

High Yield Value Bonds

Letter to Shareholders

Q1/07

US sub-prime lending market instability

Lowest credit rating provided the best performance for the quarter and for 2006

Dear Investor,

The financial markets were positive in the first quarter. Until the end of February, equities and bonds saw decent increases, but concerns about US economic growth caused global equity markets to fall back somewhat. The source of these concerns was the US sub-prime lending market and a number of weaker-than-expected US economic indicators. US sub-prime is the lending market in which financial institutions provide mortgages to households with the poorest credit ratings. Some sub-prime loans have had loan-to-value ratios of 100% and initially very low floating rates of interest. At the beginning of 2007, a vast proportion of the financial institutions granting sub-prime loans were close to default or had already defaulted because borrowers had failed to keep up with mortgage payments.

The sub-prime market is relatively small, however, compared to the overall US housing market, and so the US economy is highly likely to be able to shrug off this problem. It is also significant that the problematic loans relate to home purchases in 2005 and 2006 when demand peaked in the US housing market. So far, there are no problems in relation to loans issued before 2005, as these were granted on homes that have already seen significant rises in value, and therefore in home equity, despite possible high loan-to-value ratios.

Looking forward, the global economic indicators point to continued growth, but unlike before, the key driver will no longer be the USA, but rather Asia and Europe. In Europe, it is positive to note that the measures taken in Germany to boost the country's competitiveness seem to be paying off. German companies continue to report earnings growth and positive trends in their order books, leading to lower unemployment and greater optimism among German households.

In the corporate bond market, CCC-rated credit bonds were once again the best performing category, as was also the case in 2006. The return on CCC-rated bonds was 4.24% in the first quarter of 2007 – double the return of the MSCI World global equity index.

Performance - Selected markets			
All in local currency	Q1 2007	2007	2006
Merrill Lynch Global High Yield	2.17%	2.17%	9.18%
Merrill Lynch Global High Yield BB	1.82%	1.82%	9.43%
Merrill Lynch Global High Yield B	2.63%	2.63%	11.02%
Merrill Lynch Global High Yield CCC	4.24%	4.24%	17.77%
Merrill Lynch Global Investment Grade	1.08%	1.08%	4.85%
JP Morgan Emerging Markets	2.29%	2.29%	10.75%
JP Morgan Europe Govt. Bonds	-0.17%	-0.17%	1.80%
MSCI World	2.11%	2.11%	11.23%

For the remainder of 2007, we expect to see a continuation of the positive notes with comparatively few defaults. Nonetheless, slightly weaker global growth and a stronger general focus in companies on satisfying shareholders is expected to point to an increas-

ing number of defaults. Shareholder focus constitutes the greatest risk factor in this respect. Enterprises buying back shares for cash actively increase their risk of default. ■

Portfolio returns

The first quarter yielded a return of 1.67% for the Fund. By comparison, the benchmark, Merrill Lynch Global High Yield, provided a return of 2.17%.

Performance - Fund vs. benchmark		
	Q1 2007	2007
Sparinvest High Yield Value Bonds	1.67%	1.67%
Benchmark (EUR Hedged)	2.17%	2.17%

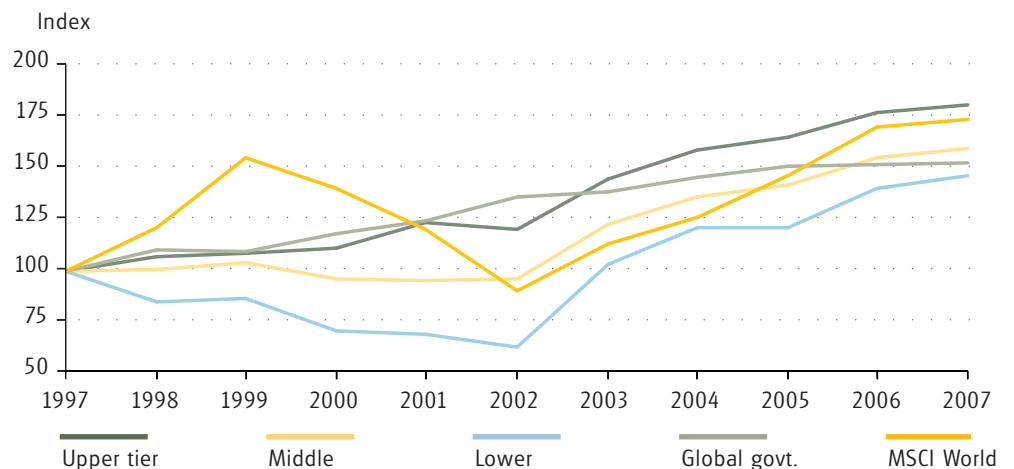
The benchmark's higher return is primarily explained by the very high returns yielded by the CCC category and the heavy weighting of GM and Ford in indices. The Fund still has no GM or Ford bonds. And indeed, Ford seems to be in serious trouble at the moment with falling sales and resulting lower production. The fact that Ford bonds have done well regardless, is mainly due to rumours of a possible collaboration with Japanese car maker Toyota, which has a high credit rating.

Continued focus on companies with low debt-to-equity ratios

In the long term, we are convinced that our strategy of choosing companies with relatively low risk, measured in terms of debt-to-equity ratio, will yield the most attractive risk-adjusted returns. Companies with relatively low debt-to-equity ratios normally have higher credit ratings than companies with higher indebtedness.

The table below indicates that the "upper-tier credit rating" is the asset class that has performed the best in the past ten-year period, which covers a downturn followed by a subsequent upturn.

Market performance



The above also holds true over longer time spans. The reason for this is that - in the long term - investors are not sufficiently compensated for the risk they take in buying corporate bonds with the lowest credit rating.

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**Portfolio remains economical
measured by key figures**

Portfolio statistics

The Fund has an effective yield of 7.8%, which is 0.4% higher than the benchmark. The Fund's yield sensitivity is marginally higher than the benchmark and its average credit rating better.

Portfolio figures - High Yield Value Bonds		
	Fund	Benchmark
Duration	4.64	4.36
Yield	7.8%	7.4%
Rating	BB-	B+
# Issues	106	2045

Like credit ratings, a glance at the fundamental key financial figures also indicates that the Fund generally focuses on more solid companies than the benchmark does. The table below shows that the Fund's companies, on average, have net-debt-to-equity (NDE) ratios of 86.91%. The same ratio for the benchmark is 424.04%. Taking account of the interest cover (earnings relative to interest expenses), the Fund's companies, on average, have earnings that are 4.43 times higher than their interest expenses. For the companies in the benchmark, the same ratio is just 2.92. Taken together, the combination of credit rating and NDE ratio and the company's ability to service its debt all indicate that the Fund's companies are more solid, on average, than the market in general.

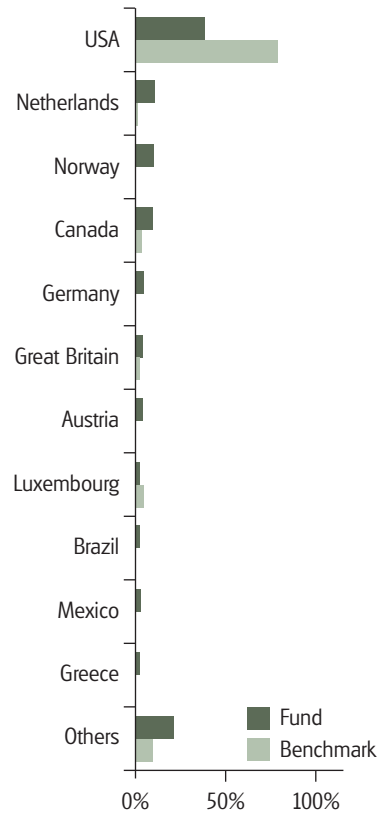
The Fund is also invested according to the classical value parameters, i.e. in small companies which are priced less expensively when measured by price-to-book (P/B).

Portfolio figures - High Yield Value Bonds		
Financials	Fund	Benchmark
Market cap. (bin \$)	5,178	6,993
NDE	86.91	424.04
P/B	2.29	5.18
Interest Cover	4.43	2.92

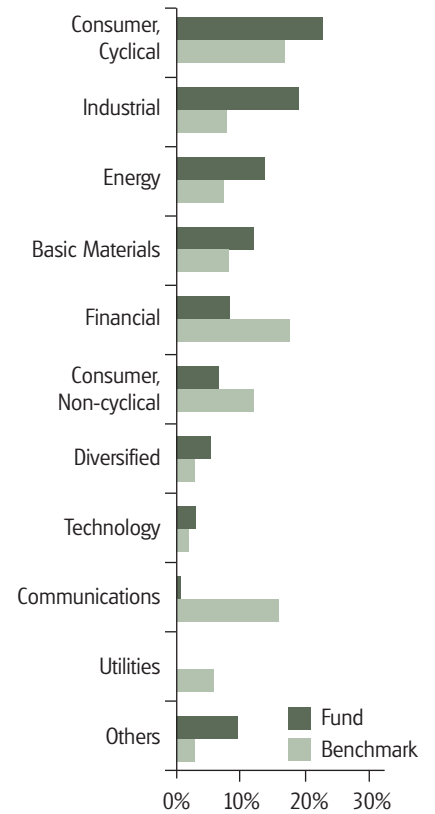
**The Fund is underweight
in the USA and
overweight
in Europe**

The Fund's categorization by country and sector can be seen in the below figure. The Fund remains underweight in the USA and overweight in Europe. The Fund has relatively large exposures to the Materials, Industrial, Consumer cyclical and Energy sectors. The Fund is underweight relative to the benchmark in Telecommunications, Consumer non-cyclical, Financial and Utilities.

Geographic exposure



Sector exposure



The Fund's largest holdings remain Ineos and Linde AG, followed by another German company, TUI AG, which is a conglomerate consisting of a tourist and a shipping division. TUI is currently undergoing a major program to reduce debt and rationalize operations. In line with its focus on reducing debt, the company has opted not to make dividend payments. Sinvest is a Norwegian company, operating in the oil and gas industry.

Sinvest assists major oil companies such as Shell in drilling for oil. This market is experiencing highly positive developments, as the major oil companies' reserves are falling steadily, and they therefore need to explore new fields. On the supply side, it is worth noting that investments in new drilling towers have been limited since the 1980s. ■

New holdings in the portfolio

Major holdings - High Yield Value Bonds			
Holding	Country	Sector	Pct.
Ineos Group 7,875% 06-16 Reg.	Germany	Materials	3.6%
Linde Fin. 7,375% (Tv) 06-14.766	Netherlands	Materials	3.6%
Tui Ag 8,625% (Tv) 05-Perp.	Germany	Consumer Discretionary	3.1%
Nxp 8,625% 06-15.10.15 Reg-S	Netherlands	Consumer Discretionary	2.7%
Chesapeake 6,25% 06-15.1.2017	USA	Energy	2.6%
Agco 6,875% 04-15.4.14	USA	Industrials	2.1%
Sinvest 9,5% 05-22.12.09	Norway	Energy	2.0%
Htm Sport&Freiz. 8,5% 04-14 Reg.	Austria	Consumer Discretionary	2.0%
Aker 8% 05-2.03.12	Norway	Energy	2.0%
O Charleys 9% 04-01.11.13	USA	Consumer Discretionary	1.9%

Portfolio transactions

At the beginning of 2007, the Fund had a good deal of cash as a result of new issues. This cash has been invested in a number of new companies, as detailed below.

Freescale semiconductor Inc.

Freescale is a key supplier of products for wireless networks, cell phones and electronic components in cars. Freescale's business is characterized by strong customer relations and high barriers to entry for competitors. Over the past few years, Freescale's management has also demonstrated its ability to improve earnings margins and cash flows and thus reduce debt. Freescale is a privately owned company, but unlike many other private companies in the high-yield market, the company boasts strong capitalization.

Avatec Technologies

Avatec Technologies is also a high-tech enterprise. During its first 40 years in existence, Avatec was a part of Hewlett-Packard. In 2005, the company was acquired by the private equity funds KKR and Silver Lake Partners. Under the new ownership, Avatec has streamlined and rationalized its business. During this process, three business areas were divested.

Allis-Chalmers Energy

Allis is a relatively small US company dating back to 1913. The company operates in the oil and gas industry. Allis' earnings are linked to the major US oil companies' exploration for new oil and gas fields. This exploration is currently intensifying, and this is reflected in Allis' order books.

Broadview Networks

Broadview Networks is an integrated communication solutions provider based in New York. Its 70,000 customers comprise small and medium-sized companies. The majority of Broadview's contracts have multi-year terms, which contributes to stable cash flows, allowing the company to reduce its debt.

Best regards
Sparinvest Holding A/S
Klaus Blaabjerg
20 April, 2007

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The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the 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. 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. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.