

High Yield Value Bonds

Fund Update

Q3/08

Q3 highlights

Dear Investor

Q3 2008 turned out to be one of the worst quarters ever for high-yield investors, and widespread pessimism continues to prevail at the beginning of Q4. In Q3, Merrill Lynch's Global High Yield Index lost 9.53% and Sparinvest High Yield Value Bonds returned a negative 6.36% for the quarter.

Performance - High Yield Value Bonds versus Selected markets

All returns are in EUR	Q3 2008	YTD	2007
Sparinvest High Yield Value Bonds (LU0232765429)	-6.36%	-9.53%	-1.09%
Merrill Lynch Global High Yield	-9.53%	-10.58%	0.34%
Pan European High Yield Index	-9.20%	-13.59%	-2.01%
Merrill Lynch Global Investment Grade	-4.48%	-5.24%	1.93%
MSCI World	-4.94%	-21.11%	-1.66%
EFFAS 5-7	4.59%	3.63%	2.03%
Morningstar percentile		44%	30%

The recent very steep falls in the financial markets are primarily attributable to the downfall of several major US banks. The failure of Lehman Brothers, in particular, had a considerable, negative impact on the entire financial system. Lehman's collapse forced hedge funds and other market players speculating in credit markets to sell off assets, further detaching the credit spread from fundamentals.

Dating back to 1925, the US BBB credit spread – as measured by Moody's – is the credit spread with the longest history. This credit spread reflects the extra yield that BBB-rated US companies have to pay compared with the risk-free interest rate. Only once since 1925 has this credit spread been wider than it is today, namely during the summer of 1932. And it is worth noting that at that point, the US economy had seen 33 consecutive months of deep recession! In our opinion, we are not facing a replay of the depression of the 1930s; with unemployment rates around 20% etc. Therefore, current credit spreads are, to an unusual extent, out of step with the developments of the real economy and global corporate bonds are trading at historically low levels.

A simple illustration of this effect is the fact that a growing number of bonds are currently trading at prices *below* the levels that they would trade at if the companies issuing them were *already* defaulting. Also, in terms of the difference between bond prices and the market for credit default insurance, we currently see imbalances. There are numerous examples of investors with access to the default insurance market that buy a bond and, at the same time, enter into a default insurance agreement, thereby achieving a risk-free premium of 3% or more. Under normal circumstances, such disparity would naturally not exist. ■

Economics

The key figures for the economy point towards lower growth. One bright spot, however, is the dropping price of commodities, resulting in lower inflation going forward, combined with the prospects of significant rate cuts by the world's central bankers. In addition, we will see very expansive fiscal policies around the world in 2009. ■

High Yield Value Bonds Fund Update

The Portfolio

Our trading activity is focused on higher credit quality, positioning the fund to better withstand slowing economic growth.

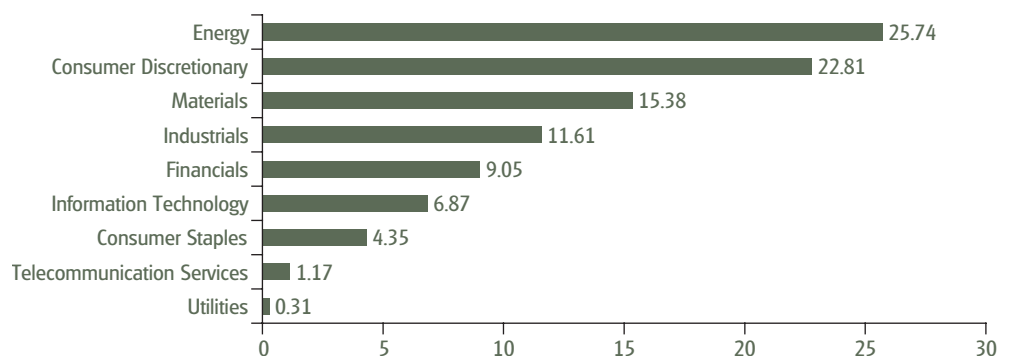
The average duration of the portfolio was brought down to 3.9 years and the yield-to-maturity is now in excess of 15%. By comparison, the yield-to-maturity for the benchmark is a little above 16%, which can be attributed to the presence of companies burdened with heavy debt – such as Ford and General Motors – in the benchmark.

Portfolio figures - High Yield Value Bonds		
	Fund	Benchmark
Duration	3.9	4.123
Yield	15.3%	16.56%
Rating	B+	B+
# Issues	84	1981

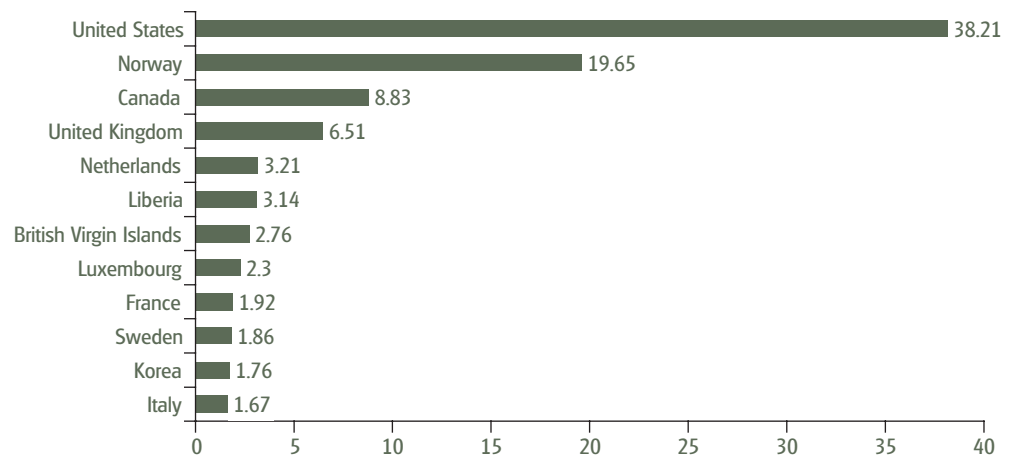
The credit metrics of our fund remain strong and are still in full accordance with our value criteria, i.e. the portfolio focuses on small-cap companies with solid balance sheets.

Portfolio figures - High Yield Value Bonds		
Financials	Fund	Benchmark
Market Cap (bn \$)	1740	5275
Net-Debt-to-Equity	84.40	493.30
Price-to-Book-Value	0.94	8.20
Interest Cover	4.94	5.70

Sector allocation (all Values in %)



Country allocation (all Values in %)



The portfolio continues to be underweight in the financial sector and overweight in companies in the energy sector. We are still satisfied with our exposure to the energy sector even though oil prices have fallen back a bit recently. The portfolio is underweight in the US. ■

Ikon Office Solutions Inc.

At the beginning of September, we saw an acquisition in our portfolio. Ikon Office Solutions from the US was acquired by Ricoh from Japan. Ricoh enjoys a high credit rating and only pays a modest excess yield relative to Ikon Office Solutions. Consequently, our Ikon bonds rose by 44% following the news. By comparison, the Ikon share only rose 9.5% on the acquisition. This exemplifies the massive value hidden in 'cheap' bonds issued by 'cheap' companies. Prior to the acquisition, the Ikon bond made up a little less than 1% of the total portfolio. ■

Major holdings - High Yield Value Bonds

Holding	Country	Sector	Weight.
Norw.Energy Co 11% 07-13.7.10	Norway	Energy	4.25%
Ineos Group 7.875% 06-16 Reg.	United Kingdom	Materials	3.96%
Norske Skogind 7% 07-26.6.17	Norway	Materials	3.76%
Landry S Rest.9.5% 07-15.12.14	United States	Consumer Discretionary	3.32%
Royal Caribb.5.625% 07-14 Regs	Liberia	Consumer Discretionary	3.14%
Perry Ellis 8.875% 03-13 S.B	United States	Consumer Discretionary	2.97%
Bombardier 7.25% 06-15.11.16	Canada	Industrials	2.82%
Sevan 9.25% 06-20.12.11	Norway	Energy	2.52%
O Charleys 9% 04-01.11.13	United States	Consumer Discretionary	2.28%
Payless Shoesource 8.25% 03-13	United States	Consumer Discretionary	2.14%

Outlook

The financial markets can best be described as having admitted defeat at the moment; they do not currently distinguish between 'solid' and 'toxic' assets. Investors are currently discarding everything, with no regard to fundamentals. However, it is important to hold your horses. As a famous value investor puts it, you should not sell when the markets are driven by panic, but instead take the opportunity to buy up. This is the time to make a good deal!

One prerequisite for a permanent rebound in the financial markets is that the banking sector must stabilise. To this end, the measures adopted by governments and central banks across the globe are significant and eventually these initiatives will prove to have the desired impact.

The banks' tightening of credit is, however, expected to rub off on consumer spending and the corporate sector. Going forward, this will lead to an increase (from historical lows) in the number of defaults. However, this factor is already more than priced in when looking at the current prices of credit bonds. ■

Yours sincerely

Sparinvest Asset Management

Klaus Blaabjerg
Senior Portfolio Manager
10th October 2008

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 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 Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.