



Ethical Global Value

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Fund Facts

Strategy	Value Equity
Risk	N/A
ISIN	LU0362355355
Share Class Currency	EUR
Fund Inception	30-May-2008
Fund Manager	Jens Moestrup Rasmussen
Benchmark	MSCI World (EUR)
Morningstar Category	Global Large-Cap Value Equity

- sparinvest.eu

Performance

The Sparinvest Ethical Global Value fund increased by 2.08% in the fourth quarter of 2009, resulting in a gain of 22.75% over the full year. The general equity market, as measured by the MSCI World index, rose by 6.03% in the quarter, and 25.94% over the year. The value stock universe rose by 22.73% over the year, compared with 29.12% for growth stocks. Small caps were relatively strong, with an annual return of just under 40%.

Looking at the fourth quarter alone, the MSCI World index rose by 6.03%, value stocks rose by 4.15%, and growth stocks rose by 7.97%. The fund outperformed both the overall market and the value universe for much of the year, but a relatively weak 2.08% gain in the final quarter meant that it closed the year narrowly ahead of MSCI World Value, and just behind MSCI World. Japanese equities – which were actually stronger than most regions during much of the crisis – had a lacklustre end to the year, with the MSCI Japan index trailing the global index by about 7 percentage points over the fourth quarter. Our Japanese holdings had a negative impact on the fund in the quarter but, as we stress in the Letter to Shareholders, three months of underperformance by a region is not a reason for us to question our holdings. We are, in fact, very encouraged by fundamental developments in our Japanese holdings. Our Dutch companies, on the other hand, served us well in the quarter - as well as during the year – helped, of course, by the takeover bid mentioned below.

It is important to note that 2009 was, ultimately, a year in which growth stocks outperformed value stocks globally – but this does not worry us. History has shown that despite short periods of growth outperformance, value stocks offer the healthiest returns over the long-term, and we remain convinced of the superiority of value as an asset class.

Contemplating 2009 as a whole, we see good reason to be optimistic about the outlook for the fund. It rose broadly in line with global indices over the year, despite some clear factors working against it. On top of the outperformance of growth and underperformance of Japan discussed above, M&A markets are still not in full throttle (although note our comment on Océ below), and in much of 2009, the markets did not focus on quality, but instead we saw a 'dash to trash' rally. A change in any of these factors could easily serve as a catalyst for the fund in the future, but we are not in the game of predicting if and when.

Portfolio Composition

At the end of the quarter, the cash position was 3.3% of assets under management. The fund had 95 holdings and our ten largest positions accounted for 33.74% of the total.

Since we last wrote, we have made a new investment in ENI, the Italian oil and gas company. In general re-balancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have now sold our positions in Molex and Pininfarina, which are discussed below.

For further data on the fund, including complete portfolio holdings, performance and breakdowns by industry and geographical sector, please refer to our website and the latest fund factsheet.

Portfolio Valuation

Despite rising almost 23% over the year, valuations of our holdings are compelling. If we aggregate the data from the holdings into one theoretical company, it is trading at a price-to-book of just 0.97 times. Looking at earnings, EV/EBITDA is 3.3 times 2009 Bloomberg estimates, and just 2.7 times 2010 estimates. The aggregate balance sheet is solid, with net-debt-to-equity of just 25% (versus 62% for the MSCI World), and intangibles-to-equity of only 17% (versus 53% for the index). We remain confident in the quality of our holdings, both in terms of their balance sheets and the robustness of their business models. We are convinced that the strength and low pricing of our portfolio will allow us to generate healthy long-term returns.

Individual Positions

Océ

Takeover Bid by Canon.

Océ is a Dutch manufacturer of high-end copiers and printers, which has been a long-term holding in our funds. The group has developed interesting niche businesses in wide-format and high-volume printing, in which it has a strong competitive position in Europe. In recent years it has had a tougher time in standard office printers, where it is a relatively small player, and of course the crisis has hit the entire industry hard.

In November 2009, Canon – obviously a dominant force in the industry – announced a takeover bid for Océ. The offer price of EUR 8.60 per share was a significant premium to recent share price levels. The tender process is ongoing – European Union regulators only cleared the bid in late December – and we are monitoring the situation closely, but naturally we are encouraged to see that industry peers are able to see considerable long-term value in Océ.

Pininfarina

Sold with loss

Pininfarina is an Italian company, with a history running back to 1930, that designs and builds cars and body parts for brands as diverse as Ferrari, Maserati, Alfa Romeo, Ford and Volvo, to name a few.

Our funds first invested in Pininfarina in mid-2002, paying around EUR 19 a share. The company was cheap on both price-to-earnings and price-to-book multiples, and offered a strong balance sheet with little debt. It had a certain degree of flexibility in its business model, as it produced on a build-to-order basis. In 2003, it was set to see orders for the new Ford Street Ka and the restyled Alfa GTV and Spider.

Like most companies in the automobile sector, Pininfarina had experienced downturns before, but had shown an ability to turn things around on the back of new model launches. In 2005 to 2006, earnings were suffering somewhat, and Pininfarina took on higher levels of debt, primarily to fund production of new models and expansion of its asset base – such as the acquisition of Volvo's Uddevalla plant in Sweden. In light of their track record, we decided to give management the benefit of

the doubt. Unfortunately the credit crisis was just around the corner which, of course, made the operating environment far tougher for the entire industry. For Pininfarina, a further sad blow came when the CEO, Andrea Pininfarina, passed away. Both income statement and balance sheet have deteriorated further under his replacement, Paolo Pininfarina, and while the board is doing its best to get things back on track, we determined that our original investment case had gone and the company's intrinsic value had been eroded.

We therefore decided to sell our holdings, completing the sale in October 2009 with an average sale price of just EUR 3.5. This is clearly a regrettable example of an investment case that did not develop as expected. Despite our focus on financial strength and enduring business models, there will inevitably be a minority of cases which disappoint. This is why, in addition to our disciplined investment process, we invest in a diverse range of companies, and rigorously monitor our existing holdings, to make sure that our portfolios contain quality companies at healthy discounts to their true worth.

Molex

Reached target

Molex is an electronics company based in the United States. We expect few people have heard the name, but it is the world's second largest supplier of connectors and other electronic components, with over 100,000 different products. It supplies household names from Cisco and Dell to Ford and General Motors.

We bought shares in Molex in December 2008, when newspaper headlines screamed of a standstill in global exports, plummeting industrial production and a dismal Christmas selling season. There was indiscriminate selling of technology-related shares, as investors feared an implosion of final demand. We naturally expected a major impact on earnings in 2010, but we also felt sure that demand for technology would not disappear forever.

Molex was trading at 0.9x book value and we found that - even assuming earnings would revert to the lowest level in eight years - the shares were unjustifiably cheap: there was a significant margin of safety. Molex had been established in 1938, and the founding family was still a major shareholder; we saw a history of long-term planning and experience with downturns. The company

still owned much of its production capacity, whereas many competitors had already shifted to an asset-light strategy: so, while they had become 'lean and mean' in terms of operational efficiency, Molex had room to cut costs further. In addition, while competitors had become financially leveraged, Molex retained a net-cash position, which we believed could be an important factor during the crisis. Finally, although Molex's products are vital components, they actually represent only a tiny fraction of the total production costs for the customer: this means that Molex faces less price pressure than many technology companies, with clients focused instead on quality, reliability and just-in-time delivery.

Molex shares rose steadily from March 2009, as some degree of confidence returned to markets. We are long-term investors, but naturally we do not hesitate to sell an investment which reaches its target. Having invested in December 2008 at USD 14, we sold our shares in October 2009 at just over USD 21.

Ethix SRI Advisors

Summary of the Exclusion Filters

Norm-based Screening (UN principles)

- Zero tolerance

Sector-based Screening

For Porn, Alcohol, Tobacco and Gambling

- Zero tolerance for production
- 5% tolerance for distribution

Weapons

- Zero tolerance for combat equipment
- 5% tolerance for other military equipment and associated services

Ethix SRI Advisors – Ethical Reporting

New holdings

During the quarter, no potential new investments were excluded as a result of the ethical screening criteria.

ENI SPA ROMA

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
ENI SPA ROMA	IT	—	—	—	—	—	—	—	—

No comment regarding involvement in controversial activity and revenue shares derived from such activities.

Existing holdings

During the quarter, none of our existing holdings were removed from the portfolio due to ethical criteria.

Jens Moestrup Rasmussen

Lead Portfolio Manager

8 January 2010

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. For investors in Switzerland the funds' representative and paying agent is RBC Dexia Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.