



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

Performance

Sparinvest High Yield Value Bonds maintains its position amongst the top-performing bond funds in Europe.

Sparinvest High Yield Value Bonds & Index Return, in %	Q2 2010	YTD
Sparinvest High Yield Value Bonds	-0.34	8.67
Merrill Lynch Global High Yield	-0.79	4.87

The year-to-date return on our benchmark (EUR Hedged) was 4.87% whereas the fund delivered a return of 8.67%.

Portfolio composition

We have used the latest quarter to make new investments in, among others, Stora Enso and UPM-Kymmene. The fund is still tilted to energy, financials and European companies. Furthermore we are still underweight telecommunication companies since these generally operate with more debt and goodwill than our investment process dictates.

Our 10 largest positions constitute 36.37% of our total holdings. *For more information about the portfolio composition and performance, please visit Sparinvest.eu.*

Valuation of the portfolio

We still find the fund attractively priced when compared to the fundamental health of the issuing companies and the fund's return potential. The fund has a low average price-to-book and an average net-debt-to-equity ratio of less than 100% (excluding financials). Both figures are well below the broader market average. The portfolio's effective yield is 11.6% compared to the benchmark yield of 9.1%.

Company comments

Sevan Marine – Voyager

Sevan designs and produces cylinder-shaped floating oil production and storage platforms that are well suited for heavy seas. The uniquely-shaped platforms are able to maintain high production utilization in areas and in weather conditions where more classically-designed oil rigs may temporarily be forced to shut down production.

Corporate bonds issued by Sevan Marine have been part of the fund for the last couple of years, including a bond with 2nd priority pledge on the oil platform, Sevan Voyager.



Photo: Sevan Voyager

This corporate bond is very interesting because of the pledge on the assets. Currently, the market value of the platform is well above the value of the debt. At the beginning of May, Sevan announced that Voyager would continue to work in the North Sea on a 5-year fixed contract with the English energy company E.ON, for a value of USD 535 million. Sevan Voyager needs to upgrade the equipment on the platform for USD 90 million, which will be financed with USD 80 million of debt and the rest in equities.

Thorough review of bond documentation pays off in the long run

Reading through the corporate bond documentation is a natural step in our investment process. The upgrade of Sevan Voyager shows the value in bonds with restrictive covenants.

The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus 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 markets. The indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees. Sources (where applicable): Sparinvest, Morningstar Standard & Poors, Bloomberg, Telos, Feri. For investors in Switzerland the fund's representative and paying agent is RBC Dexia Investor Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.

Sevan wished to finance the upgrade by taking a new loan with 1st priority pledge on the Voyager oil platform. But, because of the covenants in our corporate bonds, Sevan could not take that decision alone. They needed to ask us for permission to prioritize any new debt ahead of our existing debt. They had to negotiate with us because our bonds include a 'negative-pledge' covenant prohibiting Sevan from increasing debt with 1st pledge on the assets.

As creditors, this development alone put us in a very pleasant situation since Sevan would either have to buy back our corporate bonds at the price of 104 or renegotiate the bond documentation. Sevan decided to do the latter and the outcome was in our favour. The Value Bonds team took a proactive part in the negotiations with Sevan to increase investor value. And we are very pleased with the results, which include an increase in the coupon by 4.5% and a maturity value of 105 instead of par.

Attractive asset backing

The present market value of the oil platform Sevan Voyager is USD 449 million. In case of a default, bondholders with 1st priority pledge debt would first take their part (USD 230 million, including the new issue USD 80 million). The rest of the cake – valued at over USD 210 million – is more than enough to cover our 2nd priority pledge corporate bond issuance.

After signing the new agreement with Sevan, our bonds traded up from 90 to over 100. The bonds still look attractive, yielding 15%.

Klaus Blaabjerg

Lead Portfolio Manager

12 July 2010

This Fund Update should be read together with the latest 'Letter to Shareholders', in which our Value Bonds team offer their perspective on value investment and market developments.

Sparinvest High Yield Value Bonds available share classes	ISIN
EUR E	LU0324847606
EUR I	LU0258535045
EUR R	LU0232765429
EUR UKI	LU0258535631
EUR UKR	LU0258534311