

Investment Grade Value Bonds Fund Update Q3/08

Q3 2008

Dear Investor

Investment grade bonds outperformed shares but did worse than government bonds in Q3 2008.

The performance of Sparinvest Investment Grade Value Bonds lags notably behind the benchmark, both for the quarter and on a year-to-date basis.

This is primarily attributable to the fund's sizeable exposure to the financial sector, impacting negatively both on relative and absolute returns. The fund was exposed to Lehman Brothers senior debt and, consequently, the collapse of the investment bank cost the fund 1.87%. We sold our Lehman bonds immediately after the shocking news of the bankruptcy.

Performance - Investment Grade Value Bonds versus selected markets			
All returns in EUR	Q3 2008	YTD	2007
Sparinvest Investment Grade Value Bonds	-13.11%	-19.53%	-4.06%
Merrill Lynch Global Investment Grade	-4.48%	-5.24%	1.93%
Merrill Lynch Global High Yield	-9.53%	-10.58%	0.34%
Effas 5-7	4.59%	3.63%	2.03%

Economics

The global economy is now slowing down, following three-four years of very high growth. Commodity prices – especially the oil price – are down as a result of a worsening outlook for the global economy, causing substantial drops in the inflation rate. Once this sinks in on the European Central Bank, it will cut its key rate considerably. During the course of 2009, the combination of lower interest rates and lower commodity prices will lay the foundation for renewed global growth when looking to 2010. ■

The Portfolio

The portfolio underwent no material changes in Q3 2008. The average yield to maturity is 13.69% compared with a 7.02% yield for the benchmark.

Portfolio figures - Investment Grade Value Bonds		
	Fund	Benchmark
Duration	5.02	5.06
Yield	13.69	7.02
Rating	BBB1	A1
# Issues	40	8177

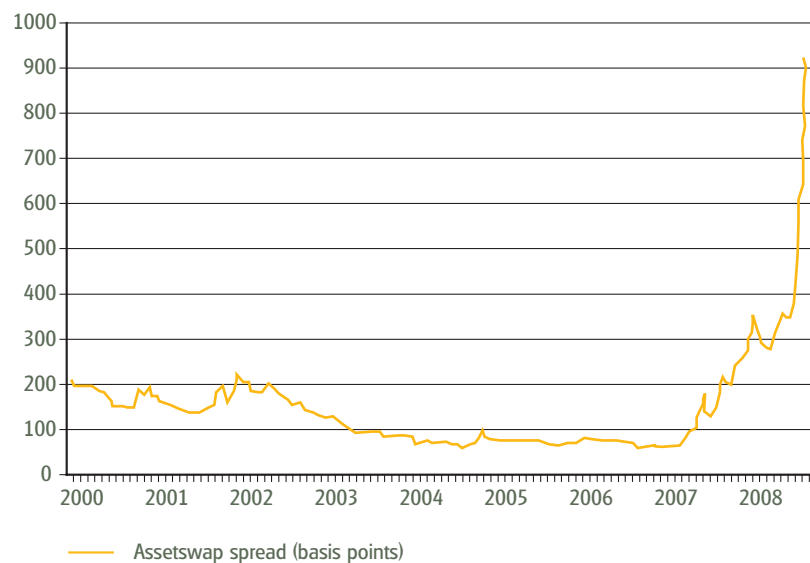
The metrics of our fund remain strong in accordance with our value criteria.

Portfolio figures - Investment Grade Value Bonds		
Industrial Companies	Fund	Benchmark
Market Cap (bn \$)	10502	26385
Net debt/Equity	76.30	121.70
Price/Book value	1.54	2.05
Interest Cover	5.60	13.95
Banks	Fund	Benchmark
Tier 1%	791	8.13
Price/Book value	0.70	0.99
Efficiency ratio	7.56	7.43
Insurance	Fund	Benchmark
Market Cap (bn \$)	14149	26828
Net debt/Equity	111.78	204.32
Price/Book value	0.95	0.94
Combined ratio	89	109.77

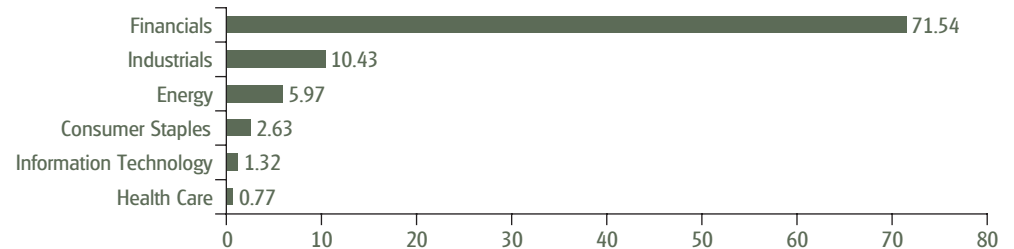
Large exposure to banks and insurance companies

The fund has significant exposure to debt issued by financial companies, and there are two reasons for this. First of all, we wish to minimise the risk of leveraged buy-outs by private equity firms looking for value companies. Secondly, debt of financial companies comes with a historically high credit premium compared with non-financial companies, see the graph below. Actually, we need to go back to the summer of 1932 to find equivalent credit premiums on investment grade bonds.

Extreme credit premiums on subordinated debt of banks

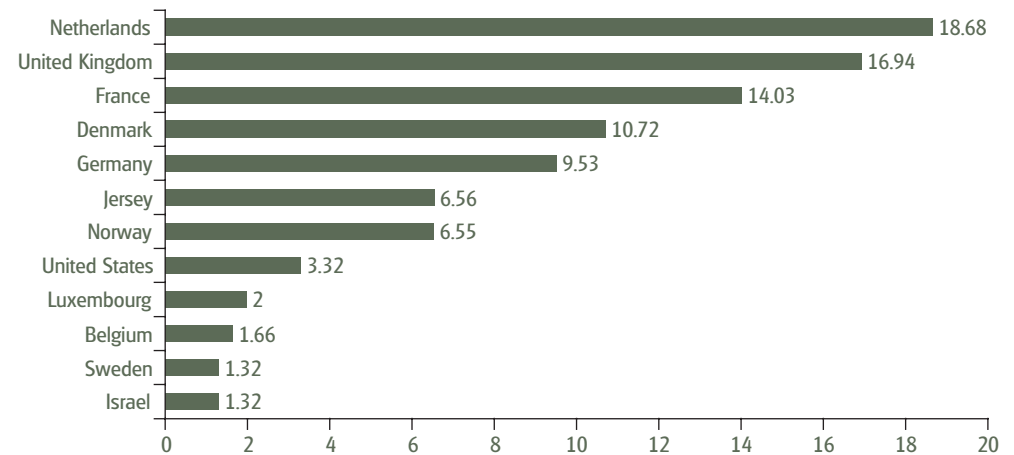


Sector allocation (all Values in %)



The fund is still underweight in the US and overweight in Europe.

Country allocation (all Values in %)



Major holdings - Investment Grade Value Bonds

Holding	Country	Sector	Weight
Seb Tv 07-... Perp	France	Financials	5.46%
Linde Fin.7.375%(Tv)06-14.766	Netherlands	Energy	4.35%
Ht1 Fdg 6.352%(Tv) 06-...Perp	Germany	Industrials	4.20%
Roy.Bk Scot.7.0916%(Tv)07-Perp	United Kingdom	Financials	4.16%
Danske Bk A/S 4.878% 07-Perp.	Denmark	Financials	3.96%
Solvay Fin.6.375% 06-2.6.2104	Netherlands	Financials	3.85%
Komm.Ldspens.5.25%(Tv)06-.Perp	Norway	Financials	3.64%
Eureko Bv 6% 06-..Perp.	Netherlands	Financials	3.45%
Elm Bv 5.252%(Tv) 06-Perp.	Netherlands	Financials	3.00%
Prosecure Fd 4.668% 06-30.6.16	Jersey	Financials	2.95%

Outlook

Negativity continues to loom over the financial markets, but the massive rescue packages launched by governments worldwide will have the desired effect and eventually bring the financial markets back to normal. We see the current price level as a buying opportunity. ■

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.