INVESTOR LETTER

JUNE 2018

SphereInvest | GROUP

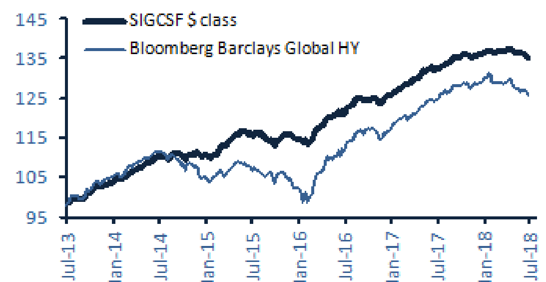
GLOBAL CREDIT STRATEGIES FUND

Monthly Performance

Class F (USD): MTD return: -0.75% 2018 return: -0.76% NAV per Share: 148.37
Class D (EUR): MTD return: -0.99% 2018 return: -2.19% NAV per Share: 138.44
Class E (GBP): MTD return: -1.09% 2018 return: -1.70% NAV per Share: 113.20

	2018	1-year		3 years		Since Inception	
	Return	Return *	Sharpe	Return *	Sharpe	Return *	Sharpe
SIGCSF Class F (US$)	**-0.75%**	**2.2%**	**0.29**	**5.1%**	**1.73**	**6.7%**	**2.64**
Bloomberg Barclays Global HY	-2.85%	0.9%	-0.29	5.3%	0.85	6.0%	1.17
BOFA EM High Yield	-3.72%	-0.3%	-0.91	5.5%	0.97	6.1%	1.07
BOFA Europe High Yield	-1.78%	0.6%	-0.58	4.0%	0.80	7.1%	1.79
BOFA US High Yield	-0.02%	2.5%	0.26	5.4%	0.79	6.0%	1.18
Barclays US Treasury Total Return	-1.65%	-1.6%	-0.82	0.9%	-0.05	0.8%	0.05
MSCI World	-0.31%	8.6%	0.76	6.8%	0.48	9.0%	0.74
MSCI Emerging Markets	-5.13%	11.1%	0.72	6.8%	0.34	3.0%	0.15

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



Source: SphereInvest Group; Bank of America Merrill Lynch

Portfolio and Market Commentary

The first half of 2018 was an exercise in navigating crosscurrents. Political volatility, trade conflicts and uncertain economic momentum across much of EM and the Eurozone all happened on a backdrop of evolving monetary policies and nagging concerns about the “end of the cycle”.Frustratingly, the shocks were never violent enough to bring markets to a new clearing level. To the contrary, they came quick and fast, gradually exhausted capital available to "buy the dip", never allowed credit markets to settle. EM and Euro HY credit started underperforming US HY early during H1, effectively foretelling the demise of the "synchronized global growth" which had underpinned investor sentiment during 2017. There is no definitive answer why growth in the Eurozone and much of EM disappointed during H1. In EM, factors range from the deleveraging effort in China, the political uncertainty brought by a heavy election calendar, policy mistakes (in Turkey and Argentina), to random shocks (such as a truckers strike which paralized economic activity in Brazil). In the Eurozone, potential culprits for H1's slowdown include a laundry list of one-offs (weather disruptions, a flu epidemics, vacations timing...), political volatility again (Italy and, more unusually, Germany) to waning confidence brought by international trade tensions. It is easier to understand why the US outperformed - a combination of fiscal stimulus and stronger animal spirits - more sensitive to the administration's deregulation agenda than to its more controversial trade policies, reflecting a more domestically driven economy.

Whatever the reasons behind the divergence of trends during H1 - whether it continues or we see some convergence - will dictate the outlook for global risk assets during H2. Most recent data has been unconclusive. Eurozone and UK PMIs indicate some strenghtening going into H2; EM data in aggregate is no longer disappointing expectations; political uncertainty is abating (notably in Mexico, where the new leftist President is so far showing signs of pragmatism) and EMFX appears to have stabilized. Yet, Chinese markets and the renminbi have most recently come under pressure, which could become a considerable drag for EM if sustained.

First, the good news - many bonds are already pricing in the "global growth divergence" scenario to some degree. We are almost six months into a period of unrelenting spread widening and a number of assets are already very attractively priced in our view. The bad news - the current policy mix in the US is actually designed to engineer unhealthy divergence between the US and the rest of the world. The "America first" agenda effectively translates into exporting tighter financial conditions (via higher rates) but not growth (by pursuing an effort of import substitution and threatening ever more trade disruption). Such a policy mix won't be sustainable over the medium-term. In the short term, which matters to markets, we believe the US administration is very unlikely to deviate from its trade agenda and some escalation (although not to the level implied by Trump's worst threats) has become our base case. Trump's popularity has recently been rising, with his base supporting his trade agenda. Even if the negative impact on the US economy became apparent sooner than expected, the US won't "blink first". Economic nationalism is never truly about economic welfare: we believe the administration is much more likely to resort to "short-term pain for long-term gain" rhetoric than admit the agenda won't deliver on its ostensible aims. This leaves only one possibility for near-term de-escalation: US commercial partners will need to offer enough concessions for Trump to declare victory ahead of the mid-term elections. We had long considered this our base case, and must admit our optimism hasn't been borne out by recent developments. It is now unclear to us what China could realistically concede for a trade cease-fire to be signed. Because the US is currently waging so many trade and geopolitical battles on different fronts, strategic expediency - or the desire to be able to show some progress, even if token - means de-escalation could first be achieved with concessions offered by the EU and NAFTA partners. We have recently seen some gestures of goodwill offered by Mexican president-elect Lopez Obrador and Germany, which has recently floated the possibility of cutting tariffs on US car imports.

What does this all mean for the Fund?

Our outlook remains cautious. Most fundamental factors behind the investor malaise during H1 remain in place at this juncture. There is one key change, however: investor expectations have reset and valuations have - sometimes dramatically - improved since the start of the year. Segments of the market are already attractively priced in our view: we find an increasing number of relatively short-dated corporate bonds where we believe fundamentals have remained broadly unchanged over the past six months, largely insulated from trade wars, which have seen spreads widen more than 200bps year-to-date, purely as a result of "contagion" and fund outflows. There is a clear risk in being too early to buy such assets in the absence of positive repricing triggers. However, investors able to weather short-term mark-to-market volatility are likely to be well rewarded, in our view: we intend to gradually increase the share of the Fund dedicated to taking advantage of such opportunities.

The sell-off during H1 was not indiscriminate. There was clear differentiation by sectors, countries and credit quality. However, whenever circumstances change, investors' first second-guess how others will react, rather than assess how fundamentals will be really affected. The easiest way to know investors' first reaction is to apply heuristics - for instance linking higher rates to EM underperformance, rising dollar to lower oil, and so on. In our experience, the period after assets have repriced according to such "rules of thumb", however valid, is always one of the most fertile in opportunities. For instance, international investors have recently run away from all EM domestic stories, favouring issuers with hard currency cash flows even though they are more exposed to trade tensions or a weakening in Chinese demand. Although still slighly early to implement as a trade, we believe the assumption EM issuers have no pricing power to pass through EMFX weakness (often implicit when investors first try to assess the vulnerabilty of EM issuers with currency mismatches) will likely prove grossly overpessimistic.

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%							**-0.76%**
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%							**-2.19%**
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%	-0.50%	-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%							**-1.70%**
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	-0.38%	-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.

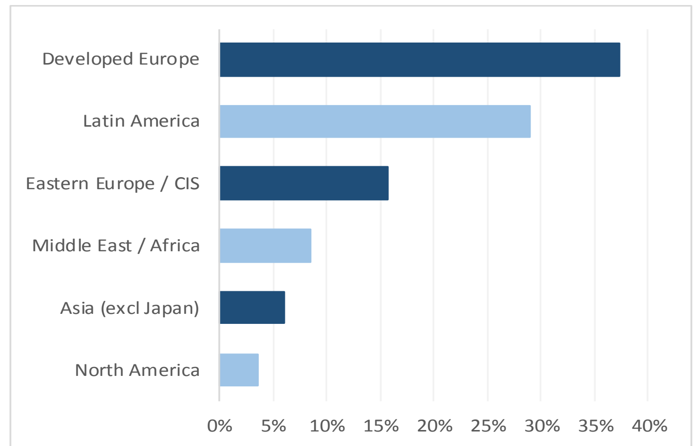
Fund Information as of June, 2018

	Rating	NAV (%)	Price	Duration	Yield	Spread
SphereInvest Global Credit Strategies	B+	100 %	98.4	2.6	7.5 %	563
Cash and Equivalents	AA	17 %				

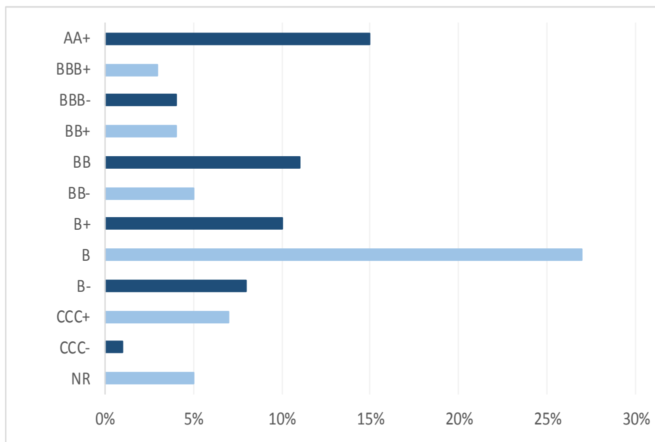
Top 10 Holdings (in % of NAV, 28/06/18)

Bond	%
5.25% Banco de Costa Rica, 2018	3.7%
8.25% Horizon Parent Holdings, 2022	3.6%
6.75% Hercule Debtco SARL, 2024	3.6%
6.75% Telfon Celuar del Paragu, 2022	3.4%
8.75% DNO ASA, 2020	3.2%
10% Crystal Almond SARL, 2021	3.0%
8.625% Banglalink Digital Comm, 2019	3.0%
9.125% HTA Group Limited, 2022	3.0%
5% IRSA Propiedades Com, 2020	3.0%
8.75% Eurotorg (Bonitron Dac), 2022	2.9%

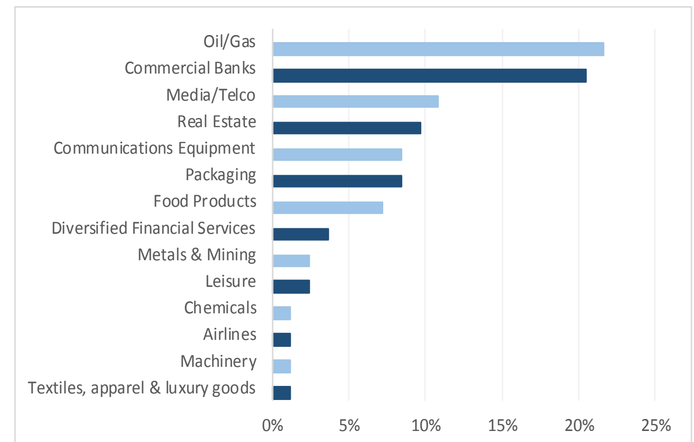
Regional Allocation (excl. cash & equiv)



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)		

Disclaimer:
Important Information: Issued by SphereInvest Group Limited ("SphereInvest"), which is authorized and regulated by the Malta Financial Services Authority. This publication constitutes an investment advertisement and is only being provided for illustrative purposes. It should not be construed as investment advice or an offer, invitation or recommendation to transact in any of the investment instruments mentioned in it. Potential investors should seek their own independent financial advice. Every investment involves risk, especially with regard to fluctuations in value and return. If the currency of a financial product is different from your reference currency, the return can increase or decrease as a result of currency fluctuations. The value of investments and the income therefrom can go down as well as up. Past performance is not a guide to future returns. Performance figures are shown net of all fees and expenses. The information in this publication has been compiled from sources believed to be reliable, however, no warranty, expressed or implied, is given as to its accuracy or completeness. Furthermore, neither SphereInvest nor its directors, officers or employees will be responsible for any loss or damage that any person may incur resulting from the use of this information.