

NEGATIVE END TO THE YEAR

Negative returns across the risk spectra

Markets. Credit spreads widened by two basis points in the High Yield (HY) market in December. Accrued interest partly made up for the negative impact of higher government bond rates resulting in the benchmark delivering a return of -0.33%. The benchmark return for the year 2022 thus ended at -13.60%.

The negative sentiment returned in the financial markets in December. The development led to relatively large and broad-based losses on both risky and risk-free assets. Credit performed relatively well as credit spreads were close to unchanged for the month. In December, the interest rate on Danish and U.S. 10-year government bonds rose from 2.1% to 2.7% and 3.6% to 3.9% respectively.

Confidence indicators across the OECD area gave a mixed picture in December. Within the manufacturing industry, business confidence fell further in the U.S. and Japan, while it rose from low levels in Europe. At an aggregated level, the trend is still one of declining business confidence. The authorities in China have finally decisively broken with their approach to corona going from one extreme to another. China shifted directly from a 'zero tolerance approach' to an approach that has lifted virtually all social restrictions regardless of developments in corona. Such a radical change means extraordinary uncertainty in a period - when it seems most likely that economic activity in certain areas has fallen further because of cautious behavior on the part of the Chinese population. The information value of the Chinese key figures will be low in the coming period.

Positive return and ahead of benchmark

The Portfolio delivered a positive return of 0.68% in December, which was 1.01 percentage points ahead of the benchmark. For the year of 2022, the portfolio delivered a negative return of 8.75%, which was 4.85 percentage points ahead of the benchmark and better than the excess return last year.

The most positive sector contributions relative to the benchmark came from Consumer Discretionary and Materials, while Real Estate and Utilities contributed most negative. The positive contribution from Consumer Discretionary came primarily from a Chinese conglomerate that owns a large number of Chinese and international companies. The price rose sharply on the prospect of China easing its lock-downs, which reduced investors' fears about whether the company can refinance its short-term bonds. Within Materials, the positive contribution was broad based and among other things due to the increased prices of various metals in December. The negative contribution from Real Estate was primarily due to the fund's underweight to the sector, including Chinese property companies, which had a strong development in December. Within Utilities, the small negative contribution also came from the fund's underweight to the sector.

In December, four positions were sold and a few positions reduced as they had reached their fair value. Part of the proceeds were invested in two new positions as well as increasing existing ones. The changes increased the fund's overall duration and U.S. underweight. The fund enters the New Year with a higher credit spread and lower duration than the benchmark.

See performance and fund data

[Click here >](#)

Strategy

Ethical High Yield Value Bonds invests in global corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. At least 2/3 of the portfolio are invested in High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.