Sparinvest

Fund Update Q1 | 10

Global Value

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Fund Facts

Strategy	Value Equity
Risk	Medium
ISIN	LU0138501191
Share Class Currency	EUR
Fund Inception	14-Dec-2001
Fund Manager	Jens Moestrup Rasmussen
Benchmark	MSCI World
Morningstar Category	Global Large-Cap Value Equity

- sparinvest.eu

Performance

Sparinvest Global Value fund rose by 10.92% in the first quarter of 2010. The general equity market, as measured by the MSCI World index, rose by 9.47% in the quarter. Meanwhile, the value stock universe (MSCI World Value) rose by 9.58%, compared with 9.36% for growth stocks. Small caps were relatively strong, with a return of 14.05%.

Sparinvest Global Value versus Index in %	Q1 2010	2009
Sparinvest Global Value	10.92	23.11
MSCI World Index	9.47	25.94
MSCI World Value Index	9.58	22.73
MSCI World Growth Index	9.36	29.12
MSCI World Small Cap Index	14.05	39.63

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

The fund performed well in both absolute and relative terms. In the first quarter the fund outperformed the overall market by 1.45%, despite the fact that we have a large exposure to Europe which, compared with the US and Japanese markets, performed poorly. Our Japanese exposure was beneficial, while our relatively low weighting in the well-performing US market worked against us. In terms of sectors, we benefited from our allocation. Our high weighting in consumer discretionary and industrial stocks benefited from an outperformance by cyclical stocks.

Remember that our region and sector weightings are not actively decided. The allocation is a result of where we find cheap shares. The fact that cyclical stocks performed well in the quarter is probably a result of the improved quarterly reports along with a belief that, despite the great challenges that lie ahead, strong companies can and will return to a normalised earnings level at some point.

Overall the quarterly return is satisfactory, but our focus – as always – remains on the generation of healthy returns over the longer term. As previously discussed in our fund updates and letter to shareholders, we believe that our portfolio holdings have considerable potential for future performance.

Portfolio Composition

At the end of the quarter, the cash position was 3.8% of assets under management. The fund had 95 holdings and our ten largest positions accounted for 30.07% of the total.

Since we last wrote, we have made three new investments. We acquired shares in Caltex Australia, an oil refiner and distributor of petroleum products, and in Vishay Intertechnology, a US maker of electronic components. We also invested in Canadian Tire, a Canadian retailer. In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have now sold our positions in AGCO Corp and Océ, which are discussed below. We also divested some minor positions of insignificant weighting.

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 attractive returns of the stock market since the March 2009 low, the valuations of our holdings are compelling. If we aggregate the data from the holdings into one theoretical company, it is trading at a price-to-book of just 0.99 times. Looking at earnings, EV/EBITDA is 3.1 times 2010 Bloomberg estimates, and just 2.7 times 2011 estimates. The aggregate balance sheet is solid, with net-debt-to-equity of just 28% (versus 55% for the MSCI World), and intangibles-to-equity of only 17% (versus 51% 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

AGCO

Reached Target

AGCO is one of the world's leading producers of agricultural machinery, making and selling tractors, harvesters and other equipment under brands as diverse as Massey Ferguson, Challenger, Fendt, and Valtra. It is based in Georgia, USA, but has production sites in both North and South America, as well as Europe, and sells its products around the world.

We first invested in AGCO Corp in March 2009, paying around USD 18 per share. We were impressed with the company's brand power and market share and, while earnings were naturally suffering a cyclical downturn as farms cut back on spending, we were convinced of healthy long term demand in the industry, and the earnings power of the company. Management had also demonstrated their ability to take restructuring steps when necessary to protect the business model. The stock was trading at low earnings-based multiples and was also cheap relative to its tangible book value.

As we have discussed before, we invest in companies that are at a significant discount to their intrinsic value and we do not attempt to predict when the market price will reach the intrinsic value. In some cases, it happens sooner than others, and AGCO was such a case. The shares rose steadily during the remainder of 2009, and in January 2010 we chose to sell at over USD 33, achieving a return of over 80% in under a year.

Océ

Takeover Bid Accepted

As communicated in our previous letter to shareholders, we received a takeover bid for Océ in November 2009. Océ is a Dutch manufacturer of high-end copiers and printers, which has been a long-term holding in the fund. The group has developed interesting niche businesses with strong competitive edges in wide format and high volume printing, in which it has a strong competitive position. That said, recent years have not all been smooth sailing for the company. In its standard office printer business, it increasingly found itself a relatively small player, and it became tougher for a company with a European cost base to compete in a rapidly globalising world.

This combination meant that it was not a huge surprise when Canon announced a takeover bid for the company. Strategically, it made an excellent fit, with Canon gaining the strong niche operations from Océ, and Océ clearly benefiting from Canon's global presence.

That said, we were disappointed to see that the board and management of Océ opted to make this move during a downturn. Negotiations with potential buyers started at the bottom of the economic cycle, which resulted in a takeover bid which we felt did not reflect the full long-term value of Océ. We clearly communicated this directly to the management and boards of both Canon and Océ, and in person at an extraordinary general meeting relating to the bid. Unfortunately, with a majority of shareholders supporting Canon's bid of EUR 8.60, we were not able to change the outcome of the offer.

The fund had first acquired shares in early 2003, paying around EUR 8.40 per share. The tender level of EUR 8.60 made for a total return, after dividends, of around 5.0% per year. Clearly, we did not consider this to be a satisfactory return and, moreover, did not feel that the bid truly reflected the long-term value of the company.

However, the majority vote in favour of the bid meant that, if we were to refuse to tender, we would have become minority shareholders in a company with an extremely low free-float of shares, or possibly even a delisted company. We ultimately decided that this would not be in the best interest of our shareholders and therefore decided to tender our shares. We received payment in March 2010.

Jens Moestrup Rasmussen
Lead Portfolio Manager
12 April 2010