



October 2011

## SPARINVEST SICAV - HIGH YIELD VALUE BONDS

Sub-fund of Luxembourg domiciled Sicav - Part 1

Fund owner: Sparinvest

Fund manager/adviser: Sparinvest

Named portfolio manager/adviser(s):

Klaus Blaabjerg (since launch)

Peer group: global high yield in EUR

Location: Taastrup

Launch date: November 2006

Fund size (August 2011): €637m

Contact group: +352 2627 47 1 or

www.sparinvest.eu

Further information on S&P's fund coverage can be found at [www.FundsInsights.com](http://www.FundsInsights.com)

### Investment style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

### Performance statistics

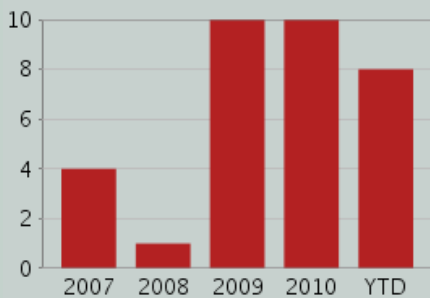
	Three years
Fund	52.1%
Standard & Poor's peer median	26.6%
Index**	45.9%
Fund rank	4/58

\*\* BofA Merrill Lynch Global High Yield Euro Currency  
Note: returns are cumulative

### Risk characteristics

	Three years
Maximum monthly drawdown (%)	-20.7
Volatility	21.1
Correlation	0.9
Beta	1.0

### Calendar-year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank nine with tenth decile as rank one.

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### Standard & Poor's opinion (October 2011)

Sparinvest's investment process in bonds and equities has a very strong long-term value bias and tends to steer managers into small-cap holdings. The portfolio allocations can differ from their benchmarks significantly, with limited attention paid to tracking error, concentration risk or short-term liquidity risk.

This is certainly true of this fund, where more than 60% of the portfolio has been in financial and energy issues for some time. As a result, its performance has been volatile against the benchmark and the peer group and its annualised volatility over the last three years is over 21%. We note that the fund was bottom decile in 2008 but had a stable investor base. Its strong performance over the last two years has led to significant inflows and also recent outflows, although these have been funded with no problems.

The fund is top decile over three and five years cumulatively to end-July 2011 but the financial holdings suffered in August and it was sub-median in this peer group for the year to end-August.

The team is small but experienced and stable, and the process is consistent. However, we feel investors should be comfortable with its very high-conviction nature when assessing the fund. We have retained the S&P A/V6 rating for now.

### Fund manager & team

Sparinvest's bond team manages over €900m in value-based mandates. It is headed by Klaus Blaabjerg and comprises two other portfolio managers and a credit analyst. They can draw on a team of eight equity analysts.

Klaus Blaabjerg - senior portfolio manager - MSc economics (University of Copenhagen), joined Sparinvest in 2005 as a senior portfolio manager. He previously managed Bankinvest Virksomhedsobligationer, one of Scandinavia's largest investment grade funds. Blaabjerg joined the asset management industry in 1999.

Sune Højholt Jensen - MSc economics & business administration (Copenhagen Business School), joined Sparinvest as a senior portfolio manager in 2006 following nine years spent trading corporate bonds and credit default swaps.

Toke Lilhauge Hjortshøj - PhD finance (University of Aarhus), joined Sparinvest in 2007 as a credit analyst.

Anne Margrethe Tingleff - MSc economics (McGill University), joined Sparinvest as a graduate in January 2010, performing credit analysis.

### Management style

The fund is measured against the Merrill Lynch Global High Yield (EUR hedged) index, although the manager is not constrained by the benchmark and employs an active approach to portfolio construction.

The fund will, for the most part, remain fully invested through the course of the cycle, except for a small cash balance used to manage investor flows. It will also invest exclusively in cash market securities, with credit derivatives not yet featuring in the portfolio.

The team adopts a fundamental approach to investing. It prefers out-of-favour bonds issued by small companies on the view that investors are rewarded with a liquidity premium over the longer term. Its back-testing results also support companies with low P/B valuations and conservative gearing ratios. However, it is also aware of LBO risk and closely analyses change of control covenants. Outside financials, it favours companies with hard assets that are marketable in a distressed situation.

Portfolio construction is dictated by identifying compelling bottom-up stories rather than by top-down sector views. 90-95% of non-euro currency exposure is hedged back into euros. Up to 10% may be held in emerging markets debt.

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## Portfolio & performance analysis (August 2011)

The manager continued to maintain significant weightings in Tier 1 and CoCo financials and in energy issues throughout the year and these represented about 31% and 35% of the portfolio respectively, at the time of review.

Most of the financials were North European names, but the fund had over 2.5% each in Tier 1 of Intesa and BBVA. However, the proportion of banks was cut back somewhat in spring 2010 and Klaus Blaabjerg re-risked in the summer, adding more insurance issues. Blaabjerg continues to believe that regulatory changes mean that subordinated financials will be called at an early stage and therefore likes the risk/return characteristics of issues trading below par.

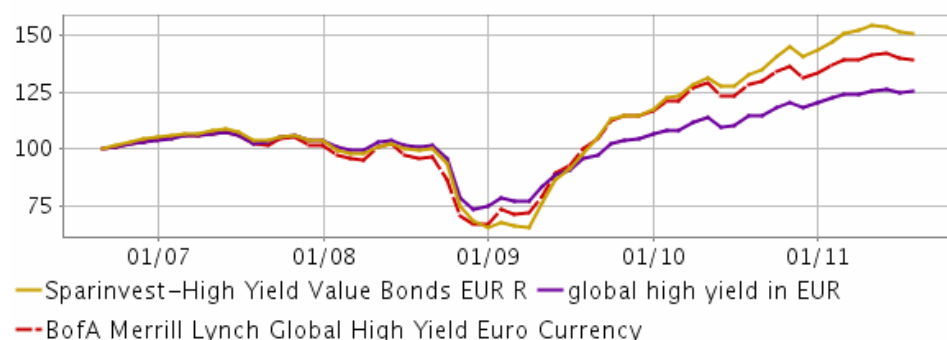
As always, Sparinvest's value process tends to identify corporate paper issued by smaller companies.

Although this is a euro-denominated fund, much of the portfolio was in non-euro issues, including nearly 30% in Norwegian krone issues (mostly energy names), but all of the currency risk was hedged.

Blaabjerg was helped in 2008 by the stable investor base. The fund has grown considerably since then and saw significant redemptions in the summer of 2011 from newer investors. These were funded by selling Norwegian krone and Brazilian real issues, which held up better than euro issues, including financials. However, Blaabjerg intends to reduce the portfolio pro rata if there are further redemptions, to keep the size of the financial position within bounds.

The fund suffered relative to the peer group and benchmark in 2007-08 but rebounded strongly in 2009 and 2010, helped by timely addition and reduction of bank risk.

## Cumulative performance



## Calendar year performance

	2007		2008		2009		2010		YTD August 2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	-1.1	36/52	-37.1	53/57	80.2	3/61	21.8	4/63	5.5	18/79
Index**	-2.3		-34.2		74.9		14.2		4.2	
Median	0.0		-27.6		47.3		12.2		4.6	

\*\* BofA Merrill Lynch Global High Yield Euro Currency

Fund benchmark: Merrill Lynch Global High Yield (EUR hedged)

Share class screened: LU0232765429 (EUR R)

## Sources of return

	None	Low	Average	High
Duration				
Yield curve				
Credit spreads				
Country / sectors				
Currency exposure				

## Portfolio characteristics (August 2011)

Effective duration (years) 4.4

### Asset allocation (%)

	Long	Short	Net
Corporate bonds	4.40	0.00	4.40

### Credit rating breakdown

	Long	Short	Net
BBB	0.87	0.00	0.87
BB	1.10	0.00	1.10
B	1.55	0.00	1.55
CCC & below	0.72	0.00	0.72
Unrated securities	0.16	0.00	0.16

### Duration

	Long	Short	Net
0-1 years	0.00	0.00	0.00
1-3 years	0.09	0.00	0.09
3-5 years	0.92	0.00	0.92
5-7 years	0.64	0.00	0.64
7+ years	2.75	0.00	2.75

\* Credit rating exposures are expressed in spread duration terms. All others expressed in interest rate duration years.

# STANDARD & POOR'S

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## Symbols and Definitions

### Long-only fund ratings

- AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
- AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
- A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

### Fund-of-hedge-funds ratings

#### Absolute return fund ratings

#### Specialist fund ratings

- AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

### Ucits III flexible beta fund ratings

- AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

### All fund ratings

- Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.
- Under Review (UR) Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.
- (New) Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.
- Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months relevant investment management experience required to be eligible to be considered for a rating.
- Long-term fund management rating The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

### Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

- V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.
- V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.
- V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.
- V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.
- V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.
- V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

### Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.