



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
Benchmark	MSCI Europe (net dividends)
Morningstar Category	Europe Mid-Cap Equity

- sparinvest.eu

Performance

The Sparinvest European Value Fund rose by 2.05% in the fourth quarter of 2009, taking the full-year return to 32.12%. The European equity market, as measured by the MSCI Europe Index, rose by 5.18% during the quarter and 31.60% over the year. The European value stock universe rose by 33.46% over the year, compared with 29.70% for European growth stocks. European Small caps were very strong, with a full-year return of 59.50%.

This means that we outperformed the European market by 0.52% over the year, despite lagging it by 3.13% in the final quarter. Looking at that fourth quarter alone, note that while the MSCI Europe Growth index rose by 7.75%, MSCI Europe Value rose by only 2.80%. We are not overly concerned by this, and as always our focus is not on short-term market sentiment, but on the long-term fundamentals of our holdings.

Over the three months, our relatively low weight in financials was beneficial, but a relatively low weight in consumer staples and relative underperformance in materials had a negative impact on our fund. In terms of country allocation, our low weight in UK stocks worked against us in the quarter as well as over the year.

All in all, we are satisfied with 2009 as a whole and we are optimistic about the outlook for the fund. It rose broadly in line with indices over the year, despite M&A markets still not being in full throttle (although note our comment on Océ below), and in much of 2009, the markets did not focus on quality, but instead we saw a 'dash to trash' rally. Any change in these negative factors could easily serve as a catalyst for the fund in the future, but we are not in the game of predicting when.

Portfolio Composition

At the end of the quarter, the cash position was 11.00% of assets under management, due to inflow at the end of the year. Obviously this will be reduced. The fund had 65 holdings and our ten largest positions accounted for 28.27% of the total.

Since we last wrote, we have made a new investment in ENI, the Italian oil and gas company. In general re-balancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have also sold our positions in Danieli and Pininfarina, which are 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 fund rising 32% over the year, valuations of our holdings remain compelling. If we aggregate the data from the holdings into one theoretical company, it is trading at a price-to-book of just 1.06 times. Looking at earnings, EV/EBITDA is 4.7 times 2009 estimates, and just 3.7 times 2010 estimates. The aggregate balance sheet is solid, with net-debt-to-equity of just 30% (versus 60% for the MSCI European Value index), and intangibles-to-equity of only 15% (versus 61% for the 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 by Canon.

Océ is a Dutch manufacturer of high-end copiers and printers, which has been a long-term holding in our funds. The group has developed interesting niche businesses in wide format and high volume printing, in which it has a strong competitive position in Europe. In recent years it has had a tougher time in standard office printers, where it is a relatively small player, and of course the crisis has hit the entire industry hard.

In November 2009, Canon – obviously a dominant force in the industry – announced a takeover bid for Océ. The offer price of EUR 8.60 per share was a significant premium to recent share price levels of EUR 5. The tender process is ongoing – European Union regulators only cleared the bid in late December – and we are monitoring the situation closely, but naturally we are encouraged to see that industry peers are able to see considerable long-term value in Océ.

Pininfarina

Sold with loss

Pininfarina is an Italian company, with a history running back to 1930, that designs and builds cars and body parts for brands as diverse as Ferrari, Maserati, Alfa Romeo, Ford and Volvo, to name a few.

Our funds first invested in Pininfarina in mid-2002, paying around EUR 19 a share. The company was cheap on both price-to-earnings and price to book multiples and offered a strong balance sheet with little debt. It had a certain degree of flexibility in its business model, as it produced on a build-to-order basis. In 2003, it was set to see orders for the new Ford Street Ka and the restyled Alfa GTV and Spider.

Like most companies in the automobile sector, Pininfarina had experienced downturns before, but had shown an ability to turn things around on the back of new model launches. In 2005 to 2006, earnings were suffering somewhat, and Pininfarina took on higher levels of debt, primarily to fund production of new models and expansion of its asset base – such as the acquisition of Volvo's Uddevalla plant in Sweden. In light of their track record, we decided to give management the benefit of the doubt. Unfortunately the credit crisis was just around the corner which, of course, made the operating environment far tougher for the entire industry. For Pininfarina, a further sad blow came when the CEO, Andrea Pininfarina, passed away. Both income statement and balance sheet have deteriorated further under his replacement, Paolo Pininfarina, and while the board is doing its best to get things back on track, we determined that our original investment case had gone, and the company's intrinsic value had been eroded.

We therefore decided to sell our holdings, completing the sale in October 2009 with an average sale price of just EUR 3.5. This is clearly a regrettable example of

an investment case that did not develop as expected. Despite our focus on financial strength and enduring business models, there will inevitably be a minority of cases which disappoint. This is why, in addition to our disciplined investment process, we invest in a diverse range of companies, and rigorously monitor our existing holdings, to make sure that our portfolios contain quality companies at healthy discounts to their true worth.

Danieli

Reached target

Danieli is a manufacturer of steel-making equipment, located in the industrial heart of Northern Italy. Founded in 1914, it has a long history of pulling through hard times. In 2008, sky high oil prices were a headache for Danieli – but this was nothing new. Back in 1976, when the company was run by a granddaughter of the founder, rapid oil price rises and declining capital expenditure by its customers pushed Danieli into its first ever loss, but it battled through. The same Ms Danieli took the company public in the 1980s and became a key driver for major changes in global steel-production processes. Her husband is now the chairman and majority shareholder. It's impossible to make generalisations about family-controlled companies, but we considered Danieli a positive example, where family management had delivered a stable track record and, over the years, developed a niche company with leading technologies and a strong competitive position.

In early 2009, the short-term outlook was clearly tough. Steel companies around the world had been spending heavily on new equipment for a few years and, in the face of the crisis, were likely to scale back or postpone their investment programmes. We could not estimate how much demand would fall in the short term – but we liked the long-term picture. Danieli entered the crisis with a very strong balance sheet and a large order backlog. Moreover, steel plant making is an industry with very high barriers of entry: four companies dominate about 70% of the global market and Danieli alone controls around 30%.

The stock was trading at just 0.6x tangible book, with most production assets already depreciated, and had a

net-cash position in excess of its market capitalisation. Even assuming earnings at an eight-year low, the stock looked highly undervalued. We invested in March 2009, paying EUR 6 per share.

We always say that we are not market timers and prefer to stick to our process: we buy stocks at a discount to intrinsic value, and don't try to guess exactly when they will attain that value. Sometimes this happens sooner rather than later, and we are the first to admit that our investment in Danieli happened to come just as the general market was turning for the better. By October 2009, the shares had reached our target price and were trading at 1.6x book value. We sold our shares at EUR 18. We are confident that as long as we keep disciplined at all times, our process will lead us to more little treasures like Danieli.

Jens Moestrup Rasmussen

Lead Portfolio Manager

8 January 2010

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