Sparinvest
Emerging Markets Corporate Value Bond Fund

Product Profile	
Fund Name	Sparinvest Emerging Markets Corporate Value Bonds
ISIN	LU0232765429
Investment universe	Emerging Markets Corporates
Benchmark	JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (EUR-Hedged)
Base Currency	EUR
Earnings	Accumulation
Inception date	15/09/2010
Fund Volume	EUR 171.96 m per 30/11/2012
Management Fee	1.25 % p.a.
TER	1.55 % p.a.
Fund Manager	Sune Højholt Jensen, Toke Hjortshøj
Company	Sparinvest S.A.
Internet	www.sparinvest.lu
Investor's Profile	
Investment horizon	long-term
Risk classification	medium
Return expectations	long-term stable return with an optimal risk-return relationship
Loss Tolerance	short-term losses are possible

TELOS Comment

The *Sparinvest Emerging Markets Corporate Value Bond Fund* is an actively managed bond fund characterised by its value approach, which invests exclusively in emerging markets corporate bonds. The companies include those domiciled in emerging markets or who conduct the greater proportion of their business activities in emerging markets. The fund therefore offers an attractive return potential but also involves higher solvency-related risks. The currency risk is in principle hedged against the EUR.

The aim of the fund is to stand among the top 30 funds of its peer group, with a diversified emerging market portfolio. As in the case of other *Sparinvest* value bond funds, the fund approach is based on the Fama & French 3-factor model. Under this model, the fund manager uses a value strategy, which is related to the strategies used by in-house equity funds. The fund management selects undervalued bonds, frequently from smaller companies, which are able to provide evidence of relatively low levels of debt and stable balance sheets. At the same time, the fund seeks to profit from the small caps premium. Under the Fama & French 3-factor model, value and small cap factors should minimise risk and generate better long-term results.

A bottom-up investment process is used. Stocks are selected using the *Sparinvest* value model, which values companies on the basis of traditional value criteria, using a quantitative model. Qualitative criteria are then analysed, with special consideration being given to ESG risk factors. The examination of ESG risk factors is of particular importance in emerging markets. (Legal situation, corporate governance, social governance, politics). The examination of ESG risk criteria has been part of all investment processes throughout the company since 2005. *Sparinvest* has signed the "UN Principles for Responsible Investment (UN PRI)". These principles were developed by an international group of institutional investors, to take account of the increasing relevance of matters related to environmental, social and corporate governance in all investment activities. The initiative was launched by the United Nations.

The investment focus is on corporate bonds with a rating of BB to B. Regular style analyses are conducted in order to detect potential risks within the portfolio, with the aim of determining whether the fund has style characteristics that the fund manager did not intend. The portfolio construction process is characterised by a team approach. The Value Bond Team meets weekly. However, ad hoc daily discussions that arise in connection with the market situation are extremely important. Analysis and research results are actively communicated and discussed.

Although the team is small, it is characterised by its homogeneity rather than its diversity as regards qualifications and age. All the team members have experience in bond and fundamental company analysis.

The *Sparinvest Emerging Markets Corporate Value Bond Funds* is attractively valued. In addition to a low price to book ratio, the fund has attained an average net debt to equity ratio of ~ 69 %. The fund is heavily overweighted relative to the benchmark in South America and Eastern Europe. At sector level, the fund is investing increasingly in companies in the energy and industrial sectors. Following the losses of the previous year, the fund managed to significantly outperform its benchmark in 2012. The Sharpe ratio was positive. The high beta can be explained by the overweighting of the high yields and small cap bonds against the benchmark.

The *Sparinvest Emerging Markets Corporate Value Bond Fund* is rated **AA+**.

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Investment Process

The *Sparinvest Emerging Markets Corporate Value Bond Fund* is managed by *Sparinvest S.A.* (*Sparinvest*). Investment advice is provided by *Sparinvest Fondsmaeglerselskab A/S* in Denmark. Both companies are wholly-owned subsidiaries of *Sparinvest Holding SE* (Luxemburg), which was formed in Denmark in 1999. A total of four employees from the Value Bonds Team are involved in the investment process. The fund manager *Sune Højholt Jensen* has overall responsibility for investment decisions.

All investment decisions are based on the *Sparinvest* value philosophy, according to which the same value factors of small cap stocks apply for bonds as for higher yield equities. The fund manager may depart significantly from the fund's benchmark during portfolio construction.

A bottom-up investment process is used. The first stage of the investment process involves quantitative screening, for which the proprietary *Sparinvest* value model is used. The investment universe includes ~ 4,000 corporate bond issuers. Stocks with strong balance sheets and a low net debt to equity ratio, which are also undervalued on the basis of value ratios such as price to book value or EV/EBIDTA, are selected in the model. The focus of the fund is on small caps. The quality of the individual remaining stocks is examined. During this analysis, the companies' annual financial statements of the last 5 to 10 years, their business models and their growth prospects undergo critical scrutiny.

Investments in primary market corporates are made alongside secondary market investments. The quality of the primary market bonds is analysed on an ad hoc basis, with the aid of assessments by external brokers. Although ESG risk criteria are taken into account in all *Sparinvest* investment activities, they are of particular importance in the underlying emerging markets product. Special attention must be paid in the emerging markets to criteria such as the legal situation, corporate governance, social governance and political developments.

The ESG risk analysis should identify both risks and opportunities, thereby adding value to the traditional value approach. The avoidance of tail risks is taken very seriously. This is not seen as a restriction of the investment universe, but is used as a risk management instrument. There is no 100 % data cover for the ESG analysis, so that where necessary, *Sparinvest* contacts the companies in question and examines the assessments of local analysts. The fund management then conducts portfolio optimisation. Allocation factors include the country risk, liquidity requirements, risk / return profile of an investment, together with relative value projections in relation to the various currency tranches of the corporates. Although an exclusively bottom-up investment process is used, the portfolio managers emphasise the need to also take account of the country risk in emerging markets by conducting a top-down analysis. The assessments of the World Bank are used as a source for this analysis. These are used as guidelines and as an indicator of the future (positive or negative) development of a particular country.

The primary focus is on hard currency bonds. There are no fixed limits as regards the sizes and number of individual positions in the fund or maximum weightings of individual sectors. A limit of 10 % per issuer is applied. Risk management is conducted on the basis of the ESG analysis, the liquidity requirements and a proprietary checklist, to ensure a holistic examination of all the selection criteria of the individual potential investments. All these individual factors are examined in qualitative terms.

Quality Management

The overall fund profile regularly undergoes a style analysis conducted by a committee that is independent of the fund management. A risk management system is used to calculate various relevant ratios with which the fund's positioning and characteristics are analysed in comparison with the overall market. ESG risk factors are now part of the risk management process (to avoid tail risk, black swans). The front office system POMS (Bloomberg) is used to conduct a pre-trade verification of adherence to investment restrictions. Where appropriate, the middle office immediately notifies the portfolio managers. Automatic monitoring also takes place, using the proprietary fund accounting system HUGO. In addition, the internal and external investment restrictions are automatically monitored by *RBC Investor Services Bank S.A.*

Team

The *Sparinvest Emerging Markets Corporate Value Bond Fund* is managed by a four-man team led by *Sune Højholt Jensen*. His co-manager is *Toke Lilhauge Hjortshøj*. The two have been working closely together for over five years. A staff change took place last year. Mrs *Anne Tingleff* moved to a different *Sparinvest* bond team. Mr *Peter Dabros* has been responsible for the infrastructure since March 2012. All the specialists involved in the overall process are graduates, and the team has a long average period of experience.

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Investment Characteristics

Important external factors	*Important control factors*
Credit Spreads	Leverage
Country Risk	Asset selection
Sector development	Credit-worthiness
Liquidity	Country allocation
Commodity prices	Liquidity allocation

Product History (until 02.05.2011: Credit Suisse Emerging Markets Corporate Bonds Index, since 03.05.2011: JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (EURHedged))

Monthly Returns

	2010	2011	2012
Jan	-	1.4	5.7
Feb	-	1.1	4.5
Mar	-	0.7	0.4
Apr	-	1.3	-0.1
May	-	0.6	-3.1
Jun	-	-0.3	1.7
Jul	-	1.4	3.0
Aug	-	-4.1	1.7
Sep	-	-8.0	2.1
Oct	1.0	7.0	1.7
Nov	-0.1	-1.8	1.3
Dec	1.5	0.6	1.6
Produkt	2.4	-0.6	22.1
Benchmark	-0.5	2.4	14.5

Statistics per end of Dec 12	*6 M*	*1 Jahr*	*2 Jahre*
Performance (annualised)	25.37%	22.10%	10.18%
Volatility (annualised)	2.06%	7.67%	10.49%
Sharpe-Ratio	10.84	2.49	0.68
Best monthly result	2.98%	5.69%	6.96%
Worst monthly result	1.27%	-3.13%	-7.97%
Median of monthly results	1.71%	1.71%	1.29%
Best 12-month result		22.10%	23.41%
Worst 12 month result		22.10%	-0.59%
Median of 12-month results		22.10%	6.67%
Maximum loss period	-	3	6
Maximum loss	-	-3.25%	-11.72%

	Fund vs. Benchmark (letzte 24 Monate)
Jensen Alpha	-0.00
Annualized Jensen Alpha	-0.01
Beta	1.58
R-squared	0.90
Correlation	0.95
Tracking Error	0.05
Active Premium	0.02
Information Ratio	0.38
Treynor Ratio	0.04

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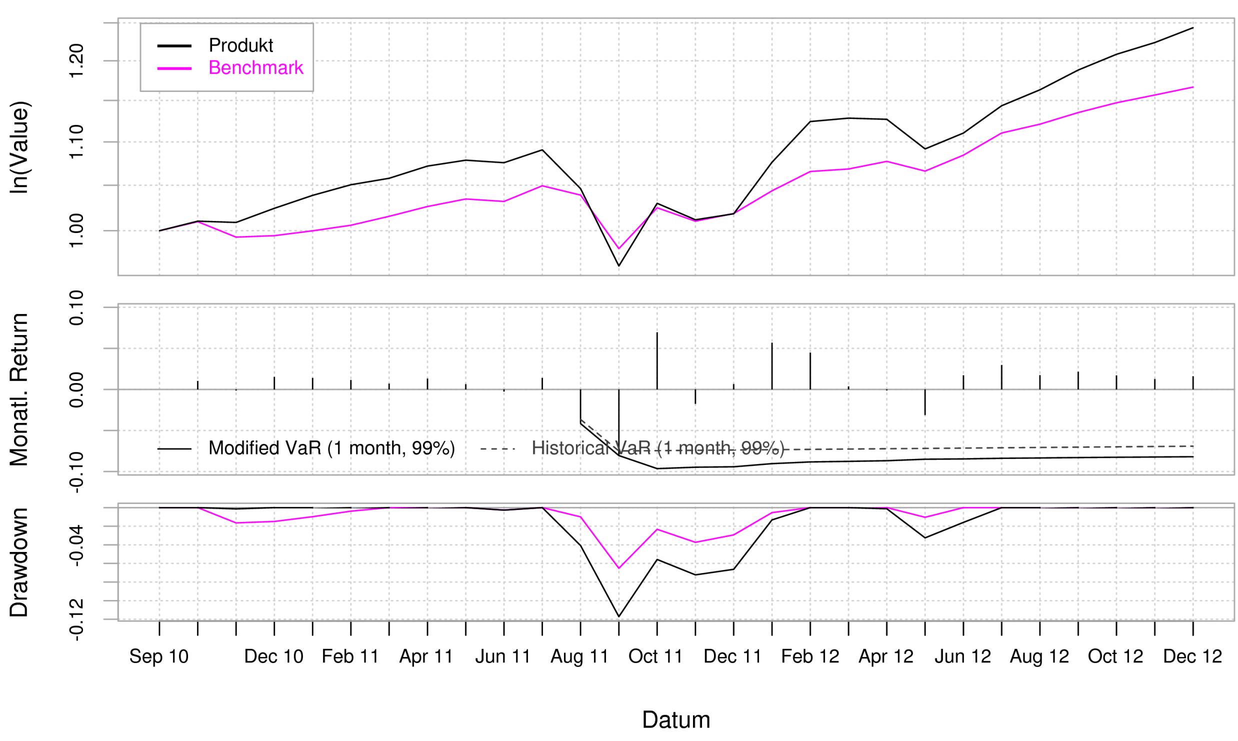
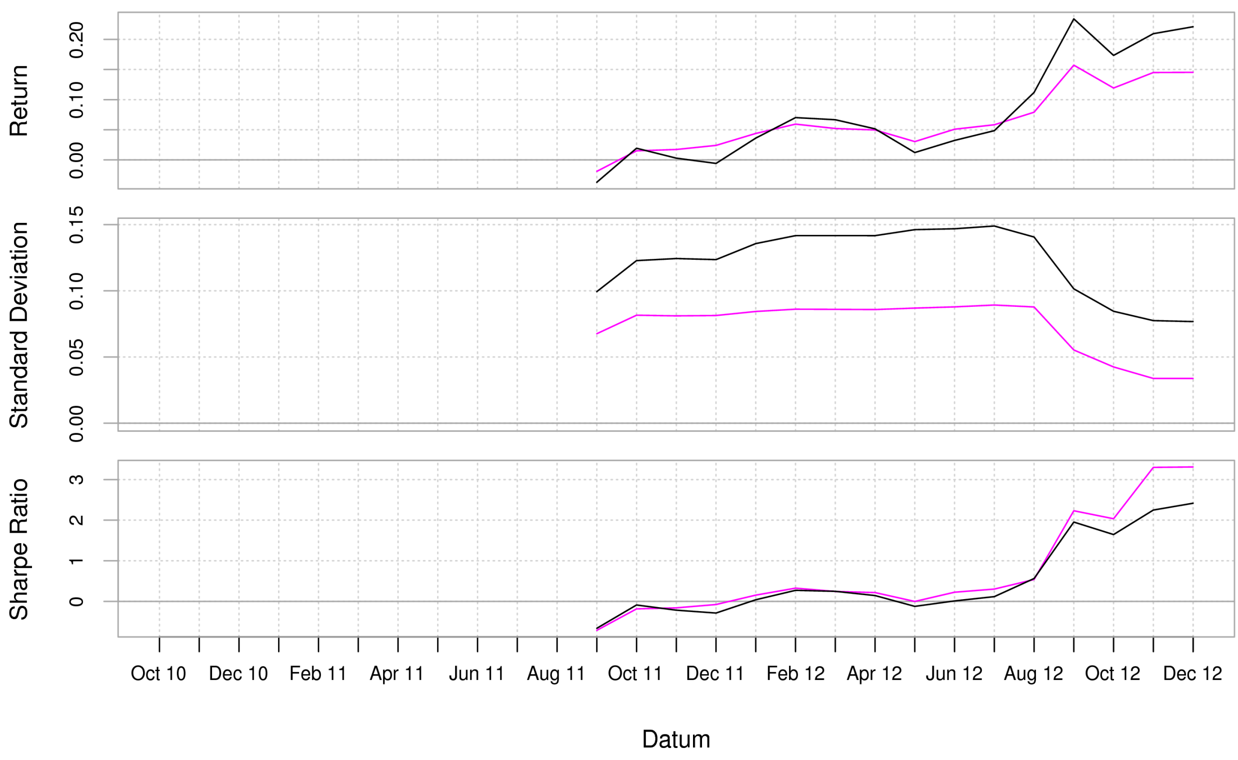
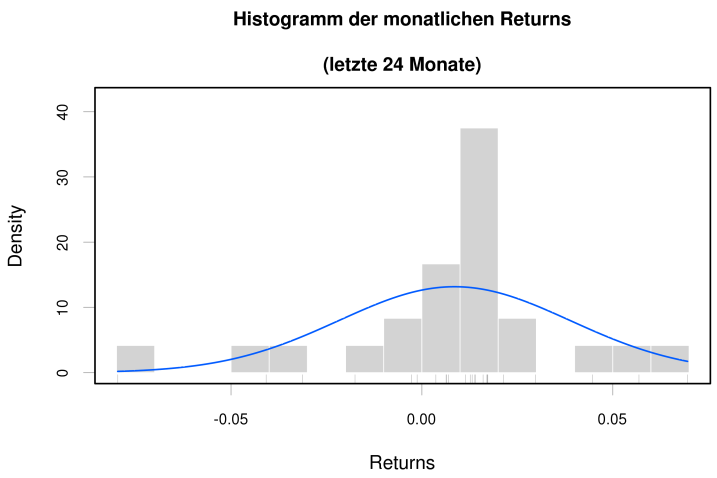
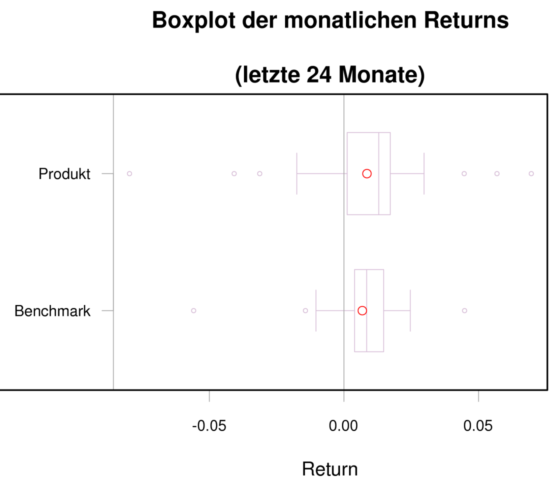
Performance

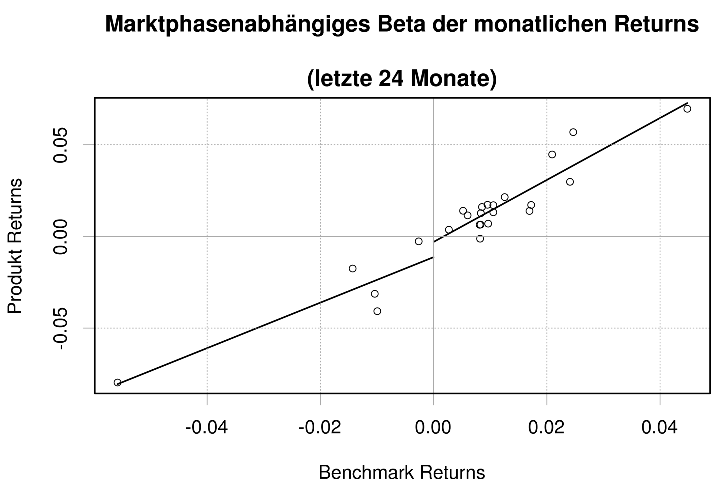


Rollierende 12 -Monats- Performance









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Explanations

TELOS Rating Scale	
AAA	The fund complies with highest quality standards
AA	The fund complies with very high quality standards
A	The fund complies with high quality standards
N	The fund does currently not comply with the TELOS quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The *performance* of the fund is calculated based on reinvested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the "BVI method" of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The *Sharpe Ratio* provides information about the "excess return" of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate used in this report is 3%, and the *volatility* is the annualised standard deviation of the monthly returns.

The *median of monthly results* is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to "outlier results" than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss* period is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under consideration – starting from the highest value reached earlier during this period.

Jensen Alpha measures the beta-risk-adjusted (cf. beta) outperformance of the fund versus the benchmark and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

Beta is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

R^2 is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

Correlation is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The *tracking error* is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

Active Premium or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The *Information Ratio* is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The *Treynor Ratio* is the return in excess of the riskfree rate, divided by beta. The Treynor ratio is a beta-risk-adjusted measure of outperformance vs the riskfree rate.

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