



## High Yield Value Bonds

### Headlines

- Performance
- Portfolio composition
- Portfolio Valuation

### 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](http://sparinvest.eu)

### Performance

Sparinvest High Yield Value Bonds had a return of 1.73% for the last quarter of 2010. That was 0.56% less than the benchmark. Over 2010 as a whole, the return for Sparinvest High Yield Value Bonds was 21.79% which was 7.28% more than benchmark and 8.57% more than the Morningstar category. We are satisfied with this result. But what makes us even more satisfied on behalf of investors is the 5-year annualized return for the fund. Despite the fact that the period includes the worst financial crisis in the past 100 years, the 5 year annualized return for Sparinvest High Yield Value Bonds stood at 7.51% after 2010. To us, this shows the robustness of the Value Bond concept.

Sparinvest High Yield Value Bonds & Index Return, in %	Q4 2010	YTD
Sparinvest High Yield Value Bonds	1.73	21.79
Merrill Lynch Global High Yield	2.29	14.51

The reasons for outperformance during 2010 were:

- No defaults
- Good stock picking within financials

During the first part of 2010 we exercised equity settlement options attached to our bonds from Lloyds and RBS. We also benefitted from tenders/buy backs. Hence when the debt crisis in Europe was peaking early summer 2010, we actually had lower exposure to banks. We then used the May/June sell-off to add to banks. These performed well during late summer and third quarter. However, during the fourth quarter, financials underperformed as a result of renewed sovereign debt worries. Nevertheless we believe financials continue to offer a lot of long-term value.

- Exposure to small caps – and small caps within the energy sector in particular

We experienced several takeovers during 2010 in the small-cap energy space. We obviously benefitted from this. Other small-cap companies such as Unify etc. performed very well as liquidity returned to the market.

### Portfolio composition

We remain overweight energy and financials. We believe that – as a result of a misplaced emphasis on size – small-cap energy companies are routinely misrated by the rating agencies. We also expect to benefit from mergers & acquisitions in the energy sector during 2011. Finally, our high exposure to energy remains a solid hedge against inflation caused by rising oil prices. Even though we don't possess a crystal ball, we can easily imagine a situation where the price of oil is back above \$100 a barrel.

As regards financials, the sector is reducing leverage and is in a state of recovery. In our opinion the sector therefore offers long-term value. On the other hand, we are underweight the consumer non-cyclical and telecom sectors as valuations here are not compelling.

### Portfolio Valuation

The portfolio is cheap compared to benchmark. The yield on the fund is 10%, compared to 7.5% for the benchmark. The yield differential is due to sector differences and the larger proportion of small caps in our fund. The average credit rating for Sparinvest High Yield Value Bonds is B+

which is similar to that of the benchmark. But in terms of net-debt-to-equity for non-financials, Sparinvest High Yield Value Bonds has a much lower risk. Net-debt-to-equity is 89% compared to 399% for the benchmark. In our opinion, lower net-debt-to-equity is crucial in order to minimize default risk and maximize potential recovery rates. As regards the average price-to-book ratio for the companies in Sparinvest High Yield Value Bonds this equals 1 for the fund compared to more than 4 for the benchmark. Needless to say, our fund is well positioned to benefit from a pickup in M&A.

### **Klaus Blaabjerg**

Lead Portfolio Manager

12 January 2011

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 I	LU0258535045
EUR R	LU0232765429
EUR UKI	LU0258535631



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

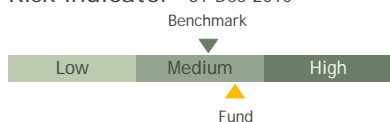
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest 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.

## 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 - 31-Dec-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 S.A.
Domicile	Luxembourg
Share Class Inception	16-Nov-2005
Fund size (MN) - 31-Dec-2010	439.80 EUR
Manager	Sparinvest S.A.
Fund Manager	Klaus Blaabjerg
Fund Manager Start Date	16-Nov-2005
Benchmark <sup>1</sup>	Merrill Lynch Global High Yield (EUR Hedged)
Morningstar Category <sup>2</sup>	EUR High Yield Bond
Latest NAV - 31-Dec-2010	144.64 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, Dec-2010

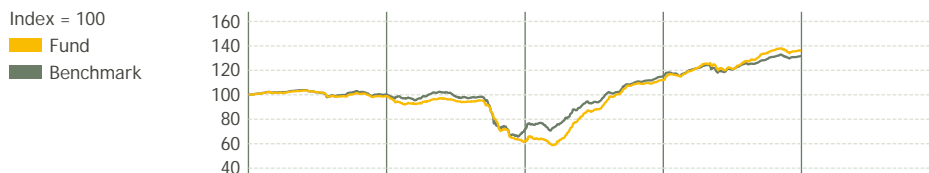
Returns	Fund	Benchmark <sup>1</sup>	Difference
YTD	21.79%	14.51%	7.28%
1 Month	1.78%	1.74%	0.04%
3 Months	1.73%	2.29%	-0.56%
1 Year	21.79%	14.51%	7.28%
3 y ann.	11.33%	9.55%	1.78%
5 y ann.	7.51%	7.63%	-0.12%

## Risk 3 years - Month End, Dec-2010

Risk	Fund	Benchmark <sup>1</sup>	Morningstar <sup>2</sup>
Volatility	21.45%	17.90%	16.78%
Sharpe R.	0.51	-	0.33
Info Ratio	0.24	-	-

Morningstar Rating™ **★★★★**

## Performance - 31-Dec-2010

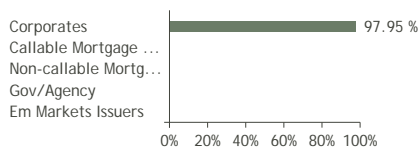


Returns	2007	2008	2009	2010	-
Fund	-1.09%	-37.12%	80.21%	21.79%	-
Benchmark	0.39%	-28.55%	60.71%	14.51%	-
Morningstar Category™	-1.78%	-29.88%	53.80%	13.22%	-

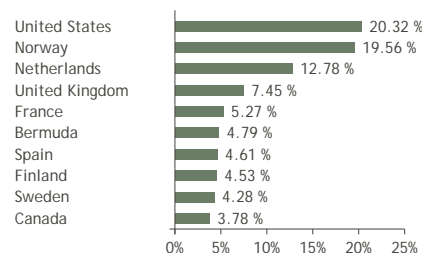
## Asset Allocation

Holdings	Equities	Bonds	Other	Cash
86	0.0%	97.9%	0.0%	2.1%

## Bond Type



## Top 10 Countries



## Portfolio (Top 10) - 31-Dec-2010

Name	Bond Type	Type	Country	Weight
Boats Inv. 11% 07-31.3.17 /Pik	Corporates	Bonds	Netherlands	5.44%
Noreco 12.9% 09-20.11.14	Corporates	Bonds	Norway	4.20%
Groupama Sa 6.298% 07-Perp	Corporates	Bonds	France	4.18%
Cemex 9.25% 10-12.5.20	Corporates	Bonds	Spain	3.43%
Sns 11.25% 09-Perp	Corporates	Bonds	Netherlands	3.34%
Sevan 12% 10-10.08.15	Corporates	Bonds	Norway	2.86%
Sevan Marine Frn 07-24.10.12	Corporates	Bonds	Norway	2.61%
Pa Resources 10% 06-20.06.11	Corporates	Bonds	Sweden	2.51%
Western Ref 11.25% 15.6.17144a	Corporates	Bonds	United States	2.40%
Pq En 10% 10-1.9.17	Corporates	Bonds	United States	2.34%

## Bond Credit Quality

AAA	AA	A	BBB	BB	B and below	Not Rated	Effective Duration
0.0%	0.0%	0.4%	12.6%	22.9%	61.7%	2.4%	3.8

## Notes:

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

## Benchmark Comment

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