

Sparinvest launches three new Strategic Asset Allocation funds based on factors that outperform in the longer term.

The Danish fund management group, Sparinvest, has today launched a series of three new sub-funds within its Luxembourg-based Sparinvest SICAV. The new funds are based on convincing academic evidence about investment strategies that maximise the returns available from each unit of risk taken by investors. Furthermore, the equity component of each of the three new sub-funds will be invested using a new strategy that Sparinvest has been researching and developing over a period of years. This emphasises the three style factors that are known to outperform the market over the longer term - Value, Small Cap and Momentum.

Luxembourg, 22nd September Danish Group, Sparinvest, has today announced the launch of three new Strategic Asset Allocation sub-funds within the highly successful Sparinvest SICAV. At the same time, Sparinvest is unveiling a new, highly-stylized equities investment strategy that is designed to give exposure to Value, Small Cap and Momentum the factors that have consistently demonstrated their ability to outperform the general equity market over the longer term.

Jan Stig Rasmussen, the CEO of Sparinvest S.A. in Luxembourg, believes that Sparinvest's three new funds are very good news for European investors.

“Those who follow the academic evidence about successful investment will see that we have covered all the bases with these funds. Taken together, I believe these funds form the most intellectually compelling retail investment product range available in the European marketplace today.”

“The weight of academic evidence shows that it is best to buy and hold an investment strategy for as long as possible. However, all the marketing effort in our industry is focused on ways to ‘get rich quick’ by tapping into the latest hot new investment trends or exotic markets. For this reason, many investors may take time to be convinced that funds founded on academic evidence can also generate very satisfactory returns - often with a much lower degree of volatility.”

The three new Strategic Asset Allocation sub-funds launched by Sparinvest share the common aim of optimizing the relationship between return and risk by exploiting proven style factors and well-tested correlations and volatility patterns. Each fund invests in more than 1,000 securities, offering investors a phenomenal degree of diversification. What differentiates the funds is the split between fixed income and equity investments.

- Sparinvest SICAV - **Securus** (Cautious) (ISIN LU 0139792278) has an asset allocation of 75% fixed income and 25% equities. It is suitable for investors with a time horizon of 3-5 years+ and a medium risk tolerance.
- Sparinvest SICAV - **Procedo** (Balanced) (ISIN LU0139791205) has an asset allocation of 65% equities and 35% fixed income. It is suitable for investors with a time horizon of 10 years+ and a medium risk tolerance.
- Sparinvest SICAV - **Equitas** (Aggressive) (ISIN LU0362354549) is invested 100% in equities and - unless balanced with a fixed income ingredient - is suitable only for investors with a long term investment horizon and/or a high risk tolerance.

Emphasising Proven Outperformance Factors

According to Sparinvest, there are four basic requirements for successful Strategic Asset Allocation:

1. Investment must be continuous - regardless of market movements
2. Portfolios must be well-diversified, invested in a wide range of asset classes
3. Portfolios must be constructed strategically, using knowledge of the asset correlations and volatility
4. Investment style should be used to seek excess returns

To deliver the last of these requirements, Sparinvest has spent a considerable amount of time and effort evaluating the academic evidence and developing new investment procedures and systems that will optimise its investment style for both fixed income and equities.

“In order to explain the style factors that we aim to exploit, it is necessary to look at risk factors, returns and ‘Alpha’,” explains Henrik Lind Grønbaek, head of Sparinvest’s Investment Committee and Manager of two of the new SAA funds.

“A Fund Manager’s performance is usually compared to a benchmark of market return. The manager with a lower return than the benchmark (negative Alpha) is not considered to be a good manager, whereas the manager that achieves market outperformance (positive Alpha) is considered to be skilful. But is this outperformance really explained by manager skill or something else?”

Looked at with a statistician’s eyes, ‘Alpha’ simply describes what is ‘unexplained’ and is not a basis for a verdict on the manager. Academic study has already given explanations for the differences in returns and defined the style factors that can contribute to both outperformance and underperformance over time. Our strategy is to concentrate on those styles that are proven to deliver outperformance. They are: value, size and (in the case of equities) ‘winner’ momentum stocks.”

The fixed income element of Sparinvest’s asset allocation funds is made up of European Government bonds of long and short durations as well as Corporate and Emerging Market bonds. Here, the management style is - of necessity - very much an active one with buying decisions taken at prospectus level, after checking for details of covenants etc. In the High Yield and Emerging Market sectors, Sparinvest actively seeks out bonds from value and smaller companies with strong balance sheets and low debt levels. As with equities, these factors have been shown to offer greater compensation for risk.

Particularly interesting, however, is Sparinvest’s new process for exploiting outperformance factors within the equities universe. Here the company has adopted an ‘Active Quant’ approach. The process involves a three dimensional filtering of the components of the MSCI world equities universe. The first filter is size. This is achieved by dividing the universe into 13 separate MSCI indices, based on geographic exposure and cap size. Each of these 13 indices is then ‘double-sorted’ so that its ‘best value’ and ‘strongest winner momentum’ stocks are identified. Steps to minimize index tracking error and volatility are also built into the process. Regional allocation is decided on the basis of known correlations between the different markets, bearing in mind that the portfolios are intended for European investors.

Speaking about Sparinvest’s new equities strategy, Jan Stig Rasmussen commented:

“It’s a mixture of financial science and investment engineering and we are convinced that we’ve got it right. Over the last six months our strategy has performed well. Research confirms our strategy over a longer time period, and it looks good. That’s why our excitement levels for this launch are very high.

“Each of our new Strategic Asset Allocation sub-funds will contain more than 1,000 different assets. It’s the kind of portfolio diversification that can usually only be achieved by those with very, very large sums of money to invest. What’s more, we are using our Strategic Asset Allocation expertise to ensure that all of these 1000 assets are strategically blended, using known correlations, to squeeze the maximum performance out of each unit of risk taken by the investor.”

The science

The concept of Strategic Asset Allocation is founded on important discoveries about investment risk made by the American economists and Nobel Laureates, Harry Markowitz and William Sharpe. They concluded that the most effective way to minimise investment risk was diversification - investing in the broadest possible range of assets in a systemised way. If non-correlated assets (that is assets with completely contrasting behaviour patterns in different economic situations) could be matched together within a portfolio then they could cancel out each other’s risk without affecting each other’s potential to generate returns *and* without the need to dip in and out of the markets constantly in response to different economic events.

The strategic allocation of assets within a portfolio will account for over 90% of its return fluctuations whereas stock-picking accounts for less than 5% and tactical allocation less than 2%. In other words, it’s the decision about how to allocate investments between diverse *asset types* that counts, not the choice of individual securities or attempts to ‘time’ the markets.

As an academically-driven investment house, Sparinvest has long been convinced by the overwhelming evidence that Strategic Asset Allocation is by far the most successful way to organise an investment portfolio.

More details of Sparinvest’s Strategic Asset Allocation approach and latest daily and monthly factsheets on all of the sub-funds within the Sparinvest SICAV are available at www.sparinvest.eu.

- Ends -

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Editors' notes

About Sparinvest:

Founded in 1968, Sparinvest is one of Denmark's leading independent asset management companies, managing and advising on assets valued at over €15.2 billion (as at end Aug 2008), including one of the largest equity funds in Denmark.

Owned today by broad range of Danish institutional shareholders, Sparinvest has the freedom to pursue its own investment philosophy and style with a view to providing 'prudent investments' for its clients.

Sparinvest has established an excellent reputation within the investment industry for the success of its strategic asset allocation approach when constructing portfolios for investment mandates and because of its outstanding track record in value investment.