



High Yield Value Bonds

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Fund Facts

Strategy	Value Bonds
Risk	Medium
ISIN	LU0232765429
Share Class Currency	EUR
Fund Inception	16-Nov-2005
Fund Manager	Klaus Blaabjerg
Benchmark	Merrill Lynch Global High Yield (EUR Hedged)
Morningstar Category	Euro High Yield Bond



- sparinvest.eu

Performance

Sparinvest High Yield Value Bonds had a good third quarter in both absolute and relative terms. During the third quarter the fund delivered a return of 10.17%, compared to 6.74% for the benchmark. Year to date the fund is up 19.72%, compared to 11.95% for the benchmark.

Sparinvest High Yield Value Bonds & Index Return, in %	Q3 2010	YTD
Sparinvest High Yield Value Bonds	10.17	19.72
Merrill Lynch Global High Yield	6.74	11.95

The reasons for the outperformance during the quarter were:

- No defaults
- An overweight of financials
- Exposure to small caps in the Energy sector

There are no quality issues in the portfolio and hence no defaults. Coverage of debt through earnings and assets is very good and earnings are improving.

The fund has benefitted from improving fundamentals in financials. Leverage has fallen and capital in the form of 'Core Tier 1 Capital' has increased substantially during the last year. Also, new regulation has helped the debt of banks perform very well – this new regulation is known as Basel III.

We have seen takeovers among some of our small cap companies in the Energy sector. Assets in this sector are cheap. In some cases the companies are trading so cheap that it is actually cheaper to buy the company instead of buying new equipment. We still find interesting opportunities in this part of the market.

Portfolio composition

We are still overweight financials and energy. We still find the most value in these two sectors. On a single name basis, we have taken profits on AIG 8% and Skeie 12%. We bought AIG 8% last year at 28 and sold at 98. Skeie reached our target within 2 months as the company was taken over and bonds jumped to reach our target as well. An interesting new entry is the Canadian airline company Air Canada. We have bought bonds from Air Canada that are secured. Comparing the value of the security package to the debt, these bonds have Loan to Value of between 45% and 60% and load factor and earnings are improving. The bonds of Air Canada yield around 10%.

Portfolio valuation

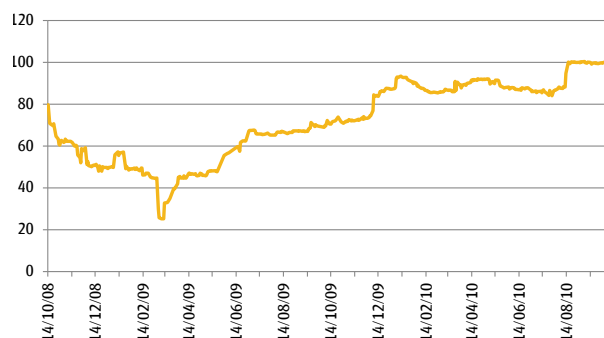
The portfolio is still cheap. The yield on the fund is 10,2% compared to 7,85% for the benchmark. Average credit rating is B+ for the fund which is the same as for the benchmark. Net Debt to Equity is below 90% for the fund, compared to 390% for the benchmark. The companies in the fund are cheap on a Price-to-Book basis trading around book value which is a lot lower than the benchmark figure of 4 times book value. We expect more takeovers in the coming quarters and we expect our fund to benefit from this.

Company comments

Allis-Chalmers Energy Inc. provides a variety of products and services to the oil and natural-gas drilling industry through its subsidiaries. The Company provides equipment and operations to install the casing and production tubing required to complete oil and gas wells. Allis-Chalmers also provides a range of drilling services and drill pipes.

On August 13, the Norwegian oil service company Seadrill Ltd. (SDRL.OS) announced that its majority-owned subsidiary, Seawell Limited, had agreed to buy U.S.-based Allis-Chalmers Energy Inc. in a mutually approved deal worth \$890 million, including assumed debt. Following this announcement the Allis-Chalmers 8.5% maturing in 2017 jumped from a price around 84 to 100. Seawell and Seadrill are BB rated by the local banks so we have not sold at 100. Instead our target is closer to 107, which would be the fair value for the bond using a BB curve and looking at where the bonds of Seadrill are trading. Seadrill will finance the acquisition using a substantial amount of equity. So the BB rating of Seawell/Seadrill is not in danger. Prior to the takeover, the stock of Allis-Chalmers Energy Inc. was trading around 0.6 times book value. Net Debt to Equity for Allis-Chalmers Energy Inc. was close to 100%.

Price on Allis – Chalmers 8.5% 2017



Similar to Allis-Chalmers Energy Inc. we also experienced a takeover in Skeie Drilling (SKDP.OS) that was acquired by Rowan Companies Inc., one of the larger drilling companies. Rowan is rated Baa3 by Moody's – they have an Investment Grade rating. We sold the Skeie bonds at 110.75 implying a yield of 4.9%. Skeie was in the fund for around 2 months only.

We have several companies in the fund similar to Allis-Chalmers Energy Inc. and Skeie Drilling. But it's worthwhile stressing that we don't need to see takeovers among these companies in order to do well. Many of the bonds have 'pledges in assets' attached to them, enhancing our safety, yet they still yield a solid 9-12% over the coming 3-5 years.

Klaus Blaabjerg

Lead Portfolio Manager
12 October 2010

This Fund Update should be read together with the latest 'Letter to Shareholders', in which our Value Bonds team offer their perspective on value investment and market developments.

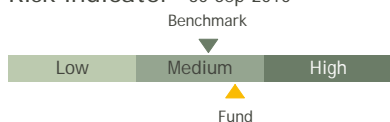
Sparinvest High Yield Value Bonds available share classes	ISIN
EUR E	LU0324847606
EUR I	LU0258535045
EUR R	LU0232765429
EUR UKI	LU0258535631
EUR UKR	LU0258534311

Description

Investment Concept: Value Bonds

The fund invests in global listed corporate bonds issued by listed and private corporations. The company analysis is based on value principles, aiming for a better credit quality and subsequently better preservation of capital, than the general market. Bond selection is also based on theoretically founded principles with emphasis put on default risk, not the potential return.

Risk indicator - 30-Sep-2010



Basic Information

ISIN	LU0232765429
Bloomberg	SPAHYVB.LX
Share Class	EUR R
Fund Inception	16-Nov-2005
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest Luxembourg
Domicile	Luxembourg
Share Class Inception	16-Nov-2005
Fund size (MN) - 30-Sep-2010	407.68 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Klaus Blaabjerg
Fund Manager Start Date	16-Nov-2005
Benchmark ¹	Merrill Lynch Global High Yield (EUR Hedged)
Morningstar Category ²	Euro High Yield Bond
Latest NAV - 30-Sep-2010	142.18 EUR
Subscription fee (up to)	2.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.25 %
Total expense ratio - 31-Dec-2009	1.56 %

Returns - Month End, Sep-2010

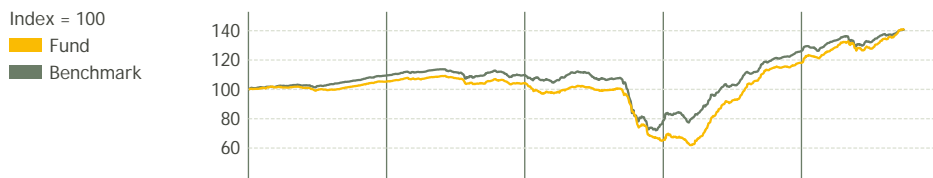
Returns	Fund	Benchmark ¹	Difference
YTD	19.72%	11.95%	7.77%
1 Month	4.22%	2.87%	1.35%
3 Months	10.17%	6.74%	3.43%
1 Year	24.82%	18.69%	6.13%
3 y ann.	10.18%	8.21%	1.97%
5 y ann.	-	-	-

Risk 3 years - Month End, Sep-2010

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	21.40%	17.90%	17.27%
Sharpe R.	0.45	-	0.24
Info Ratio	0.26	-	-

Morningstar Rating™ **★★★★**

Performance - 30-Sep-2010

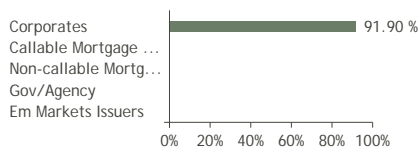


Returns	2006	2007	2008	2009	09-2010
Fund	5.23%	-1.09%	-37.12%	80.21%	19.72%
Benchmark	9.42%	0.39%	-28.55%	60.71%	11.95%
Morningstar Category™	6.01%	-1.78%	-29.88%	53.80%	12.00%

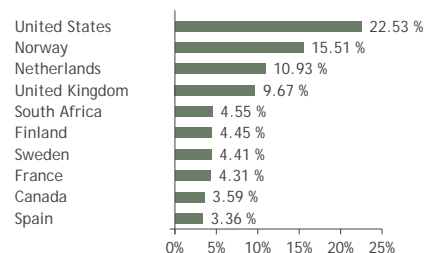
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
73	0.0%	93.5%	0.0%	6.5%

Bond Type



Top 10 Countries



Portfolio (Top 10) - 30-Sep-2010

Name	Bond Type	Type	Country	Weight
Boats Inv. 11% 07-31.3.17 /Pik	Corporates	Bonds	Netherlands	5.33%
Lbg Cap2 15% 09-21.12.19	Corporates	Bonds	United Kingd...	4.78%
Groupama Sa 6.298% 07-Perp	Corporates	Bonds	France	4.18%
Edcon Hldgs Frn07-15.6.15reg.S	Corporates	Bonds	South Africa	4.01%
Noreco 12.9% 09-20.11.14	Corporates	Bonds	Norway	3.74%
Cemex 9.25% 10-12.5.20	Corporates	Bonds	Spain	3.36%
Sns 11.25% 09-Perp	Corporates	Bonds	Netherlands	3.15%
Pa Resources 10% 06-20.06.11	Corporates	Bonds	Sweden	2.60%
Eureko Bv 6% 06-..Perp.	Corporates	Bonds	Netherlands	2.45%
Fuerst Cap Frn 09-Perp	Corporates	Bonds	Luxembourg	2.43%

Bond Credit Quality

AAA	AA	A	BBB	BB	B and below	Not Rated	Effective Duration
0.0%	0.0%	0.8%	10.2%	28.8%	59.5%	0.7%	3.7

Notes:

The mentioned sub-fund is a part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company.

Benchmark Comment

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Sparinvest is a signatory of UN PRI and member of Eurosis and Dansif.

UN PRI is an international investor initiative sponsored by the UN and based on six principles for responsible investments. The aim is to help investors actively to incorporate environmental, social and governance issues into their investments.

The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors/representatives together with the initial statutes of the funds and any subsequent changes to such statutes. Investments are only made on the basis of these documents. Past performance is no guarantee for future returns. Investors may not get back the full amount invested. Investments may be subject to foreign exchange risks. The investor bears a higher risk for investments into emerging markets. The indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees. For investors in Switzerland the funds' representative and paying agent is RBC Dexia Investor Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg. Sparinvest makes reservations for typos, calculation mistakes and other possible mistakes in the material.