

Letter to Shareholders – Value Bonds

Q1 2015

The global macro-economic picture was obfuscated even further during the first quarter of 2015, evidenced by the very volatile global currency markets and plunging European yields.

The ECB entered uncharted waters by launching its widely expected and massive QE program - a program that, over the next two years, will boost the ECB's balance sheet to a staggering EUR 1.2 trillion through the purchase of European Government bonds. The ECB's somewhat controversial monetary policy move quickly forced the hand of other European central banks. This was seen most dramatically when the Swiss National bank decided to stop its intervention in the currency market and let the CHF float freely vs. the EUR. This triggered a CHF strengthening of about 15% in a matter of minutes.

The Swedish central bank launched its own 'QE light' version to prevent the SEK from strengthening vs. the EUR, in order to protect the competitiveness of Swedish exports.

In Denmark, the central bank adopted similar unconventional measures in order to prevent an unwanted appreciation of the DKK. European macro-economic data continued to disappoint early in the quarter; for example, inflation continued to fall.

However, there was some evidence of green shoots at the end of the quarter, when it appeared that the risk of a deflationary spiral had been avoided. This is despite the fact that the Eurozone is nowhere near a solution to the problems surrounding Greece's continued membership of the EU and a respite to the Ukrainian crisis is also a long way off.

USD and CHF development



German Yield Curve



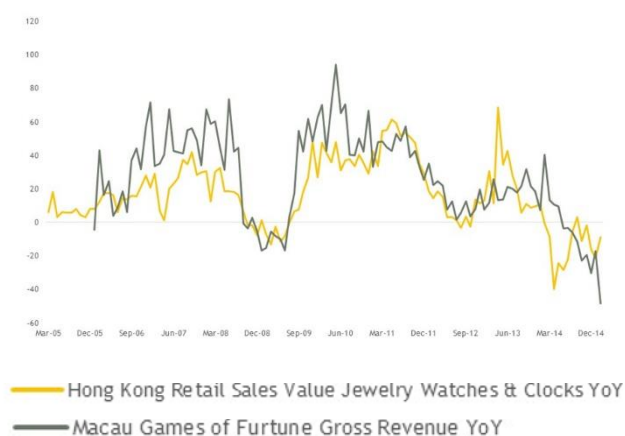
Given that the ECB QE has only just been launched, the devaluation of the EUR is likely to continue. Ten-year German bond yields are not only headed for zero, but are likely to be negative within a matter of weeks. A negative German yield curve will have highly symbolic implications, as it highlights the weakness of the QE program - namely the shortage of high-quality government debt for the ECB to buy over the coming

two years. From a macro-economic perspective, it is difficult to assess the benefits from ECB's QE. The programme cannot stand alone, but must quickly be supported by (further) substantial fiscal reforms in many European countries. This, unfortunately, seems unlikely given the 'reform fatigue' voiced by many politicians after almost five years of no broad economic growth in Europe. Thus, the short-term effects of QE will probably be a further depreciation of the EUR and increased risk taking by European investors, forced out on the credit curve by the negative government bond yields and into riskier assets.

Whether a weaker EUR will provide a great boost to European exports is somewhat uncertain as global growth continues to disappoint. In the United States, a long and harsh winter has impeded growth and the stronger USD is also likely to further dampen a return to trend growth. The fact that economic data releases in Q1 came in below many economists' expectations means that an expected US interest rate hike has been postponed from early June to sometime late in Q4 2015.

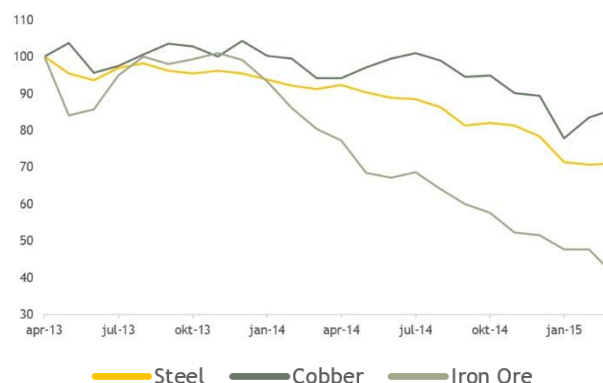
Chinese growth has been anaemic and continues to disappoint. The central government's target GDP growth of 7% is likely to be compromised and inflation continues to be below expectations -evidence of some deflationary pressures in the economy. High-end private consumption has fallen significantly and further monetary policy easing is expected very soon in China, perhaps as early as late April.

Hong Kong Jewelry Sales vs Macau Games of Fortune Revenue



China's appetite for basic raw materials has also dampened significantly over the last 2 years.

Commodities



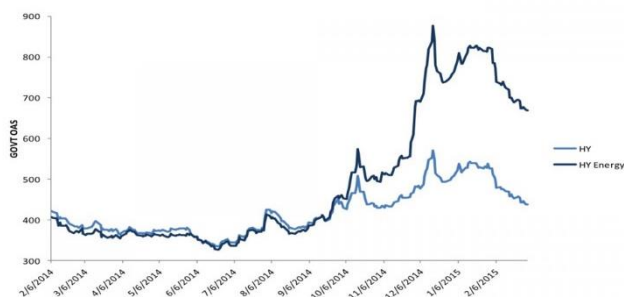
High Yield

Sparinvest's High Yield fund continued to struggle in terms of performance during Q1 2015. January was an especially challenging month due to the spill over effects from the poor liquidity in late December, as well as the continued sell-off in oil and other commodities. However, as oil prices bottomed out (and started to recover some earlier losses) and secondary market liquidity improved due to QE fuelling investors' appetites for riskier assets, the strategy started to perform late in the quarter. The number of distressed cases in the fund did not increase, and some of the investments that had been trading at deep discounts (price range 60-80) early in the quarter started to recover as earnings releases were in line with expectations. It should be emphasized, that investments that trade at these deep discounts – particularly in energy related companies – continue to pay coupons and amortizations as scheduled, contradicting the (often peculiar) price formations experienced in the secondary markets due to poor liquidity. Therefore, an attractive upside to these investments should be expected throughout 2015.

The distressed cases in the HY strategies are now closer to being resolved and the team has a clearer picture regarding recovery rate expectations. A couple of cases have been particularly troublesome and recoveries will be disappointing. However, a couple of cases that have been through a complete restructuring of their capital structure in general and outstanding debt in particular, are expected to create an attractive return profile in the strategies over the next 9 months.

The fund is also poised to benefit from the ECB's QE program as European HY spreads in particular are expected to continue to contract over the next couple of months. Chinese monetary policy easing will likely provide a floor for commodity prices (particularly hard commodities) and this will benefit the strategy's mining exposure. Lastly, a substantial increase is expected in energy-related M&A activity, spurred by the massive available cash position of major oil companies. We have already seen Royal Dutch Shell's USD70 bn. purchase of BG energy. At present, the fund has at least three investments in companies that are the M&A targets of larger oil companies.

HY an HY Energy Spreads



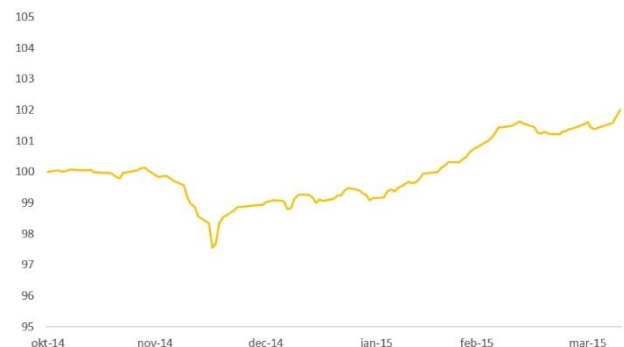
Source: Bloomberg, DoubleLine

HY = High Yield, HY Energy = the energy sector of the high yield market. GOVT OAS = Government Treasury option adjusted spread. A measure of the spread of a fixed income investment (high yield) and the risk free rate (US 3-month government T-Bills). An investment cannot be made directly in an index.

Maturity Funds

Sparinvest continues to experience significant interest from clients in its maturity strategies. Despite the disappointing performance of the flagship High Yield fund and the volatility of the 2017 strategies, there have been significant inflows into our 2018 strategy as well as blended strategies (mixes of IG and HY). The 2018 strategy, with its lower allocation to Energy, has performed satisfactorily and volatility levels have been acceptable through periods of stress in the financial markets.

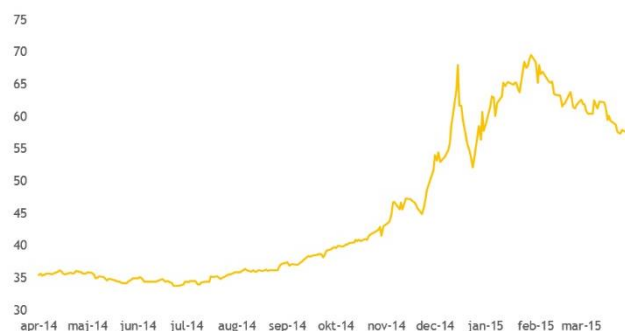
High Yield Value Bonds Short Duration 2018 EUR R



Emerging Markets

After a challenging start to the year, due to the fund's allocations to the mining and energy sectors, the fund experienced a satisfactory return of 1.1% (excluding the swing factor) in the first quarter. Most EM currencies weakened against the dollar, due to the expectations of higher interest rates in the United States. The fund's allocation to investment in Russian companies, which contributed negatively to returns in H2 2014, provided attractive returns in March 2015 as these companies benefited from the weakening of the RUB.

USD/RUB development



Major corporate scandals, associated with bribery and accounting irregularities, were a theme in Emerging markets in late 2014 and throughout Q1 2015. A corruption investigation into the Brazilian state-owned oil company, Petrobras, revealed a corporate culture partially built on bribes and corruption, prompting the company's auditors to refuse to approve Petrobras' Q4 2014 earnings report. The company's outstanding debt was subsequently designated junk status by Moody's

in late January, as uncertainty about the company's ability to access future funding rose.

As Petrobras was downgraded and became a 'fallen angel', the fund increased its marginal exposure to the company in order to capitalize on the fact that Petrobras' corporate debt would be included in all HY benchmarks, thus forcing HY managers and ETFs to include Petrobras in their portfolios.

In China, the continuing disappointing macro-economic developments started to take their toll – primarily on property developers. Kaisa Group Holdings became the first property company in China to default on an interest payment on dollar-denominated debt in January. This flagged further risks for China's somewhat fragile and corruption-prone property market, which, according to World Bank estimates, accounts for about 16 percent of economic growth. The fund has no exposure to the Chinese property sector and only marginal exposure to the Chinese IG and HY issuers.

Continued EM currency volatility will be a theme for the rest of 2015. Issuers with revenues in local currency and outstanding debt denominated in USD will be particularly vulnerable to this, as cash flows will be impacted, thereby increasing the risk that some issuers will not be able to service their debt. The fund will continue to account for this in its investment selection and portfolio maintenance and focus will continue to be on issuers with low gearing, cost base in local currencies and revenue streams in hard currencies.

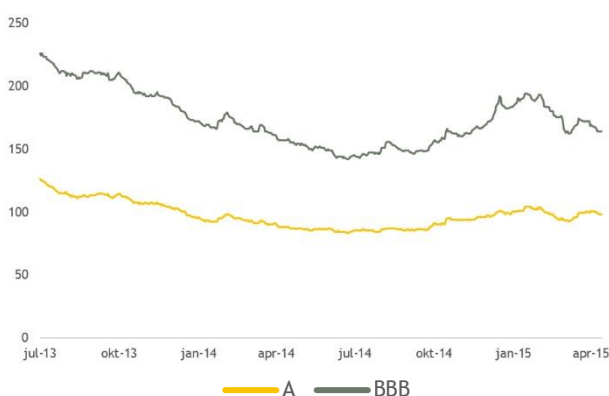
Investment Grade

Sparinvest's Investment Grade fund continues to outperform both benchmark and peers, benefitting from a higher beta as IG spreads continue to contract.

IG issuance volumes in Europe as well as US continue at a record pace. The common denominator for the new issues is that maturities are getting longer as the IG-rated corporates continue to capitalize on the record low interest rates. Most IG benchmarks now have significantly increased interest-rate sensitivity, compared to High Yield, expressed in duration of about 6.50 years.

In order to minimize exposure to rising rates in the US, Sparinvest seeks to compensate for the increased interest-rate risk in the IG strategy by investing in off-benchmark issues with shorter maturities. Thus, the predominant part of the interest-rate sensitivity of the portfolio is in EUR. Long-term interest rates in Europe are expected to be very low for the next couple of years, with German 10- year government bonds trading around 0% in yield. The fund's allocation to USD corporate bonds is primarily in shorter-dated bonds with 2-4 years' maturities, making the fund less sensitive to rising interest rates in the US later in 2015. Investors should note that the Danish IG Fund uses futures to hedge part of the interest rate risk and future alpha generation should be derived from carry on off-benchmark issues, as well as further spread contraction in European corporate bonds.

Credit Spread



Sparinvest is a signatory of UN PRI and member of Eurosif and Dansif.

UN PRI is an international investor initiative sponsored by the UN and based on six principles for responsible investments. The aim is to help investors actively to incorporate environmental, social and governance issues into their investments.

Signatory of:



The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors together with the initial statutes of the funds and any subsequent changes to such statutes. Investments are only made on the basis of these documents. Past performance is no guarantee for future returns. Investors may not get back the full amount invested. Investments may be subject to foreign exchange risks. The investor bears a higher risk for investments into emerging mar-kets. The indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees. For investors in Switzerland the funds' representative and paying agent is Société Générale, Paris, Zweigniederlassung Zürich, Talacker 50, Postfach 1928, CH-8021 Zürich. Published by Sparinvest S.A., 28, Boulevard Royal, L-2449 Luxembourg.