelihood of a “deal” successfully renegotiated by end of October is vanishingly small, implying only two possible outcomes: either no-deal, or a return to the British electorate (through a general election or a referendum). We are not yet able to assign probabilities to those outcomes, but note the negotiating stances of both the EU and the likely next British PM are increasingly confrontational, which means the path to October 31 is likely to be bumpy for all involved – including, unless they have been thoroughly anaesthetised by monetary policy, financial markets.

Monetary easing will help paper over fundamental cracks. In the reverse of Warren Buffets’ famous word: investors should be able to enjoy swimming naked for a little while longer. Some of that dynamic was already on evidence during the first half: Italian 10yr bonds, despite a dysfunctional government, no policy progress and a still tense relationship with the European Commission, are back below 2%. Draghi never fails to remind Eurozone governments’ of the need for structural reforms, yet keeps removing any urgency for them. In the corporate world, market discipline has remained surprisingly strong, so far. The wholesale divergence of performance between higher rated junk bonds and lower-rated ones, in particular in Europe, does not look sustainable, however. With all-in-yields for higher-rated junk bonds back to levels where risk-rewards are ever more problematic, the search for yield will extend to more vulnerable credits, especially if current conditions of mediocre growth (rather than recession) confirm themselves.

Monthly Performance since Inception

Class F (USD, MT7000005617)

	Jan	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov	Dec	YTD
2019	2.34%	1.46%	0.60%	1.06%	0.22%	1.08%							**6.95%**
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%	1.22%	0.30%	0.77%	0.02%	0.94%							**5.49%**
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%	1.33%	0.39%	0.82%	0.03%	1.01%							**5.98%**
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.

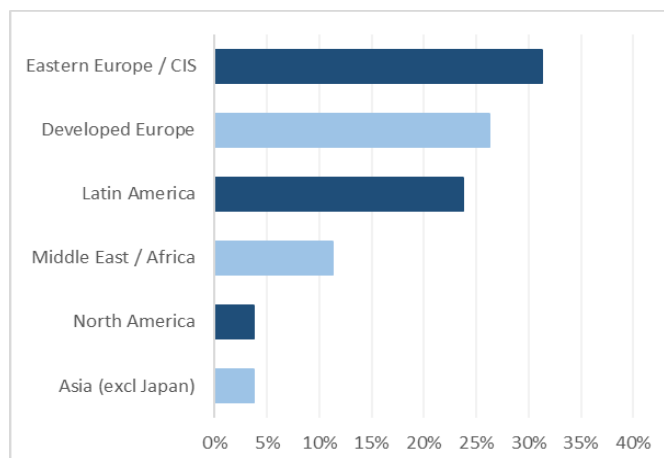
Fund Information as of June, 2019

	Rating	NAV (%)	Price	Duration	Yield	Spread
SphereInvest Global Credit Strategies	BB-	100 %	99.3	2.8	6.6 %	522
Cash and Equivalents	AA+	20 %				

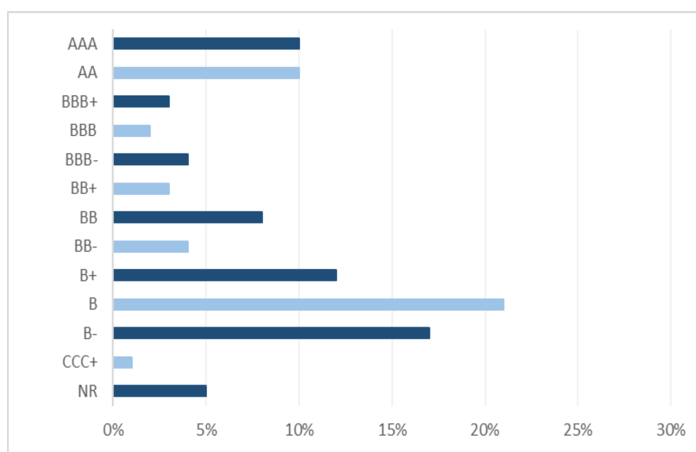
Top 10 Holdings (in % of NAV, 27/06/19)

Bond		%
9.50%	IHS Netherlands, 2021	3.7%
9.875%	Global Ship Lease, 2022	3.1%
8.75%	Eurotorg, 2022	2.9%
11.00%	Silknet JSC, 2024	2.8%
6.125%	Lukoil, 2020	2.7%
7.625%	Banco Mercantil del Norte, PERP	2.7%
8.75%	DNO ASA, 2020	2.7%
4.75%	JSW Steel, 2019	2.6%
6.75%	KME AG, 2023	2.5%
10.00%	Crystal Almond, 2021	2.4%

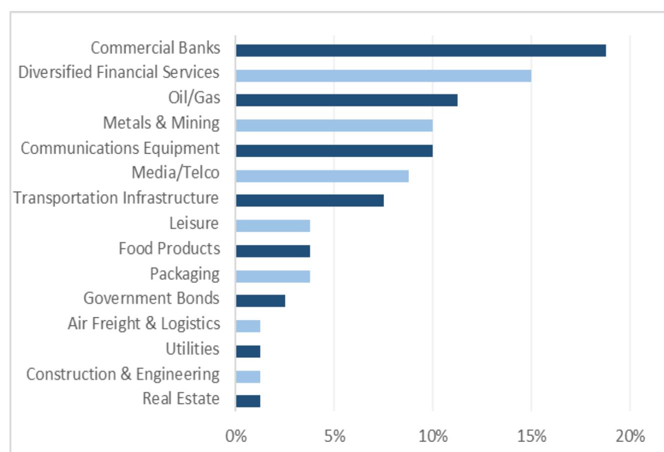
Regional Allocation (excl. cash & equiv)



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,NOK) Institutional = 200,000 (GBP,EUR,USD,CAD,CHF,NOK)		

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