High Yield Value Bonds
Fund Update
Q4/08

Dear investor,

Q4 highlights

The last six months of 2008 ended up being the worst ever for credit markets. The credit crunch and the collapse of Lehman Brothers – as well as worsening business cycle indicators – triggered a chain reaction of forced selling in the credit markets. Speculative investors and hedge funds in particular were forced to sell out, and the resulting lower prices caused banks to tighten credit even further, forcing investors into additional sell-offs. In the industrialised countries, most governments introduced enormous bail-out packages during Q4 in order to restore trust between banks and stabilise the panicky global financial markets.

During Q4, panic spread to the entire market, causing practically all types of corporate bonds to plummet, irrespective of the financial strength of the underlying company or whether the investment was secured on underlying assets. This also impacted negatively on the Value approach and High Yield Value Bonds. Even though the balance sheets of our portfolio companies are notably stronger than the market average, developments in Q4 were more about which bonds the hedge funds in question and other forced sellers were able to sell.

Sparinvest High Yield Value Bonds fell by 30.5% in Q4, compared with a drop of 20.09% in Merrill Lynch Global High Yield index and 21.37% in Barclay's Pan-European High Yield index, respectively.

Performance - High Yield Value Bonds versus selected markets			
All returns are in EUR	Q4 2008	YTD	2007
Sparinvest High Yield Value Bonds (LU0232765429)	-30.50%	-37.12%	-1.09%
Merrill Lynch Global High Yield	-20.09%	-28.55%	0.34%
Pan European High Yield Index	-21.37%	-32.06%	-2.01%
Merrill Lynch Global Investment Grade	0.27%	-4.99%	1.93%
MSCI World	-20.95%	-37.64%	-1.66%
EFFAS 5-7	6.88%	10.76%	2.03%

We want to make it clear that the relative underperformance of High Yield Value Bonds during the quarter in no way is attributable to a 'higher' credit risk in the Fund when compared with its benchmark. High Yield Value Bonds' exposure to the CCC segment is 11% compared with 21% for the benchmark. The reason for the relative underperformance of High Yield Value Bonds is that the portfolio is overweight in cyclical sectors such as energy and manufacturing and underweight in the distribution and telecommunications industries. This is attributable to our bottom-up approach, focusing on low debt-to-equity and price-to-book ratios. Secondly, the small-cap companies of High Yield Value Bonds have been particularly negatively impacted by the credit crunch. At the end of the day, being unknown has its costs. Finally, High Yield Value Bonds is very underweight in the US, namely 36% for the Fund compared with 76% for the benchmark. To us, 36% is a quite high exposure to one country and we opt for a broader geographical diversification than the benchmark. One of the reasons that US High Yield performed better than European High Yield is that the US government decided to bail out General Motors, GMAC and Chrysler, thereby saving them from bankruptcy. GMAC is not part of the High Yield Value Bonds portfolio as the company's underlying balance sheet does not match our investment strategy. ■

Energy exposure

The amount of oil remaining in the developed oil fields around the world is declining. In certain areas, the output has decreased accordingly. For example, this is the case in the Danish part of the North Sea where total output is down from 22.6 million cubic meters in 2004 to 18 million in 2007 and 16.4 million in 2008. In order to sustain production in the future, oil and gas companies are forced to invest in the development of new oil fields, which requires oil rigs.

At the time of writing, approximately 23% of the High Yield Value Bonds portfolio is invested in the oil and gas industry. A large proportion of these investments are in Norwegian companies, companies either operating oil rigs or producing oil in the North Sea. Bonds issued by the Norwegian oil and gas companies fell more than the market during Q4 as result of forced selling by two London based hedge funds.

In spite of the fact that our oil exposure impacted negatively on performance, we are still confident of the long-term value of our investments in the sector. In part, we have focused on securing our investment on the assets of the company and we also think that it is likely that we will see consolidation activities in the sector going forward.

Sevan Marine ASA is a good example of a Norwegian energy company whose bonds are trading far below the value of its assets. Sevan has introduced a cylinder-shaped oil rig, which is particularly suitable for areas where weather conditions are unstable and rough – areas such as the North Sea and the Mexican Gulf. One of Sevan's bonds (maturing in 2011) is secured by a first priority pledge in on the oil rig 'Hummingbird', operating in the North Sea. If we make a conservative estimate of Hummingbird's market value and compare that with the debt in Hummingbird, we estimate the value of the oil rig, i.e. the value of our security, to exceed its debt by approximately 70%. Therefore, we are of the opinion that Sevan's bond maturing in 2011 offers significant value considering its market price of USD 55, equivalent to a yield to maturity of 30%. ■

Revus Energy

As a consequence of the falling oil price and plunging share prices of oil and gas companies operating in the North Sea, expectations of consolidation among the relatively small Scandinavian energy companies have increased. At the end of October, High Yield Value Bonds recorded an acquisition in the portfolio as the Norwegian small-cap oil company Revus Energy, specialising in the extraction of oil from the Nordic bedrock, was taken over by German group BASF, one of the world's largest chemical companies. Another acquisition was finalised recently with Bayerngas' purchase of PA Resources' North Sea activities. These moves suggest that German companies are increasing their focus on the North Sea, which may be rooted in a desire to become less dependent on Russian gas supplies.

Major holdings - High Yield Value Bonds			
Holding	Country	Sector	Weight
Norske Skogindustrier 7% 26-06-2017	Norway	Materials	4.51%
Norwegian Energy CO AS 11% 13-07-2010	Norway	Energy	4.38%
Perry Ellis INTL INC 8,875% 15-09-2013	United States	Consumer Discretionary	2.90%
Bombardier INC 7,25% 15-11-2016	Canada	Industrials	2.80%
Fortis Bank SA/NV 6,5% Perpetual	Belgium	Financials	2.77%
Collective Brands INC 8,25% 01-08-2013	United States	Consumer Discretionary	2.72%
Royal Caribbean Cruises 5,625% 27-01-2014	Liberia	Consumer Discretionary	2.67%
Bombardier INC 7,37% 15-11-2013	Canada	Industrials	2.48%
Sevan Marine ASA 9,25% 20-12-2011	Norway	Energy	2.36%
Ineos Group Holdings PLC 7,875% 15-02-2016	United Kingdom	Materials	2.33%

Economics

Despite the gloomy outlook, central bankers and governments have acted with great determination, launching a series of measures designed to aid banks. Also, it is expected that several expansionary fiscal policy measures will be adopted – e.g. in the form of increased public spending and income tax cuts. Such measures should have a positive effect on the economy over the course of 2009. ■

The portfolio

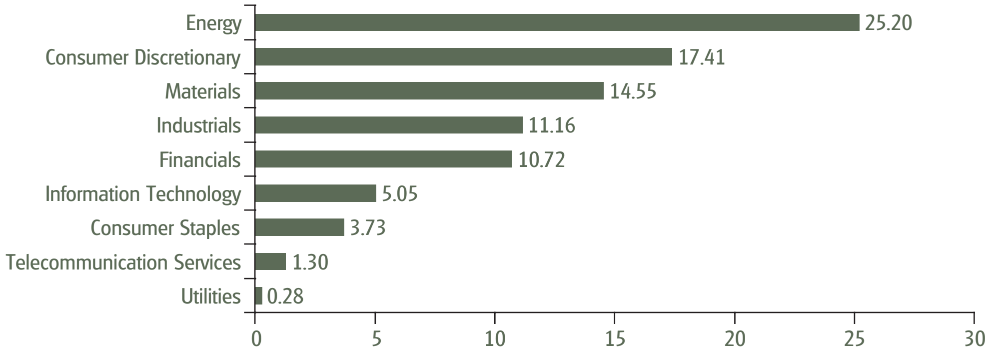
We continued to rebalance the portfolio towards improved and higher credit quality in Q4. The outlook for the economy remains very uncertain and, therefore, it is natural for us to focus on companies with healthy balance sheets.

Portfolio figures - High Yield Value Bonds		
	Fund	Benchmark
Duration	3.9	4.123
Yield	20.5%	18.5%
Rating	B+	B+
# Issues	84	1981

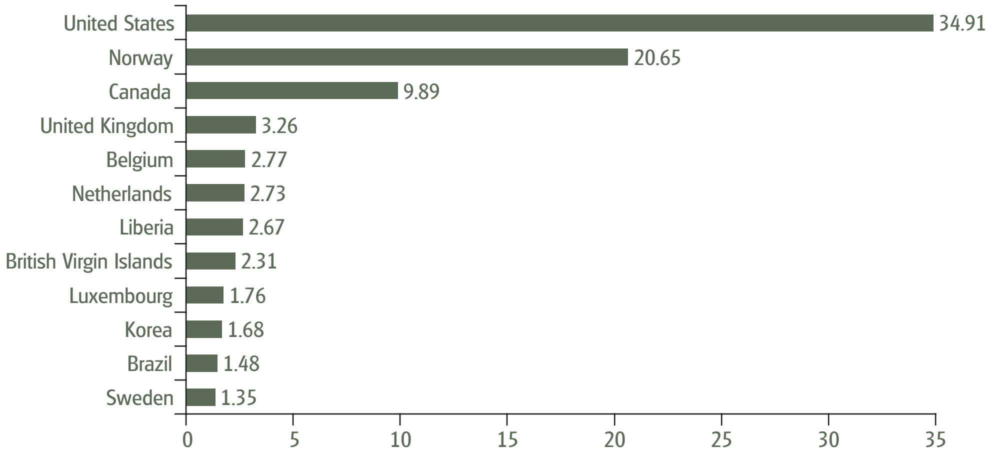
In accordance with the Value strategy, the portfolio is invested in small-cap companies with a lower debt burden than the general market and a relatively low pricing.

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 %)



Outlook

All indicators suggest that the slowing economy will result in higher default rates and more bankruptcies over the course of 2009. However, the prices in High Yield Value Bonds are now so low that an annual default rate of approx. 25% over the next three years has already been priced in. We do not think this is likely to happen. Therefore, we believe the Fund to be interesting for long-term investors.

Yours sincerely,

Sparinvest Asset Management

Klaus Blaabjerg
Senior Portfolio Manager
9th January 2009

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 statues 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.