



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 Managers	Jens Moestrup Rasmussen & Per Kronborg Jensen
Benchmark	MSCI Europe (net dividends)
Morningstar Category	Europe Mid-Cap Equity



Performance

In the fourth quarter of 2010, Sparinvest European Value gained 8.71%, bringing its full-year return to 25.59%. The general equity market – as measured by the MSCI Europe index – rose by 6.35% in the fourth quarter, and 11.10% over the full year, meaning that Sparinvest European Value ended the year some 14.49% ahead of the overall market.

It's interesting to note that the fund's relatively strong performance in 2010 came despite the fact that the MSCI Europe Value index (up 4.13%) generated lower returns than the MSCI Europe Growth index (up 18.01%). Of course, the fund is an actively-managed, qualitative, value fund which aims for absolute returns, and does not aim to replicate the MSCI Europe Value index. However, the discrepancy is interesting. We discuss this, and several of the themes touched on below, in more depth in the current Letter to Shareholders.

Sparinvest European Value & Index Returns, in %	Q4 2010	YTD
Sparinvest European Value	8.71	25.59
MSCI Europe Index	6.35	11.10
MSCI Europe Value Index	4.47	4.13
MSCI Europe Growth Index	8.07	18.01
MSCI Europe Small Cap Index	13.46	29.91

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.

2010 was a volatile year for European stocks. Despite a robust start to the year, they fell significantly from April on concerns over sovereign debt, and it was only in the final few months of the year that a sharp rebound came. Despite this volatility, the Sparinvest European Value Fund performed consistently well over the year.

At the country level, our limited exposure to countries such as Greece, Portugal and Spain certainly helped. However, even in markets where top-down fears dominate, individual stock selection can still generate healthy returns. For example, in Italy, our strict bottom-up focus on financial strength and cross-cycle earnings power led us to De'Longhi, discussed below.

Moreover, in those countries where the fund has high weightings – such as Germany, France, the UK, the Netherlands and Switzerland – we had returns well in excess of the overall markets. Our strongest returns came from cyclical sectors such as industrials, consumer discretionary, and information technology. In many cases, we saw strong vindication of our investment process and its strict focus on intrinsic value, which led us to hold on to, or indeed increase, cyclical stocks which were so severely punished by the stock markets of 2008. We expand on this theme in the Letter to Shareholders. We feel sure this process will continue to drive impressive returns in the coming years.

Of course, in any given period a diverse portfolio will always have some sectors, regions, or individual stocks performing less strongly than others. In 2010, financial stocks were generally weak, but our positions in the sector posted solid gains nonetheless. That said, in absolute terms we saw somewhat weaker performance from our energy and materials holdings. As always, for those regions, sectors and individual stocks that have performed less well, we have kept a close eye on fundamental developments and intrinsic value. Our findings have been extremely encouraging, and we are positive that these stocks will generate strong returns over the long term.

Portfolio Composition

At the end of the quarter, the cash position was 5.9% of assets under management. The fund had 61 holdings and our ten largest positions accounted for 34.62% of the total.

During the quarter, we made a new investment in Swiss-based insurer, Zurich Financial Services. We have exited our positions in Société BIC, Daetwyler, De Longhi and Deutsche Postbank, which are discussed 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 the fund factsheet at the end of this document, or to our website.

Portfolio Valuation

Many factors generated strong performance for the fund in 2010, but as fund managers, what we find most encouraging is the considerable potential we see for future returns. Valuations, and fundamental conditions, remain compelling. As a rough indication, we amalgamate the holdings into one theoretical company.

This company has a price-to-book of just 1.14 times, compared to 2.02 times for the MSCI Europe index. Earnings-based multiples are also encouraging: the strong operating leverage of many of our holdings means that as economic conditions gradually recover, and the top-line improves, there is potential for strong profit growth. EV/EBITDA, which is a useful indicator of the price of companies relative to their raw earnings power, is 9.0 times EBITDA for the past fiscal year, compared with 8.0 times for the MSCI Europe. However, looking at Bloomberg estimates for fiscal years 2010 and 2011, the portfolio's EV/EBITDA drops to 5.9 and 5.3 times, compared with 6.7 and 6.1 times for MSCI Europe.

The aggregate balance sheet is strong, with net-debt-to-equity of just 37% (versus 59% for MSCI Europe), and intangibles-to-equity of only 18% (versus 65% for the index).

Sparinvest European Value is a portfolio of deeply discounted companies, which offer solid asset backing combined with robust long term earnings power. We are confident that this portfolio will generate healthy investment returns over the years to come.

Individual Positions

Daetwyler Holding

Reached Target

Daetwyler Holding is a Swiss company making a variety of industrial components, rubber products, cables, and packaging for pharmaceuticals. Despite this diversity, it has good market share in many of its products, and is justified in describing itself as a 'multi-niche player'.

Daetwyler has been a long-term holding of Sparinvest's value funds, originally bought for the Danish Value Aktier fund in 1997, when the stock was trading well under book value, at around CHF 20 per share (adjusted for subsequent stock splits). The stock entered the European Value portfolio at fund inception in late 2006.

Daetwyler's products mean that it is subject to cyclical swings in earnings – although its pharmaceutical packaging business is of course somewhat less sensitive to economic cycles. Naturally, its cables division suffered when the IT bubble burst at the turn of the century,

while most of its divisions saw a slump in demand in the global downturn from 2008. However, both when we first invested, and consistently over the years, management has maintained a healthy balance sheet with low net debt levels. Despite tough periods, we could see that the company's long-term, cross-cycle earnings power remained intact, while its financial health gave added peace of mind.

During 2009 and 2010, the potential for a swift earnings recovery became clear, and the share price responded. In December 2010, it attained our assessed intrinsic value, and the position was sold for around CHF 75. Including dividends, this made for a strong return on the original investment.

Societe BIC

Reached target

The BIC name was brought to the world by the huge success of its ballpoint pens in the 1950s, and the company retains a strong presence in pens, including other brands like Ballograf and Sheaffer. However, Société BIC makes a wide range of products, focused in three core areas: stationery, lighters, and razors. Its products are sold globally, and it enjoys leading market positions in most segments.

In late 2007, BIC's earnings had fallen somewhat below expectations, firstly due to tough competition in razors, and then as the slowing economy led to relatively weak sales of stationery in North America. Supposedly defensive companies, like BIC, can be severely punished by the stock market for such earnings disappointments, and by mid-2008 the shares had slumped significantly. However, BIC offered a strong brand portfolio, combined with a rock-solid balance sheet that had been cash positive for years, and we felt confident that the long-term earning power was very much intact. In June 2008, we were able to invest in BIC at EUR 33 per share, at around 10x price-to-earnings and 1.4x tangible book value. This struck us as a rare opportunity.

We do not aim to be market timers, predicting which stocks or sectors are likely to perform well in the next few quarters; instead, we focus strictly on fundamental analysis and valuation, buying stocks when we see a major discount to intrinsic value and therefore a large margin of safety. But often this does lead us to stocks that, with hindsight, were approaching rock bottom. This was certainly the case with BIC. The share price has risen steadily from June 2008, as confidence in the company's earnings has recovered. Indeed, expectations are for record profit levels in 2010 and 2011. In October 2010, the shares reached our assessed intrinsic value of EUR 60, and we sold our position. Including dividends, this generated a return of over 90% on our initial investment.

Deutsche Postbank

Sold in Takeover

We have been long-term investors in Deutsche Postbank, Germany's largest retail bank. Postbank had over fourteen million customers, served by an extensive branch network around the country. These were clearly attractive assets, which we considered could well attract a takeover. The large base of customer deposits offered a strong and relatively stable source of funding, while there would clearly be scope to maximise the sales potential of the extensive branch network.

During 2008, it became clear that Postbank's main shareholder – Deutsche Post, with a 70% stake – was looking to sell. Deutsche Bank emerged as the buyer, and in September 2008, Deutsche Post agreed to sell an initial 30% position for about EUR 57 per share. However, on the following business day, Lehman Brothers went bankrupt. Deals everywhere were put on ice and financial stocks plummeted: Deutsche Postbank slid to a low in March 2009 of under EUR 8.

In October 2010, as conditions began to normalise, Deutsche Bank breathed fresh life into the takeover. It announced a tender offer for all shares in Deutsche Postbank. The offer price of EUR 25 was at a major premium to the panic-driven lows of the financial crisis, but obviously well below the price discussed in 2008. However, it emerged that Deutsche Post and Deutsche Bank had made a rather special agreement: Deutsche Post agreed not to tender their large stake at EUR 25, but instead, contracted to sell it to Deutsche Bank in 2012, at around EUR 40 per share.

This deal structure was somewhat obscure, and received considerable focus in the media. Effectively, Deutsche Bank had managed to announce a takeover offer at EUR 25, while at the same time promising to pay the largest shareholder considerably more in the future. In takeover situations, one normally expects the same price to be offered to both majority and minority shareholders, and regulatory regimes typically protect this principle.

If nothing else, we feel that this structure went against the spirit of good corporate governance and equal treatment of all shareholders. However, it was approved by German regulators and, having thoroughly reviewed the situation, we were left with two practical options: tender our shares now at EUR 25, or remain shareholders on the assumption that a significantly higher price could be achieved later. This second option would have meant remaining holders in a stock with potentially very low free float, and what could be a very long wait for a higher price to be offered, if at all. Faced with this uncertainty, we felt that our funds would be best served by accepting the tender offer and reinvesting the proceeds elsewhere.

So, while our initial investment case proved correct – Deutsche Postbank’s assets did indeed attract a takeover – we cannot say we are satisfied with the final outcome. Naturally, the sheer intensity of the financial crisis played its part. However, it is somewhat disappointing that regulations did not prevent what might be considered to have been a two-tier takeover, in which the majority owner receives one price, and minority holders receive another.

De Longhi

Reached target

De Longhi is a family-controlled Italian company with strong market positions in household appliances, particularly in portable heating and air-conditioning, food preparation, and cleaning and ironing. It also supplies cooling and heating systems to the professional market.

In 2001, shortly before De Longhi listed, it acquired Kenwood, a strong international brand in kitchen appliances. This acquisition accelerated the group’s expansion, strengthening not only its product range and international presence, but also its leadership of the UK and Italian markets. Since then, the Kenwood brand has grown steadily. De Longhi, along with other appliance makers like Krups and Siemens, has benefitted significantly from exploding demand for Nespresso coffee makers – which are produced in partnership with Nestlé.

Looking at De Longhi in late 2009, we were impressed by its relatively stable earnings track record and a robust balance sheet, with a focus on debt reduction since 2005. However, the share price had suffered sharply during the market turmoil of 2008 and early 2009. Certainly, De Longhi’s earnings were not immune to the global crisis,

but despite some short-term pain in early 2009, on the whole it had proved resilient, and we were convinced that its long-term earnings power was being severely undervalued by the market.

We made our initial investment in February 2010, paying EUR 2.9 per share, equivalent to just 0.6 times book value. The shares rose steadily during the year, leading to a sharp closure of the valuation discount. In December 2010, when demand for its coffee machines was particularly strong, De Longhi reached our intrinsic value, and we sold our position at EUR 5.7 which, including dividends, gave a return just under 100%.

Jens Moestrup Rasmussen **Per Kronborg Jensen**
Lead Portfolio Manager Senior Portfolio Manager
12 January 2011

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 I	LU0264924241
EUR R	LU0264920413
EUR UKI	LU0264924753
EUR UKR	LU0264920926
GBP UKR	LU0264927772



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.

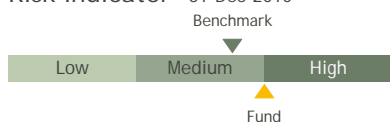
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest 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 European equities. The fund may to a lesser extent invest in other securities. Stock selection is based on the value approach. 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 - 31-Dec-2010



Basic Information

ISIN	LU0264920413
Bloomberg	SPEUVLR.LX
Share Class	EUR R
Fund Inception	02-Nov-2006
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	02-Nov-2006
Fund size (MN) - 31-Dec-2010	113.17 EUR
Manager	Sparinvest S.A.
Fund Manager	Jens Rasmussen
Fund Manager Start Date	02-Nov-2006
Benchmark ¹	MSCI Europe (net dividends)
Morningstar Category™ ²	Europe Mid-Cap Equity
Latest NAV - 31-Dec-2010	83.73 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.50 %
Total expense ratio - 31-Dec-2009	2.00 %

Returns - Month End, Dec-2010

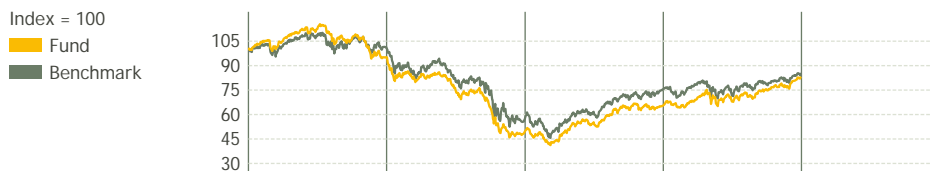
Returns	Fund	Benchmark ¹	Difference
YTD	25.59%	11.10%	14.49%
1 Month	8.29%	5.18%	3.11%
3 Months	8.71%	6.35%	2.37%
1 Year	25.59%	11.10%	14.49%
3 y ann.	-4.80%	-6.25%	1.46%
5 y ann.	-	0.24%	-

Risk 3 years - Month End, Dec-2010

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	24.97%	21.06%	23.86%
Sharpe R.	-0.15	-	-0.11
Info Ratio	0.24	-	-

Morningstar Rating™ **★★★**

Performance - 31-Dec-2010

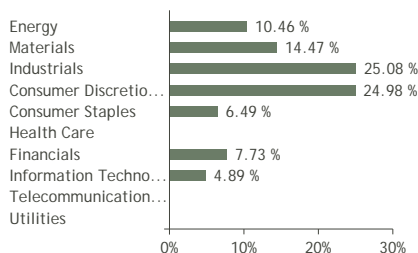


Returns	2007	2008	2009	2010	-
Fund	-4.13%	-48.00%	32.13%	25.59%	-
Benchmark	2.69%	-43.65%	31.60%	11.10%	-
Morningstar Category™	-1.34%	-46.50%	38.22%	21.80%	-

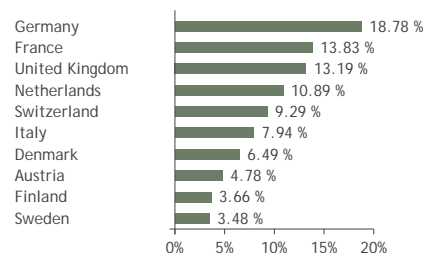
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
61	94.1%	0.0%	0.0%	5.9%

Sector Breakdown



Top 10 Countries



Portfolio (Top 10) - 31-Dec-2010

Name	Sector	Type	Country	Weight
A.P. Moeller - Maersk A/S B	Industrials	Equities	Denmark	3.84%
Omv Ag	Energy	Equities	Austria	3.74%
Salzgitter Ag	Materials	Equities	Germany	3.61%
Ericsson Tel. B	Information Technology	Equities	Sweden	3.48%
Royal Dutch Shell Plc-A-	Energy	Equities	Netherlands	3.44%
Roy.Philips Electr./Eur 0.2	Industrials	Equities	Netherlands	3.34%
J.Sainsbury Plc	Consumer Staples	Equities	United Kingd...	3.33%
Koninklijke Dsm Nv	Materials	Equities	Netherlands	3.32%
Eni Spa Roma	Energy	Equities	Italy	3.28%
Renault Sa	Consumer Discretionary	Equities	France	3.24%

Notes:

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

Benchmark Comment

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