



Investment Grade Value Bonds

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Fund Facts

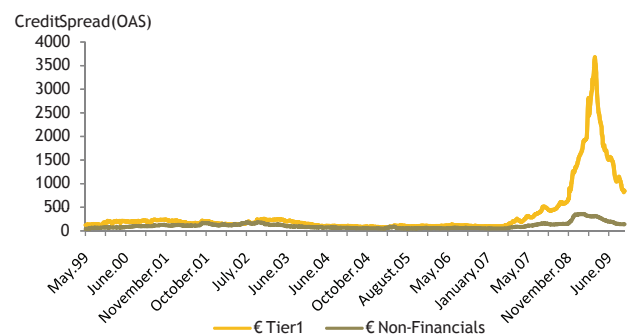
Strategy	Value Bonds
Risk	N/A
ISIN	LU0264925727
Share Class Currency	EUR
Fund Inception	2-Nov-2006
Fund Manager	Klaus Blaabjerg
Benchmark	Merrill Lynch Global Broad Market Corporate Index (EUR Hedged)
Morningstar Category	Euro Corporate Bond

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Performance

Liquidity returned to the credit market during the third quarter, which led to further narrowing of the credit spread for high-quality corporate bonds. A number of global corporations used the positive market sentiment to issue new bonds. However, the demand for bonds has exceeded the supply, contributing to the positive performance in the third quarter.

Sparinvest Investment Grade Value Bonds is overweight in financials with investments in banks' subordinated loan capital (Tier 1 bonds).



Source: Merrill Lynch

Year-to-date the fund's exposure to Tier 1 bonds has had a positive impact on the portfolio performance. As the mistrust in the financial systems has been gradually abating and the European countries have continued to aid the banks' struggle for survival, we have also seen a substantial narrowing of the Tier 1 credit spread. At the same time, it is worth noticing that the credit spread for bonds issued by non-financials is close to its normal level. By contrast, the Tier 1 credit spread is still at a historical high in spite of the narrowing that we have seen. Consequently, we maintain an overweight in Tier 1 bonds, since we expect the credit spread to be narrowed further in the coming quarters.

Sparinvest Investment Grade Value Bonds ended the period with a year-to-date return of 40.04% compared with a return of 14.74% for the benchmark Merrill Lynch Global Broad Market Corporate Index (EUR Hedged)

Portfolio valuation and composition

At the end of the quarter, the portfolio comprised 48 positions and was overweight in bank capital and bonds issued by European companies. The 10 biggest positions accounted for 34,04% of the total holding.

The average bond price in the portfolio is 79.71 compared with 104.03 for the benchmark. The yield-to-maturity is 9.3% with a duration of 3.75 compared with a yield of 6.8% and a duration of 5.01 for the benchmark. For more details about the portfolio composition and performance, please visit sparinvest.eu

Banks' capitalization

In the beginning of October, the EU published a report which analyses whether Europe's largest banks are able to withstand a worsening of the recession as a consequence of the economic outlook for 2009 and 2010. Even the most negative forecast showed that the banks' capitalization was well within the European guidelines. At the same time, the IMF lowered its forecast for the banks' need to write down bad debt. Both analyses create optimism and give us reason to believe that the financial system is recovering.

Company comments

Société Générale

As one of France's biggest banks, Société Générale received EUR 3.4 billion in financial support following the meltdown of the financial markets last year. Having cleared out its loan book, the bank is able to repay the capital injection it received. At the end of the quarter, the bank announced that it will issue new shares worth EUR 4.8 billion, partly to repay state loans and partly to boost its capitalization.

Klaus Blaabjerg

Senior Portfolio Manager
8 October 2009

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