



Global Small Cap Value

Headlines

- Performance
- Portfolio Composition
- Portfolio Valuation
- Individual Positions

Fund Facts

Strategy	Value Equity
Risk	Medium
ISIN	LU0264925131
Share Class Currency	EUR
Fund Inception	02-Nov-2006
Fund Manager	Kasper Jacobsen
Benchmark	MSCI World Small Cap (net dividends)
Morningstar Category	Global Equity Small/Mid Cap



Performance

In the third quarter of 2010, Sparinvest Global Small Cap Value rose by 2.60%, bringing the year-to-date return to 16.62%. The general small cap market, as measured by the MSCI World Small Cap Index, gained 2.86% in the quarter and 15.98% year-to-date. The MSCI World and MSCI World Value indices increased by 2.08% and 1.15%, respectively, in the third quarter. Growth stocks posted a return of 3.01%.

Sparinvest Global Small Cap Value & Index Returns, in %	Q3 2010	YTD
Sparinvest Global Small Cap Value	2.60	16.62
MSCI World Small Cap Index	2.86	15.98
MSCI World Index	2.08	7.81
MSCI World Value Index	1.15	6.31
MSCI World Growth Index	3.01	9.31

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

Although the small cap market remains one of the best performers year-to-date, the segment lagged larger stocks during the last quarter. That said, performance of the fund continues to be ahead of the index. Strong performance of our European industrial stocks continued into the third quarter. The opposite, however, more or less holds for their US and Japanese counterparts. The strong yen had a relatively negative effect on the Japanese exporters, while our industrials in the US also took a breather. The fund's outperformance relative to the Small Cap index year-to-date has been driven mainly by stock selection returns in cyclical sectors like consumer discretionary, industrials and IT, while negative selection returns in materials and financials have somewhat limited the overall outperformance.

So far, 2010 has been a year of fairly dramatic currency moves. But it is important to remember that there are, to an extent, 'natural hedges' in place: for example, a strong yen hurts earnings at Japanese exporters, often causing weakness in the local share price – but the strong yen also means that their Euro-denominated share price benefits. Recently, we have seen the weak Euro benefiting some of our European exporters, and the strong yen hurting some of our Japanese exporters. As we noted in our last update, considered over the short term, there will always be some quarters when such currency moves hurt performance and others where they help. However, we have found that over the course of the years, relative currency swings have had an extremely limited impact on performance. In the long run, we are confident that such factors will have a limited effect. 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 4.7% of assets under management. The fund had 82 holdings and our ten largest positions accounted for 21.57% of the total. During the last quarter we made four new investments. We bought two US retailers: Cabela's, a seller of outdoor wear and equipment, and Tuesday Morning, a discount retailer. In Japan we bought karaoke-equipment maker and operator Daiichikosho, and car electronics maker, Alpine Electronics.

We have sold our positions in Gewiss and Avon Rubber, which we discuss in more detail below. In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others.

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 enclosed fund factsheet.

Portfolio Valuation

Although the fund has gained 16.62% so far in 2010, we believe that the portfolio remains deeply undervalued, offering good potential for continuing performance. As a rough indication of the valuation of our funds, we amalgamate the holdings into one theoretical company. This company trades at a price-to-book of just 0.8 times, while the MSCI Global Small Cap index is at 1.8 times. A strong earnings rebound, especially in our cyclical holdings, is reflected in the price-to-earnings multiples of our holdings. Looking at the Bloomberg earnings estimates for 2010, the price-to-earnings multiple is 19.6 times, but for 2011, this drops to 12.2 times. The EV/EBITDA multiple of our fund is currently 5.6 times 2010 estimates and 4.6 times 2011 estimates, compared to 6.9 and 5.9 times respectively for the small cap index.

On top of these compelling earnings valuations, the aggregate balance sheet is very strong, with a net cash position for the fund compared to a net-debt-to-equity ratio of 42% for the index. Although we are not in the profession of predicting the future of the economy or stock-market returns, we continue to be of the view that these valuations give strong potential for the long term.

Individual Positions

Gewiss

Sold in Takeover

Gewiss is an Italian maker of electrical systems and components, with products for both domestic, commercial and industrial applications. Production is mainly located in Southern Europe, while the bulk of revenues come from Italy, France and Spain.

Looking at Gewiss in late 2009, it had been experiencing a market slowdown on the back of the crisis in commercial and residential construction. At the same time, many players in the distribution and installation chain for electrical equipment had relatively high levels of financial leverage, and therefore they suffered as credit conditions tightened – ultimately meaning that Gewiss faced demands for discounts from its clients. Against this background, the stock traded at its lowest level since the bursting of the IT bubble.

However, we saw a well-managed company, aware of its situation, with a stable earnings history and a strong, net-cash balance sheet – and importantly, trading at low multiples relative to its long-term earnings. We acquired shares in November 2009, at a price of EUR 2.9.

In May 2010, a subsidiary of Polifin – an investment company controlled by Gewiss' founder – launched a takeover bid for Gewiss, offering EUR 4.2 per share. This was in the range of the intrinsic value we had estimated for Gewiss, and therefore we decided to accept. In August 2010 we received payment, which gave us a return of 50%, including dividends.

Avon Rubber

Sold with Loss

Avon Rubber had been a long-term small cap holding in the value equity funds, and the Global Small Cap Value fund acquired shares around fund launch in late 2006, paying around GBP 141 per share. During 2006, Avon Rubber had disposed of an automotive parts business that had caused considerable pain on the income statement, and had set about refocusing its business mix on two areas: dairy equipment, and protection and defence – this latter basically means gas masks. This process continued in the following years, with dairy equipment providing modest but stable earnings, and the company starting to secure government contracts for the supply of gas masks.

However, partially as a result of the ongoing restructuring, the balance sheet strength had been somewhat eroded, and under the strain of the financial crisis, the situation deteriorated further. We determined that this weakening of the balance sheet had left us with little downside protection, and in early 2010, we chose to sell our position. Including dividends, this made for an overall loss of around 3% per year, which is clearly not satisfactory. However, it is crucial to the investment process that when fundamental developments threaten the investment case and increase downside risk, we dispose of the position. Thorough monitoring – and sometimes pruning – of the portfolio is vital to maintain its strong potential for the future.

Kasper Billy Jacobsen
Lead Portfolio Manager
12 October 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 Small Cap Value available share classes	ISIN
EUR E	LU0324850220
EUR I	LU0264925487
EUR R	LU0264925131
EUR UKI	LU0264925644
EUR UKR	LU0264928317



Sparinvest is a signatory of UN PRI and member of Eurosif and Dansif.

UN PRI is an international investor initiative sponsored by the UN and based on six principles for responsible investments. The aim is to help investors actively to incorporate environmental, social and governance issues into their investments.

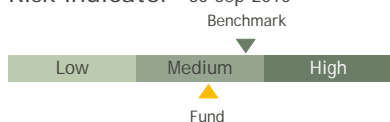
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors/representatives 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 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. Sparinvest makes reservations for typos, calculation mistakes and other possible mistakes in the material.

Description

Investment Concept: Value Equities

The fund invests in American, European, Australian, Japanese and other Asian equities. The fund may to a lesser extent invest in other securities. Stock selection is based on the value approach in the Small Cap segment. After a thorough analysis of publicly available information, stocks having a market capitalisation considerably lower than the intrinsic value are selected. The fund typically has a wider margin of safety, and consequently a lower risk, than the general market. The fund is focused on preservation of capital

Risk indicator - 30-Sep-2010



Basic Information

ISIN	LU0264925131
Bloomberg	SPGSCVR.LX
Share Class	EUR R
Fund Inception	02-Nov-2006
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest Luxembourg
Domicile	Luxembourg
Share Class Inception	02-Nov-2006
Fund size (MN) - 30-Sep-2010	17.02 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Kasper Jacobsen
Fund Manager Start Date	02-Nov-2006
Benchmark ¹	MSCI World Small Cap (net dividends)
Morningstar Category ²	Global Equity Small/Mid Cap
Latest NAV - 30-Sep-2010	79.24 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.85 %
Total expense ratio - 31-Dec-2009	2.38 %

Returns - Month End, Sep-2010

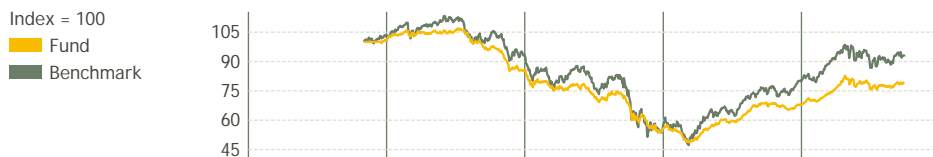
Returns	Fund	Benchmark ¹	Difference
YTD	16.62%	15.98%	0.63%
1 Month	3.20%	3.81%	-0.61%
3 Months	2.60%	2.86%	-0.26%
1 Year	14.66%	21.51%	-6.85%
3 y ann.	-6.33%	-2.86%	-3.46%
5 y ann.	-	-	-

Risk 3 years - Month End, Sep-2010

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	17.87%	22.83%	22.09%
Sharpe R.	-0.40	-	-0.32
Info Ratio	-0.51	-	-

Morningstar Rating™ **★★★★**

Performance - 30-Sep-2010

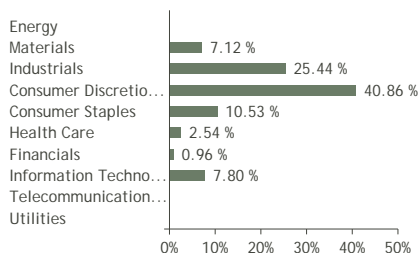


Returns	2006	2007	2008	2009	09-2010
Fund	-	-14.99%	-35.12%	22.28%	16.62%
Benchmark	4.84%	-9.10%	-38.87%	39.63%	15.98%
Morningstar Category™	10.28%	3.23%	-43.54%	35.62%	9.32%

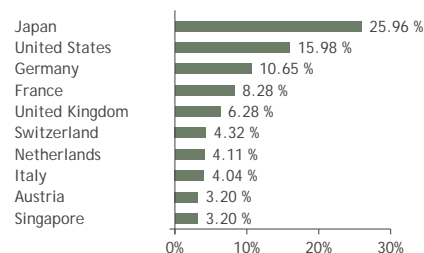
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
82	95.3%	0.0%	0.0%	4.7%

Sector Breakdown



Top 10 Countries



Portfolio (Top 10) - 30-Sep-2010

Name	Sector	Type	Country	Weight
Zehnder Group Ag	Industrials	Equities	Switzerland	2.86%
Tt Electronics Plc	Information Technology	Equities	United Kingdom	2.85%
Grammer Ag	Consumer Discretionary	Equities	Germany	2.64%
Arctic Cat Inc	Consumer Discretionary	Equities	United States	2.36%
Jungheinrich Ag /Vorz.O.St	Industrials	Equities	Germany	2.22%
Columbia Sportswear	Consumer Discretionary	Equities	United States	1.83%
Venture Corporation Ltd	Information Technology	Equities	Singapore	1.74%
Lisi	Industrials	Equities	France	1.73%
Einhell Germany Ag/Vorz.Akt.	Consumer Discretionary	Equities	Germany	1.69%
Haulotte Group	Industrials	Equities	France	1.65%

Notes:

The mentioned sub-fund is a part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company.

Benchmark Comment

-