Sparinvest

Fund Update Q4 I 10

Ethical Global Value

Headlines

- Performance
- Portfolio Composition
- Portfolio Valuation
- Individual Positions
- Ethix SRI Advisors: Summary of the Exclusion Filters
- Ethix SRI Advisors: Ethical Reporting

Fund Facts

Strategy	Value Equity
Risk	N/A
ISIN	LU0362355355
Share Class Currency	EUR
Fund Inception	30-May-2008
Fund Manager	Jens Moestrup Rasmussen
Benchmark	MSCI World (EUR)
Morningstar Category	Global Large-Cap Value Equity

- sparinvest.eu

Performance

In the fourth quarter of 2010, Sparinvest Ethical Global Value gained 12.12%, bringing its full-year return to 27.88%. The general equity market – as measured by the MSCI World index – rose by 10.87% in the fourth quarter, and 19.53% over the full year, meaning that Sparinvest Ethical Global Value ended the year some 8.35% ahead of the overall market.

It's interesting to note that our fund had relatively strong performance in 2010 despite the fact that the MSCI World Value index (up 16.59%) generated lower returns than the MSCI World Growth index (up 22.46%). This is not particularly surprising – the fund is after all an actively-managed, qualitative, value fund which aims for absolute returns, and does not aim to replicate the MSCI World Value index. However, the discrepancy is interesting. We discuss this, and several of the below themes touched on below, in more depth in the current Letter to Shareholders.

Sparinvest Ethical Global Value & Index Returns, in %	Q4 2010	YTD
Sparinvest Ethical Global Value	12.12	27.88
MSCI World Index	10.87	19.53
MSCI World Value Index	9.67	16.59
MSCI World Growth Index	12.03	22.46
MSCI World Small Cap Index	13.46	34.89

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.

Generally, the fund enjoyed some strong individual stock returns. For example, the European stock markets were relatively weak in 2010. The MSCI Europe index rose 11.10% over the year – but our positions there generated returns closer to 25%. At the country level, we benefitted from our low exposure to countries like Greece, Portugal and Spain. But more importantly, in those European countries where we have high exposures – such as Germany, the UK and the Netherlands – we had returns well in excess of the markets.

Both in Europe, but also in other regions such as North America and Japan, our strongest returns came from cyclical sectors such as consumer discretionary, industrial, and information technology. Certainly, these sectors generally did well in the markets, but our holdings were particularly healthy.

Our North American exposure – historically well below 10% – has now reached over 13% as we continue to find attractive investment opportunities. Some of the US holdings bought in the past couple of years have already generated major returns – Columbia Sportswear is discussed below – but we have numerous others with considerable potential remaining.

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, the materials sector was relatively weak for our fund, while energy stocks overall were fairly lacklustre. Japanese stocks also had a tough year, albeit gaining ground rapidly in the past couple of months. Certainly the strong yen has not been helping – see the Letter to Shareholders for a consideration of currency risk. 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 5.8% of assets under management. The fund had 92 holdings and our ten largest positions accounted for 30.71% of the total.

Since we last wrote, we have made two new investments. We bought shares in Inpex, a Japanese oil and gas company, and Zurich Financial Services, a major insurance company based in Switzerland.

In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have now exited our positions in Société BIC, Daetwyler, Columbia Sportswear and Deutsche Postbank, which are discussed below. In addition, we have sold our position in Royal Dutch Shell due to ethical considerations – as explained below.

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 remain compelling. As a rough indication, we amalgamate the holdings into one theoretical company.

This company has a price-to-book of just 1.07 times, compared to 2.26 times for the MSCI World 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 8.2 times EBITDA for the past fiscal year, compared with 9.2 times for the MSCI World. However, looking at Bloomberg estimates for fiscal years 2010 and 2011, the portfolio's EV/EBITDA drops to 5.7 and 5.3 times, compared with 7.5 and 6.9 times for MSCI World.

The aggregate balance sheet is strong, with net-debt-to-equity of just 26% (versus 51% for the MSCI World), and intangibles-to-equity of only 17% (versus 51% for the index).

Sparinvest Ethical Global 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

COLUMBIA SPORTSWEAR

Reached Target

Columbia Sportswear – the maker of outdoor clothing that competes with brands like The North Face – has an extremely tough chairwoman. Gertrude Boyle is 86 years old. In November 2010, she was held at gunpoint by a man trying to kidnap her for ransom. She managed to alert the police, who safely rescued her. But when the local police chief visited her home, he was unfortunately wearing a North Face jacket. He asked Gertrude if she was ok, and she immediately replied: *"I was fine, until that jacket walked in here"*.

This defiant, independent attitude is reflected in the company. After inheriting control in 1970 and realizing that Columbia was heavily indebted, Gertrude resolved never to rely too much on banks again. Forty years on, the balance sheet is extremely healthy, with a sizeable net cash position. Meanwhile, Columbia steadily built brand strength and market share, and sales expanded organically from under USD 1 million in 1970 to over 1.3 billion in 2007.

However, from mid-2007, it became clear that this revenue growth was likely to ease off, and Columbia's share price dropped sharply. We felt this was an overreaction. After such major expansion, a period of contraction was perhaps natural and, while Columbia was facing more competition, its track record and strong balance sheet gave us confidence for the long-term. We saw a significant discount to intrinsic value, and in mid-2008 we acquired shares at around USD 42, or a price-to-earnings ratio around 10 times and a price-to-book of around 1.5 times.

Of course, then came the global downturn, and Columbia's top line felt more pain as consumer spending slumped. However, the strong balance sheet – which we demand of all our investments – now came into play. Columbia deliberately increased spending at the bottom of the economic cycle, actively opening stores in the US and Europe while cheap leases were available, running more advertising, increasing R&D, and even launching a team in the Tour de France. In short, while some competitors licked their wounds, Columbia had the financial strength to be aggressive.

This is paying off, and while the actual top line has still not recovered to pre-crisis levels, Columbia's order backlog has shown a strong recovery. The share price rallied from mid-2009 and in late 2010 reached our assessed intrinsic value. We sold the shares for USD 60, achieving a total return on the initial investment of over 50%, including dividends.

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 Ethical Global Value portfolio at fund inception in mid-2008.

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.

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.

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 earnings 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.

Ethix SRI Advisors: Summary of the Exclusion Filters

Norm-based Screening (UN principles)
- Zero tolerance

Sector-based Screening

For Porn, Alcohol, Tobacco and Gambling
- Zero tolerance for production
- 5% tolerance for distribution

Weapons
- Zero tolerance for combat equipment
- 5% tolerance for other military equipment and associated services

Ethix SRI Advisors: Ethical Reporting

New holdings
During the quarter, no potential new investments were excluded as a result of the ethical screening criteria.

Inpex

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Inpex	Japan	—	—	—	—	—	—	—	—

No comment regarding involvement in controversial activity and revenue shares derived from such activities.

Zurich Financial Services

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Zurich Financial Services	CH	—	—	—	—	—	—	—	—

No comment regarding involvement in controversial activity and revenue shares derived from such activities.

Existing holdings
During the quarter, Royal Dutch Shell was removed from the portfolio due to ethical criteria, while ENI S.p.A. has been placed on Amber alert.

Royal Dutch Shell
Position Sold due to Red Alert on Norm-Based Screening
Royal Dutch Shell, the oil and gas company, had previously been on Amber alert under Norm-based screening. During the fourth quarter of 2010, Ethix SRI Advisors reclassified it as a Red alert, and therefore the position has been sold.

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Royal Dutch Shell	LUX	!	—	—	—	—	—	—	—

Statement from Ethix SRI Advisors
Royal Dutch Shell plc's (Shell) co-owned Nigerian joint venture is reportedly causing compound environmental degradation through continuous and repeated oil spills that are left untreated for years at a time. In addition Shell's joint venture has failed to comply with an order of the Federal High Court of Nigeria. The court ordered Shell's joint venture in 2005 to pay its share of pollution compensation and to stop gas flaring, a practice that reportedly releases carcinogens and leads to acid rain that pollutes soil, water and air. The company continues to flare gas today.

Royal Dutch Shell plc's (Shell's) human rights risk management in the Niger Delta continues to be cause for concern. Shell has not acknowledged its alleged complicity in human rights violations against opponents of its operations.

ENI S.p.A.
Placed on Amber Alert
ENI, the Italian oil and gas company, has been placed on Amber alert under Norm-based screening. Royal Dutch Shell, the oil and gas company, had previously been on Amber alert under Norm-based screening. During the fourth quarter of 2010, Ethix SRI Advisors reclassified it as a Red alert, and therefore the position has been sold.

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
ENI S.p.A.	LUX	—	!	—	—	—	—	—	—

Statement from Ethix SRI Advisors
Through its wholly-owned subsidiary, Nigerian Agip Oil Co. Ltd., Eni S.p.A. owns a 5% stake in a joint venture led by Royal Dutch Shell plc in Nigeria. The joint venture is reportedly causing compound environmental degradation through continuous and repeated oil spills that are left untreated for years at a time. In addition the joint venture has failed to comply with a 2005 order of the Federal High Court of Nigeria to pay its share of pollution compensation and to stop gas flaring, a practice that reportedly releases carcinogens and leads to acid rain that pollutes soil, water and air. The joint venture continues to flare gas today.

The allegations concern violations of international environmental standards based on the Precautionary Principle and the Polluter Pays Principle as set out in, among others, the Convention on Biological Diversity and the Rio Declaration on Environment and Development. Allegations of environmental degradation also concern the indirect impact of the company's activities on the right to health as set out in the International Covenant on Economic, Social and Cultural Rights.

Jens Moestrup Rasmussen
Lead 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 Ethical Global Value available share classes	ISIN
EUR I	LU0362355439
EUR R	LU0362355355
EUR UKI	LU0362355785

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.

Ethical Global Value EUR R

Monthly Fund Report - Printed: 13-Jan-2011 Currency: EUR

Sparinvest

Description

Investment Concept: Value Equities

The fund invests in American, European, Australian, Japanese and other Asian 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. An impartial Norm-Based Screening© and Sector-Based Screening© is performed by Ethix SRI Advisors to ensure that only ethically sound investments enter the portfolio.

Risk indicator - 31-Dec-2010

Benchmark

Low	Medium	High

Basic Information

ISIN	LU0362355355
Bloomberg	SPAEGVR.LX
Share Class	EUR R
Fund Inception	30-May-2008
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	30-May-2008
Fund size (MN) - 31-Dec-2010	138.26 EUR
Manager	Sparinvest S.A.
Fund Manager	Jens Rasmussen
Fund Manager Start Date	30-May-2008
Benchmark [1]	MSCI World
Morningstar Category™ [2]	Global Large-Cap Value Equity
Latest NAV - 31-Dec-2010	102.80 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.50 %
Total expense ratio - 31-Dec-2009	1.99 %

Returns - Month End, Dec-2010

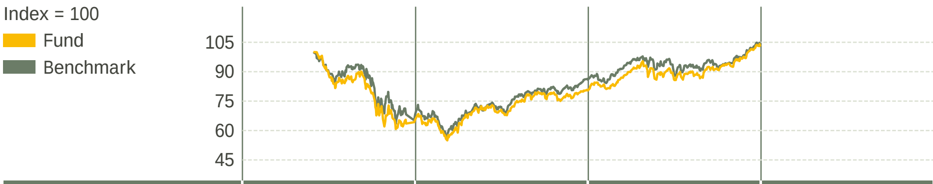
Returns	Fund	Benchmark[1]	Difference
YTD	27.88%	19.53%	8.35%
1 Month	6.06%	4.17%	1.89%
3 Months	12.12%	10.87%	1.25%
1 Year	27.88%	19.53%	8.35%
3 y ann.	-	-2.09%	-
5 y ann.	-	-0.17%	-

Risk 3 years - Month End, Dec-2010

Risk	Fund	Benchmark[1]	Morningstar [2]
Volatility	-	18.49%	19.24%
Sharpe R.	-	-	-0.20
Info Ratio	-	-	-

Morningstar Rating™	–

Performance - 31-Dec-2010

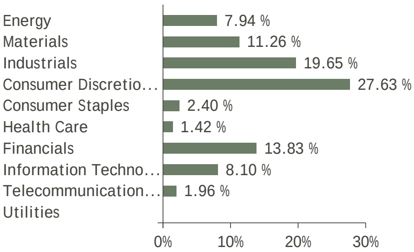


Returns	2008	2009	2010	-
Fund	-	22.75%	27.88%	-
Benchmark	-37.64%	25.94%	19.53%	-
Morningstar Category™	-37.78%	27.06%	15.45%	-

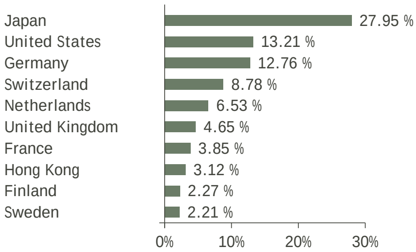
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
92	94.2%	0.0%	0.0%	5.8%

Sector Breakdown



Top 10 Countries



Portfolio (Top 10) - 31-Dec-2010

Name	Sector	Type	Country	Weight
Ms&Ad Insurance Group Holdings	Financials	Equities	Japan	4.39%
Koninklijke Dsm Nv	Materials	Equities	Netherlands	3.45%
Hochtief A.G.	Industrials	Equities	Germany	3.22%
Frankfurt Airport Serv.Worldw.	Industrials	Equities	Germany	3.12%
Hutchison Whamp/Hk0.25	Industrials	Equities	Hong Kong	3.12%
Dillards Inc A	Consumer Discretionary	Equities	United States	3.11%
Roy.Philips Electr./Eur 0.2	Industrials	Equities	Netherlands	2.64%
Peugeot Sa	Consumer Discretionary	Equities	France	2.64%
Bqe.Cantonale Vaudoise /Nom.	Financials	Equities	Switzerland	2.51%
Millennium & Copthorne Hotels	Consumer Discretionary	Equities	United Kingd...	2.51%

Notes:

Ethical Global Value is based on the Global Value fund, incepted in 2001. Norm-based Screening© by Ethix SRI Advisors. The mentioned sub-fund is a part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company.

Benchmark Comment

-

Sparinvest
28, Boulevard Royal
L-2449 Luxembourg
sparinvest.eu