Sparinvest

Value Bonds

Headlines

Our Value Bonds Funds

Fund	ISIN code
Corporate Value Bonds	LU0620744002
Emerging Markets Corporate Value Bonds	LU0519053697
Ethical High Yield Value Bonds	LU0473784196
High Yield Value Bonds	LU0232765429
Institutional Corporate Value Bonds	LU0760185370
Investment Grade Value Bonds	LU0264925727

Detailed information is available on sparinvest.eu

- sparinvest.eu

Dear investor,

The Helicopter View...

It continues to be true that 'you can't fight the FED.' Quantitative easing has worked and we are seeing increasing signs that the US recovery is pulling out of soft ground onto a firmer footing. House prices are coming in strong, employment figures are encouraging and the US stock market is looking good. The wealth effect is feeding through to US households and their higher expenditure is supporting the recovery. Even the 'fiscal cliff' has turned into a less ominous-sounding 'sequester', involving budget cuts to particular categories of federal spending. The 'sequester' came into effect at end March and could represent a short-term set-back. But the overall policy of 'kicking the can down the road' is sensible. Aggressive tightening would not be advisable until growth looks sustainable. But sustainable growth is what we anticipate for H2 2013 – in the US and the rest of the world…ex-Europe.

For Asia we expect a continuation of growth. Japan will most likely embark on a major QE program to get out of the dangerous trap of deflation. This will put pressure on the yen. The weaker yen will serve to make Japanese goods much more competitive on a global scale. But Japan's gains will hurt others and the possibility of geopolitical currency wars cannot be discounted, although we see this as unlikely in the short term. We view the Korean stand-off as a more question of domestic political posturing than a real threat to world peace.

In China, growth is stabilising around the policy target of 8%. The government is trying to slow the property market by introducing a property gains tax, the risk being that they will be too successful, leading to overcooling.

Europe is the real worry. It is our belief that the Cyprus situation is unique and containable. However, from the perspective of an American or a Eurosceptic, what is there to prevent contagion in the entire European banking system? Even more worrying was the outcome of recent elections in Italy which demonstrated how extreme economic stress factors, such as very high youth unemployment rates, have the potential to undermine democracy.

The discrepancy in the bank interest rates charged to businesses in southern Europe compared with those of the north was recently calculated to be around 3.7%. Obviously this situation cannot be allowed to continue, the ECB will have to step in with extraordinary measures to prop up southern European SMEs and thereby free them up to grow and create employment.

Europe needs a rethink. The region simply can't afford to maintain its current expenditure on social welfare systems if it is to compete globally.

Sectors Strongly Represented in our Funds

Financials: The combination of a greater number of fair valuations in financials, together with the red flags being raised by the Cyprus incident and the Italian election, has led us to reduce our exposure in the sector. Going forward, the financial exposure will be concentrated around UK holdings – RBS and Lloyds plus two insurance companies. These institutions have moved far in the right direction in terms of credit repair, and we believe this will continue going forward. And importantly for us the UK has an advantage of having its own central bank – i.e. they can print money if real systemic stress comes back.

Energy and materials: We remain positive regarding the energy and materials sectors where we are positioned in companies with global exposure, capable of benefiting from global growth in the rest of the year. Remembering that our exposure to the energy industry has a fixed maturity, we feel comfortable that there will be no short-term substitute for oil.

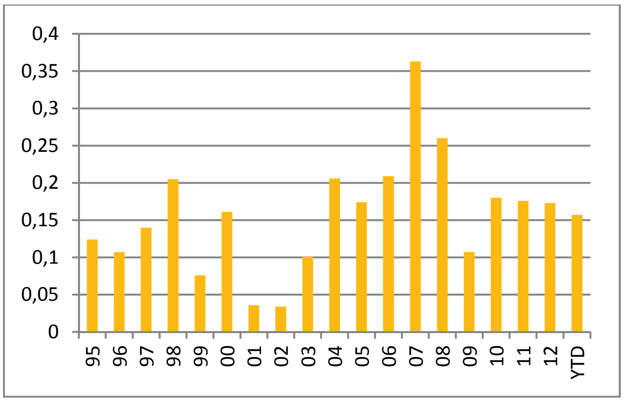
Emerging Markets

Department stores and retailers: As the more mature emerging markets transform from industrialized to more consumption-driven nations, we have increased our exposure to the retail sector. Focusing on solid companies with long track records and strong regional market share, we feel confident that these holdings will keep operating with high margins and with limited credit risk for our investors in the Emerging Markets Corporate Value Bonds fund.

Corporate Bond Market overview

High yield bond spreads tightened by around 35bp in Q1. We are satisfied that the type of bond issuance that we are seeing is not indicative of a 'bubble' in the asset class. Classic signs of a bubble developing would be an increasing proportion of low-quality issuance – leading to higher default rates down the line. In fact what we are seeing the opposite. Default forecasts for 2013-14 are low at around 2%, and issuance is predominantly amongst higher-rated credits (see graph). Factor in spreads of around 500 basis points and we still believe high yield is a 'must have'.

Lower-rated Issuance Remains Low



(Lower rated = Split-B, CCC and unrated)

Having said this, it is clear that the market can't provide the same returns as in recent years moving forward. So what we are seeing is simply a return to the historically normal (and still attractive) levels of return provided by this asset class.

Where we do see a potential bubble developing is in sovereigns. When a 10-year bund pays only 1.3%, we see a high risk from rising yields should growth pick up in H2. For this reason we have made efforts to keep duration low in the portfolio.

In the Emerging Markets we have seen some spread widening of around 15 basis points, largely as a result of lots of new issuance of reasonable quality (The new issuance premium affects secondary market spreads). We see no signs of any bubble here either, although we find the Chinese property sector very difficult to call and therefore prefer to steer clear. As the emerging market corporate bond market keeps expanding we continuously see new and interesting companies entering the corporate bond market. We therefore expect that the small-cap factor in our investment process will start to have a larger impact on the total return of the Emerging Market Corporate Value Bonds fund.

Fund News

In **High Yield Value Bonds**, we have reduced exposure to European financials ex-UK. We are happy that our energy and materials holdings leave us well-positioned for global growth in the latter half of the year.

The emphasis in our **Investment Grade Value Bonds** has been to keep duration low and reduce interest-rate exposure through a focus on short maturities and floating-rate notes.

Over Q1 we have been improving the credit quality of the **Emerging Markets Corporate Value Bonds** by buying more BBB rated bonds which has worked very well for the fund.

During Q1, all our funds have performed ahead of their respective indices, but the single fund we are most satisfied with is Emerging Markets Corporate Value Bonds fund. Ahead of its benchmark in Q1 by a clear 2%, this fund is generating a lot of investor interest and we consider it to be a real gem. In September the fund will turn 3 years old and at that point, we expect its track record to speak for itself.

For asset allocators, the question of the hour is 'bonds or equities?' So I would like to leave you with this thought: you never see negative returns in high yield while you see good returns in equity markets.

Yours faithfully,

Klaus Blaabjerg
Chief Portfolio Manager
16 April 2013

Key Numbers Sparinvest Value Bond Funds

Key numbers for Sparinvest Value Bond funds	High Yield Value Bonds	Emerging Markets Value Bonds	Corporate Value Bonds	Investment Grade Value Bonds
Yield to Maturity	11.17%	7.33%	5.28%	4.82%
Duration	3.17	3.05	4.16	5.11
Average NDE	78%	81%	117%	44%
Avg. Interest Coverage	4.92 x	8.03 x	6.23 x	15.03 x
Average Price-to Book	0.97 x	1.59 x	6.01 x	1.22 x
Default activity ytd	0%	0%	0%	0%
Average Rating	B+	BB+	BBB-	BBB+

Sparinvest Value Bonds-Team

From left to right:
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Signatory of:

PRI Principles for Responsible Investment