SphereInvest | GROUP

MORNINGSTAR ★★★★★

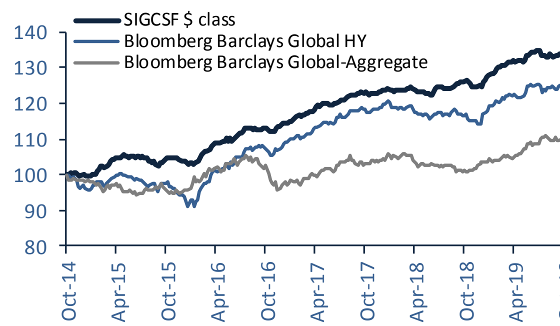
GLOBAL CREDIT STRATEGIES FUND

Monthly Performance

Class F (USD): MTD return: 1.01% 2019 return: 7.61% NAV per Share: 162.91
Class D (EUR): MTD return: 0.73% 2019 return: 4.97% NAV per Share: 146.27
Class E (GBP): MTD return: 0.86% 2019 return: 6.11% NAV per Share: 120.80

	2019	1 year	5 years		Since Inception	
	Return	Return *	Return *	Sharpe	Return *	Sharpe
SIGCSF Class F (US$)	**7.6%**	**6.8%**	**6.0%**	**2.0**	**6.8%**	**2.6**
Bloomberg Barclays Global HY	9.6%	7.5%	4.5%	0.7	6.0%	1.1
ICE EM High Yield	10.8%	11.1%	5.9%	0.9	6.6%	1.2
ICE Europe High Yield	9.1%	6.4%	4.4%	0.9	6.7%	1.6
ICE US High Yield	11.8%	8.3%	5.2%	0.8	6.2%	1.2
Bloomberg Barclays Global-Agg.	7.0%	9.2%	2.0%	0.2	1.6%	0.2
MSCI World	18.6%	9.4%	5.7%	0.4	8.2%	0.6
MSCI Emerging Markets	7.9%	7.3%	0.7%	0.0	1.4%	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 summer marred by dismal economic surveys and rising policy uncertainty, October has offered welcome respite – at least for investors with a glass half-full disposition. Economic data appears to be bottoming - sometimes at depressed levels, such as in Germany, other showing tentative green shoots. Services have remained broadly resilient, and global manufacturing PMIs have now been improving for three straight months. Trade has exceeded expectations, notably in China and Germany. US jobs creation has slowed but is proving resilient to trade tensions and the weakness in manufacturing. In combination, better-than-feared third-quarter earnings, central bank stimulus, and a sense policy uncertainty may be abating, have boosted investor sentiment. Rates have steepened significantly: 2y-10y is back to around 25bps – higher than at the start of 2019, and up from negative 4bps at recent nadir. The US 10-year seems headed towards 2% again (from 1.45% at the end of August), while the German curve is now “only” negative out to 20 years (the entire curve was submerged last summer). Cycle-sensitive commodities are also showing some signs of recovery: the gold/copper ratio, a reflation gauge, has declined around 12% over the past 2 months, after relentlessly rising since April. Equities have performed strongly – including in Europe, where a few depressed sectors are reaching “bull markets” – such as steel (+38% from August lows), or automotive (+21% over roughly the same period). The positive mood hasn’t reached high yield credit markets, however: global high yield spreads widened slightly during October, closing the month around 400bps (compared with a recent wide of 460bps last August, and a one-year average of 415bps, according to Bloomberg). Investor caution is welcome, of course: should other markets’ optimism be vindicated, credit spreads will eventually reflect lower recession risks as well; and if the recent economic upturn proves a head-fake, credit could be spared a painful repricing. Beyond that optimistic take, the reality is credit investors aren’t known for their innate temperance: recent subdued performance reflects specific challenges for our markets.

The first obvious challenge is high yield is one of the asset classes most sensitive to the cycle. While we have remained relatively optimistic about near-term recession risks– we never bought into August' panic, which is now being partly priced out of safe-havens – recession does remain a risk. This late in the cycle, more risk-averse junk investors may actually never get the "all-clear" signal they require to take more risks. A US recession may well remain credit investors' focus till one is effectively announced by the NBER. China is slowing down irrespective of trade tensions with the US. The manufacturing recession is partly driven by structural sector challenges. The recent policy thaw is probably in part investor wishful thinking. The Brexit saga will rumble on in 2020 - and beyond. Sure, investors have a way of forcing their preferred outcome onto policy-makers: similar to Powell, who was cornered by bond traders, we suspect Trump will find it difficult to disappoint equity markets giddy with the promise of a "phase one" US-China trade deal. The trouble is: any "phase 1" deal implies a need for further negotiations, and more negotiations (especially in Trump's style of public threats and rolling deadlines), means more uncertainty. Corporates need a long-enough horizon to invest: whatever near-term compromise is reached, the relationship between the US and China will remain in flux and tensions may flare-up again next year (in particular if China becomes a key campaign theme in the US).

The second challenge relates to the "reach for yield" unleashed by rock-bottom global rates. In contrast with common concerns about investors being "forced to take risk", in our own experience, liquidity is finding it increasingly difficult to reach some HY shores. To quote Ray Dalio's recent comment (which doesn't refer to corporate credit, but applies well to it): "At the same time as money is essentially free for those who have money and creditworthiness, it is essentially unavailable to those who don't have money and creditworthiness" ("The World Has Gone Mad and the System is Broken", LinkedIn, 05/11). In HY, this is translating into a sharp bifurcation as investors continue to crowd around "safer" credits (BB credits, sectors deemed "cycle-resistant") and steer well clear of more vulnerable credits. In part, that is because risk aversion was well rewarded by duration gains in 2019 again – low-rates won't be a disincentive from "saving" (i.e. holding the safest assets), as long as low yields are more than offset by ingrained expectations of capital gains. Recent Mifid research rules may also be playing a part. While still early days (the reforms came into effect in early 2018), the rules have resulted into a narrower coverage by banks, while leaving wider parts of the market covered only by independent, less widely followed, research outfits. This is not a concern per se: high yield credit has always been inefficient, with many credits under-researched. What has changed, once again, is the cycle is growing too old for under-researched bonds. Inefficiency, by definition, needs time to correct: if a recession is around the corner, bonds which are already out-of-favour may never get the chance.

With this backdrop, we forecast HY spreads to remain about where they are over the near term. We'll continue to take advantage of mis-priced opportunities while keeping a sharp eye on shorter duration investments, which on maturity, allow us the chance to reposition toward the industry and country looking the most resilient going forward.

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%	0.93%	-1.43%	0.12%	1.01%			**7.61%**
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%	0.63%	-1.70%	-0.12%	0.73%			**4.97%**
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%	0.89%	-1.60%	0.00%	0.86%			**6.11%**
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.

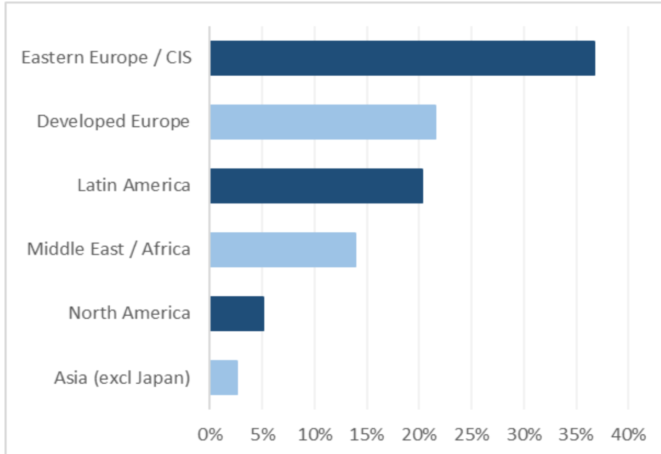
Fund Information as of October, 2019

	Rating	NAV (%)	Price	Duration	Yield	Spread
SphereInvest Global Credit Strategies	BB-	100 %	100.7	3.2	6.5 %	543
Cash and Equivalents	AA+	21 %				

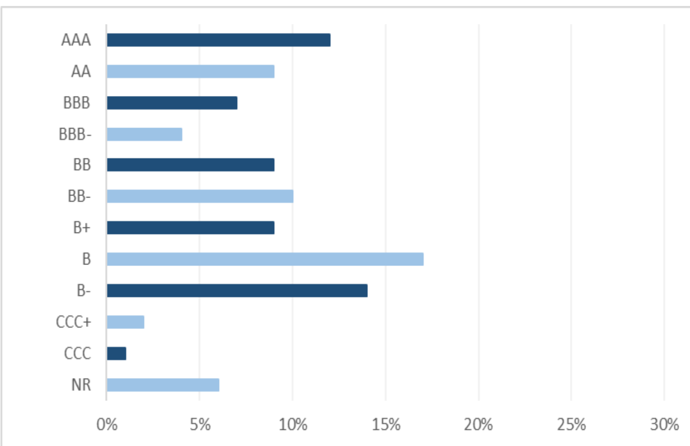
Top 10 Holdings (in % of NAV, 31/10/19)

Bond	%
9.875% Global Ship Lease, 2022	4.2%
8.00% IHS Netherlands, 2027	3.7%
6.75% KME AG, 2023	3.7%
8.75% DNO ASA, 2020	3.2%
7.125% Naftogaz, 2024	3.2%
9.125% Helios Towers, 2022	3.0%
5.00% Anacap, 2024	2.9%
8.75% Eurotorg, 2022	2.9%
6.748% MV24 Capital, 2034	2.6%
11.00% Silknet, 2024	2.6%

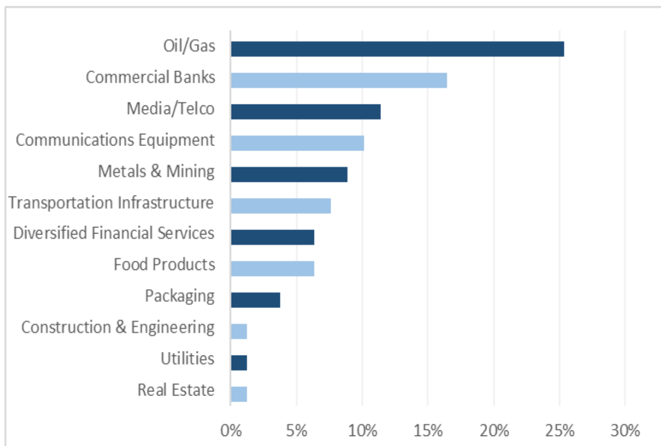
Regional Allocation (excl. cash & equiv)



Credit Quality



Sector Allocation (excl. cash & equiv)



Fund Terms

Regulatory	UCITS V	Domicile	Malta
Liquidity	Daily Pricing / Weekly dealing	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)		