



AA
08/2011

Sparinvest
Global Small Cap Value

Product Profile

Fund Name	Sparinvest Global Small Cap Value
ISIN	LU0264925131
Investment universe	Global Aktien (Small Caps)
Benchmark	MSCI World Small Cap (net dividends)
Base Currency	EUR
Earnings	Accumulation
Inception date	02/11/2006
Fund Volume	Euro 42.73 m as 31/07/2011
Management Fee	1.85% p.a.
TER	2.38% p.a.
Fund Manager	Kasper Billy Jacobsen
Company	Sparinvest S.A.
Internet	www.sparinvest.lu

Investor's Profile

Investment horizon	mid-/ long-term (3 – 5 years)
Risk classification	medium (less than benchmark-oriented equity product)
Return expectations	long-term stable return with an optimal risk-return relationship
Loss Tolerance	short-term losses are possible

TELOS Comment

Sparinvest Global Small Cap Value is an actively managed equity fund, which invests globally in small caps stocks. The fund uses a strict value investing approach, fully in line with *Sparinvest's* philosophy. The fund focuses on capital preservation, but does not neglect the generation of long-term return. The fund management pays special attention to the maintenance of a balanced risk/return ratio. Based on the concept of capital preservation, and bearing in mind the special political, accounting and corporate governance risks identified by the fund management within the emerging markets, it was decided to exclude those countries from the investment universe. The fund's philosophy involves considering an investment more as an investment in the actual company rather than in the share itself, and in doing so, to adopt a cautious commercial approach. Only those equities that satisfy the narrow restriction of a current markdown in the market valuation of at least 40% of the fair value of the company calculated by Sparinvest, gain admission to the broadly diversified portfolio of 80 to 120 stocks. The investment "cushion" created by this valuation markdown is an important element of the risk management that is applied at a number of different levels. The fund management believes that in the current crisis and with the resultant market valuations, the investment style it pursues offers great opportunities for attractive returns in the future. The fund employs a bottom-up approach. There are no regional, sector or currency restrictions. The individual weightings within the portfolio come from the selection process at individual stock level. Cur-

rency components are not hedged. Nor is the fund tied to a benchmark for allocation purposes. As a result, the portfolio distribution may sometimes vary considerably from the MSCI World Small Cap (net Div.), which is used as a broad indicator of performance.

Investments are made on the assumption of a long investment horizon, which is also reflected in the relatively low stock turnover rate. Sustainable and responsible investments now play a greater role. *Sparinvest* has signed the "UN Principles for Responsible Investment agreement (UN PRI)" and now formally incorporates ESG risk factors into the analysis phase of the investment process. The team is characterised rather by its homogeneity than by the range of qualifications and ages among its members. All the team members have experience in fundamental equity and company analysis. In 2010 and 2011, four new members joined the team following the acquisition of the Danish asset managers *Atrium Asset Management* and *EgnsInvest*. On 29 August 2011, the portfolio reported a positive average valuation of its positions, with a price to book ratio of 0.78. Financial stability is also attractive, at -7.62% for the net debt to equity ratio. The Sharpe ratios over one, two and three years were positive. *Sparinvest Global Small Cap Value* is rated **AA**.

Investment Process

Sparinvest Global Small Cap Value is managed by *Sparinvest S.A.* (Sparinvest) in Luxembourg, and receives investment advice from *Sparinvest Asset Management A/S* in Denmark. The fund is managed by the company's in-house Value Equity team. The team has been in existence since 1997, has been part of *Sparinvest Asset Management A/S* since 1999 and has been primarily responsible, since its formation, for the development of the Sparinvest value concept and for its implementation in fund solutions. Team member *Kasper Billy Jacobsen* (Chief Portfolio Manager) carries overall responsibility for the fund's investment activities, with the support of his Co-Manager *Trine Uggerhøj*. The long-only fund invests globally in small caps with a market capitalisation at the upper limit of the benchmark used for comparison (currently around USD 1.5 billion). Acceptable liquidity of the portfolio stocks is an important requirement. By investing in value, the fund works on the assumption that in the long term, the market prices the fair, fundamentally sound intrinsic value of a company, and that the price will only vary from this in the short term. The fund therefore selects companies that are being quoted at a markdown against this value, but whose fundamentals justify the expectation that price increases will reduce the size of that markdown. Sparinvest has defined a markdown of at least 40%, which is also intended to serve as a safety cushion in the event of price falls, so that it represents a significant proportion of the risk management and reflects the concept that capital preservation and the creation of an optimum risk/return profile must be sought. The first stage of the investment process

involves monthly quantitative screening of the investment universe of several thousand stocks. At this stage already, companies with convincing wealth/earnings structure and stability are selected with the aid of an external tool. Criteria include for example the price to book ratio (< 1.5), the net debt to equity ratio ($< 50\%$), the price-to-earnings and price to cashflow ratio. The potential companies are then condensed into a shortlist on the basis of other aspects of their valuation and fundamentals, using an in-house analysis tool, before the core process, intensive fundamental analysis by members of the Value Equity Team, takes place. During this analysis, the companies' annual financial statements of the last 5 to 10 years, their business models and their growth prospects undergo critical scrutiny. A case study is drawn up for each company, and a homogenous valuation is undertaken against a checklist, which has included ESG factors since 2010 which are checked with the use of external service providers. If necessary, the companies in question are asked for further information. The fund management contacts sector specialists in order to double-check its own opinion. The use of specialists is an integral aspect of the investment process. The current valuation markdown is calculated by examining the special features of each company, with the aid of a database of over 800,000 M&A transactions. Once a team has approved a particular stock, the fund management decides whether to include it in the portfolio and determines its weighting if applicable. The stock is sold as soon as it reaches its target price (intrinsic value).

Quality Management

The overall fund profile regularly undergoes a style analysis conducted by a committee that is independent of the fund management. A risk management system is used to calculate various relevant ratios; the fund's positioning and characteristics are analysed in comparison with the

overall market. The fund management conducts a pre-trade compliance check in relation to investment restrictions. In addition, the internal and external investment restrictions are automatically monitored by RBC Dexia (the custodian).

Team

The fund has been managed by *Kasper Billy Jacobsen* since its launch in 2006; he also joined the management of the Value Equity Team, alongside *Jens Moestrup Rasmussen*, in 2009, where he has operational responsibility. The Value Equity Team comprises a further eight

members (portfolio managers and analysts), all of whom are involved in research and analysis. The fund managers are all graduates and are trained in house. Their long-term commitment to the company is encouraged, for example through share-based incentive schemes.

Investment Characteristics

<i>Important external factors</i>	<i>Important control factors</i>
Economic environment	Asset selection
Equity market (level)	
Liquidity	

Product History

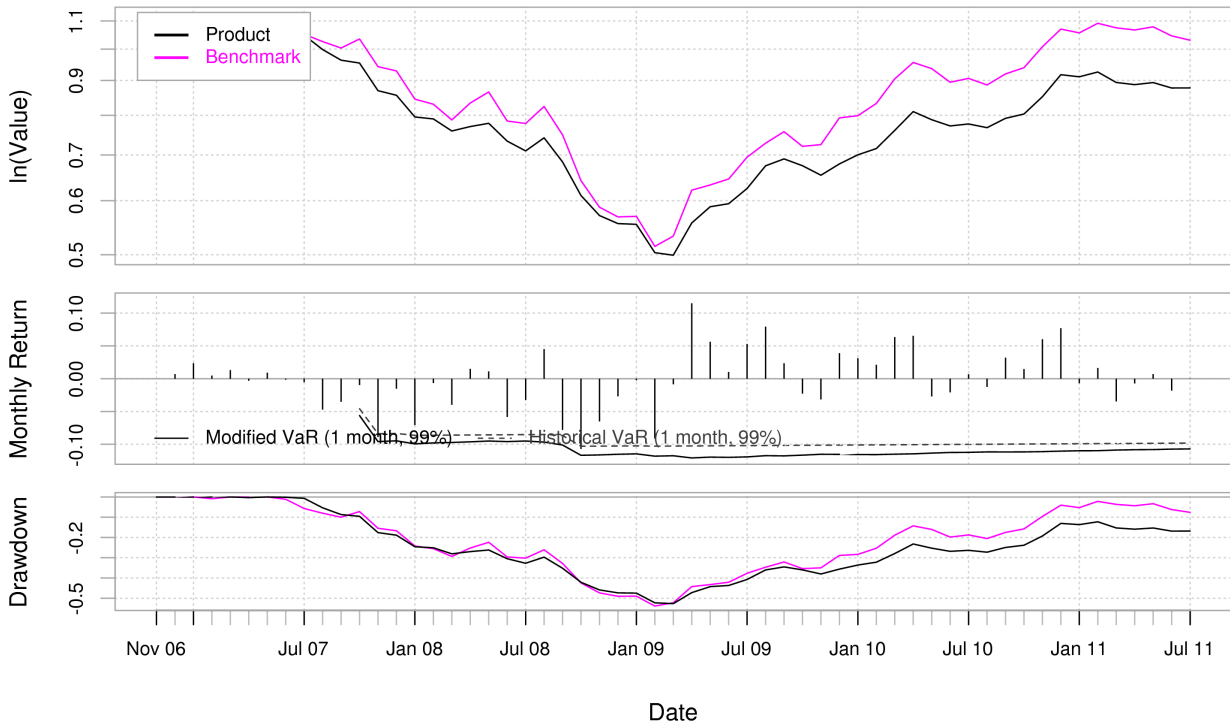
Monthly Returns

	2006	2007	2008	2009	2010	2011
Jan	-	2.4	-7.1	-0.3	3.1	-0.7
Feb	-	0.5	-0.7	-9.1	2.1	1.6
Mar	-	1.3	-4.0	-0.9	6.3	-3.5
Apr	-	-0.3	1.5	11.5	6.5	-0.7
May	-	0.9	1.1	5.6	-2.7	0.7
Jun	-	-0.2	-5.8	1.0	-2.1	-1.8
Jul	-	-0.5	-3.2	5.3	0.7	0.0
Aug	-	-4.7	4.5	7.9	-1.2	-
Sep	-	-3.5	-7.8	2.4	3.2	-
Oct	-	-1.0	-10.7	-2.3	1.5	-
Nov	-	-8.9	-6.5	-3.2	6.0	-
Dec	0.7	-1.5	-2.7	3.9	7.7	-
Product	0.7	-15.0	-35.1	22.3	35.1	-4.4
Benchmark	2.2	-9.1	-38.9	39.6	34.9	-3.7

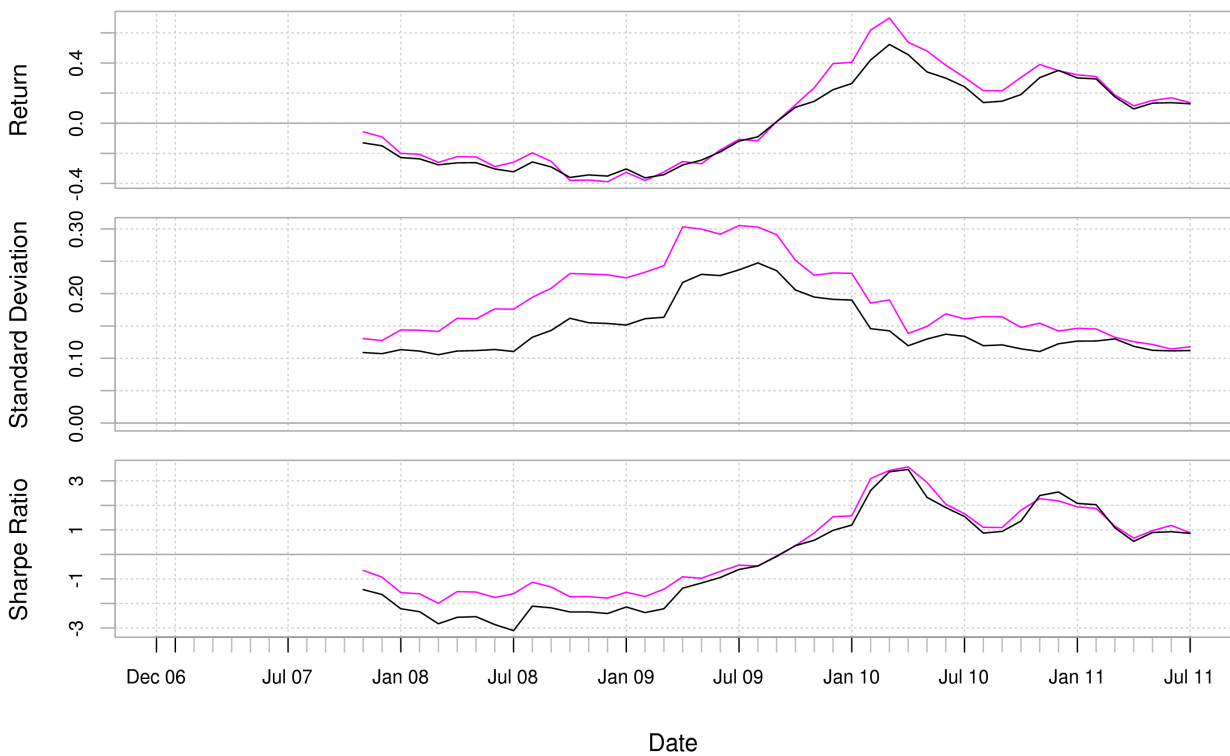
<i>Statistics per end of Jul 11</i>	<i>6 M</i>	<i>1 year</i>	<i>2 years</i>	<i>3 years</i>
<i>Performance (annualised)</i>	-7.24%	12.91%	18.46%	7.33%
<i>Volatility (annualised)</i>	6.33%	11.21%	12.17%	16.97%
<i>Sharpe-Ratio</i>	-1.62	0.88	1.27	0.26
<i>Best monthly result</i>	1.62%	7.70%	7.93%	11.49%
<i>Worst monthly result</i>	-3.47%	-3.47%	-3.47%	-10.71%
<i>Median of monthly results</i>	-0.35%	0.36%	1.08%	0.69%
<i>Best 12-month result</i>		12.91%	35.08%	52.33%
<i>Worst 12 month result</i>		12.91%	9.51%	-11.89%
<i>Median of 12-month results</i>		12.91%	17.52%	19.04%
<i>Maximum loss period</i>	5	5	6	18
<i>Maximum loss</i>	-5.25%	-5.25%	-5.35%	-32.68%

	Fund vs. Benchmark (trailing 36 Months)
Jensen Alpha	-0.00
Annualized Jensen Alpha	-0.01
Beta	0.76
R-squared	0.86
Correlation	0.93
Tracking Error	0.08
Active Premium	-0.02
Information Ratio	-0.31
Treynor Ratio	0.06

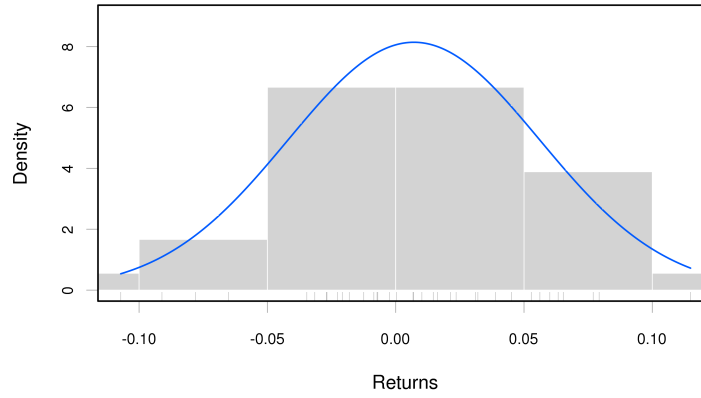
Performance



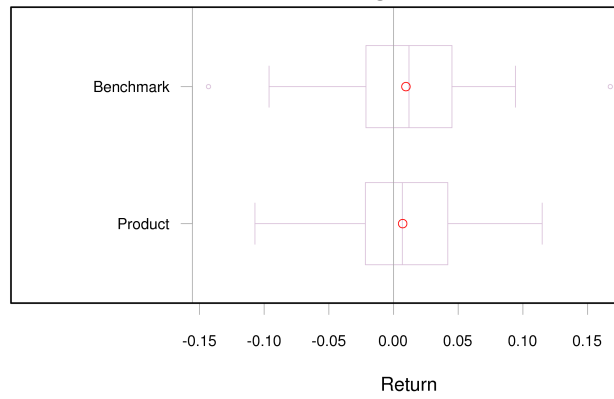
Rolling 12-month- Performance



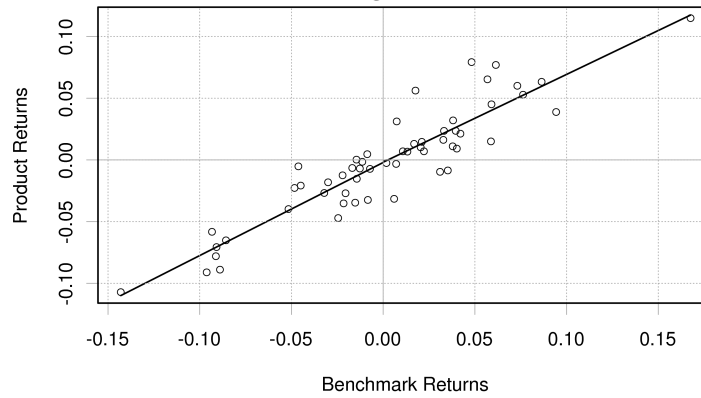
Histogram of monthly Returns
 (trailing 36 Months)



Boxplot of monthly Returns
 (trailing 36 Months)



Conditional Beta of monthly Returns
 (trailing 36 Months)



Explanations

TELOS Rating Scale

AAA	The fund complies with highest quality standards
AA	The fund complies with very high quality standards
A	The fund complies with high quality standards
N	The fund does currently not comply with the TELOS quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The **performance** of the fund is calculated based on reinvested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the "BVI method" of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The **Sharpe Ratio** provides information about the "excess return" of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate used in this report is 3%, and the *volatility* is the annualised standard deviation of the monthly returns.

The **median of monthly results** is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to "outlier

results" than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss period* is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under consideration – starting from the highest value reached earlier during this period.

Jensen Alpha measures the beta-risk-adjusted (cf. beta) outperformance of the fund versus the benchmark and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

Beta is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

R² is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

Correlation is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The **tracking error** is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

Active Premium or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The **Information Ratio** is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The **Treynor Ratio** is the return in excess of the riskfree rate, divided by beta. The Treynor ratio is a beta-risk-adjusted measure of outperformance vs the riskfree rate.

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