

Value Bonds – Global Ethical High Yield Strategy

The proposition: Active, global investment approach capturing Value in high yield corporate bonds

The method: Screen for mispriced bonds in terms of leverage and spreads. Combined Quantitative and Fundamental credit analysis with strong emphasis on risk.

The ethical overlay: Exclusion of companies in breach of normative guidelines and companies within certain industries

The target: Excess returns over the ICE BofA Merrill Lynch Global High Yield Index

General Features

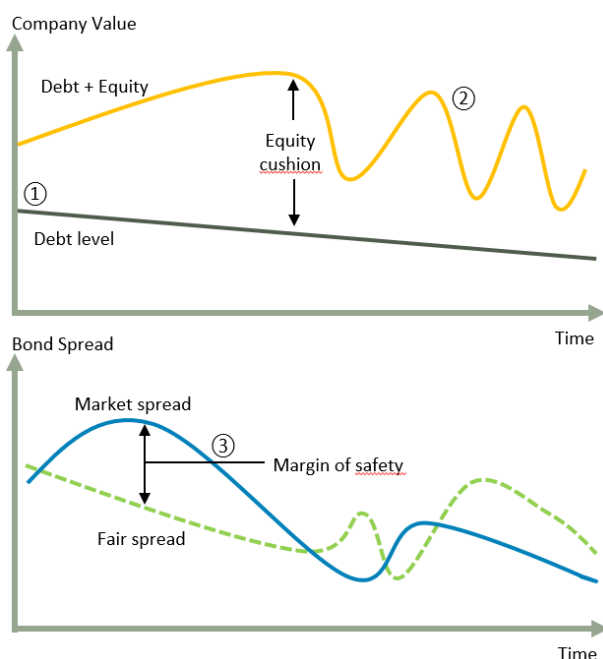
- Bottom-up driven investment process
- Investment across 120 to 150 issuers globally
- Majority of investments in bonds rated BB+ or lower
- Negative screen excluding unethical companies
- ESG integration imbedded part of our analysis process
- Detailed risk framework with overall risk of 90% to 150% versus the benchmark spread risk (OAS)

Value Philosophy

The team works from the overarching philosophy that market inefficiencies create opportunities to construct portfolios with a margin of safety.

Our Value process focuses on risk-adjusted excess return by

- Minimising leverage in our holdings ①
- Minimising volatility of our holdings ②
- Maximising the spread from our holdings ③



As credit returns are being asymmetric our main focus is to minimize defaults. Maximizing the equity cushion leads to lower leverage, which reduce probability of default as companies have more headroom for adverse events.

Investment Process Highlights

Screening is critical when investing in a global universe of over 3000 bonds in order to deploy analysts' attention on the best risk adjusted opportunities.

- A proprietary screening model based on academia and in-house back tests, provides the analysts with real-time, ranked sector portfolios

Ethical Screening - we continuously screen our portfolio and investable universe for the exclusion of companies:

- Breaching international guidelines for corporate behavior: Confirmed and alleged violations of Human Rights, Labour Rights and/or issues related to Environment and Corruption
- Involved in certain sectors: Zero tolerance for production and max 5 pct. tolerance for distribution of Tobacco, Alcohol, Gambling, Weapons, Pornography, Thermal Coal and Oil sands

Bottom-up credit analysis is performed using standard templates across six areas of analysis:

- Financial – where focus is the issuer's cashflow generation
- Structure – where focus is on debt structure, relative positioning, documentation and pricing
- Business – where focus is on understanding the business using SWOT and Porter's 5 forces
- Technicals – where focus is on understanding liquidity, market technical and access to capital markets
- Sovereigns – impact from EM risk on corporate spread is reviewed
- Red flags & ESG – where focus is on mitigating fraud and other significant credit events

Given historical experience, fraud is a major driver of "unexpected" losses and therefore we have a Red Flag system to identify potential fraud candidates at an early stage.

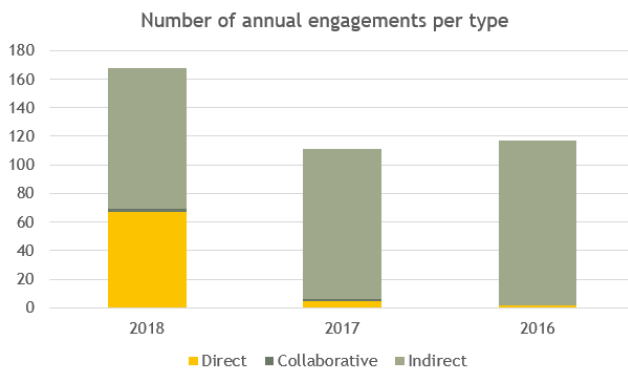
We have a detailed **risk framework** where spread contribution is our main risk metric versus our benchmark

- We target a long term risk level of 120% of benchmark spread risk
- Overall risk range of 90% to 150% versus benchmark spread
- Relative limits on rating, sector and regions in terms of weight and risk exposure
- Individual issuer limit of 2.5% (relative)

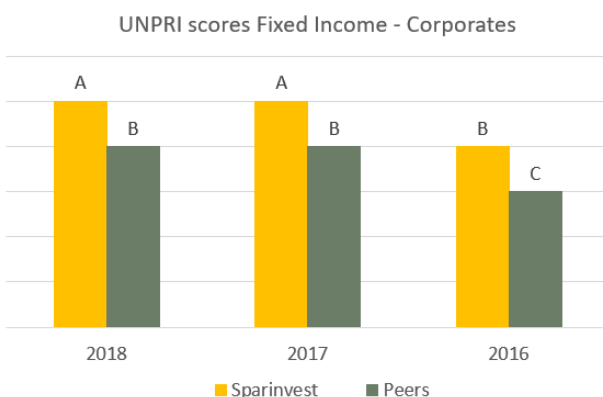
Responsible Investing

We actively engage with weaker companies to improve their ESG awareness and indirectly reduce their cost of funding which leads to better returns for our investments.

Engagement is a key part of our fiduciary responsibility and is conducted either directly, indirectly through our service provider (ISS-Ethix) or collaboratively with a larger group of like-minded investors. The chosen engagement approach is determined on a case-by-case basis by the investment team.



Sparinvest is a signatory of UN PRI (2009) and UN PRI Montreal Pledge (2016). PRI monitors annually the quantity and quality of the Responsible Investing efforts of its signatories, and Sparinvest Fixed Income has been a top-performer for the past three years.



Source: UN PRI 2018

Team Experience

The Global High Yield fund is managed within the Sparinvest Value Bonds team consisting of 11 investment professionals. Four portfolio managers have focus on the Global High Yield strategy out of a pool of six portfolio managers with an average of 14 years of experience:

Maciej Woznica, Chief Portfolio Manager, joined Sparinvest in January 2015. Prior to this, he set up and lead the high yield team at Nordea Investment Management for seven years. He began his professional career in Corporate Finance at Goldman Sachs in London. He has been active in credit and distressed debt since the 2002. Maciej holds a BA degree in Mathematics & Computation from University of Oxford.

Jacob Beck Petersen, Senior Portfolio Manager, has been a high yield portfolio manager since 2009. He started his career at Nordea Investment Management where he worked together with Maciej Woznica. He holds a Master degree in Business Administration and Commercial Law from the Copenhagen Business School.

Thomas Bjørn Jensen, Senior Portfolio Manager, was one of the founding members of the Value Bonds strategy back in 2005. He has spent his whole professional career at Sparinvest, heading Operations prior to re-joining the Value Bonds team in 2014. He holds a Master degree in Finance and Economics from the Copenhagen Business School.

Anders Kjær Glibstrup, Portfolio Manager joined Sparinvest in 2014 from Danske Bank where he worked as an Analyst. He holds a Master degree in Mathematics-Economics from the University of Copenhagen.

The PM's are further supported by four credit analysts and one credit trader.

Unique Selling Points

1. Structured, global, quantitative screening and ranking process
2. Fundamental bottom up credit analysis
3. Active engagement with companies
4. Negative screen for unethical companies
5. Risk adjusted return focus

Additional Information

- Please contact your sales representative for more information
- Company website in English: www.sparinvest.lu
- Company website in Danish: www.sparinvest.dk

Practical Information

Last update: 31/03/19

Management Co.	Sparinvest S.A.
Funds (UCITS, Luxembourg)	Value Bonds – Global Ethical High Yield
Benchmark	BofAML Global High Yield Index (HW00)
Strategy AUM	330 million EUR
Management Fee	dependent on share class
Other Fees	no performance fee, swing pricing for the benefit of fund
Currency policy	EUR base currency, 97% of other currencies are hedged to EUR
Reporting	daily performance, monthly commentary, quarterly SRI report

