



## High Yield Value Bonds

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### Fund Facts

Strategy	Value Bonds
Risk	Medium
ISIN	LU0232765429
Share Class Currency	EUR
Fund Inception	16-Nov-2005
Fund Manager	Klaus Blaabjerg
Benchmark	Merrill Lynch Global High Yield (EUR Hedged)
Morningstar Category	Euro High Yield Bond

- [sparinvest.eu](http://sparinvest.eu)

### Performance

The credit market continued the very positive trend begun in the spring and the credit spread continued to drop as we saw a sustained increase in liquidity.

Sparinvest High Yield Value Bonds ended the period with a year-to-date return of 72.85% against a return of 51.58% for the benchmark Merrill Lynch Global High Yields (EUR hedged).

### Portfolio composition

Sparinvest High Yield Value Bonds has invested in a number of companies in the past quarter. The fund comprises 95 positions and is overweight in the energy sector, financials and European companies. Moreover, the fund is underweight in more risky companies (CCC bonds) in order to minimize the overall risk in the portfolio,

In spite of the increasing optimism, it is still uncertain when the macroeconomic measures launched will stimulate the global economy to the point where declining industrial output will be replaced by renewed growth. Consequently, we maintain a focus on strong companies meeting our value parameters, i.e. low leverage and a low price/book.

Our 10 largest positions constitute 32.12% of our total holdings. For more information about the portfolio composition and performance, please visit [Sparinvest.eu](http://Sparinvest.eu).

### Valuation of the portfolio

The fund is still attractively priced and has a low price/book and an average net debt-to-equity ratio of less than 100% (excluding financials). By contrast, the general market has debt/equity ratio of more than 500%. The average bond price in our portfolio is 84.9, compared with 88.66 for the benchmark.

## Company comments

### Unifi

In the beginning of the third quarter, we bought bonds in a small US textile company. In the spring, Unifi sold off two non-profitable divisions and paid off debt to streamline the company and recreate the positive and stable returns of the past. As expected, these measures were a success, which caused the company to boost its profit guidance for the coming quarter. The bond price has surged by more than 30% since we bought the first bonds in the beginning of July 2009.

### Cemex

Cemex is an international concrete producer which has maintained a strong balance sheet and a low leverage throughout the years. The construction industry has been particularly hard hit during the fourth quarter of 2008, which naturally also impacted on Cemex' profits. In order to re-establish its strong balance sheet, the company issued shares worth USD 1.78 billion and sold an Australian plant, realizing an expected profit of USD 1.7 billion. These vast amounts will be used to reduce the company's debt and increase its cash holding for day-to-day operations. Sparinvest High Yield Value Bonds has had a small position in Cemex since the summer of 2008, but took the opportunity to buy up further at a price of 28 in the summer of 2009. Here at the end of the quarter, the bond is trading at a price of 74 and we have achieved a substantial gain.

### Basic Energy Services

Basic Energy Services is an energy company, providing services to oil and gas companies. The company has a low debt-to-equity and a cash holding of more than USD 120 million to meet future operations and debt. During September, we have bought bonds issued by Basic Energy Services with a coupon of 11.625% secured on the assets of the company.

### McMoRan Exploration

McMoRan Exploration, an energy company, is a new addition to the fund. The company drills for oil and gas in the Mexican Bay. The company has a strong balance sheet and has issued shares worth USD 162 million. Its latest interim report reveals a cash holding of more than USD 225 million, and the company is therefore expected to have sufficient cash to complete future large-scale drilling and exploration operations.

### Bertin

Two of the companies that the fund invested in during the past quarter, Bertin and JBS, two of Brazil's largest meat producers, recently announced a merger, making the new company the largest meat producer in the world. Immediately after the announcement of the merger, the fund achieved a gain on the bonds issued by Bertin since these were trading significantly below the price of bonds issued by JBS.

### Bombardier

The train and airplane manufacturer, Bombardier, is an old position in our fund. The company has, in part, recorded a slowdown in the intake of new orders for corporate jets and, in part, growth in its train business as the global recognition of the efficiency of trains has been increasing. The production of trains has, therefore, helped to stabilize the company's operating profit. At the same time, Bombardier expects that the demand for jets from countries like China and India will more than make up for declining demand from the US and Europe.

### Klaus Blaabjerg

Senior Portfolio Manager  
8 October 2009

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