



European Value

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Fund Facts

Strategy	Value Equity
Risk	Medium
ISIN	LU0264920413
Share Class Currency	EUR
Fund Inception	02-Nov-2006
Fund Manager	Jens Moestrup Rasmussen
Co-Fund Manager	Per Kronborg Jensen
Benchmark	MSCI Europe (net dividends)
Morningstar Category	Europe Mid-Cap Equity

- sparinvest.eu

Performance

Sparinvest European Value fund rose by 6.20% in the first quarter of 2010. The general European market, as measured by the MSCI Europe index, rose by 4.12% in the quarter. Meanwhile, the European value stock universe (MSCI Europe Value) rose by 2.17%, compared with 6.03% for growth stocks. European Small caps were very strong, with a return of 9.82%.

Sparinvest European Value versus Index in %	Q1 2010	2009
Sparinvest European Value	6.20	32.12
MSCI Europe Index	4.12	31.60
MSCI Europe Value Index	2.17	33.46
MSCI Europe Growth Index	6.03	29.70
MSCI Europe Small Cap Index	9.82	59.30

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

The fund performed well in both absolute and relative terms. In the first quarter the fund outperformed the overall market by more than 2%, despite the fact that value stocks underperformed growth stocks in the region.

In terms of sectors, our high weighting in consumer discretionary, and especially German industrial stocks, benefited from an outperformance by cyclical stocks.

Remember that our region and sector weightings are not actively decided. The allocation is a result of where we find cheap shares. The fact that cyclical stocks performed well in the quarter is probably a result of the improved quarterly reports along with a belief that, despite the great challenges that lie ahead, strong companies can and will return to a normalised earnings level at some point.

Overall the quarterly return is satisfactory, but our focus – as always – remains on the generation of healthy returns over the longer term. As previously discussed in our fund updates and letter to shareholders, we believe that our portfolio holdings have considerable potential for future performance.

Portfolio Composition

At the end of the quarter, the cash position was 8% of assets under management. The fund had 65 holdings and our ten largest positions accounted for 30.64% of the total.

Since we last wrote, we have made a new investment in De'Longhi, the Italian maker of electric appliances. In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have also sold our position in Océ, 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

Despite the attractive returns of the stock market since the March 2009 low, the 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 1.05 times. Looking at earnings, EV/EBITDA is 4.1 times 2010 Bloomberg estimates, and just 3.5 times 2011 estimates. The aggregate balance sheet is solid, with net-debt-to-equity of just 35% (versus 60% for the MSCI World), and intangibles-to-equity of only 15% (versus 59% for the MSCI European Value 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 Accepted

As communicated in our previous letter to shareholders, we received a takeover bid for Océ in November 2009.

Océ is a Dutch manufacturer of high-end copiers and printers, which has been a long-term holding in the fund. The group has developed interesting niche businesses with strong competitive edges in wide format and high volume printing, in which it has a strong competitive position. That said, recent years have not all been smooth sailing for the company. In its standard office printer business, it increasingly found itself a relatively small player, and it became tougher for a company with a European cost base to compete in a rapidly globalising world.

This combination meant that it was not a huge surprise when Canon announced a takeover bid for the company. Strategically, it made an excellent fit, with Canon gaining the strong niche operations from Océ, and Océ clearly benefiting from Canon's global presence.

That said, we were disappointed to see that the board and management of Océ opted to make this move during a downturn. Negotiations with potential buyers started at the bottom of the economic cycle, which resulted in a takeover bid which we felt did not reflect the full long-term value of Océ. We clearly communicated this directly to the management and boards of both Canon and Océ, and in person at an extraordinary general meeting relating to the bid. Unfortunately, with a majority of shareholders supporting Canon's bid of EUR 8.60, we were not able to change the outcome of the offer.

The fund had first acquired shares at fund inception in late 2006, paying around EUR 12.20 per share. Clearly, the tender level of EUR 8.60 was some way below this level, making for a total return, after dividends, of around minus 20%. Clearly, we did not consider this to be a satisfactory return and, moreover, did not feel that the bid truly reflected the long-term value of the company.

However, the majority vote in favour of the bid meant that, if we were to refuse to tender, we would have become minority shareholders in a company with an extremely low free-float of shares, or possibly even a delisted company. We ultimately decided that this would not be in the best interest of our shareholders and therefore decided to tender our shares. We received payment in March 2010.

Jens Moestrup Rasmussen & Per Kronborg Jensen

Lead Portfolio Manager Senior Portfolio Manager

12 April 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.