

Merit of Sparinvest's Value Bonds Strategy becomes evident.

Sparinvest launched its High Yield Value Bonds fund nearly four years ago on the basis of academic evidence showing that value and size - long since identified as outperformance factors for equity investment - could also offer excess returns in the credit market. After recent strong performance from the corporate bond market in general and this fund in particular, there is renewed interest in Sparinvest's value bonds strategy.

Luxembourg, 2nd September 2009 - When Sparinvest launched its High Yield Value Bonds fund in November 2005, it was on the basis of academic evidence showing that the size and value risk factors well known in equity markets were also clearly identifiable as components of the credit premium, meaning that they were also potential outperformance factors within the corporate bond market. Today, with the fund currently dominating fixed-income fund performance league tables in Europe, interest in the academic concept behind this fund is increasing.

In the high yield market, the degree of potential risk/reward involved with an investment depends on the size of the credit premium. (Corporate bonds offer investors a premium over Government bonds as a compensation for the higher risks - including default risk - involved with lending to companies rather than countries). The inspiration for Sparinvest's High Yield Value Bonds fund came from a 2001 paper by the academics Elton and Gruber* which deconstructed the risk factors involved with the credit premium. In addition to showing that around 50% of the premium was compensation for taxes and default risk, Elton and Gruber's study found that a significant part of the rest of the premium was attributable to the same risk factors that are markers for excess returns from equity markets - namely size and value.

Lead fund manager, Klaus Blaabjerg, explains:

"If equity investors deserve higher compensation for buying shares in smaller and undervalued companies then it's only logical that credit investors also deserve higher compensation for buying their bonds."

"What happens in the credit market is that smaller and undervalued companies are routinely penalised. Their default risk is over-estimated, requiring them to offer a higher yield. Even companies with strong balance sheets or good track records of debt

**See Appendix for graphic of this.*



repayment are tarred with the same brush. This means that there is an obvious opportunity here for us to achieve excess returns by cherry-picking the bonds from the strongest of these companies."

At the beginning of 2009, the credit premium was enormous, effectively anticipating disastrous levels of default risk - but also indicating that unprecedented rewards were potentially available for investors within the high yield market. Whilst the default rate has certainly risen in the year to date, and we have seen some very high profile defaults, the premium has now tightened considerably. What does this mean for Sparinvest High Yield Value Bonds?

"We are working under the assumption that default rates will continue to rise - at least until the slumping global economy turns the corner towards renewed growth," says Blaabjerg. "This increases the importance of focusing on the companies' asset values, thereby minimizing the potential loss in case of default. There is probably no way that investors in the high yield market can expect to see a repeat of the performance levels seen in the year to date. However, we remain confident that our portfolio is still attractively priced and we continue to find strong value bond cases within the market. Above all, we believe that an exposure to high yield remains an essential part of a well-balanced investment portfolio."

Sparinvest High Yield Value Bonds in figures (as at 31 August 2009)

| | Sparinvest High Yield Value Bonds | Benchmark Index (Merrill Lynch Global High Yield EUR Hedged) |
|--|-----------------------------------|--|
| Performance YTD ISIN : LU0232765429 (EUR) | 61.62% | 42.60% |
| Average net gearing | Less than 125% | over 400% |
| Average share price | 80 | 82 |
| Number of holdings | 90 | 2187 |
| Effective Yield | 14% | 12% |

- Ends -



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About Sparinvest:

Founded in 1968, Sparinvest is one of Denmark's leading independent asset management companies, managing and advising on assets valued at over €11.6 billion (as at 30.6.2009), including one of the largest equity funds in Denmark.

Owned today by broad range of institutional shareholders, Sparinvest has the freedom to pursue its own investment philosophy and style with a view to providing 'prudent investments' for its clients.

In 2001, Sparinvest S.A. was established in Luxembourg and a number of Luxembourg-domiciled funds were created for the purpose of pan-European distribution. The Sparinvest SICAV, a UCITS III-compliant umbrella fund is now authorised for distribution in 16 European nations.

Sparinvest has established an excellent reputation within the investment industry for the success of its strategic asset allocation approach when constructing portfolios for investment mandates and because of its outstanding track record in value investment.

Sparinvest High Yield Value Bonds Fund is a sub-fund of Luxembourg-registered Sparinvest SICAV. It is jointly managed by Sune Højholt Jensen and Klaus Blaabjerg of Sparinvest's highly successful fixed-income team. Between them they have a wealth of previous experience - Sune specialising in credit analysis trading credit and default swaps and Klaus masterminding the launch of a corporate bond fund that went on to achieve a Morningstar 5 star rating under his management.

Letter to Shareholders and Fund Update: High Yield Value Bonds

The fund manager of Sparinvest High Yield Value Bonds writes a "Letter to Shareholders" every quarter. This document contains his latest thoughts about how the fund has performed in the context of market conditions and about its prospects for the future. Latest performance and portfolio figures are given in the accompanying **High Yield Value Bonds Fund update**.

Both documents can be found at www.sparinvest.eu



Appendix

The Elton/Gruber Breakdown of Yield to Maturity

