

Sub-fund of Luxembourg domiciled Sicav - Part 2

Fund owner: Sparinvest

Fund manager/adviser: Sparinvest

Named portfolio manager(s):

Klaus Blaabjerg (since launch)

Peer group: global high yield in EUR

Location: Taastrup

Launch date: November 2005

Fund size (August 2010): €492m

Contact group: +352 26 27 47 1 or

www.sparinvest.eu

Further information on S&P's fund coverage can be found at www.FundsInsights.com



Report date October 2010

Investment style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

Performance statistics

Three years

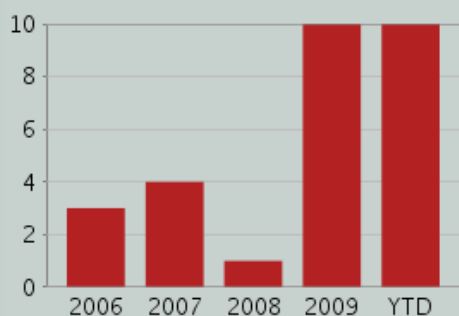
Fund	28.2%
Standard & Poor's peer median	12.9%
Index**	25.5%
Fund rank	10/56
Volatility Adjusted Ranking	13/56

Note: returns are cumulative

Three year risk characteristics

Maximum monthly drawdown (%)	-20.7
Volatility	21.3
Correlation	0.9
Beta	1.0

Calendar year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank 9, with tenth decile as rank 1.

Performance Data Source - © 2010 Lipper Inc. All rights reserved. All statistical data on this report has been run to 30/07/2010 on NAV to NAV basis, with gross income reinvested, in EUR.

Standard & Poor's opinion (October 2010)

Sparinvest's bond team of four manages this fund in a high-conviction manner, where bottom-up security selection drives portfolio construction irrespective of the benchmark composition. Fundamental credit research pays particular attention to balance sheets and recovery values, rather than cashflows.

The team looks for low leverage, moderate price/book valuations and strong covenant controls. Unlike many peers, they are not afraid to overweight financials and take on liquidity risk by investing in smaller issues and issuers. The active style may lead to concentrated bets, such as, at review, a 28.5% weighting in subordinated financials and 40% held in energy, although diversified across various sub-sectors.

The small-cap bias hurt performance in 2008 as liquidity deteriorated but we note that other high-beta funds suffered even sharper drawdowns. Prudent security selection and a stable investor base helped that year. The fund has since recovered spectacularly as risk appetite returned, thanks also to substantial purchases of subordinated financials at the end of 2008 and in early 2009. Recent performance further benefited from several portfolio holdings being taken out at premium as a result of mergers & acquisitions. The fund ranks top-quartile cumulatively over three years and from launch in November 2005 to end-August 2010.

The investment process is well-defined but depends on the ability to invest long-term to reap the liquidity premium on smaller issues, with short-term performance likely to be volatile. The fund retains its S&P A/V6 rating.

Fund manager & team

Sparinvest's bond team manages €630m in value-based mandates. It is headed by Klaus Blaabjerg and comprises two portfolio managers and two credit analysts. They utilise a team of six equity analysts.

Klaus Blaabjerg - senior portfolio manager - MSc economics (University of Copenhagen), joined Sparinvest in 2005 as a senior portfolio manager. He previously managed Bankinvest Virksomhedsobligationer, one of Scandinavia's largest investment grade funds. Klaus joined the asset management industry in 1999.

Sune Højholt Jensen - MSc economics & business administration (Copenhagen Business School), joined Sparinvest as a senior portfolio manager in 2006 following nine years spent trading corporate bonds and credit default swaps.

Toke Lilhauge Hjortshøj - PhD finance (University of Aarhus), joined Sparinvest in 2007 as a credit analyst.

Anne Margrethe Tingleff - MSc economics (McGill University), joined Sparinvest as a graduate in January 2010, performing credit analysis.

Management style

The fund is measured against the Merrill Lynch Global High Yield (euro hedged) index, although the manager is not constrained by the benchmark and employs an active approach to portfolio construction.

The fund will, for the most part, remain fully invested through the course of the cycle, except for a small cash balance used to manage investor flows. It will also invest exclusively in cash market securities, with credit derivatives not yet featuring in the portfolio.

The team adopts a fundamental approach to investing. It prefers out-of-favour bonds issued by small companies on the view that investors are rewarded with a liquidity premium over the longer term. Its back-testing results also support companies with low P/B valuations and conservative gearing ratios. However, it is also aware of LBO risk and closely analyses change of control covenants. Outside financials, it favours companies with hard assets that are marketable in a distressed situation.

Portfolio construction is dictated by identifying compelling bottom-up stories rather than by top-down sector views. 90-95% of non-euro currency exposure is hedged back into euros. Up to 10% may be held in emerging markets debt.

SPARINVEST SICAV - HIGH YIELD VALUE BONDS

Sub-fund of Luxembourg domiciled Sicav - Part 2

Fund owner: Sparinvest

Fund manager/adviser: Sparinvest



Portfolio & performance analysis (August 2010)

The team applies an active bottom-up approach irrespective of the benchmark. This may lead to significant sector bets. At review, 40% was invested in energy - although diversified across refineries, drilling/rigs, and exploration & production - and 28.5% in subordinated financial debt.

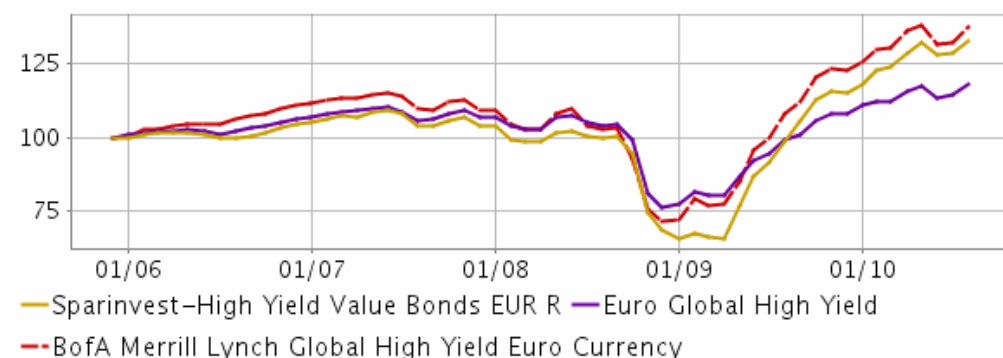
The efforts of financial companies to reduce risk, including equity capital raising, Basel III regulation and a positive supply/demand picture were the investment rationale behind Tier 1 holdings. Blaabjerg expects that the paper will be called no later than at the first call date. Holdings in Lloyds were pared from 7% to 6% in September 2010 (when the fund saw a €30m outflow) but remains the biggest issuer bet.

The team likes energy names based on low debt/equity ratios, providing a safety buffer for bond holders, and tangible assets that could be turned into cash in a distressed situation. They thought that valuations in packaging were unattractive at review. They held UPM on the basis that the value of power plants alone would cover the outstanding debt.

LBO/private equity deals are typically avoided, with the current exception of Edcon which was trading cheaply. Little exposure was held in auto and emerging markets names. Overall, sector allocation has been fairly stable over the past year, with continued underweights in communications, diversified and utilities.

The fund was bottom-quartile in 2008 due to its small-cap bias, although some other high-beta funds suffered even larger drawdowns. A below-average default rate helped to limit losses. Subordinated financials were purchased at end-2008 and Q1 2009, which fuelled a spectacular recovery in performance. The fund ranked top-decile in 2009 and 2010 (to end-July), thanks also to small issues being taken out at premiums following M&A deals, especially in the energy space. It ranks top-quartile over three years cumulatively.

Cumulative performance



Sources of return



Portfolio characteristics * (1 August 2010)

Effective duration (years) 4.3

Credit rating breakdown

	Long	Short	Net
Not available			

Duration breakdown

	Long	Short	Net
0-1 years	0.46	0	0.46
1-3 years	0.71	0	0.71
3-5 years	1.84	0	1.84
5-7 years	0.77	0	0.77
7+ years	0.32	0	0.32

Asset allocation

	Long	Short	Net
Corporate bonds	4.30	0	4.30

* Credit rating exposures are expressed in spread duration terms. All others expressed in interest rate duration years.

Discrete performance (calendar years)

	2006		2007		2008		2009		YTD 30/07/2010	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	5.2	34/48	-1.1	34/52	-37.1	53/58	80.5	4/63	12.5	4/63
Index**	11.1		-2.3		-34.2		75.2		9.4	
Median	6.1		-0.3		-28.0		47.7		6.7	

** BofA Merrill Lynch Global High Yield Euro Currency
Fund Benchmark: ML Global High Yield (EUR hedged)

Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
EUR R	3.00%	1%	1.25%	-	-	-	LU0232765429
Registered for sale	Austria, Denmark, Finland, France, Germany, Iceland, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom						

S&P's fund management research reports are, based mainly on public information, we don't audit the information and we may rely on unaudited information when we prepare the reports which are for institutional use only. A report is not investment advice, a financial promotion, or a recommendation to purchase, hold, sell or trade any security. A report should not be relied on when making an investment decision as the report is for information purposes only and not tailored to a specific investor. Past fund performance is no guarantee of future performance and we accept no responsibility if, in reliance on a report you act or fail to act in a particular way. We are paid for our fund management reports normally by the fund issuer. Our fees are based upon the analysis and time involved in the research process and are not conditional on awarding a fund a rating. Fund companies select the funds they want us to rate and may elect not to have published the rating they are subsequently awarded. Our fund management reports are continuously monitored and updated reports are posted to www.fundsinsights.com. The funds described in this report are generally not available to US investors and are only available to US investors, if at all, who are "accredited investors" as that term is defined in Section 501 of Regulation D of the Securities Act of 1933, as amended or to investors who are deemed to be "qualified purchasers" as that term is used in Rule 2a51-1 under the Investment Company Act of 1940.

S&P and our affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services we rate, include in model portfolios, evaluate or otherwise address. The views expressed in a report reflect our committee's views and the committee's compensation is not related to specific rating or to the views expressed in a report. The trade marks of "Standard & Poor's" and "S&P" are the property of Standard & Poor's Financial Services LLC and are protected by registration in several countries. All rights in those marks are reserved. Copyright© 2010 The McGraw Hill Companies, Ltd 20 Canada Square, Canary Wharf, London, E14 5LH and all of its licensor sources. All rights reserved. No part of this publication shall be reproduced, stored in any retrieval system or transmitted in any form electronic or otherwise without the prior written consent of S&P. Any part of the publication by S&P of which this page is a part is made accessible subject to the terms and conditions which are accessible at the url address below ("S&P Terms") - by accessing and viewing this page and/or and pages associated with or attached to it you accept the S&P Terms. Go to <http://www.funds-info.standardandpoors.com>. This report is issued subject to the laws of England and all matters arising from it or its use shall be subject to the exclusive jurisdiction of the Courts of England. Because of the possibility of human or mechanical error by our sources, S&P or others, we can't guarantee the accuracy of any information and are not responsible for any errors.

Performance Data Source - © 2010 Lipper Inc. All rights reserved. The performance information contained herein: (1) is proprietary to Lipper and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Lipper nor its content providers are responsible for any damages or losses arising from any use of this information.

Symbols and definitions

Long-only fund ratings

AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

Fund-of-hedge-funds ratings

Absolute return fund ratings

Specialist fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Ucits III flexible beta fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

All fund ratings

Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.

Under Review (UR) Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

(New) Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months relevant investment management experience required to be eligible to be considered for a rating.

Long-term fund management rating The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.

V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.