



## Dear Investor

### Performance review of the recent quarter

In the second quarter Sparinvest Global Value gained 4.65 %.



In the second quarter of 2005 the net asset value of Sparinvest Global Value increased 4.65 %. In comparison the MSCI World Index increased 7.80 %.

The development during the quarter has not been satisfactory in relative terms compared to the MSCI World Index. In absolute terms the return must be considered satisfactory since it is our goal to create a positive return to our investors. The return in the first half of 2005 is very satisfactory both relative and absolute with a return of 15.72 % compared to 11.49 % for the MSCI World Index.

Below we list the performance of the fund in the second quarter and the first half year of 2005, compared to different stock market indices:

	2 Q 2005	1 H 2005
Sparinvest Global Value	4.65 %	15.72 %
MSCI World Index	7.80 %	11.49 %
MSCI World Value Index	7.38 %	12.20 %
MSCI World Small Cap Index	9.41 %	13.91 %

\*MSCI World Index, MSCI World Value Index and MCSI World Small Cap Index are all indices that contain a broad selection of companies from all over the world.

### The economy in the past quarter



The first quarter was characterised by the record high oil prices of 55 USD that have now increased to more than 60 USD during the second quarter. The soaring oil prices continue to pressure the profitability of the companies (the greater part) and thus the prices on the stock markets. The increase in the oil prices has largely been compelled by speculations regarding continued increasing demand from the US and China since the current world production is not capable of matching the development. It is mainly countries outside the OECD (2/3 of the world's consumption) that has caused the increased demand, with China as the major consumer. Economists at the IMF (World Bank) calculate that a further increase of the oil price with 5 USD will decrease the total global growth (GDP) with 0.3 %.

The growth in Europe continues to be very low and that is expressed by a very weak economic development, especially in the larger European countries. That has put pressure on the euro where the develop-

ment has been further intensified by the problems regarding the new EU-constitution. The euro consequently decreased by around 7 % during the quarter and around 12 % during the first six months of the year compared to the USD. It is now anticipated that the ECB (European Central Bank) will cut interest rates to “nourish” the business climate in and around the Euro zone. In the US the situation is the opposite where the Federal Reserve (FED) has recently raised interest rates to 3.25 % in an attempt to restrain the economic development.

During the first half of 2005 the increasing development of the US-dollar compared to the most important currencies in the world has also been important for the returns on the global stock markets (where the US stock market constitutes more than 50 % of the MSCI World Index). An example of this development is that the US stock market represented by the S&P 500 Index has fallen 0.8 % in local currency while it has risen 11.6 % in euro.

**The present condition of the fund**

Fraport and House of Fraser are new companies in the portfolio

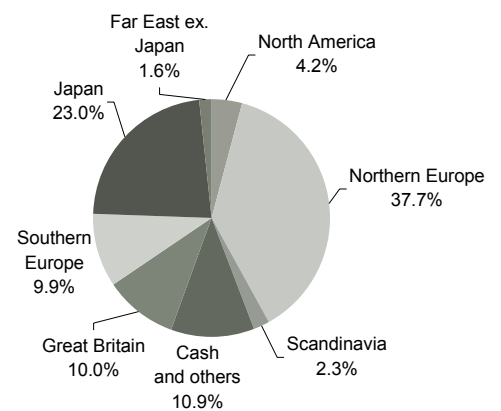


At the end of the second quarter liquidity constitutes around 11 % of the total capital. The capital is allocated on 98 companies with the following allocation:

**Sector allocation**



**Geographic allocation**



The ten largest holdings constitutes 24.96 % of the capital according to the following:

Capital	Sector	Share
BAA Plc.	Industry	2.59 %
Salzgitter AG	Materials	2.56 %
Hochtief Ag	Industry	2.56 %
Douglas Holding	Consumer Discretionary	2.56 %

Man AG	Industry	2.52 %
Thomson SA	Consumer	2.47 %
Peugeot SA	Consumer	2.44 %
Mitsui Sumitomo Ins. (8752)	Finance	2.41 %
Nipponkoa Insurance (8754)	Finance	2.39 %
Volkswagen	Consumer Discretionary	2.37 %

During the second quarter investments have been made in 40 of the shares in the portfolio and two new shares have been added. The new shares in the portfolio are German Fraport AG (operation and maintenance of airport) and British House of Fraser Plc (department stores).

### Umicore Cumerio Spin-off



Lately the news flow regarding actual or potential takeovers and other business activities has been quiet.

Umicore is a Belgian company that we added to the portfolio in October 2004. Umicore is an international company with activities within the material industry. The expertise of the company lies within knowledge of materials, chemistry and metallurgy. Thus Umicore has four business areas today: Advanced Materials, Precious Metals Products (including catalysts), Precious Metals Services and Zinc Specialties. In recent years the company has gone through a transformation from a traditional company within the metal processing business such as refining and smelting of copper, cobalt and zinc, to become an advanced producer of much more refined products as for example catalysts for cars. We started investing in the company just as the effects of this transformation still was not completely recognised by the stock market and hence had not shown its true potential. The effects were made visible by this general focus on fewer activities compared to earlier years.

Earlier Umicore had five business areas (until the second quarter of 2005). On February 21, 2005 the board of directors proposed to the shareholders that the fifth business area should be spun off. This meant that the copper part of the company was to be floated as an independent unit under the name Cumerio. At the same time the new company should be listed on the Belgian stock market. The spin-off was approved by the shareholders on April 28, 2005. The offer meant distribution of a new share in Cumerio per share in Umicore. In relation to tax and accounts the spin-off was regarded as valid from January 1, 2005.

After the spin-off had been carried out every share in Cumerio had a market value on the stock market of 10.5 euro per share. In comparison the shares are now traded at a level around 14 euro.

What is now known as Cumerio has its historical origin within development and operation of mines. Today the company is no longer active within the mining industry but operates one of the most modern copper refineries in the world in Olen, Belgium. The company has businesses in Italy and Bulgaria as well.

As mentioned Umicore has gone through a reconstruction phase with spin-off and acquisitions. We bought the share for the first time on a level around 60 euro and have since received a spin-off of Cumerio to a market value of 14 euro, while Umicore today trades at a level around 67 euro. In spite of this increase in price we still think that the company has potential since the board of directors continues to optimise the business areas and thus the operation.

**Krones AG**  
The target was reached.



The German company Krones Group, headquartered in Neutraubling, develops and produces machinery and complete lines for all kinds of filling and packaging technology. Krones started in 1951 with production of labelling machines and it was listed on the stock market in 1980. Today the company operates on a global scale where the production includes labellers, fillers, conveyor belts, stretch blow-moulding machines, mixers, monitoring equipment and control systems. Together this makes Krones capable of providing turnkey breweries and production facilities to the customers that includes breweries, other soft drink producers, wine, champagne, liquor and food producers and chemical, pharmaceutical and cosmetic industries.

With increasing population and the apparent necessity of the good the market for beverages was not in any risk of disappearing. Krones was at the time very inexpensive measured on different key ratios in spite of its solid position with a global market share within the packaging industry for drinks of around 25 % and 30 % for labels. The company's large exports share both within and outside of Europe gave a large diversity and protection against potential regional decrease. Together with historically positive results, solid balance sheets and surplus liquidity for future investments and large growth potential especially outside Europe we considered the company to be very attractive.

We bought our first shares in 2002 at prices around 50 to 60 euro and we recently chose to sell at an average price of 88 euro, since the share has reached our target.

**Focus**



It is important as an investor to always remain disciplined and follow your investment philosophy at all times. This means as value investor to focus on the company's intrinsic value and not the short term fluctuation of the market value. Investment in shares always involves a

non-diversifiable market risk. On the other hand the risk that is related to the individual company can be minimised by a thorough analysis and valuation of the company. We are consequently focusing on the existence of a large margin of safety in our investments. We investigate and find companies where the market value does not reflect the intrinsic value. We estimate the value by looking at what the company can be sold for, by estimating what the total assets could be sold for (assets, cash flow and profits). When the market value is significantly lower than the intrinsic value - at least 40 - 50 % lower - we invest in the company. This 40 - 50 % makes out the margin of safety of the investment. In other words we buy 100 euro for 50 euro.

Like many other things value is a subjective concept and in this context Sparinvest Global Value must be regarded as a very conservative fund within the genre. The focus on the value preservation means that during short periods you have to accept a return that is lower than the general stock market. Even after the recent increase on the stock markets there are still a large number of significantly undervalued and well consolidated companies in our portfolio. We continue to look for new undervalued companies. The risk of permanent loss of capital in the portfolio is limited we still have a positive view on the potential of our investments in the future.

Sincerely yours

Sparinvest Fondmæglerselskab A/S

Jens Moestrup Rasmussen  
Head of Equity and Lead Portfolio Manager  
July 12th, 2005