

Value Bonds – Short Dated High Yield Value Strategy

The proposition: Active, global investment process capturing Value in short dated high yield 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 target: Excess returns over the BofA Merrill Lynch 1-5 Year BB-B Global High Yield index Ex Perpetuals

General Features

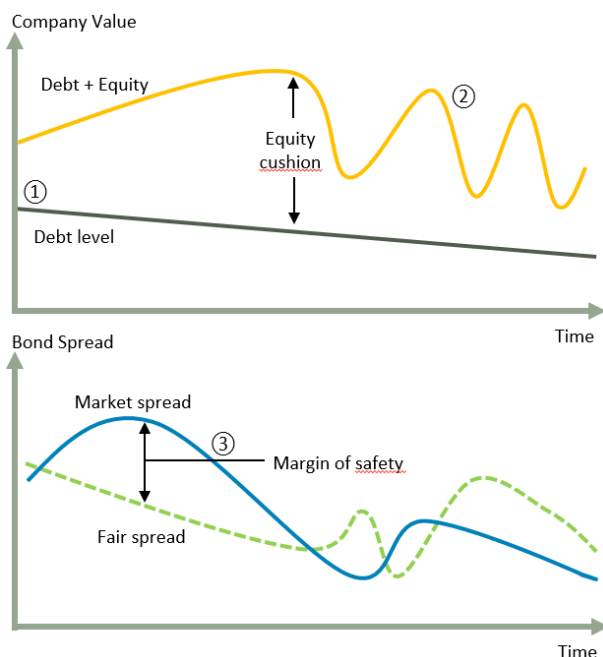
- Bottom-up driven investment process
- Globally diversified across regions and sectors distributed across 80 to 150 issuers
- Majority of investments in bonds rated BB-B
- Investment universe is limited on maturity, not duration
- ESG integration imbedded part of our analysis process
- Detailed risk 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 Universe

The investment universe consists of global BB-B rated issuers with a maturity up to 5 years. The universe is chosen for the following reasons:

- The best risk adjusted returns in the corporate bond universe,
- A larger pull to par effect and curve roll down than longer maturities
- Only three loss making years since 2000 and less than 12 months recovery from maximum drawdown
- Historically, realized 90% of the total global high yield return at 85% of the standard deviation
- Limited exposure to interest rates
- Exclusions of CCC's and below reduces default risk considerably

Finally, maturity have been capped at 5 years thereby excluding long dated bonds with call optionality within 5 years, to ensure the short dated nature and low duration of the product by eliminating extension risks.

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.

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

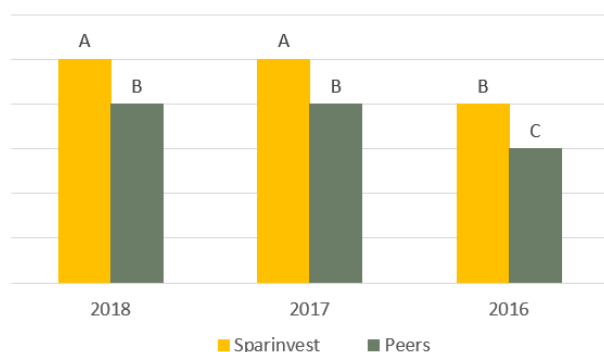
- We target a long term risk level of 110-120% of benchmark spread risk
- Overall risk range of 90% to 150% versus benchmark spread
- Relative limits on rating, sector and regions in terms of weight and risk exposure
- Individual issuer limit of 2.5% (relative)

Responsible Investing

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.

UNPRI scores Fixed Income - Corporates



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. Four portfolio managers have focus on the High Yield strategies 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 setup 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. Focus on equity cushion reduces probability of defaults
4. 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)	Sparinvest – Value Bonds – Short Dated High Yield
Funds (Denmark)	Value Virksomhedsobligationer – Højrente Kort Varighed Udb
Benchmark	BofA Merrill Lynch 1-5 Year BB-B Global High Yield Index Ex Perpetuals
Strategy AUM	EUR 175 m
Management Fee	EUR R 1.0% EUR I 0.5%
Other Fees	No performance fee Swing pricing applied for the benefit of the fund
Currency policy	EUR/DKK base currency, 97% of other currencies are hedged to base currency
Reporting	Daily performance, monthly commentary