

Outlook 2011: Good prospects for value investors

Indications are that the financial crisis is over, but economic recovery will take longer than generally expected. Danish investment company Sparinvest is anticipating gradual economic growth in 2011, with periods of uncertainty. It is precisely in this environment that strategic buyers, on the lookout for acquisition targets, will find opportunities - a good prospect for value investors.

Luxembourg, 08 December 2010 - Economic growth? Yes - but slower. This is the scenario anticipated for 2011 by Danish investment company Sparinvest. "The current rise in earnings is based largely on cost reductions and steps taken to improve efficiency. Such measures have been widespread since the outbreak of the crisis," says Michael Albrechtslund, Managing Director Sparinvest Asset Management. "But, revenues are not yet keeping pace. Given that further potential for significant cost savings is now exhausted, there is no way for earnings growth to continue at the same rate." In general, Albrechtslund expects the economic recovery to continue - albeit more slowly. The economic environment as a whole, he views as positive.

Potential for capital gains

Slower economic growth does need not be an obstacle to investment returns. According to Sparinvest, value companies in particular have the necessary strength and performance potential to grow in 2011. "Liberal availability of financing via lending markets and low financing costs will provide further impetus for M&A activities," says Albrechtslund. "At present, the majority of takeover targets share two main characteristics: high earnings quality and solid balance sheets. Value companies and smaller companies typically exhibit these characteristics. That is what makes them ideal as targets for acquisition." Investors can therefore profit from the M&A activities, if they position themselves in the right way. This includes investments in corporate bonds as well as equities. Sparinvest's portfolios are also well-positioned for this environment.



Seizing opportunities

The present situation is being driven in part by short-term market uncertainties, which will continue to arise throughout the coming year. The biggest threat to investors is that posed by the European 'peripheral' countries. The possibility of sovereign debt default has already threatened - on several occasions - to derail the market recovery that began in March 2009 and still poses a potential source of liquidity problems. These uncertainties, however, also give rise to attractive buying opportunities - and strategic investors seeking undervalued companies with attractive assets can use these to their advantage. "Investors who continue to wait on the sidelines, participating in neither the equity or bond markets, are missing out on valuable return opportunities," says Albrechtslund. "We are urging investors to seize the opportunities being presented on the markets. But, any investment should always be based on a conscientious analysis of a company's quality and balance-sheet strength."

Emerging markets - an interesting opportunity

For next year Sparinvest sees good investment opportunities in the emerging markets. "There are many reasons for emerging markets: abundant natural resources, low indebtedness and a rapidly increasing share of world GDP. Furthermore, emerging nations have a higher proportion of young, working age people than developed nations," says Albrechtslund. "Therefore we anticipate that investors will continue to increase their allocation to emerging markets for portfolio diversification purposes and because these markets represent an interesting investment opportunity for the future. However, we would also sound a note of caution and urge investors to invest selectively into well-researched securities, rather than buying indiscriminately on the basis of regional growth stories."

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For further information, please contact:

Nichola Marshall, Sparinvest Marketing & Communications
Phone: +352 26 27 47 32
nim@sparinvest.lu



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About Sparinvest:

Founded in 1968, Sparinvest is one of Denmark's leading independent asset management companies, managing and advising on assets valued at over €8.46 billion (as at end October), including one of the largest equity funds in Denmark.

Owned today by broad range of institutional shareholders, Sparinvest has the freedom to pursue its own investment philosophy and style with a view to providing 'prudent investments' for its clients.

In 2001, Sparinvest S.A. was established in Luxembourg and a number of Luxembourg-domiciled funds were created for the purpose of pan-European distribution. The Sparinvest SICAV, a UCITS III-compliant umbrella fund is now authorised for distribution in 16 European nations.

Sparinvest has established an excellent reputation within the investment industry for the success of its strategic asset allocation approach when constructing portfolios for investment mandates and because of its outstanding track record in value investment.

Sparinvest signed the UN Principles for Responsible Investment (UN PRI) in December 2009.

