



## High Yield Value Bonds

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### Fund Facts

|                      |  |
|----------------------|--|
| Strategy             | Value Bonds                                  |
| Risk                 | Medium                                       |
| ISIN                 | LU0232765429                                 |
| Share Class Currency | EUR  |
| Fund Inception       | 16-Nov-2005                                  |
| Fund Manager         | Klaus Blaabjerg                              |
| Benchmark            | Merrill Lynch Global High Yield (EUR Hedged) |
| Morningstar Category | Euro High Yield Bond                         |

- [sparinvest.eu](http://sparinvest.eu)

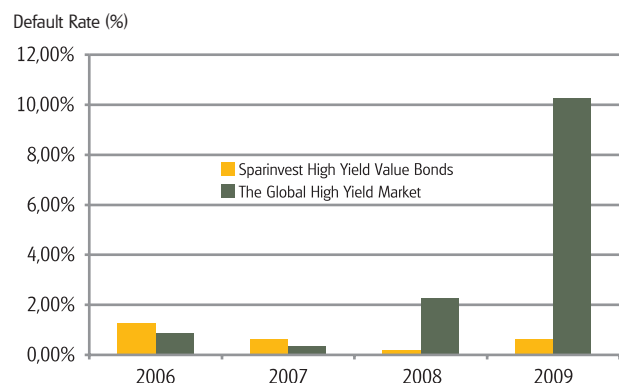
### Performance

Without any doubt, 2009 will be remembered for the sky-high returns on credit and we are proud that our results for the year placed our fund firmly amongst Europe's absolute top performers.

The return on our benchmark for 2009 was 60.71% whereas the fund delivered a return of 80.21%.

The return achieved in Sparinvest High Yield Value Bonds confirms the strength in the value strategy with its emphasis on investing in smaller companies with low net debt-to-equity ratios. Furthermore, the focus on minimizing every possible loss for our investors is maintained in a variety of ways including securing first priority pledge on assets, for example ships, buildings, and oil rigs. Finally, we strictly monitor changes in corporate business strategies, like sudden increases in leverage, increasing stock dividends. This continuous monitoring enables us to avoid companies that may end up with problems because of too much debt.

The conservative investment strategy was to our investors' advantage in 2009 since we had significantly fewer defaults than the general market.



Source: JP Morgan, Sparinvest

The figure clearly illustrates that our value strategy reduces the default risk considerably relative to our benchmark. Value companies withstand tough times better than the general market.

### Portfolio composition

We used the fourth quarter to make small adjustments to the portfolio so that our effective yield at the turn of the year was 13%. The fund is still tilted to energy, financials, and European companies.

Our 10 largest positions constitute 34.50% of our total holdings. For more information about the portfolio composition and performance, please visit [Sparinvest.eu](http://Sparinvest.eu).

### Valuation of the portfolio

Despite the historically high returns on the credit market we still find the fund attractively priced. The fund has a low average price/book and an average net-debt-to-equity ratio less than 100% (excluding financials) – both figures are well below the broader market average. The portfolio's effective yield is 13% compared to the benchmark yield of 9%.

### Company comments

We maintain our overweight in bonds issued by interesting energy companies. In a number of previous letters to investors, we have pointed out the possibility of increasing consolidation within the energy sector. Given the current market value of the energy company bonds that we hold, we maintain our positive outlook on this sector and its potential for generating positive returns.

Immediately before Christmas, Maersk Oil & Gas bought oil fields in the Mexican Gulf for more than USD 1.3 billion, thereby confirming our expectations. Furthermore, Maersk Oil & Gas expects to expand its activities aggressively in the coming years.

### **DDI Holding**

The original Norwegian company DDI operates oil rigs. DDI has a strategic advantage relative to its competitors since DDI's fleet consists of only new builds. The fund has invested in bonds with first priority pledge on DDI's oil rigs. The risk of losing our capital is minimal since the market price for similar oil rigs is well above the total debt. The bonds have a coupon of 9.3%, maturing in 2012 and trading at a price of 95 today. Hence, the effective yield earned for owning DDI bonds is around 13%, which is very attractive considering the low risk involved.

### **Klaus Blaabjerg**

Lead Portfolio Manager

8 January 2010

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