

# SphereInvest | GROUP

## SphereInvest Global Credit Strategies (UCITS) Fund

### Weekly Performance Period: 31st August to 27th September 2012

<b>Class D (EUR) MTD return</b>	<b>+0.70%</b>	<b>YTD return<sup>(1)</sup></b>	<b>+1.58%</b>	<b>NAV per Share</b>	<b>101.58</b>
<b>Class F (USD) MTD return</b>	<b>+0.78%</b>	<b>YTD return<sup>(1)</sup></b>	<b>+1.66%</b>	<b>NAV per Share</b>	<b>101.66</b>

<sup>(1)</sup> YTD from inception on 2<sup>nd</sup> July 2012

Global credit markets continued to be buoyed by Central Banks' intervention during September, while mostly weaker underlying macro trends and the resurgence of Eurozone concerns towards the end of the month had limited impact on their performance. Global High Yield returned 1.7%, and spreads in global Investment Grade were 15 basis points tighter over the performance period (\*). The Merrill Lynch Global High Yield & Emerging Markets ended September under 6%, its lowest yield since the inception of the index in 1999.

Such strong performance has fuelled investor optimism about the asset class and the continued strength of "technicals". The rationale goes like this: with the Fed having now committed to an open-ended quantitative easing programme until the US economic recovery accelerates, and the ECB having removed the "tail risk" from markets (meaning investors no longer require a risk premium against a breakdown of the Eurozone) credit spreads will be largely determined by the "search for yield" in a world where risk free assets return next to nothing. Strong inflows into public debt markets will help refinance even the shakiest companies at ever lower interest rates, thereby reducing default risk despite the current anaemic global growth outlook.

We remain cautious about just how far that "search for yield" will be able to drive valuations at a time when the global economy continues to face a very uncertain outlook. To be sure, most market participants are as aware as we are of the risks around the "US fiscal cliff", the power transition in China, tensions between Israel and Iran, or the actual implementation of the ECB's Sovereign bond buying programme. However, current valuations also reflect investors' confidence that the recent period of low market volatility will extend into the medium-term - and that it will be time to worry again later. This is a dangerous game: carry trades are "short volatility" (meaning they benefit from low volatility environments, but generate losses when volatility rises again), and current valuations, at the market level, provide little cushion against any increase in uncertainty going into the fourth quarter of 2012.

Notwithstanding our cautious stance on aggregate market valuations, we continue seeing good opportunities at the single bond level and remain focused on gradually building a portfolio of attractively priced, resilient or improving credit stories. As expected, September's primary market was strong, and the fund participated in selective new issues. They included an American auto parts manufacturer, a Colombian telecom provider, an Hungarian Oil & Gas integrated company, an offshore drilling contractor, and Peru's leading DIY chain. The fund's main concentrations remain in Latin America and Eastern Europe, where we believe relative valuations have remained more attractive, either in light of continued macro strength (such as in Mexico or Peru), or given our more constructive medium term outlook following disappointing recent performance (such as in Brazil or Eastern Europe). The fund has so far kept its exposure to the Asia-ex-Japan region limited, partly as a result of limited new opportunities (such as in Indonesia) or because we feel valuations do not adequately reflect a very challenging outlook, notably among Chinese issuers.

(\*) Source: Bank of America Merrill Lynch, period from 30/08/12 to 27/09/12.

# INVESTOR LETTER

SphereInvest Global Credit Strategies, PnL from inception

	Average Rating	Market Value	Price	Mod. Dur.	Yield	Carry	Z-Spread	PnL Contrib.
<b>SphereInvest Global Credit Strategies</b>								
	BB	100 %	101.6	3.1	4.8 %	5.0 %	428	100 %
<b>Largest 5 Positions</b>								
	BB	20 %	106.3	5.1	5.7 %	6.6 %	457	23 %
<b>Strategies</b>								
Low Vol Portfolio	BB-	44 %	102.2	4.9	7.1 %	7.2 %	607	37 %
Cash	AA	36 %						-16 %
High Vol Portfolio	BB-	20 %	100.4	4.8	8.4 %	9.3 %	797	79 %
<b>Regions</b>								
Cash	AA	36 %						-16 %
Eastern Europe / CIS	BB-	24 %	102.2	5.2	7.6 %	8.6 %	702	44 %
LATAM	BB-	22 %	101.4	4.9	8.2 %	8.3 %	715	55 %
NJA	BB	8 %	100.0	3.3	5.3 %	4.8 %	472	5 %
North America	B	7 %	101.0	5.8	6.4 %	6.5 %	525	5 %
Developed Europe	BB-	3 %	104.3	4.6	9.8 %	10.3 %	859	7 %
<b>Corporates/Financials</b>								
Corps	BB-	48 %	102.4	5.2	7.1 %	7.3 %	607	81 %
Cash	AA	36 %						-16 %
Financials	BB-	16 %	99.2	4.1	8.6 %	9.6 %	852	35 %
<b>Sectors</b>								
Cash	AA	36 %						-16 %
Consumer Finance	BB-	10 %	105.3	3.1	9.1 %	10.5 %	836	20 %
Oil, Gas & Consumable Fuels	BB-	10 %	100.9	4.1	6.7 %	7.1 %	590	9 %
Metals & Mining	BB-	7 %	102.3	6.7	9.1 %	9.2 %	781	-1 %
Auto Components	B	7 %	100.9	4.5	7.9 %	7.3 %	686	12 %
Commercial Banks	BB-	6 %	88.4	5.9	7.8 %	8.1 %	882	15 %
Telecommunications	BB	5 %	104.3	6.7	6.9 %	7.2 %	540	19 %
Automobiles	BBB	4 %	100.3	4.7	2.1 %	2.1 %	128	1 %
Transportation Infrastructure	BB-	4 %	112.8	6.9	6.0 %	6.9 %	448	3 %
Media	BB-	4 %	104.3	4.5	6.6 %	7.2 %	570	7 %
Consumer	BB	3 %	101.4	5.5	6.5 %	6.7 %	537	2 %
Real Estate Management & Development	B+	2 %	96.1	4.9	12.3 %	12.0 %	1110	7 %
Hotels, Restaurants & Leisure	B-	2 %	101.6	2.0	8.4 %	9.1 %	799	6 %
Food Products	-	0 %	0.0	0.0	0.0 %	0.0 %	0	16 %
<b>Ratings</b>								
AA	AA	36 %						-16 %
BB-	BB-	16 %	100.7	5.6	7.4 %	8.0 %	703	12 %
B	B	14 %	100.7	4.0	8.4 %	8.5 %	758	13 %
BB	BB	12 %	103.3	7.8	7.2 %	7.4 %	563	20 %
B-	B-	5 %	100.3	1.7	9.1 %	8.4 %	864	18 %
BBB	BBB	4 %	100.3	4.7	2.1 %	2.1 %	128	0 %
BB+	BB+	4 %	111.0	2.4	7.1 %	10.4 %	637	18 %
BBB-	BBB-	3 %	98.9	5.6	6.4 %	6.3 %	531	0 %
NR	-	3 %	104.5	2.2	7.2 %	8.8 %	685	3 %
B+	B+	3 %	96.1	4.9	12.3 %	12.0 %	1110	20 %
BBB+	-	0 %	0.0	0.0	0.0 %	0.0 %	0	12 %
<b>Currencies</b>								
USD	BB-	89 %	101.8	3.0	4.7 %	4.7 %	405	90 %
EUR	BB	8 %	97.1	4.4	4.4 %	6.9 %	520	11 %
GBP	BB-	3 %	104.3	4.6	9.8 %	10.3 %	859	-1 %