



Global Value

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Fund Facts

Strategy	Value Equity
Risk	Medium
ISIN	LU0138501191
Share Class Currency	EUR
Fund Inception	14-Dec-2001
Fund Manager	Jens Moestrup Rasmussen
Benchmark	MSCI World
Morningstar Category	Global Large-Cap Value Equity



- sparinvest.eu

Performance

In the first half of 2010, Sparinvest Global Value posted a return of 8.41%, compared with 5.61% for the general equity market, as measured by the MSCI World index. During the second quarter, the fund retreated by 2.26%, while the index dropped by 3.53%.

Sparinvest Global Value & Index Returns, in %	Q2 2010	YTD
Sparinvest Global Value	-2.26	8.41
MSCI World Index	-3.53	5.61
MSCI World Value Index	-4.08	5.10
MSCI World Growth Index	-2.97	6.11
MSCI World Small Cap Index	-1.13	12.76

MSCI World Index, MSCI World Value Index, MSCI World Growth and MSCI World Small Cap Index are all indices that contain a broad selection of companies from all over the world. All returns on investment are in EUR.

Breaking the second quarter down further, value stocks dropped by 4.08%, while growth stocks fell by 2.97%. The small cap market dropped by 1.13%.

We aim for absolute returns and, during the last three months, the equity market has taken something of a breather. However, the fund is performing relatively strongly compared with indices. Moreover, we see many factors which should drive solid returns in the months and years to come. Many of these, we discuss in more depth in the Letter to Shareholders.

Let's take a closer look at what drove returns in the second quarter. Europe was the decisive factor. Our performance in Japan was mixed, with relative strength in consumer durables and technology. Our North American holdings lost relatively little ground compared to indices, but we continue to have a relatively low weighting in the US.

In Europe, despite a very tough environment, our holdings performed well. Generally speaking, the largest falls of the past three months were seen in Southern Europe, where we have relatively low weightings. For example, the fund has no investments in Portugal, Greece, or Spain. As we discuss in the Letter to Shareholders, this was not the result of a strategic top-down decision, but, in recent years, when we have evaluated companies in those countries, we have found it hard to find many with compelling valuations relative to their earnings power.

Meanwhile, in those European countries where we do have investments, we generally performed considerably better than benchmark indices. This was partly thanks to our relatively high exposure to cyclical sectors such as industrials, consumer discretionary, and materials. Despite the lack of visibility in the overall economy, we are seeing many positive developments in fundamentals and earnings at our holdings – both cyclical and non-cyclical. We continue to believe that as the market starts to pay more attention to fundamentals and individual corporate quality, instead of an overwhelming focus on top-down fears, our holdings will be well rewarded.

Bear in mind that, so far this year, currencies have actually worked against the fund due to its relatively high weighting in Euro denominated stocks. While the MSCI World index has a weighting of around 50% in US stocks, the fund has just under 10%. So, with the US dollar up 17% against the Euro in the first half, and 10% in the second quarter alone, this has certainly cost the fund a few percentage points in relative performance. This is not something that troubles us. Considered over the short term, of course there are quarters when currency moves hurt, and others where they help. Naturally, we have often studied the long-term impact of currencies on the funds and the potential benefits of hedging the exposures. However, the results have clearly suggested that, over the course of the years, relative currency swings have had an extremely limited impact on performance. For us, it always boils down to the actual quality of our investments and what potential they have for the years to come.

Portfolio Composition

At the end of the quarter, the cash position was 5.7% of assets under management. The fund had 93 holdings and our ten largest positions accounted for 32.48% of the total.

Since we last wrote, we have made new investments in International Speedway Corp, the US operator of motor-racing facilities such as the Daytona speedway, and Tokyo Steel, a Japanese electric-furnace steel maker. In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have now sold our position in 4Kids, which is 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

Valuations of our holdings are compelling and suggest impressive potential for the future. Aggregating the fund holdings into one theoretical company, it trades at a price-to-book of just 0.91 times, while the MSCI World index is at 1.94 times.

We have a relatively high exposure to cyclical companies which inevitably saw weaker earnings during the crisis, but are now recovering swiftly. The speed of this earnings rebound is indicated by valuation measures. Price-to-Earnings for the year ended was 36.3 times, a relatively high multiple caused by the short term earnings decline last year. But if we look forward to estimated earnings for 2010, the multiple drops to 12.0 times Bloomberg estimates, and for 2011 it is just 9.3 times, compared with 11.5 times for the MSCI World Index. EV/ EBITDA is a useful indicator of the price of a company relative to its raw earnings power. Our fund is trading at 2.8 times 2010 estimates, and 2.5 times 2011 estimates. This compares with 6.9 and 6.2 times for the MSCI World.

On top of these compelling earnings valuations, the aggregate balance sheet is solid, with net-debt-to-equity of just 25% (versus 54% for the MSCI World), and intangibles-to-equity of only 19% (versus 51% for the index). We think that this financial strength will be a crucial distinguishing factor in the coming years, as we discuss in more depth later in this letter.

Individual Positions

4Kids: Sold with Loss

In order to ensure that our portfolio retains its quality and potential to deliver good returns, we monitor our holdings rigorously. Where we see disintegration of the investment case and deterioration in our assessed intrinsic value, we are disciplined in selling the position. This is never pleasant, but it is an inevitable part of investing and crucial to ensure long-term performance for the funds.

4Kids is a US company specialising in the licensing of toys and games. It has been involved in brands such as Pokemon, Cabbage Patch Kids, Yu-Gi-Oh, and so on. When we first invested in 4Kids in December 2005, paying around USD 16 per share, the stock was trading at a price-to-book of around 1.3 times, and had a considerable net cash position, equivalent to around half of its market capitalisation. It had shown a good ability to keep refreshing its product range and thereby its earning power.

However, in subsequent years, it proved more difficult for the company to find suitable products to replace those whose licenses were expiring, and earnings deteriorated as a result. We always consider earnings power in a long-term context, and accept that even strong companies will have difficult periods. However, it is important to ascertain that the earnings model itself is intact, or can be successfully regenerated. With 4Kids, we ultimately concluded that this was not the case and therefore began to sell our shares in 2009. The liquidity of the stock had declined, meaning that it took some time to exit fully, but we completed the sale in the second quarter of 2010, realising an average price just under one dollar. Clearly,

we consider this to be a most disappointing case, but we are happy to say that in our diverse portfolio of close to one hundred investments, such cases are rare – and, as discussed above, we are very confident in the quality of our existing investments.

Jens Moestrup Rasmussen

Lead Portfolio Manager

12 July 2010

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

Sparinvest Global Value available share classes	ISIN
EUR E	LU0324846970
EUR I	LU0258533180
EUR R	LU0138501191
EUR UKI	LU0258534071
EUR UKR	LU0259214707
GBP UKR	LU0258527455
USD I	LU0294897425
USD R	LU0298896787

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.