



AAA-  
06/2011

Sparinvest  
High Yield Value Bonds

**Product Profile**

Fund Name	Sparinvest High Yield Value Bonds
ISIN	LU0232765429
Investment universe	Global High Yield Bonds
Benchmark	Merrill Lynch Global High Yield (EUR Hedged)
Base Currency	EUR
Earnings	Accumulation
Inception date	16/11/2005
Fund Volume	EUR 389.96 m as 30/06/2011
Management Fee	1.25% p.a.
TER	1.57% p.a.
Fund Manager	Klaus Blaabjerg
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 High Yield Value Bonds* is an actively managed global bond fund characterised by its value approach, whose investment focus is on high yield corporate bonds. The fund therefore offers an attractive return potential but also involves higher solvency-related risks, which are remunerated in the long term through a corresponding risk premium. The currency risk is in principle hedged against the EUR.

The fund seeks to achieve excess long-term returns from a diversified global high yield portfolio. The fund approach is based on the Fama & French 3 factor 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. The portfolio is made up of undervalued bonds, whose relative value is identified by calculating the option-adjusted spread. The portfolio management is aware of the leverage buyout risk (LBO) and analyses in detail the terms and conditions associated with change of control clauses. "Contracts including a guarantee", which must be analysed in detail prior to investment, represent an important factor in the assess-

ment of bonds that otherwise fulfil the investment criteria. SRI investments now play a major role. *Sparinvest* signed UN Principles for Responsible investment agreement (UN PRI), and the product implements formal ESG issues into a investment process.

The portfolio construction process is characterised by a fundamental team approach. Analysis and research results are actively communicated and discussed. The team distinguishes itself, especially given its small size, 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 investment focus is on corporate bonds with a rating of BB to C. The portfolio undergoes regular style analyses in order to highlight inherent potential risks, with the aim of determining whether the fund has style characteristics that the fund manager did not intend.

The *Sparinvest High Yield Value Bonds* portfolio currently comprises 104 positions. The portfolio remains attractively valued. The fund has a low price to book ratio and an average net debt to equity ratio of less than 100% (excluding financial stocks). The fund is currently clearly orientated towards the energy and financial / insurance sectors and towards European companies. The Sharpe ratio was consistently positive.

*Sparinvest High Yield Value Bonds* is rated **AAA-**.

## Investment Process

The *Sparinvest High Yield Value Bonds* is managed by *Sparinvest S.A.* (*Sparinvest*). Investment advice is provided by *Sparinvest Fondsmæglersekskab A/S* in Denmark. Both companies are wholly-owned subsidiaries of the Danish company *Sparinvest Holding A/S* (formerly *Sparinvest*), which was formed in 1999. A total of four employees from the Value Bonds Team are involved in the investment process. The fund manager *Klaus Blaabjerg* has overall responsibility for investment decisions.

*Sparinvest S.A.*'s investment philosophy is based on the assumption that the market for high yield corporate bonds offers an attractive risk/return ratio in comparison with other fixed income investments, although the risks must be monitored and defaults minimised. The primary investment goal is to preserve capital, although capital growth is also sought and *Sparinvest*'s value philosophy must be consistently adhered to. The fund manager's approach is confirmed in a study published in 2001 by Professors Elton and Gruber, according to which the same small cap stocks value factors apply for bonds as for higher yield equities. In order to achieve this, the fund invests at least 2/3 of its net assets in high yield non-investment-grade bonds. It may also invest in fixed income securities of issuers with other ratings. In order to achieve the goal, the fund manager may vary significantly from

the fund's benchmark. The investment process is based on a bottom-up approach. The first stage of the investment process involves quantitative screening of the investment universe of approx. 4,000 global corporate bonds. At the same time, all global companies are analysed from a value perspective. Stocks with strong balance sheets and a low net debt to equity ratio, and which are also undervalued on the basis of value ratios such as price to book value or EV/EBIDTA, are selected. The focus of the fund is on small caps. The remaining stocks are subjected to an individual qualitative analysis, with particular focus on the companies' annual financial statements of the last 5 to 10 years, their business models and their growth prospects. If necessary, the companies in question are asked for further information. The fund invests increased also in a new issuance in "primary market", however under use of same figures.

The fund manager contacts sector specialists in order to double-check his own opinion. Companies whose intrinsic value differs significantly from their current price are selected. Finally, the bond is analysed in detail. There are no fixed limits as regards the sizes and number of individual positions in the fund or maximum weightings of individual stocks or sectors. The current average rating of the portfolio is BB-.

## Quality Management

The entire fund profile is regularly the subject of a style analysis conducted by a committee that is independent of the fund management. In doing so, 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. The portfolio

management conducts a pre-trade verification of adherence to investment restrictions. For a short time, *Sparinvest* utilized a proprietary fund accounting systems HUGO. In addition, the remaining internal and external investment risks are automatically monitored by *Dexia*.

## Team

*Sparinvest High Yield Value Bonds* has been managed since its launch by a four-person team managed by *Klaus Blaabjerg*. The fund is co-managed by *Sune Hoholt Jensen*. The two have been working closely together for over four years. The fund was formerly co-managed

by *Thomas Bjorn Jensen*, who has left the High Yield Team. All the specialists involved in the overall process are graduates and the team benefits from their long average length of experience.

## Investment Characteristics

<i>Important external factors</i>	<i>Important control factors</i>
Sector development	Leverage
Liquidity	Credit-worthiness
Economic environment	Asset selection
Commodity prices	Liquidity allocation
Credit spreads	Maturity allocation

## Product History

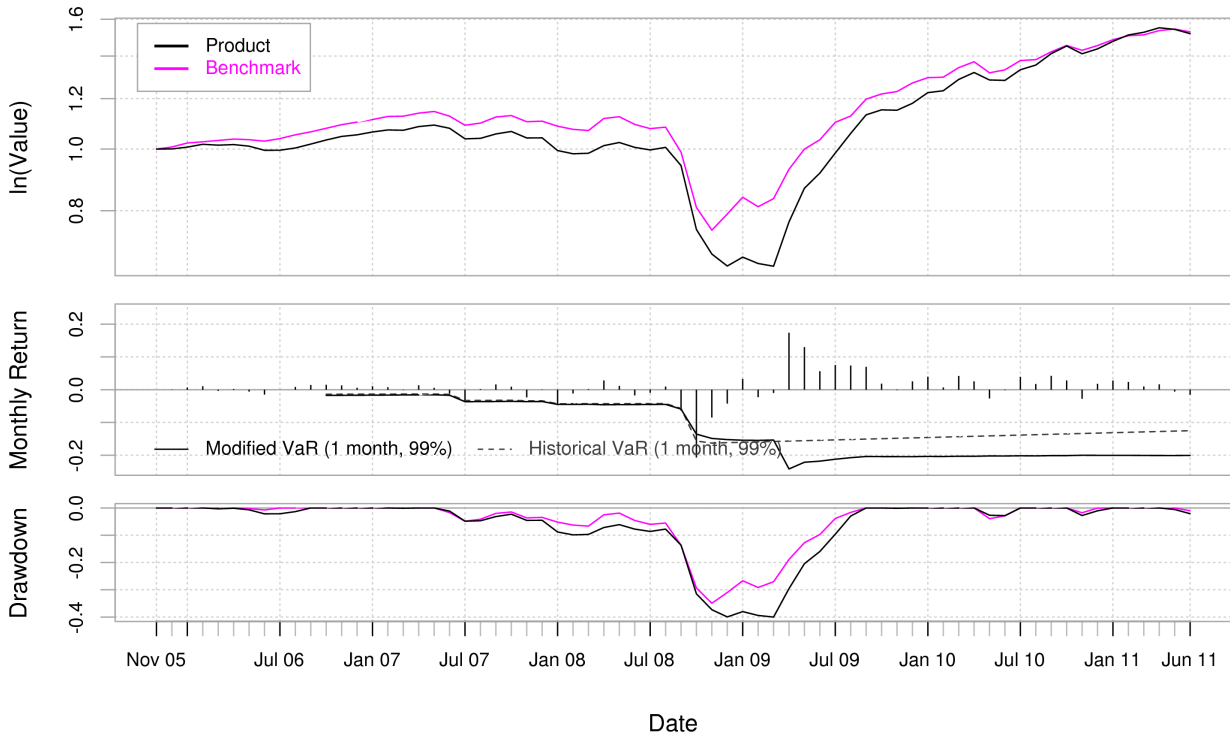
### Monthly Returns

	2005	2006	2007	2008	2009	2010	2011
Jan	-	0.7	1.0	-4.5	3.3	3.9	2.8
Feb	-	1.0	0.7	-1.2	-2.3	0.7	2.3
Mar	-	-0.3	-0.1	0.2	-1.0	4.2	1.0
Apr	-	0.2	1.3	2.8	17.4	2.5	1.6
May	-	-0.6	0.5	1.1	13.0	-2.7	-0.6
Jun	-	-1.5	-1.2	-1.7	5.6	-0.1	-1.5
Jul	-	0.0	-3.7	-0.9	7.5	3.9	-
Aug	-	0.8	0.2	0.9	7.4	1.7	-
Sep	-	1.4	1.6	-6.4	6.9	4.2	-
Oct	-	1.5	0.9	-20.7	1.8	2.8	-
Nov	-	1.3	-2.3	-8.5	-0.1	-2.8	-
Dec	0.0	0.6	0.0	-4.2	2.5	1.8	-
<b>Product</b>	<b>0.0</b>	<b>5.2</b>	<b>-1.1</b>	<b>-37.1</b>	<b>80.2</b>	<b>21.8</b>	<b>5.7</b>
<b>Benchmark</b>	<b>0.7</b>	<b>9.4</b>	<b>0.3</b>	<b>-28.5</b>	<b>60.7</b>	<b>14.5</b>	<b>5.1</b>

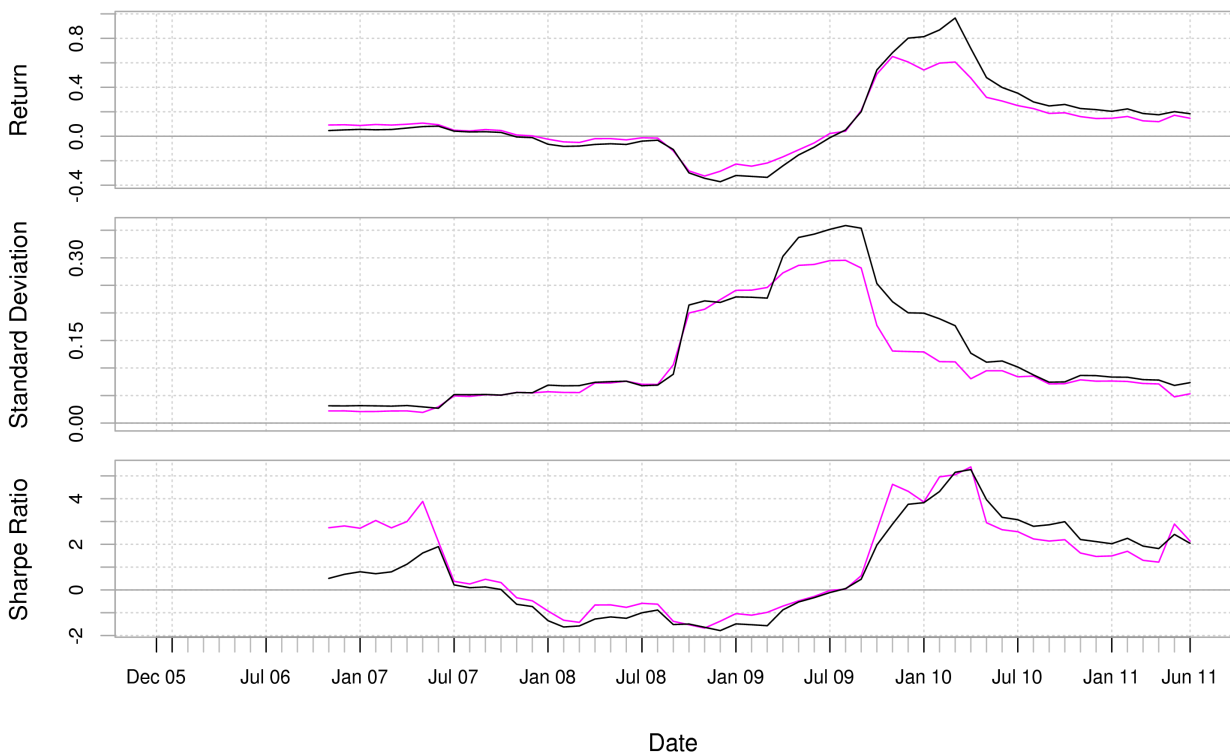
<i>Statistics per end of Jun 11</i>	<i>6 M</i>	<i>1 year</i>	<i>2 years</i>	<i>3 years</i>	<i>5 years</i>
<i>Performance (annualised)</i>	11.67%	18.44%	28.72%	14.71%	8.81%
<i>Volatility (annualised)</i>	5.84%	7.34%	9.65%	21.16%	16.86%
<i>Sharpe-Ratio</i>	1.49	2.10	2.67	0.55	0.34
<i>Best monthly result</i>	2.77%	4.22%	7.53%	17.39%	17.39%
<i>Worst monthly result</i>	-1.55%	-2.77%	-2.77%	-20.69%	-20.69%
<i>Median of monthly results</i>	1.31%	1.75%	2.08%	1.75%	0.92%
<i>Best 12-month result</i>		18.44%	39.89%	96.64%	96.64%
<i>Worst 12 month result</i>		18.44%	17.58%	-8.90%	-37.12%
<i>Median of 12-month results</i>		18.44%	22.38%	24.82%	4.21%
<i>Maximum loss period</i>	2	2	2	13	27
<i>Maximum loss</i>	-2.09%	-2.77%	-2.81%	-34.97%	-40.01%

<b>Fund vs. Benchmark (trailing 36 Months)</b>	
<b>Jensen Alpha</b>	0.00
<b>Annualized Jensen Alpha</b>	0.02
<b>Beta</b>	1.08
<b>R-squared</b>	0.81
<b>Correlation</b>	0.90
<b>Tracking Error</b>	0.09
<b>Active Premium</b>	0.03
<b>Information Ratio</b>	0.31
<b>Treynor Ratio</b>	0.10

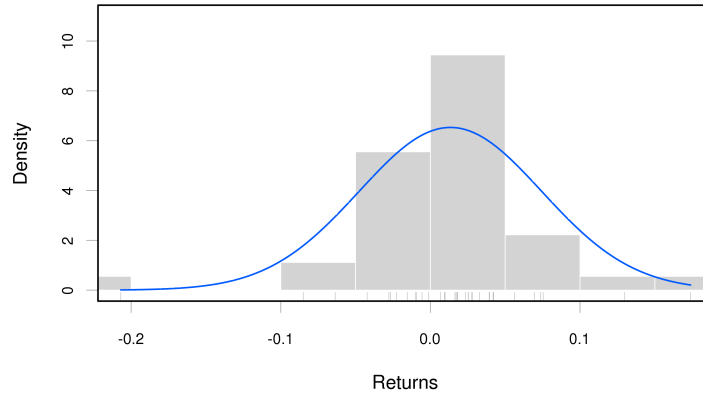
**Performance**



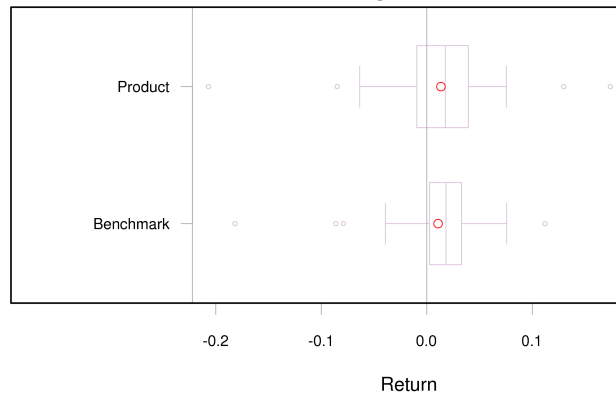
**Rolling 12-month- Performance**



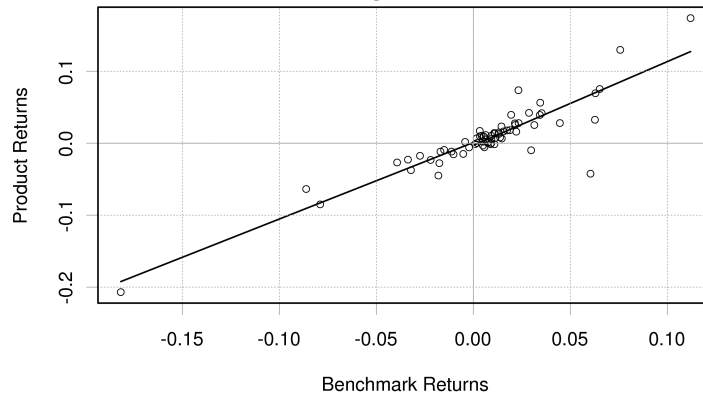
**Histogram of monthly Returns**  
 (trailing 36 Months)



**Boxplot of monthly Returns**  
 (trailing 36 Months)



**Conditional Beta of monthly Returns**  
 (trailing 36 Months)



## 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 obser-

ved 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<sup>2</sup>** 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.



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

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