



Ethical High Yield Value Bonds

Headlines

- What is in the price?
- Examples of dislocation and 'value'
- Portfolio exposures
- Key Figures
- Ethix SRI Advisors: Summary of the Exclusion Filters
- Ethix SRI Advisors: Ethical Reporting

Fund Facts

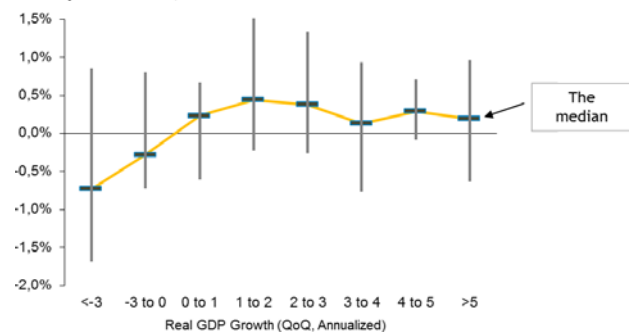
Strategy	Value Bonds
Risk	Medium (5)
ISIN	LU0473784196
Share Class Currency	EUR
Fund Inception*	01-Feb-2010
Fund Manager	Sune Højholt Jensen
Benchmark	Merrill Lynch Global High Yield (EUR Hedged)
Morningstar Category	Euro High Yield Bond



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, and we expect 2012 to be a year with solid excess returns for High Yield compared to AAA-rated government bonds. In this respect, it is important to note that 'soft' growth is no obstacle to excess returns in credit. The chart below illustrates that for Investment Grade credit excess returns since 1948 have been highest in periods of soft growth (1-2% GDP growth). The reason is that companies behave prudently in periods of 'soft' growth – i.e. they don't 'overspend' but tend to focus on debt reduction.

Sparinvest Ethical High Yield Value Bonds & Index Return, in %	Q4 2011	YTD
Sparinvest Ethical High Yield Value Bonds	-0.05	-10.69
Merrill Lynch Global High Yield	5.61	3.10

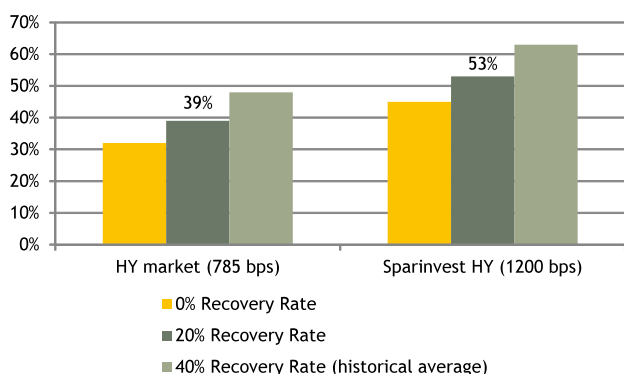
Quarterly Excess Return, IG Credit



NB GDP versus credit returns since 1948

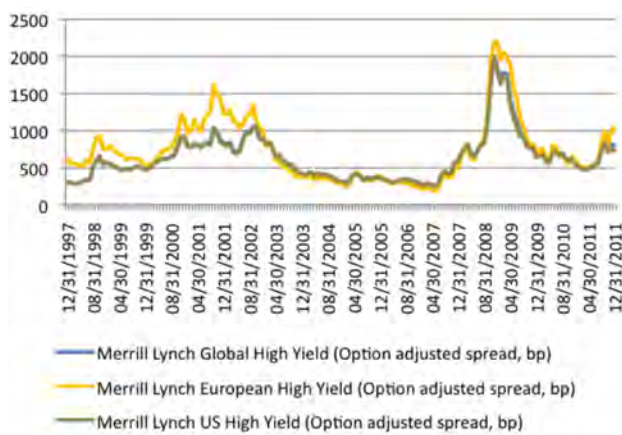
What is in the price?

One way of looking at whether a portfolio is cheap or not is to look at the number of defaults being implicitly discounted by the average credit premium – or spread – on the portfolio. Based on the benchmark portfolio, where the current credit premium is 785 basis points (= 7.85%), 39% of the benchmark portfolio is expected to default, with an average recovery rate of 20% during the remaining lifetime of the current benchmark portfolio – adopting a buy-and-hold assumption. This is a very bearish expectation and this scenario of the future has no historical precedent. For our fund, expectations are even more bearish; using again a 20% recovery rate estimate, 53% of our fund is now expected to default. This will not happen since our companies have very low financial gearing. And even if we should have a default, there is a high likelihood we would get closer to 40% in recovery rate on average because of the lower Loan-to-Value among our companies. Using a 40% expected recovery rate for our fund results in an expectation that it would suffer a 63% default rate within the next 5 years – assuming a buy-and-hold approach. This is a much, much too bearish view on the underlying state of our businesses, and the world in general.

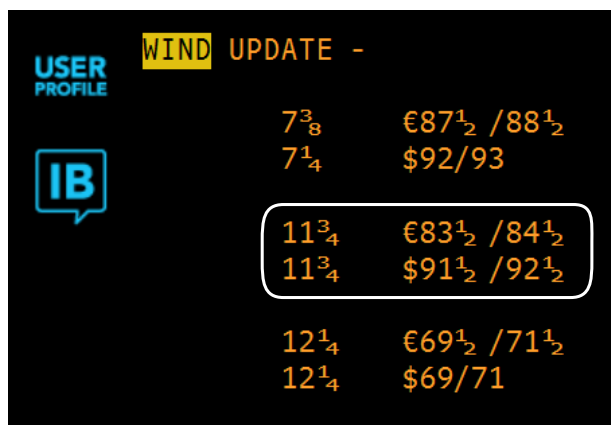


Examples of dislocation and 'value'

As mentioned earlier, Sparinvest Ethical High Yield Value Bonds underperformed its benchmark during H2 2011 because of a widening of the spread (the Option Adjusted Spread in basis points) between the US and the European High Yield markets. The average credit rating of the European High Yield market is BB- compared to B+ for the US High Yield market. So the excess spread of European High Yield is actually larger than indicated in the graph below.



The excess premium is to a large degree a 'systemic' risk premium – it is a market-generated phenomenon caused by the desire to avoid anything linked to Europe because of fear of a EURO collapse caused by the sovereign debt crisis in Europe. There are numerous examples of how market participants want to avoid EURO exposure at 'any price'. One example from the real world is shown in the screen dump from Bloomberg below.



From the screen dump (a live run from Bloomberg 12-01-2012) it can be seen that the Wind 11.75% in EURO trades 8 points lower than Wind 11.75% in USD. The only difference is the currency. This difference is highly irrational, in fact it is an arbitrage opportunity. Investors should buy Wind 11.75% in EURO and hedge the EURO exposure to USD if they want to avoid EURO risk.

Portfolio exposures

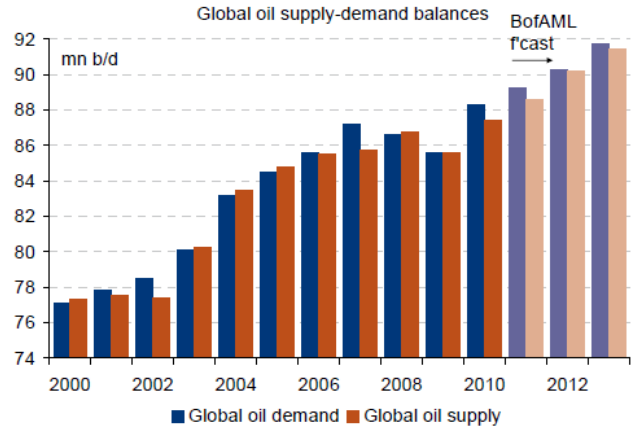
Sparinvest Ethical High Yield Value Bonds is heavily overweight countries outside the US. This is because of US valuations being 'very' expensive compared to the rest of the world.

Countries	Fund (%)	Benchmark (%)
United Kingdom	14%	4%
Netherlands	12%	2%
Norway	12%	0%
Sweden	7%	0%
Luxembourg	7%	1%
France	6%	3%
Cayman Islands	5%	0%
Italy	4%	2%
Canada	4%	1%
Finland	3%	0%
South Africa	3%	0%
Australia	3%	0%
Others	19%	86%

Regarding sectors, Sparinvest Ethical High Yield Value Bonds is overweight the Energy, Financial and Basic Materials sectors.

Sectors	Fund (%)	Benchmark (%)
Financial	34%	15%
Energy	33%	10%
Basic Materials	9%	5%
Consumer, Cyclical	5%	14%
Communications	5%	13%
Industrial	3%	10%
Technology	3%	3%
Diversified	0%	1%
Consumer, Non-cyclical	2%	25%
Others	6%	4%

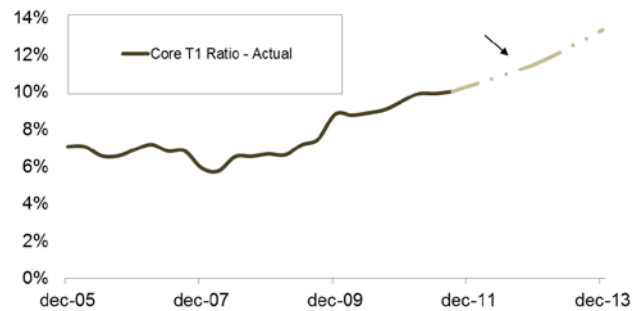
The underlying risk in the Energy sector is the price of oil. The price of oil is supported by a chronic lack of supply compared to demand. Of course, that may change in the future as 'new resources' or alternatives come to the market, although short-term pressure could be for higher prices if the conflict with Iran escalates. It is essential to understand that bonds from energy companies have a final maturity – typically 3-5 years to maturity. **During the next 3-5 years there will be no substitute for oil!**



Source: IEA, BofA Merrill Lynch Global Commodities Research

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 systematically 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



Regarding rating exposure, we have an overweight of credits that are 100% Investment Grade or Investment Grade-rated with one of the rating agencies. This rating bucket is related to our financial exposure.

Ratings	Fund (%)	Benchmark (%)
Crossover	18,3%	1,5%
High Yield	78,7%	97,3%
BB+	5,7%	14,7%
BB	14,9%	14,1%
BB-	7,9%	12,2%
B+	2,2%	15,3%
B	22,6%	13,3%
B-	15,7%	12,4%
CCC+ and below	9,6%	15,4%
Not rated	0,0%	1,2%

Key figures

The fund is very cheap on an absolute and relative basis. The yield on the fund today is 15.3% compared to 8.7% for the benchmark. This is the largest difference in yield between the fund and the benchmark we have ever seen. Duration for the fund is 3.71 years, marginally higher than for the benchmark. The average credit rating is BB- for the fund compared to B+ for the broad market.

Portfolio figures – Ethical High Yield Value Bonds		
	Fund	Benchmark
Duration	3.71	3.84
Yield	15.3%	8.7%
Rating	BB-	B+
#Issues	69	2659

Our market cap, on average, is higher than that of the broad market which is again related to our exposure to large European financials. Regarding financial gearing, net-debt-to-equity for our fund is impressively low at 110.2%, on average compared to 321.3% for the broad market. Finally, we would like to stress that our fund consists of some very cheap companies – many of which are obvious takeover targets.

Portfolio figures – Ethical High Yield Value Bonds		
	Fund	Benchmark
Market cap. (bln \$)	8.201	4.560
NDE	110.20	321.20
P/B	0.61	2.90
Interest Cover	3.57	5.87

Ethix SRI Advisors: Summary of the Exclusion Filters

Norm-based Screening (UN principles)

- Zero tolerance

Sector-based Screening

For Porn, Alcohol, Tobacco and Gambling

- Zero tolerance for production
- 5% tolerance for distribution

Weapons

- Zero tolerance for combat equipment
- 5% tolerance for other military equipment and associated services

Ethix SRI Advisors: Ethical Reporting

New holdings:

During the quarter, four new investments were made - details are below:

Equinox

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Equinox	NO	—	—	—	—	—	—	—	—

The Equinox Offshore Accommodation and Repair Vessel (ARV) provides a floating accommodation, work platform and logistics support facility like no other marine system existing in the world today.

Jasper Exploration

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Jasper Exploration	CY	—	—	—	—	—	—	—	—

Jasper Offshore is an international offshore drilling contractor providing efficient, safe and reliable drilling services to the oil & gas industry. The Company owns and operates its own Mobile Offshore Drilling Units.

Krisenergy

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Krisenergy	SG	—	—	—	—	—	—	—	—

No comment regarding involvement in controversial activity and revenue bonds derived from such activity.

Ocean Rig

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Ocean Rig 9,5% 11-24.4.16	CY	—	—	—	—	—	—	—	—

Ocean Rig offers offshore drilling services to the oil and natural gas exploration industry. Ocean Rig owns and operates the two drilling rigs Leiv Eiriksson and Eirik Raude and the four drill ships Ocean Rig Corcovado, Ocean Rig Olympia, Ocean Rig Poseidon and Ocean Rig Mykonos. The rigs have a proven track record of high efficiency deepwater and ultra-deepwater operations in severely harsh water conditions, conditions where other drilling service companies do not have suitable rigs and equipment.

Trolldrill

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Trolldrill	NO	—	—	—	—	—	—	—	—

Trolldrill specializing in assets built for serving the offshore oil industry and for related marine construction industries such as offshore wind farms.

Existing holdings:

There were no developments of note during the quarter.

Sune Højholt Jensen

Senior 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 Ethical High Yield Value Bonds available share classes	ISIN
EUR I	LU0473785169
EUR R	LU0473784196



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.

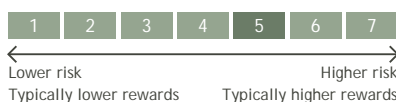
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest 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 high yield 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 mainly invests in non investment grade fixed income transferable securities that are NOT AT 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	LU0473784196
Bloomberg	SPSHIBR LX
Share Class	EUR R
Fund Inception	29-Jan-2010
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	29-Jan-2010
Fund size (MN) - 31-Dec-2011	19.20 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Sune Højholt Jensen
Managed Since	01-Feb-2010
Benchmark ¹	Merrill Lynch Global High Yield (EUR Hedged)
Morningstar Category ²	EUR High Yield Bond
Latest NAV - 30-Dec-2011	104.56 EUR
Subscription fee (up to)	2.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.25 %
Total expense ratio - 31-Dec-2010	1.58 %

Notes

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

Returns - Month End, Dec-2011

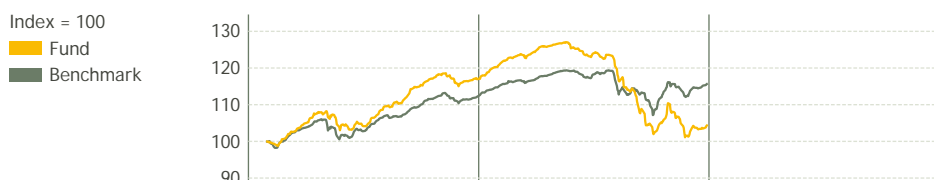
Returns	Fund	Benchmark ¹	Difference
YTD	-10.69%	3.10%	-13.79%
1 Month	3.12%	2.56%	0.55%
3 Months	-0.05%	5.61%	-5.66%
1 Year	-10.69%	3.10%	-13.79%
3 y ann.	-	23.80%	-
5 y ann.	-	6.36%	-
10 y ann.	-	8.12%	-

Risk 3 years - Month End, Dec-2011

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	-	11.65%	11.60%
Sharpe R.	-	-	1.52
Info Ratio	-	-	-

Morningstar Rating™ —

Performance - 31-Dec-2011

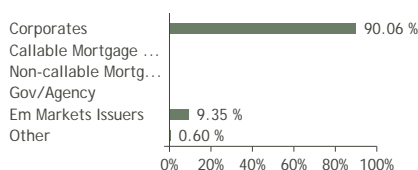


Returns	2010	2011	-
Fund	-	-10.69%	-
Benchmark	14.51%	3.10%	-
Morningstar Category™	13.22%	-1.08%	-

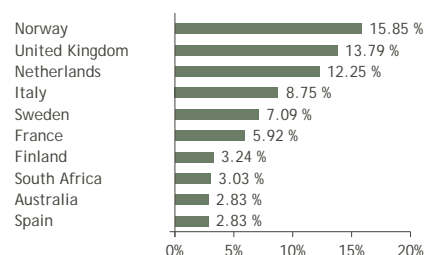
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
70	0.0%	90.7%	0.0%	9.3%

Bond Type



Top 10 Countries



Portfolio (Top 10) - 30-Dec-2011

Name	Bond Type	Type	Country	Weight
Noreco 12.9% 09-20.11.14	Corporates	Bonds	Norway	4.40%
Pa Res 12.25% 11-05.04.16	Corporates	Bonds	Sweden	4.23%
Boats Inv. 11% 07-31.3.17 /Pik	Corporates	Bonds	Netherlands	4.09%
Srlev Nv 9% 11-15.4.41	Corporates	Bonds	Netherlands	3.63%
Intesa San 9.5%(Frn) 10-Perp	Corporates	Bonds	Italy	3.51%
Sns 11.25% 09-Perp	Corporates	Bonds	Netherlands	3.04%
Ccbp 9.25% 09-Perp	Corporates	Bonds	France	2.98%
RI Fin.Bds 6.125%(Frn)05-.Per	Corporates	Bonds	United Kingd...	2.92%
Santos Fin8.25%(Frn)10-22.9.70	Corporates	Bonds	Australia	2.83%
Bbva Intl Frn 09-Perp	Corporates	Bonds	Spain	2.83%

Bond Credit Quality

AAA	AA	A	BBB	BB	B and below	Not Rated	Effective Duration
0.0%	0.0%	0.0%	20.4%	23.7%	54.2%	1.7%	3.6

Benchmark Comment

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