



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 first half of 2010, Sparinvest Global Small Cap Value posted a return of 13.66%, compared with 12.76% for the general small cap equity market, as measured by the MSCI World Small Cap index. During the second quarter, the fund gained 1.50%, while the small cap index dropped by 1.13%.

Sparinvest Global Small Cap Value & Index Returns, in %	Q2 2010	YTD
Sparinvest Global Small Cap Value	1.50	13.66
MSCI World Small Cap Index	-1.13	12.76
MSCI World Index	-3.53	5.61
MSCI World Value Index	-4.08	5.10
MSCI World Growth Index	-2.97	6.11

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.

Breaking the second quarter down further, value stocks dropped by 4.08%, while growth stocks fell by 2.97%.

During the last three months, the equity market has taken something of a breather. However, the fund is performing relatively strongly compared with indices, and indeed did not lose ground in the quarter just ended. Moreover, we see many factors which should drive solid returns in the months and years to come. Many of these, we discuss in more depth in the Letter to Shareholders.

Let's take a closer look at what drove returns in the second quarter. The fund has a relatively high weighting in Europe but, despite recent events, our holdings there performed comparatively well. Markets such as Germany,

France and the UK were generally weak, but our positions performed strongly, especially in cyclical sectors. One example would be German discretionary stocks, an area where benchmarks posted a return of around -3%, but the fund gained around 12%.

Of course, we must also note that we have relatively limited exposure to southern European countries such as Greece and Spain, which have suffered sharp losses. As we discuss in the Letter to Shareholders, this was not the result of a strategic top-down decision but, in recent years, when we have evaluated companies in those countries, we have found it hard to find many with compelling valuations relative to their earnings power.

Elsewhere, our Japanese exposure has been beneficial. This has, of course, partly been thanks to the Yen strengthening against the Euro. But our individual stock selection – particularly in industrial and IT stocks – has also helped.

Bear in mind that, so far this year, currencies have actually worked against the fund due to its relatively high weighting in Euro-denominated stocks. While the MSCI World index has a weighting of around 50% in US stocks, the fund has around 15%. So, with the US dollar up 17% against the Euro in the first half, and 10% in the second quarter alone, this has certainly cost the fund a few percentage points in relative performance. This is not something that troubles us.

Considered over the short term, of course there are quarters when currency moves hurt, and others where they help. Naturally, we have often studied the long-term impact of currencies on the funds and the potential benefits of hedging the exposures. However, the results have clearly suggested that, over the course of the years, relative currency swings have had an extremely limited impact on performance. 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 1.8% of assets under management. The fund had 80 holdings and our ten largest positions accounted for 23.53% of the total.

Since we last wrote, we have made five new investments, including AS Creation Tapeten, a German wallpaper maker, and Headlam, a British wholesaler of floorcoverings. In Singapore, we invested in Hi-P International, a contract manufacturer, while in Japan we bought shares in Furuno, which makes radar and other marine equipment, and As One, a wholesaler of laboratory equipment.

We have now sold our position in 4Kids, which is 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

Valuations of our holdings are compelling, and suggest impressive potential for the future. Aggregating the fund holdings into one theoretical company, it trades at a price-to-book of just 0.89 times, while the MSCI Global Small Cap index is at 1.30 times.

We have a relatively high exposure to cyclical companies which inevitably saw weaker earnings during the crisis, but are now recovering swiftly. The speed of this earnings rebound is indicated by valuation measures. Looking at estimate earnings for 2010, the price-to-earnings multiple is 17.9 times, but for 2011, this drops rapidly to 12.8 times. Moreover, EV/ EBITDA is a useful indicator of the price of a company relative to its raw earnings power – and our fund is trading at 4.1 times 2010 estimates, and 3.4 times 2011 estimates, compared with 3.9 times for the small cap index.

On top of these compelling earnings valuations, the aggregate balance sheet is solid, with a net cash position: net-debt-to-equity is -5%, compared with 35% for the index. The ratio of intangibles to equity is just 11% (versus 33% for the index). We think that this financial strength will be a crucial distinguishing factor in the coming years, as we discuss in more depth in the Letter to Shareholders.

Individual Positions

4Kids

Sold with Loss

In order to ensure that our portfolio retains its quality and potential to deliver good returns, we monitor our holdings rigorously. Where we see disintegration of the investment case and deterioration in our assessed intrinsic value, we are disciplined in selling the position. This is never pleasant, but it is an inevitable part of investing, and crucial to ensure long term performance for the funds.

4Kids is a US company specialising in the licensing of toys and games. It has been involved in brands such as Pokemon, Cabbage Patch Kids, Yu-Gi-Oh, and so on. When we first invested in 4Kids in late 2006, paying around USD 18 per share, the stock was trading at a price-to-book of around 1.4 times, and had a considerable net cash

position, equivalent to around half of its market capitalisation. It had shown a good ability to keep refreshing its product range – and thereby its earning power.

However, in subsequent years, it proved more difficult for the company to find suitable products to replace those whose licenses were expiring, and earnings deteriorated as a result. We always consider earnings power in a long-term context, and accept that even strong companies will have difficult periods. However, it is important to ascertain that the earnings model itself is intact, or can be successfully regenerated. With 4Kids, we ultimately concluded that this was not the case, and therefore began to sell our shares in 2009. The liquidity of the stock had declined, meaning that it took some time to exit fully, but we completed the sale in the second quarter of 2010, realising an average price just under one dollar. Clearly, we consider this to be a most disappointing case, but we are happy to say that in our diverse portfolio of around eighty investments, such cases are rare – and as discussed above, we are very confident in the quality of our existing investments.

Kasper Billy Jacobsen
Lead Portfolio Manager
12 July 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

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 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. Sources (where applicable): Sparinvest, Morningstar Standard & Poors, Bloomberg, Telos, Feri. For investors in Switzerland the fund's 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.