



Emerging Markets Corporate Value Bonds

Headlines

- The global economy faces several challenges
- Emerging Markets still appear strong
- Performance
- Valuation of the fund

Fund Facts

Strategy	Value Bonds
Risk	–
ISIN	LU05195053697
Share Class Currency	EUR R
Fund Inception	15-Sep-2010
Fund Manager	Toke Hjortshøj & Sune Højholt Jensen
Benchmark	Credit Suisse Emerging Markets Corporate Bond Index
Morningstar Category	Global Emerging Markets Bond

- sparinvest.eu

The global economy faces several challenges

It seems that each time world state leaders find a solution to one economic or political challenge, a new one arises to take its place – always putting further pressure on the global economy.

Crisis in the Middle East is still not solved

The unrest in the Middle East has resulted in sudden increases in government spending in a number of countries, Saudi Arabia being one example. This is done in order to mitigate public criticism of the regime. This increased government spending also increases the regime's vested interest in keeping the price of oil at a sufficiently high level to cover domestic costs – without jeopardizing the fragile growth in the global economy.

The enormous US public debt burden may increase market volatility

The US public debt burden just keeps on rising, creating a discussion about the extent to which it is possible for the US to increase the debt beyond the current ceiling of USD 14,300 billion without putting extreme pressure on global faith in its economy and increasing demand for the enforcement of political initiatives to reduce its debt.

Greece is put up for sale

A year ago, in our second quarter 2010 'Letter to Shareholders', the Value Bonds team highlighted that the situation in Greece was untenable. The risky cocktail of too much public debt, weak competitiveness and a poorly-functioning public sector clearly indicated no easy solution for Greece.

The growth in China is under pressure

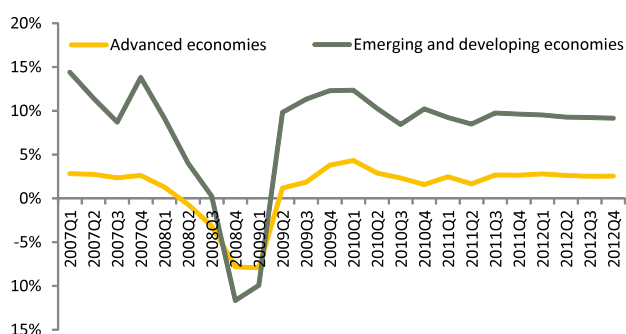
China is slowly beginning to feel the side-effects of an average GDP growth that has been above 10% since 2000 – to the point where the economy is now possibly

on the verge of overheating. Indicators like high increases in wages and a possible bubble in the property sector indicate that China may face new challenges. An era of unlimited labour resources may have come to an end. During the last 10 to 20 years China has controlled its industrial workforce by controlling the speed of urbanization. However, by as soon as 2014 it is expected that the demand for labour will exceed the supply. In other words, China has become a victim of its own politically successful one-child policy and economic growth. However, China is a large country and the economy is like a long, powerful locomotive that won't grind to a halt at the first station. An economic slowdown in China may result in a slightly lower GDP growth of 7-9%, down from 10-12%. However, these are still numbers that Europe, the US and Japan may have to wait for a long time to achieve.

Emerging Markets still appear strong

Although economic growth in Emerging Markets is decreasing, as seen from figure 1, new IMF forecasts indicate that the Emerging Markets countries will still be able to maintain GDP growth at around 8% until 2013 – not bad at all for countries changing down a gear.

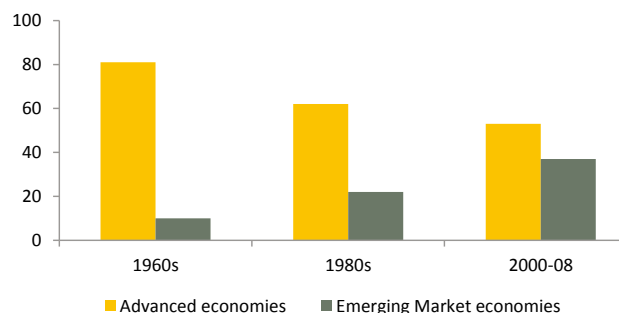
Figure 1: Global GDP-growth (% annualized)



Source: The International Monetary Fund (IMF) World Economic Outlook Update, June 17, 2011

Today, the Emerging Markets appear far more robust in the face of any sudden economic slowdown emanating from the Western world than would have been the case 10 to 20 years ago. Figure 2 shows that a greater part of the total trading activity by Emerging Markets now consists of trade with other Emerging Markets countries. Dependence on the consumption levels in the Western world has decreased significantly over the last 20 years. And one of the reasons behind this is the continuing growth of the middle classes in China, Brazil, India and Mexico, among others.

Figure 2: Who is trading with Emerging Markets countries?



Source: IMF

Ongoing low default risk

The continuing high economic growth rate in Emerging Markets together with the increased trade levels between Emerging Markets countries are just two of the factors explaining the low default rate forecast of just 1-2% in 2011. The increased volatility on the global credit markets is not due to company fundamentals, but more because of increased macroeconomic uncertainty.

Reinvesting coupons and continuing high demand for the asset class

Coupon payments and maturing bonds will, according to JP Morgan, amount to more than USD106 billion in the coming 12 months. Furthermore, investors are still increasing their exposure to this new asset class – Emerging Markets corporate bonds. All in all, the running reinvestment and increased investor appetite for Emerging Markets corporate bonds indicate that the demand for bonds is sustainable, thereby lowering downside risk in the bonds.

A positive rating trend on Emerging Markets sovereigns is likely to boost performance for our investors

Finally, both Moody's and S&P indicate a continuous increase in their rating of Emerging Markets sovereigns. An upgrade of a country's sovereign bonds is likely to trigger an upgrade of several corporate bonds with issuers based in the same country. And a better credit rating also increases the likelihood of a positive price impact on the corporate bond.

A perfect example of this link between changes in the rating of a country's sovereign bonds and the knock on effect on its best-in-class corporate bonds comes from the recent upgrade of Brazil by Moody's. The day after the sovereign upgrade, Moody's upgraded one of the biggest oil and gas producers in the world, Petrobras.

The Sparinvest Emerging Markets Corporate Value Bonds fund ended the quarter with an exposure to corporate bonds issued by Petrobras of nearly 3%.

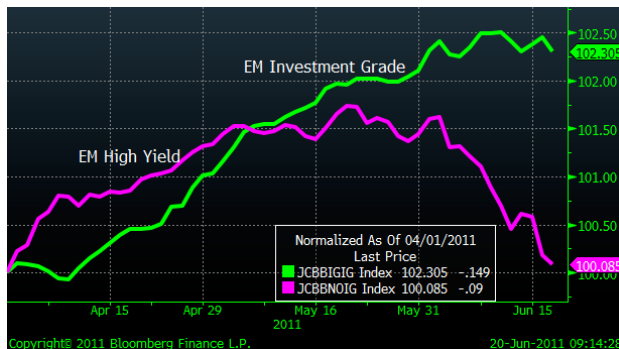
Performance

The performance of Sparinvest Emerging Markets Corporate Value Bonds has suffered from the increased volatility on the credit market. The fund ended the second quarter of 2011 with a return of 1.69% relative to a return of 1.73% for the benchmark.

Sparinvest Emerging Markets Corporate Value Bonds & Index Return, in %	Q2 2011	Since launch
Sparinvest Emerging Markets Corporate Value Bonds	1.69	7.39
Credit Suisse Emerging Markets Corporate Bond Index	1.73	4.41

The fund is underweighted bonds with high credit rating (investment grade) and the fund ended the quarter with an exposure to investment grade bonds of 23% relative to the benchmark exposure of 63%. Figure 3 shows that the underweight in investment-grade bonds is one of the explanations for the lower return, relative to the benchmark, in Q2.

Figure 3: JP Morgan Emerging Markets Investment Grade & High Yield indices



Source: Bloomberg & JP Morgan.

It is, however, important to stress that the Value Bonds investment process is about looking at company fundamentals and not their ratings. Bonds issued by banks and other financial institutions account for a significant part of those bonds rated investment grade in Emerging Markets. In contrast to the current trend in European banks, most Emerging Markets banks are currently increasing the loan-to-deposit ratio. Furthermore, a major part of the bank debt in Emerging Markets is issued by Chinese financial institutions with a large exposure to the property market – a sector where the Value Bonds team maintains a cautious view.

The Value Bonds team will not change investment strategy. We maintain our focus on corporates with healthy balance sheets and valuable assets in order to reduce downside risk and maintain the upside potential.

Valuation of the fund

The fund is attractively priced with an effective yield of 8.05% compared to a 5.85% benchmark yield. The average credit rating is BB relative to BBB- for the benchmark and the average net-debt-to-equity is 62% relative to 85.5% for the benchmark.

Toke Hjortshøj Portfolio Manager
Sune Højholt Jensen Senior Portfolio Manager
 11 July 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 Emerging Markets Corporate Value Bonds available share class	ISIN
EUR I	LU0611996918
EUR R	LU0519053697
EUR RD	LU0611997213



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.

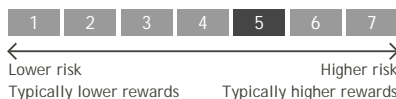
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest 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 corporate bonds issued by companies located or with the bulk of their earnings in emerging markets. Emerging markets are defined as countries that are not classified as developed countries, according to MSCI - market classification. The investment universe includes investment grade bonds, high yield bonds and non-rated corporate bonds. The fund can be invested in bonds, issued in both local currency and hard currency.

Risk and Reward Profile



Basic Information

ISIN	LU0519053697
Bloomberg	SPEMCVR LX
Share Class	EUR R
Fund Inception	15-Sep-2010
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	15-Sep-2010
Fund size (MN) - 30-Jun-2011	105.39 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Toke Hjortshøj, Sune Højholt Jensen
Managed Since	15-Sep-2010
Benchmark ¹	JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (EUR Hedged)(SPI)
Morningstar Category ²	Global Emerging Markets Bond
Latest NAV - 30-Jun-2011	107.39 EUR
Subscription fee (up to)	2.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.25 %
Total expense ratio - 31-Dec-2010	1.61 %

Returns - Month End, Jun-2011

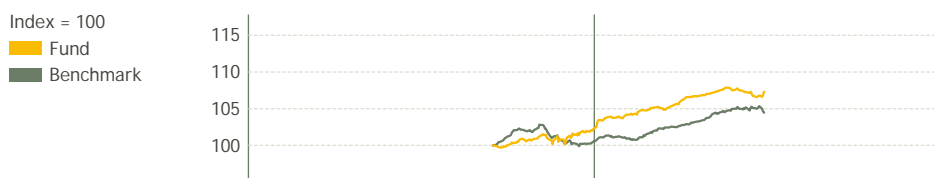
Returns	Fund	Benchmark ¹	Difference
YTD	5.02%	3.86%	1.16%
1 Month	-0.27%	-0.55%	0.28%
3 Months	1.69%	1.73%	-0.04%
From launch	7.39%	4.41%	2.98%
1 Year	-	8.79%	-
3 y ann.	-	8.32%	-

Risk 3 years - Month End, Jun-2011

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	-	-	14.34%
Sharpe R.	-	-	0.76
Info Ratio	-	-	-

Morningstar Rating™ —

Performance - 30-Jun-2011

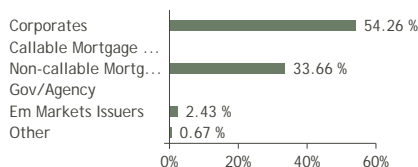


Returns	2010	06-2011
Fund	-	5.02%
Benchmark	11.19%	3.86%
Morningstar Category™	19.11%	-2.96%

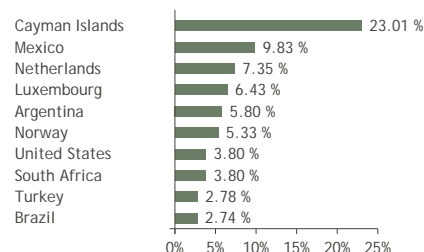
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
70	0.0%	91.0%	0.0%	9.0%

Bond Type



Top 10 Countries



Portfolio (Top 10) - 30-Jun-2011

Name	Bond Type	Type	Country	Weight
Ipic Gmtn 5.875% 11-14.03.21	Corporates	Bonds	Cayman Islands	4.67%
Psof Finance 12% 10-06.10.15	Corporates	Bonds	Cayman Islands	3.20%
Yuksel 9.5% 10-10.11.15 Regs	Non-callable Mortgage...	Bonds	Turkey	2.78%
Mol Hu O&G 5.875% 10-20.4.17	Corporates	Bonds	Hungary	2.73%
China Auto 7.75% 11-20.04.16	Non-callable Mortgage...	Bonds	Cayman Islands	2.69%
Co Durango St-Up09-27.8.16/Pik	Non-callable Mortgage...	Bonds	Mexico	2.50%
Dno Intl Frn 11-11.04.16	Corporates	Bonds	Norway	2.46%
Gt 2005 St-Up 09-21.07.14	Corporates	Bonds	Netherlands	2.44%
Tv Azteca 7.5% 11-25.5.18	Non-callable Mortgage...	Bonds	Mexico	2.27%
Panoro Energy 12% 15.11.18/Pool	Corporates	Bonds	Norway	2.04%

Bond Credit Quality

AAA	AA	A	BBB	BB	B and below	Not Rated	Effective Duration
2.7%	5.1%	5.0%	12.4%	17.1%	38.8%	18.9%	5.6

Notes:

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

Benchmark Comment

Until 02/05-2011: Credit Suisse Emerging Markets Corporate Bond Index, hereafter the present.