



Investment Grade Value Bonds

Headlines

- Portfolio exposure
- Key figures

Fund Facts

| | |
|--------------------------------------|--|
| Strategy | Value Bonds |
| Risk | Medium (5) |
| 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 ^{TM 2} | Euro Corporate Bond |



The 4th quarter of 2011 was difficult in a relative performance context. Value, as a style, continued to struggle, and so did Europe compared to the US. We know from previous business cycles that Value as an investment style underperforms as the market prices in a recession. This time was no different. Europe continued to underperform the US and the rest of the world, because of the European debt crisis. We expect the first half of 2012 to be volatile because of nervousness around the European situation. In the end we expect 2012 to be a year with solid excess returns for credit compared to AAA-rated government bonds.

| Sparinvest Investment Grade Value Bonds & Index Return, in % | Q4 2011 | YTD |
|--|---------|-------|
| Sparinvest Investment Grade Value Bonds | 3.47 | -9.06 |
| Merrill Lynch Global Broad Market Corporate Index | 1.57 | 5.40 |

We remain constructive on the credit market and expect spreads to tighten. We also expect Financials to tighten compared to Non-Financials. What is encouraging to note from a European Investment Grade credit perspective, is that the market has finally started to understand the broader implications of the three-year LTRO, which is gradually and correctly being viewed as a pseudo QE operation (although NOT the Anglo-Saxon version of QE). The liquidity facilities are implicitly intended to increase the ECB's lending capacity in terms of size, collateral type and quality, thus leading to a weaker EUR. This is a designed and desired outcome with the goal of reducing export prices and increasing competitiveness. The fact that the ECB is acting as a lender of last resort, with significant firepower, significantly reduces refinancing risk for banks, a dynamic not yet fully understood or priced in by markets.

It is worth reiterating that with the new and expanded liquidity facilities, banks which could previously only pledge securities (bonds or pools of securitized assets) will now be able to place a wider pool of credit claims (real-estate loans, consumer credit and SME loans), the rules for which need to be defined in detail and harmonized across countries. This, we believe, is a potential game-changer, as it not only significantly reduces refinancing risk for banks, hence lowering covered bond and senior unsecured issuance, but is also supportive of asset prices which would have suffered significantly under a forced-deleveraging scenario.

The fact that banks will now be able to earn a higher carry on loan portfolios, due to funding via liquidity facilities, rather than securitized or senior-unsecured funding, should help to increase their net interest margins and thus recapitalize them at a faster rate. Furthermore, come 18th January, the reduction of the reserve ratio from 2% to 1% will add USD 100bn of additional liquidity for banks, which should be broadly supportive for risk assets.

Risks are still present though! The rating agencies in particular seem keen to downgrade everything related to Europe at the moment – regardless of planned economic reforms. Another risk for the market is an unsuccessful outcome to the voluntary restructuring of Greek debt. A disorderly Greek ‘outcome’ (not a negligible tail risk at present) would significantly increase the tail-risk probability in other European sovereigns, especially Portugal. Current expectations are that negotiations on the PSI, a key condition towards Greece’s second financial bailout, will be finalized shortly.

Portfolio exposures

Sparinvest Investment Grade Value Bonds is overweight Europe and underweight the US. This is because of valuations that favour European exposure. Our largest overweights are the United Kingdom, France and Switzerland.

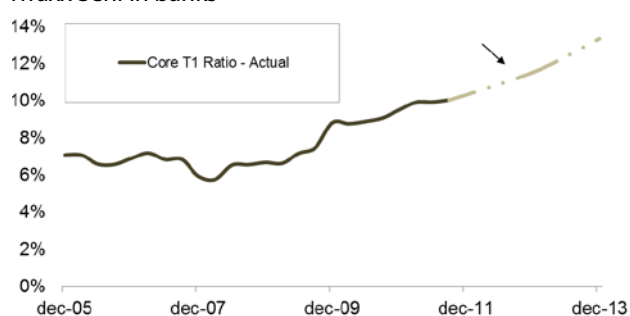
| Countries | Fund (%) | Benchmark (%) |
|----------------------|----------|---------------|
| United Kingdom | 18% | 8% |
| France | 17% | 7% |
| Switzerland | 11% | 2% |
| Germany | 10% | 7% |
| Netherlands | 7% | 5% |
| United States | 7% | 41% |
| Italy | 5% | 3% |
| Norway | 4% | 1% |
| Ireland | 3% | 0% |
| Austria | 2% | 0% |
| United Arab Emirates | 2% | 0% |

Sparinvest Investment Grade Value Bonds is overweight the Financial sector, as has been the case since the launch of the fund.

| Sectors | Fund (%) | Benchmark (%) |
|--------------------|----------|---------------|
| Financial | 75% | 46% |
| Technology | 5% | 1% |
| Diversified | 4% | 1% |
| Energy | 3% | 7% |
| Consumer, Cyclical | 1% | 4% |
| Basic Materials | 0% | 3% |
| Communications | 0% | 9% |
| Industrial | 0% | 6% |
| Utilities | 0% | 11% |

The Financial sector is ‘supported’ by liquidity from the ECB through LTRO’s and other extraordinary measures. The ECB has shown that it will not let systemically important banks in the Eurozone ‘go’ because of a lack of liquidity. On the solvency side, banks are shedding risk-weighted assets, issuing shares and buying back Tier 1 bonds below par to boost the core capital ratio. This dynamic will continue for the foreseeable future, although the shedding of risk-weighted assets could decelerate in H2 2012 as the banks have shown to the EBA that they have managed to reach the 9% core capital ratio threshold.

iTraxx SenFin banks



Key figures

The fund is very cheap on an absolute and relative basis. The yield on the fund today is 11.4%, compared to 4.6% for the benchmark. Duration for the fund is 4.42 years, lower than the 5.36 years for the benchmark. The average credit rating is BBB for the fund compared to A for the benchmark; hence the fund has more credit risk than the benchmark. However, we believe investors are more than compensated for taking that risk.

| Portfolio figures – Investment Grade Value Bonds | | |
|--|-------|-----------|
| | Fund | Benchmark |
| Duration | 4,42 | 5,36 |
| Yield | 11,4% | 4,6% |
| Rating | BBB | A |

Klaus Blaabjerg

Lead Portfolio Manager

11 January 2012

This Fund Update should be read together with the latest 'Letter to Shareholders', in which our Value Bonds team offer their perspective on value investment and market developments.

| Sparinvest Investment Grade Value Bonds available share classes | ISIN |
|---|--------------|
| EUR I | LU0264926378 |
| EUR R | LU0264925727 |
| EUR UKI | LU0264926535 |



Sparinvest is a signatory of UN PRI and member of Eurosif and Dansif.

UN PRI is an international investor initiative sponsored by the UN and based on six principles for responsible investments. The aim is to help investors actively to incorporate environmental, social and governance issues into their investments.

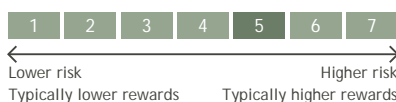
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors/representatives 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 Investor Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg. Sparinvest makes reservations for typos, calculation mistakes and other possible mistakes in the material.

Description

Investment Concept: Value Bonds

The Sub-Fund aims at providing a positive return over the long term by investing in corporate fixed income transferable securities that are admitted to official listing on a stock exchange or that are traded on a Regulated Market within the OECD countries, EU-Member States, Singapore or Hong Kong. The Sub-Fund invests at least 2/3 of its total assets in investment grade fixed income transferable securities (i.e. that are rated BBB- or better by Moody's, Standard & Poor's, or another recognized credit rating agency) that are not in the risk of payment default or subject to bankruptcy proceedings or otherwise in payment default at the time of purchase.

Risk and Reward Profile



Basic Information

| | |
|------------------------------------|--|
| ISIN | LU0264925727 |
| Bloomberg | SINGVBR LX |
| Share Class | EUR R |
| Fund Inception | 02-Nov-2006 |
| Share Class Currency | EUR |
| Income Type | Accumulating |
| Company name | Sparinvest S.A. |
| Domicile | Luxembourg |
| Share Class Inception | 02-Nov-2006 |
| Fund size (MN) - 31-Dec-2011 | 18.14 EUR |
| Manager | Sparinvest Fondsmaeglerselskab A/S |
| Fund Manager | Klaus Blaabjerg |
| Managed Since | 02-Nov-2006 |
| Benchmark ¹ | Merrill Lynch Global Broad Market Corporate Index (EUR Hedged) |
| Morningstar Category™ ² | EUR Corporate Bond |
| Latest NAV - 30-Dec-2011 | 96.10 EUR |
| Subscription fee (up to) | 2.00 % |
| Redemption fee (up to) | 0.00 % |
| Management Fee | 0.80 % |
| Total expense ratio - 31-Dec-2010 | 1.05 % |

Notes

The mentioned sub-fund is a part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company.

Returns - Month End, Dec-2011

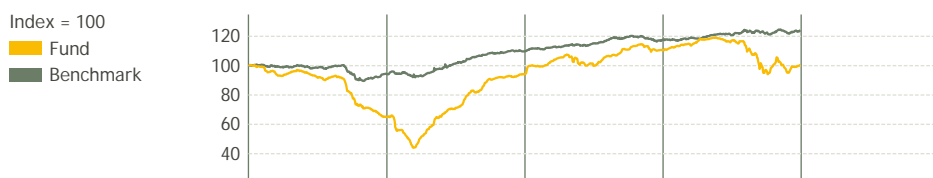
| Returns | Fund | Benchmark ¹ | Difference |
|-----------|--------|------------------------|------------|
| YTD | -9.06% | 5.40% | -14.46% |
| 1 Month | 5.41% | 1.95% | 3.46% |
| 3 Months | 3.47% | 1.57% | 1.90% |
| 1 Year | -9.06% | 5.40% | -14.46% |
| 3 y ann. | 15.64% | 9.55% | 6.09% |
| 5 y ann. | -0.66% | 4.96% | -5.62% |
| 10 y ann. | - | 5.17% | - |

Risk 3 years - Month End, Dec-2011

| Risk | Fund | Benchmark ¹ | Morningstar ² |
|------------|--------|------------------------|--------------------------|
| Volatility | 22.80% | 4.34% | 5.92% |
| Sharpe R. | 0.71 | - | 1.08 |
| Info Ratio | 0.40 | - | - |

Morningstar Rating™ **★★★★★**

Performance - 31-Dec-2011

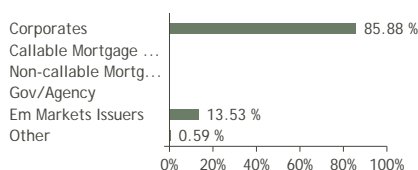


| Returns | 2008 | 2009 | 2010 | 2011 | - |
|-----------------------|---------|--------|--------|--------|---|
| Fund | -34.79% | 44.66% | 17.56% | -9.06% | - |
| Benchmark | -4.99% | 16.22% | 7.34% | 5.40% | - |
| Morningstar Category™ | -7.68% | 16.59% | 4.37% | 0.41% | - |

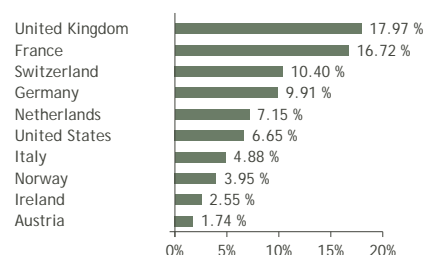
Asset Allocation

| Holdings | Equities | Bonds | Other | Cash |
|----------|----------|-------|-------|-------|
| 42 | 0.0% | 86.5% | 0.0% | 13.5% |

Bond Type



Top 10 Countries



Portfolio (Top 10) - 30-Dec-2011

| Name | Bond Type | Type | Country | Weight |
|-------------------------------|------------|-------|-----------------|--------|
| Csg Gg Frn 11-24.02.41 | Corporates | Bonds | Switzerland | 6.09% |
| Ikon Off.Sol.6.75% 05-1.12.25 | Corporates | Bonds | United States | 5.45% |
| Aviva 5.9021%(Tv) 04-Perp. | Corporates | Bonds | United Kingd... | 4.16% |
| Bnpp 7.195% 07-Perp | Corporates | Bonds | France | 3.82% |
| Axa 5.777% 06-Perp | Corporates | Bonds | France | 3.70% |
| Eureko/6% Sub.Perp.Cap Sec 06 | Corporates | Bonds | Netherlands | 3.69% |
| Generali Fin 5.317% 06-Perp | Corporates | Bonds | Italy | 3.64% |
| Ccbb 9.25% 09-Perp | Corporates | Bonds | France | 3.60% |
| Srlev Nv 9% 11-15.4.41 | Corporates | Bonds | Netherlands | 3.45% |
| Elm Bv 5.252%(Frn) 06-Perp. | Corporates | Bonds | Switzerland | 3.35% |

Bond Credit Quality

| AAA | AA | A | BBB | BB | B and below | Not Rated | Effective Duration |
|------|------|-------|-------|-------|-------------|-----------|--------------------|
| 0.0% | 2.0% | 17.8% | 61.1% | 17.7% | 1.3% | 0.2% | 4.2 |

Benchmark Comment

-