

High Yield Value Bonds

Letter to Shareholders

Q4/06

General market trends

Lowest credit rating performed best for the quarter and for 2006

Portfolio performance

Performance affected by GM and Ford

Dear Investor,

The financial markets continued their positive trend in the third quarter, driven by signs of a soft landing for the US economy and a continued fair-size growth in Europe and Asia. Equities and the highest-risk corporate bonds performed the best.

In the corporate bond market, bonds with a credit rating of CCC came out on top. This was also the case for the year to date. The return on CCC-rated bonds was 18.03% in 2006 – almost twice the return on the High Yield asset class overall!

One of the primary reasons for the very high returns for the lowest-rate classes is the impressive returns in 2006 on bonds issued by the US car makers Ford and GM, with a return of over 50% on GM's 30-year Euro bond in 2006. GM and Ford total 12% of Merrill Lynch Global High Yield, which is the Fund's benchmark.

Performance - Selected markets

All in local currency	Q4 2006	2006
Merrill Lynch Global High Yield	3.59%	9.43%
Merrill Lynch Global High Yield BB	3.42%	9.86%
Merrill Lynch Global High Yield B	3.97%	11.59%
Merrill Lynch Global High Yield CCC	6.47%	18.03%
Merrill Lynch Global Investment Grade	0.80%	2.64%
JP Morgan Emerging Markets	3.83%	9.88%
JP Morgan Europe Govt. Bonds	-0.37%	0.08%
JP Morgan Global Govt. Bonds	0.05%	0.81%
MSCI World	7.01%	15.55%

2006 marked another year of very few bankruptcies. We expect to see the positive notes and the low number of bankruptcies continue in 2007, even if global growth were to slow down a little. ■

The fourth quarter yielded a return of 3.41% for the fund. By comparison, the benchmark, Merrill Lynch Global High Yield, provided a return of 3.59%.

Performance - Fund vs. benchmark

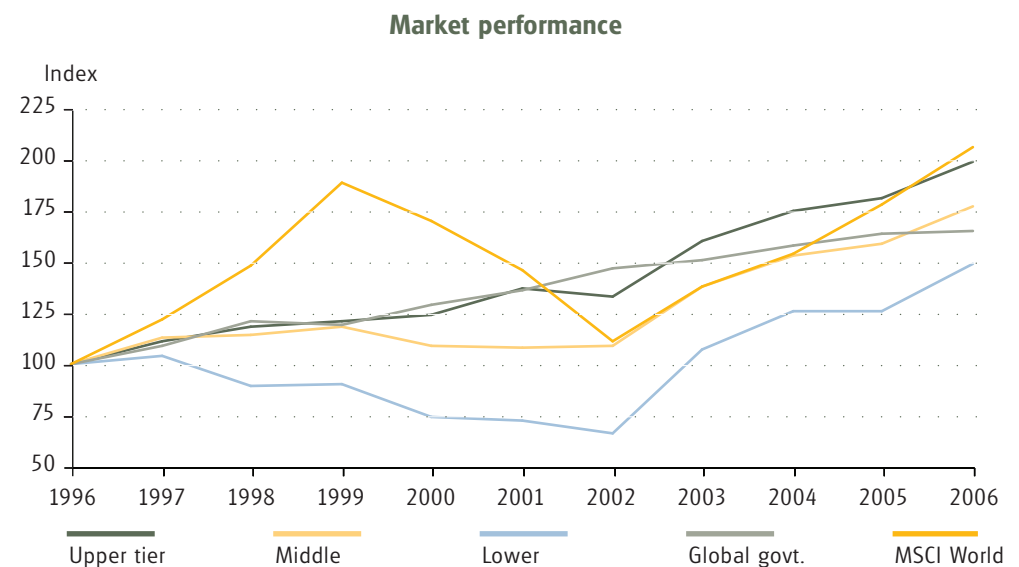
	Q4 2006	2006
Sparinvest High Yield Value Bonds	3.41%	5.23%
Benchmark (EUR Hedged)	3.59%	9.43%
Benchmark Constrained (EUR Hedged)	3.48%	8.26%

The fund thus produced a satisfactory return for the fourth quarter. The benchmark's higher return is explained by the very high returns yielded by the CCC category and GM and Ford. The fund has a 16% underweight in the CCC category and no GM or Ford bonds.

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Continued strong focus on companies with high credit ratings in the high yield market

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. This view is supported by the figure below, illustrating the development of various asset classes over the past ten years.



The figure shows that a DKK 100 investment in the categories 'upper tier' (covering companies with a BB credit rating, the highest rating in the high yield market) and MSCI World (a global equity index) have yielded the highest returns over the period – for those two asset classes, the investment has grown to almost DKK 200 since 1996. Upper tier corporate bonds outperformed global equities in terms of risk-adjusted return over the period, as the development of total assets in this category was less volatile. The figure also shows that the 'Lower' category (covering companies with a lower-tier credit rating – CCC) were the worst performers over the long term. This is due to the fact that investors in the long term are not compensated sufficiently for buying higher-risk corporate bonds. Our Fund focuses on companies with the highest credit rating in the high yield market.

Portfolio statistics

The fund has an effective yield of 7.6%, equal to the benchmark. The fund has a higher yield sensitivity than the benchmark and a higher average credit rating.

Portfolio figures - High Yield Value Bonds		
	Fund	Benchmark
Duration	4.83	4.33
Yield	7.6%	7.6%
Rating	BB	B+
# Issues	91	2056

Portfolio remains economical measured by key figures

Like credit ratings, a glance at the fundamental key financial figures also indicates that the fund generally focuses on more solid companies than is the case with the benchmark. The table below shows that the fund's companies on average have net-debt-to-equity (NDE) ratios of 75.96%. The same ratio for the benchmark is 354.46%. Taking account of the

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interest cover (earnings relative to interest expenses), the fund's companies, on average have earnings that are 4.16 times higher than their interest expenses. For the companies in the benchmark the same ratio is just 2.49. The credit rating and NDE ratio and the company's ability to service its debt therefore clearly indicate that the Fund's companies are more solid (on average).

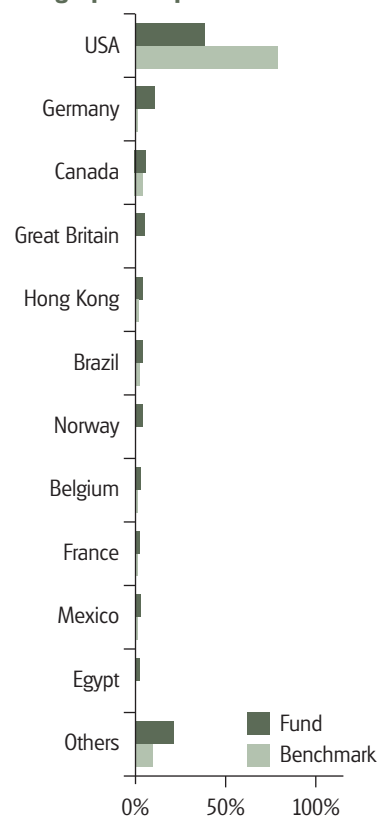
The fund is also invested according to the classical value parameters, i.e. in small companies which are priced less expensively as measured by price to book (P/B).

Portfoliokennzahlen - High Yield Value Bonds		
Financials	Fund	Benchmark
Market cap. (mia \$)	4.068	9.849
NDE	75,96	354,46
P/B	2,12	3,86
Interest Cover	4,16	2,49

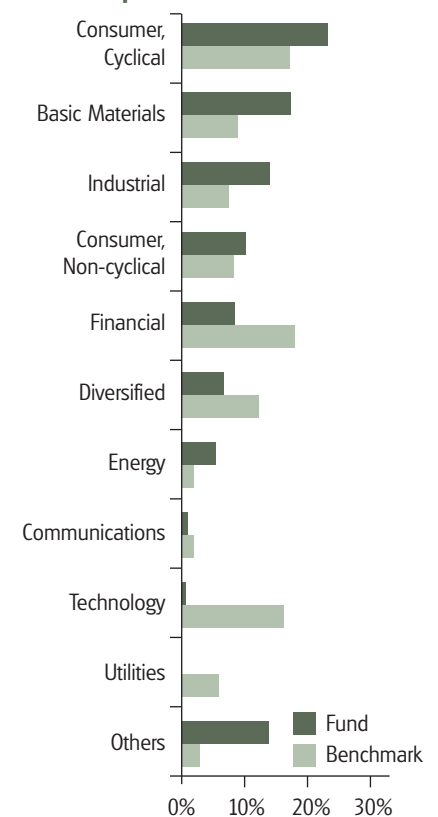
The fund's categorization by country and sector can be seen in the figures below. The fund has a major underweighting of US bonds and an overweighting of German bonds. The fund has relatively high exposures to the Materials and Industrials sectors and is underweight, relative to the benchmark, in the Telecommunications sector due to the high debt to equity ratio of companies in this sector.

The fund is underweighted in the US and overweighted in Germany and other European countries

Geographic exposure



Sector exposure



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The fund's largest holding remains the German company Linde AG, which has recently presented positive news in terms of divestments and debt reduction. After Linde comes the European chemical and refinery group Ineos. The company Chesapeake is new on the list of the Fund's top ten holdings along with the Italian company Lottomatica, the Dutch NXP and the Greek Fage. ■

Major holdings - High Yield Value Bonds			
Holding	Country	Sector	Pct.
Linde Fin. 7.375% (Tv) 06-14.7.66	Germany	Materials	3.8%
Ineos Group 7.875% 06-16 Reg.	Great Britain	Materials	3.1%
Chesapeake 6.25% 06-15.1.2017	USA	Energy	2.8%
Agco 6.875% 04-15.4.14	USA	Industrials	2.3%
Hornbach Bau 6.125% 04-14 Regs	Germany	Consumer Discretionary	2.2%
Lottomatica 8.25% (Tv) 06-66 Regs	Italy	Consumer Discretionary	2.2%
Aker 8% 05-2.03.12	Norway	Energy	2.1%
Nxp 8.625% 06-15.10.15 Reg-S	Netherlands	Information Technology	2.0%
O Charleys 9% 04-01.11.13	USA	Consumer Discretionary	1.8%
Fage Dairy 7.5% 5-15.1.15 Regs	Greece	Consumer Staples	1.8%

Portfolio transactions

In the fourth quarter, we made new investments and sold holdings in those cases when our expectations had been met. Among the holdings sold are OM Group, Fresenius AG and Corus Group Plc.

Newly purchased holdings were

Chesapeake

Chesapeake Energy Corporation produces oil and gas in the USA and Canada. Historically, Chesapeake has made a number of acquisitions but the company has funded these carefully without undermining its healthy balance sheet. In fact, Chesapeake has been able to reduce its NDE ratio despite these acquisitions. The company is strong in terms of its reserves and debt to reserves ratio. The company furthermore has a sensible policy of hedging against gas and oil price fluctuations. We expect Chesapeake to be upgraded to Investment Grade within the next 18 months.

Lottomatica

Lottomatica is Italy's largest gaming and lottery provider. Lottomatica was downgraded to the High Yield market following its acquisition of the US company GTECH in the summer of 2006. Following this acquisition, Lottomatica's balance sheet remains relatively strong and, looking forward, we expect to see a significant reduction of the company's debt, driven by strong cash flows.

NXP

With more than 50 years' experience, NXP is one of the largest semiconductor manufacturers in the world. Until September 2006, NXP was an integral part of the Dutch company Philips. Philips sold 80.1% of NXP to a consortium of private equity funds, while keeping the remaining holding. NXP is a market leader in its respective business areas. NXP is an atypical Leveraged Buyout, as the company is conservatively funded with a NDE ratio of 80%. ■

Best regards,
Sparinvest Holding A/S
Klaus Blaabjerg
8 January, 2006

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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.