



## European Value

### Headlines

- Performance
- Portfolio Composition
- Portfolio Valuation

### Fund Facts

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

- [sparinvest.eu](http://sparinvest.eu)

### Performance

In the first half of 2010, Sparinvest European Value posted a return of 5.52%, compared with -2.45% for the general European equity market, as measured by the MSCI Europe index. During the second quarter, the fund retreated by 0.64%, while the index dropped by 6.31%.

Sparinvest European Value & Index Returns, in %	Q2 2010	YTD
Sparinvest European Value	-0.64	5.52
MSCI Europe Index	-6.31	-2.45
MSCI Europe Value Index	-9.46	-7.49
MSCI Europe Growth Index	-3.27	2.56
MSCI Europe Small Cap Index	-5.04	4.28

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.

Breaking the second quarter down further, value stocks dropped by 9.46%, while growth stocks fell by 3.27%. The small cap European market dropped by 5.04%.

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 and, notably, is outperforming the European Value index by a significant degree so far this year. Moreover, we see many factors which should drive solid returns in the months and years to come. Many of these, we discuss in greater depth in the Letter to Shareholders.

Let's take a closer look at what drove returns in the second quarter. 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.

### Portfolio Composition

At the end of the quarter, the cash position was 7.5% of assets under management. The fund had 65 holdings and our ten largest positions accounted for 31.9% of the total.

Since we last wrote, we have made a new investment in Headlam, a British wholesaler of floor-coverings. In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have not sold any positions during the quarter.

*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 relatively strong recent performance, 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 1.05 times, which is considerably cheaper than the overall market, and even cheap in comparison with the MSCI European Value index, which trades at 1.23 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 27.7 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 9.9 times Bloomberg estimates, and for 2011 it is just 7.7 times, compared with 8.6 times for the MSCI European Value index. EV/EBITDA is a useful indicator of the price of a company relative to its raw earnings power. Our fund is trading at 3.9 times 2010 estimates, and 3.4 times 2011 estimates. This compares with 5.3 and 4.9 times for the MSCI European Value.

On top of these compelling earnings valuations, the aggregate balance sheet is solid, with net-debt-to-equity of just 38% (versus 67% for the MSCI European Value), and intangibles-to-equity of only 17% (versus 65% 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 in the Letter to Shareholders.

**Jens Moestrup Rasmussen**      **Per Kronborg Jensen**  
Lead Portfolio Manager              Senior 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 European Value available share classes	ISIN
EUR E	LU0324848083
EUR I	LU0264924241
EUR R	LU0264920413
EUR UKI	LU0264924753
EUR UKR	LU0264920926
GBP UKR	LU0264927772

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.