

Value Bonds – Global Investment Grade Strategy

The proposition: Active, global investment process capturing Value and out-of-favor events in investment grade corporate bonds

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

The target: Excess returns over the Merrill Lynch Global Broad Market Corporate Index (EUR hedged)

General Features

- Bottom-up and event-driven investment process
- Investment across 130 to 150 issuers globally
- Investments in bonds rated BBB- or higher¹
- ESG integration imbedded part of our analysis process
- Detailed risk framework with overall risk of 90% to 150% versus the benchmark spread risk (OAS)

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.

In environments with low interest rate and low credit spreads, beta will be lower than average. The opportunity cost is limited and the ability to add risk at times of a sell-off has proven to be beneficiary.

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

Investment Process Highlights

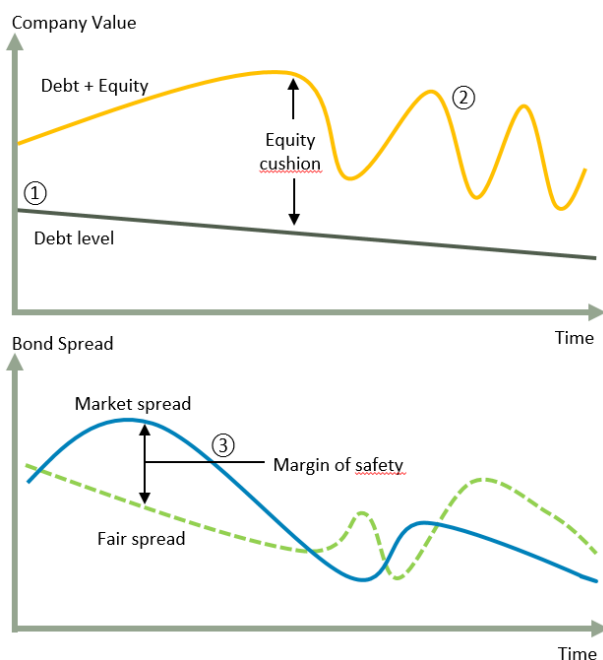
Screening is critical when investing in a global universe of over 1400 bonds in order to deploy analysts' attention on the best risk adjusted opportunities.

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

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.



¹ In order to prevent forced selling situations the portfolios can hold fallen angels to a limited extent, typically up to 5%.

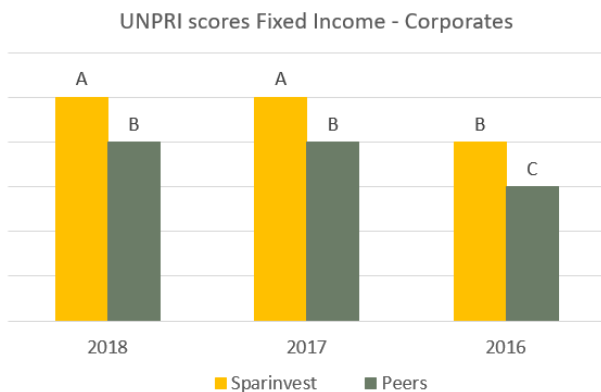
We have a detailed **risk framework** where spread contribution is our main risk metric versus our benchmark

- 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 3.5% (relative)

Responsible Investing

ESG is fully integrated in our investment process. 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.

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 Short Dated Global High Yield funds are managed within the Sparinvest Value Bonds team consisting of 11 investment professionals.. Three portfolio managers have focus on the Global High Yield strategy out of a pool of six portfolio managers with an average of 15 years of experience:

Michael Sandfort, CFA, Senior Portfolio Manager, joined Sparinvest in January 2015. Michael has 11 years of experience as a Credit Portfolio Manager and a Credit Analyst. Prior to this Michael has worked 13 years as an Equity Analyst in Copenhagen, London, Oslo and Stockholm. In addition to the CFA designation, Michael holds a M.Sc. degree in Finance, Strategic Management and Marketing from 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.

The PM's are further supported by 4 credit analysts and one credit trader.

Unique Selling Points

1. Structured global Value screening process
2. Fundamental bottom up credit analysis
3. Exploiting negative credit themes and events to buy on the dip
4. Focus on equity cushion reduces probability of defaults
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)	Investment Grade Value Bonds
Funds (Denmark)	Investment Grade Value Bonds Udb. - All Countries KL
Benchmark	BofAML Global Corporate Index (GOBC)
Strategy AUM	440 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