

## High Yield Value Bonds Fund Update Q1/08

Q1 2008

### Dear investor,

Q1 2008 saw a negative return for high yield investors, in line with the generally negative tone of the financial markets. Sparinvest High Yield Value Bonds had a first quarter return of minus 5.42%.

In comparison, the Merrill Lynch Global High Yield index fell 3.32% and Lehman Brothers Pan European High Yield index fell 5.98%. The Merrill Lynch Global High Yield index consists of around 80% US high yield. Because the Sparinvest High Yield Value Bonds fund has a much lower exposure to US high yield than does the Merrill Lynch index, its geographical exposure is more in line with the Lehman Brothers Pan European High Yield index.

The return for the global stock market was -16.1% for the first quarter of 2008 and for risk-free bonds it was a positive 2.86%.

The Morningstar percentile shows how Sparinvest High Yield Value Bonds compares to other funds within its Morningstar category. From the table below you can see that Sparinvest High Yield Value Bonds was in the top 30% in its Morningstar category for 2007. After the first quarter of 2008 the Sparinvest High Yield Value Bonds was in the top 36% in its Morningstar category.

#### Performance - High Yield Value Bonds versus Selected markets

All returns are in EUR	Q1 2008	2007
Sparinvest High Yield Value Bonds	-5.42%	-1.08%
Merrill Lynch Global High Yield	-3.32%	0.34%
Lehman Brothers Pan European High Yield	-5.98%	-2.01%
Merrill Lynch Global Investment Grade	-0.22%	1.93%
MSCI World	-16.10%	-1.40%
EFFAS 5-7	2.86%	2.03%
Morningstar percentile	36%	30%

### Economics

The first quarter of 2008 has been dominated by the continuing themes of sub-prime related losses and the associated credit crunch, and concerns of a recession in the United States. Central banks – in particular the US Federal Reserve, the ECB, and those of England, Canada and Switzerland – continue their coordinated efforts to ease liquidity pressures, and the Fed has moved aggressively on interest rates. It had cut rates by a total of 100 basis points in Q4 2007, but after an unscheduled meeting on January 22nd, the Fed announced a sharp 75 basis point cut, and made a further 50 point cut at its regular meeting eight days later.

Many feared that the liquidity crisis would eventually fell a major US investment bank. March 17th brought the bittersweet news that Bear Stearns had emerged as a victim, but that JPMorgan Chase would acquire the investment bank in a hastily arranged deal involving considerable capital input from the Fed. The following day, another 75 basis point rate cut and relatively encouraging earnings from Lehman Brothers and Goldman Sachs combined to give some solace to markets. Later in March, US Treasury Secretary, Henry

Paulson outlined proposals to reorganise government regulation of financial institutions, including a broader role for the Fed.

In Japan, Bank of Japan Governor Fukui ended his tenure, but the appointment of a replacement has been delayed by a stalemate between the ruling Liberal Democrats and the opposition Democratic Party of Japan. A compromise candidate finally appears to have emerged in the form of Masaaki Shirakawa, formerly deputy governor.

The US dollar has fallen steeply during the quarter, approaching EUR 1.60 and JPY 95 in mid-March, although the final two weeks of the quarter have seen some easing of this downward pressure. Perhaps unsurprisingly amid such dollar weakness, rising oil prices have remained another source of pressure on the markets. After New Year highs, prices dropped back to below the USD 90 mark, but rallied again from mid-February, breaking over USD 110 in mid-March. Gold prices have been similarly strong.

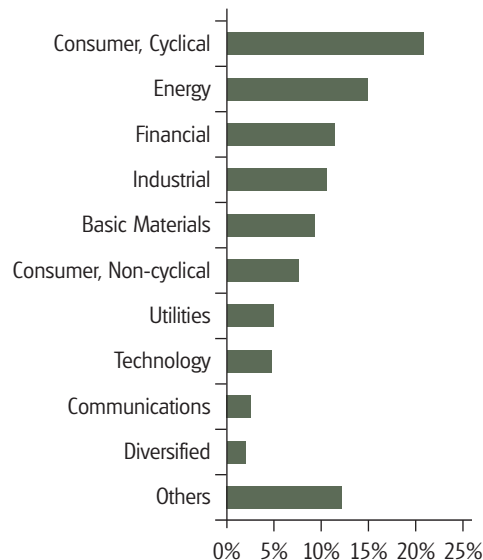
Japan is offering some encouraging signs, with preliminary estimates for Q4 2007 real GDP showing 3.7% annualised growth, and February core CPI was up 1.0%: the steepest growth in 15 years. In the US, existing home sales rose in February for the first time in 7 months, but consumer confidence for March emerged at a 5 year low. On April 2nd, Fed chairman Ben Bernanke testified to Congress, warning of the risk that the US economy could “contract slightly” in H1 2008.

In the Euro-Zone the final estimate for Q4 2007 GDP was released on April 9th, confirming that growth slowed to 2.3% from 2.7% in the previous quarter. As we head into the second quarter, there are some signs of stabilisation, but financial markets look likely to remain under stress for some time. ■

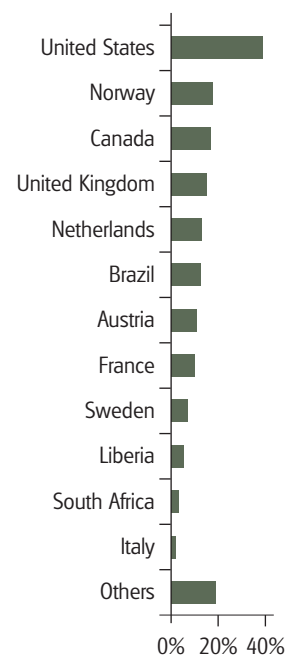
### The Portfolio

The fund is currently fully invested in 91 issues with the following country and sector breakdowns:

#### Sector allocation



#### Country allocation



## High Yield Value Bonds Fund Update

The fund has a large underweight of the US compared to its benchmark. This might prove prudent at a point in time where the US business cycle is the one most at risk globally. The fund has a large overweight of Norway, which is a result of the bottom-up selection process. The fund has a large overweight of Energy credits compared to its benchmark and a large underweight of the Financial and Communications sectors.

Trading activity has been moderate during the first quarter. The fund has increased its exposure to US Perry Ellis after the company issued a positive trading statement and its bonds didn't trade up subsequently. The fund has also bought back into the portfolio two high yield bonds that were sold last year prior to the credit crisis when their market values reached our then defined targets. One is Hornbach AG. We initially bought Hornbach bonds in December 2005 at a cash price of EUR 98 and sold them in May 2007 at a cash price of EUR 105. In January 2008, we bought the Hornbach bonds again at a price of EUR 80. This dramatic fall in price had no fundamental justification; rather it was the result of forced selling in the high yield market by funds with large redemptions. Hornbach has actually reduced its financial gearing since the spring of 2007!

### Major holdings - High Yield Value Bonds

Holding	Country	Sector	Pct.
Ineos Group 7.875% 06-16 Reg.	United Kingdom	Chemicals-Diversified	4.04%
Norw. Energy Co 11% 07-13.7.10	Norway	Gas Distribution	3.68%
Norske Skogind 7% 07-26.6.17	Norway	Paper & Related Products	3.51%
Nxp Bv/Nxp Fd 8.625% 07-15-Wi-	Netherlands	Electronic Compo-Semi	3.49%
Landry's Rest. 9.5% 07-15.12.14	United States	Retail-Restaurants	3.12%
Bombardier 7.25% 06-15.11.16	Canada	Diversified Manufact Op	3.05%
Perry Ellis 8.875% 03-13 S.B	United States	Textile-Apparel	2.76%
O Charleys 9% 04-01.11.13	United States	Retail-Restaurants	2.25%
Sinvest 9.5% 2009	Norway	Oil & Gas Drilling	2.21%
Htm Sport & Freiz. 8.5% 04-14 Reg	Austria	Athletic Equipement	2.13%

### Portfolio figures - High Yield Value Bonds

	Fund	Benchmark
Duration	4.02	4.31
Yield	11.8%	10.9%
Rating	B+	B+
# Issues	91	1989

### Portfolio figures - High Yield Value Bonds

Financials	Fund	Benchmark
Market Cap (bn \$)	2,059	5,327
Net Debt to Equity	88.16	441.51
Price to Book	2.09	5.52
Interest Cover	4.70	4.89

The fund is invested according to value criteria, i.e. the fund is focused on small companies with strong balance sheets. The reason being that small companies pay a higher interest when borrowing. At the same time, potential credit losses are minimized when investing in companies with strong balance sheets, because such companies have a better chance of surviving an economic downturn.

### Hynix Semiconductor Inc.

The average yield on the fund is now 11.8% compared to 10.9% for the benchmark while average Net-Debt-to-Equity for the fund is 88% compared to more than 400% for the average benchmark company. ■

On a very positive note for all the long-term investors, many cheap high yield bonds have emerged. One example is the Hynix 7.875% maturing 2017. Hynix Semiconductor Inc. from Korea is the world's second largest producer of memory chips. Hynix has a very strong balance sheet with Net-Debt-to-Equity of just 15%. The Hynix stock trades at a Price-to-Book ratio of 1.38 which is low compared to the general stock market. Even though the Hynix stock is up 3.5% year to date, the Hynix 7.875% bond has had a rough time in the credit market. The bond traded down to a price of USD 71 at the beginning of March which is equal to a yield of 13.5%. We bought Hynix bonds at USD 71.25. Hynix has a credit rating of BB – the highest ratings bracket in the high yield space – with a stable outlook. The Hynix bond is also protected by lots of covenants. The most important covenant is the change of control put. This covenant ensures that in the event of a takeover of Hynix existing bondholders have the right to put the bonds back to the company at a price of USD 101 meaning 42% on the bonds - not a bad rate of return for a bond. The possibility of this event happening is far from remote because the owner of Hynix, the Korean government, has indicated that it is looking to sell its stake in the company, thereby activating the change of control covenant. ■

### Outlook

Market conditions have been tough for the last couple of quarters and returns disappointing. But long-term investors, focusing on strong asset backing and low gearing, are currently offered some very interesting investment opportunities by the current high yield market. ■

Yours sincerely,

Sparinvest Asset Management

Klaus Blaabjerg  
April 8<sup>th</sup>, 2008

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 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 Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.