



Investment Grade Value Bonds

Headlines

- Performance
- Portfolio valuation
- Commenting on Basel III

Fund Facts

Strategy	Value Bonds
Risk	Medium
ISIN	LU0264925727
Share Class Currency	EUR
Fund Inception	2-Nov-2006
Fund Manager	Klaus Blaabjerg
Benchmark	Merrill Lynch Global Broad Market Corporate Index (EUR Hedged)
Morningstar Category	Euro Corporate Bond

- sparinvest.eu

Performance

Sparinvest Investment Grade Value Bonds had a good third quarter in both absolute and relative terms. During the third quarter the fund delivered a return of 10.02%, compared to 3.79% for the benchmark. Year to date, the fund is up 18.04%, compared to 8.97% for the benchmark.

Sparinvest Investment Grade Value Bonds & Index Return, in %	Q3 2010	YTD
Sparinvest Investment Grade Value Bonds	10.02	18.04
Merrill Lynch Global Broad Market Corporate Index	3.79	8.97

The reason for the outperformance during the quarter was an overweight of debt from financial companies – banks and insurance. This overweight has existed since the fund was launched. In the beginning the overweight was established to ‘minimize’ what was the primary risk in the market – the LBO risk. Needless to say we did not at that time foresee the problems that have subsequently materialized in the financial system. Today, however, we believe that financial debt offers the best risk/reward relationship. We will talk more about this later in the update.

There are no quality issues in the portfolio and there have been no defaults. Coverage of debt through earnings and equity is good and 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.

Portfolio composition

We are still overweight financials. We still find the most value in this sector. We have added to exposures in Société Générale and Natixis – two French banks. We have also added to Aviva the UK insurer and finally we have

invested in Glencore. Glencore is a privately owned, integrated trading, industrial and holding company. Glencore is one of the world's largest trading companies focused on the physical trading and marketing of energy, metals and agricultural commodities. The bond we have invested in from Glencore has a coupon of 7.5% and is rated BBB-. Glencore has net debt to equity of less than 100%.

Portfolio valuation

The portfolio is still cheap. The yield on the fund is 7.8% compared to 4.1% for the benchmark. Average credit rating is BBB for the fund which is lower than the average rating for the benchmark which is A. 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 3 times book value. Mentioning the low Price-to-Book should not be interpreted as meaning that we expect a lot of M&A activity in the portfolio. Returns will more likely come from a continuation of the improving trend seen among banks and insurance companies.

Commenting on Basel III

A major reason for the strong performance of debt from banks during the third quarter has been the release of Basel III. Below we summarize the new rules and what they imply for bank capital going forward.

From January 1 2013:

- Core Tier 1 4.5% (by 2015) + capital conservation buffer 2.5% (2016-2019) implies 7% minimum core Tier 1 ratio by 2019
- Tier 1 ratio 8.5% (from 4%), total capital 10.5% (from 8%)
- Countercyclical buffer 2.5%
- Further additional buffer for systemic banks to be announced later

Hybrid grandfathering in line with our expectations:

- Public sector capital injections to be grandfathered to January 1, 2018

- Non-compliant Tier 1 and Tier 2: a 10 year phase out will commence January 1, 2013
- Incentive to redeem – old Tier 1 bonds to be phased out at effective maturity date
- Step-up tier 1 and tier 2 to be grandfathered only to first call date

Implications of the above are:

- **Step up Tier 1 to be called at first call date, or tendered at premium to prevailing market levels, to book a profit at the issuer**
- Regulatory par calls can potentially be triggered
- Tier 2 to be loss-absorbing
 - Old-style Tier 1's will only count as senior, not as Tier 1 capital
 - New CoCo's effectively subordinate to old-style Tier 1 and Tier 2
- This will affect all bank capital

To sum it up, the rules outlined above are very supportive for Investment Grade Value Bonds. Today we can be a lot surer that the 7.0% (after costs) yield currently offered by the fund will turn out to be the p.a. return realised by investors over the – when they look back at performance – five years from now.

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 Investment Grade Value Bonds available share classes	ISIN
EUR E	LU0324849214
EUR I	LU0264926378
EUR R	LU0264925727
EUR UKI	LU0264926535
EUR UKR	LU0264928663



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

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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.

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, securing a high credit quality and subsequently better preservation of capital. Bond selection is also based on theoretically founded principles with emphasis put on default risk, not the potential return. The Sub-Fund invests in investment grade fixed income transferable securities that are rated from AA to BBB-. The currency exposure is partly hedge into EUR.

Risk indicator - 30-Sep-2010



Basic Information

ISIN	LU0264925727
Bloomberg	SINGVBR.LX
Share Class	EUR R
Fund Inception	02-Nov-2006
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest Luxembourg
Domicile	Luxembourg
Share Class Inception	02-Nov-2006
Fund size (MN) - 30-Sep-2010	11.57 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Klaus Blaabjerg
Fund Manager Start Date	02-Nov-2006
Benchmark ¹	Merrill Lynch Global Broad Market Corporate Index (EUR Hedged)
Morningstar Category ²	Euro Corporate Bond
Latest NAV - 30-Sep-2010	106.11 EUR
Subscription fee (up to)	2.00 %
Redemption fee (up to)	0.00 %
Management Fee	0.80 %
Total expense ratio - 31-Dec-2009	1.04 %

Returns - Month End, Sep-2010

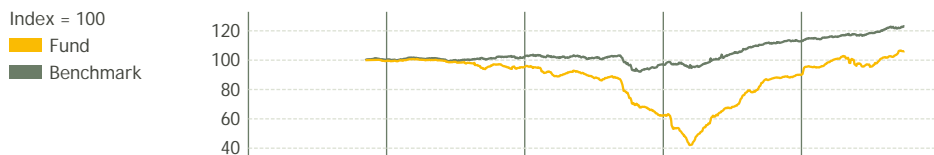
Returns	Fund	Benchmark ¹	Difference
YTD	18.04%	8.97%	9.07%
1 Month	3.70%	0.19%	3.51%
3 Months	10.02%	3.79%	6.23%
1 Year	21.94%	10.37%	11.56%
3 y ann.	3.53%	6.77%	-3.24%
5 y ann.	-	-	-

Risk 3 years - Month End, Sep-2010

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	23.25%	6.47%	6.99%
Sharpe R.	0.16	-	0.41
Info Ratio	-0.04	-	-

Morningstar Rating™ ★

Performance - 30-Sep-2010

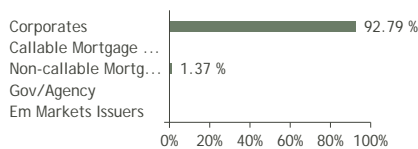


Returns	2006	2007	2008	2009	09-2010
Fund	-	-4.06%	-34.79%	44.66%	18.04%
Benchmark	1.48%	1.95%	-4.99%	16.22%	8.97%
Morningstar Category™	-0.09%	-1.39%	-7.68%	16.59%	6.11%

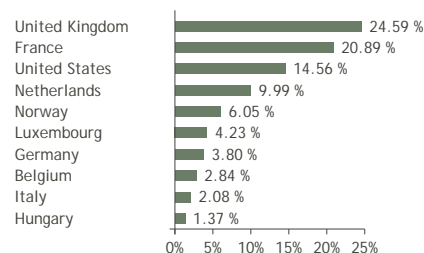
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
39	0.0%	94.2%	0.0%	5.8%

Bond Type



Top 10 Countries



Portfolio (Top 10) - 30-Sep-2010

Name	Bond Type	Type	Country	Weight
Stalif 5.314% 04-Perp.	Corporates	Bonds	United Kingd...	7.16%
Bnpp 7.195% 07-Perp	Corporates	Bonds	France	6.00%
Hvb Fdg Tr 7.055% 02-Perp	Corporates	Bonds	United States	5.96%
Aviva 5.9021%(Tv) 04-Perp.	Corporates	Bonds	United Kingd...	5.77%
Storebrd Liv.9.404%(Tv)08-Perp	Corporates	Bonds	Norway	4.32%
Fuerst Cap Frn 09-Perp	Corporates	Bonds	Luxembourg	4.23%
Ccbp 9.25% 09-Perp	Corporates	Bonds	France	4.15%
Eureko Bv 6% 06-.Perp.	Corporates	Bonds	Netherlands	4.12%
Groupama Sa 7.875% 09-27.10.39	Corporates	Bonds	France	4.10%
Cleri.Med.6.45%01-5.7.23 Emtn	Corporates	Bonds	United Kingd...	3.90%

Bond Credit Quality

AAA	AA	A	BBB	BB	B and below	Not Rated	Effective Duration
0.0%	0.0%	8.2%	75.5%	14.4%	1.9%	0.0%	5.9

Notes:

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

Benchmark Comment

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