



Ethical High Yield Value Bonds

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Fund Facts

Strategy	Value Bonds
Risk	n/a
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

- sparinvest.eu

Performance

Sparinvest Ethical High Yield Value Bonds maintains its position amongst the top-performing bond funds in Europe.

Sparinvest Ethical High Yield Value Bonds & Index Return, in %	Q2 2010	Since launch*
Sparinvest Ethical High Yield Value Bonds	-0.39	4.48
Merrill Lynch Global High Yield	-0.79	3.01

Portfolio composition

We have used the latest quarter to make new investments in, among others, Stora Enso and UPM-Kymmene. The fund is still tilted to energy, financials and European companies. Furthermore we are still underweight telecommunication companies since these generally operate with more debt and goodwill than our investment process dictates.

Our 10 largest positions constitute 36.37% of our total holdings. *For more information about the portfolio composition and performance, please visit Sparinvest.eu.*

Valuation of the portfolio

We still find the fund attractively priced when compared to the fundamental health of the issuing companies and the fund's return potential. The fund has a low average price-to-book and an average net-debt-to-equity ratio of less than 100% (excluding financials). Both figures are well below the broader market average. The portfolio's effective yield is 11.6% compared to the benchmark yield of 9.1%.

Company comments

Sevan Marine – Voyageur

Sevan designs and produces cylinder-shaped floating oil production and storage platforms that are well suited for heavy seas. The uniquely-shaped platforms are able to maintain high production utilization in areas and in weather conditions where more classically-designed oil rigs may temporarily be forced to shut down production.

Corporate bonds issued by Sevan Marine have been part of the fund for the last couple of years, including a bond with 2nd priority pledge on the oil platform, Sevan Voyageur.

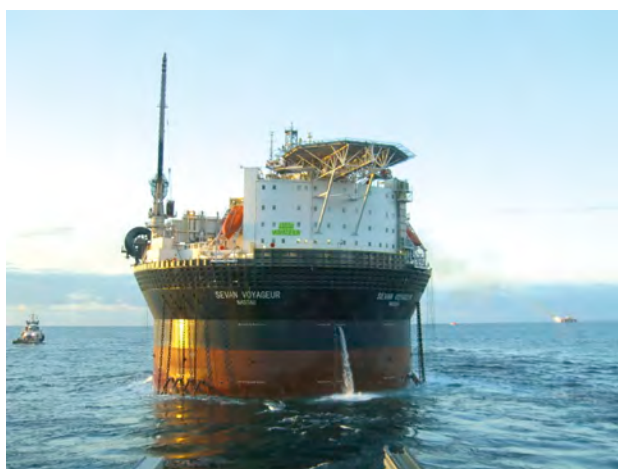


Photo: Sevan Voyageur

This corporate bond is very interesting because of the pledge on the assets. Currently, the market value of the platform is well above the value of the debt. At the beginning of May, Sevan announced that Voyageur would continue to work in the North Sea on a 5-year fixed contract with the English energy company E.ON, for a value of USD 535 million. Sevan Voyageur needs to upgrade the equipment on the platform for USD 90 million, which will be financed with USD 80 million of debt and the rest in equities.

Thorough review of bond documentation pays off in the long run

Reading through the corporate bond documentation is a natural step in our investment process. The upgrade of Sevan Voyageur shows the value in bonds with restrictive covenants.

Sevan wished to finance the upgrade by taking a new loan with 1st priority pledge on the Voyageur oil platform. But, because of the covenants in our corporate bonds, Sevan could not take that decision alone. They needed to ask us for permission to prioritize any new debt ahead of our existing debt. They had to negotiate with us because our bonds include a 'negative-pledge' covenant prohibiting

Sevan from increasing debt with 1st pledge on the assets.

As creditors, this development alone put us in a very pleasant situation since Sevan would either have to buy back our corporate bonds at the price of 104 or renegotiate the bond documentation. Sevan decided to do the latter and the outcome was in our favour. The Value Bonds team took a proactive part in the negotiations with Sevan to increase investor value. And we are very pleased with the results, which include an increase in the coupon by 4.5% and a maturity value of 105 instead of par.

Attractive asset backing

The present market value of the oil platform Sevan Voyageur is USD 449 million. In case of a default, bondholders with 1st priority pledge debt would first take their part (USD 230 million, including the new issue USD 80 million). The rest of the cake – valued at over USD 210 million – is more than enough to cover our 2nd priority pledge corporate bond issuance.

After signing the new agreement with Sevan, our bonds traded up from 90 to over 100. The bonds still look attractive, yielding 15%.

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, no potential new investments were excluded as a result of the ethical screening criteria.

Western Refinery

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Western Refinery	US	—	—	—	—	!	—	—	!

The Company's retail group operates service stations, which include convenience stores or kiosks. The sale of alcohol in the form of beer, wine and liquor forms a part of these activities.

Total revenue amounted to USD 6.8b. Retail revenue amounted to less than 10% of total. The sale of alcohol and tobacco formed a negligible proportion of overall revenue.

O Charleys

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
O Charleys	US	—	—	—	—	!	—	—	—

O'Charleys is involved in the sale of alcohol through its three concept restaurant chains operating under the 'O'Charleys', 'Ninety Nine' and 'Stoney River Legendary Steaks' trade names.

Total revenue amounted to USD 880.8m in 2009. It is assessed that the sale of alcohol constituted a negligible proportion of overall revenue.

Stora Enso

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Stora Enso	FI	—	—	—	—	—	—	—	!

Stora Enso makes papers and board used in tobacco packaging. The products are specifically designed to meet the 'stringent taint and odour requirements' of the tobacco industry. It is unclear what percentage of revenue are accounted for by these products. Production of paper for tobacco packaging takes place within the company's 'consumer board' division, which accounted for 17.2% of sales in 2007. It is likely that tobacco packaging accounts for only a marginal percentage of this. The company does not produce cigarettes or other tobacco products.

Total revenue amounted to EUR 11.02b in 2008.

UPM-Kymm.

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
UPM-Kymm.	FI	—	—	—	—	—	—	—	!

UPM's 'Flex Papers' division sells wrapping products used by several industries including the food industry and the tobacco industry. Tobacco packaging accounts for only a marginal percentage of revenue. The company does not produce cigarettes or other tobacco products.

Total revenue amounted to EUR 9.5b in 2008.

Sune Højholt Jensen
Senior Portfolio Manager
12 July 2010

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

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. Sources (where applicable): Sparinvest, Morningstar Standard & Poors, Bloomberg, Telos, Feri. For investors in Switzerland the fund's 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.