



## Ethical Global Value

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### Fund Facts

Strategy	Value Equity
Risk	High (6)
ISIN	LU0362355355
Share Class Currency	EUR
Fund Inception	30-May-2008
Fund Managers	Jens Moestrup Rasmussen & Kasper Billy Jacobsen
Benchmark	MSCI World (EUR)
Morningstar Category	Global Large-Cap Value Equity



### Performance

In the third quarter of 2011, Sparinvest Ethical Global Value lost 15.66%. During the same period, the global equity market – as measured by the MSCI World index – declined by 9.89%, while the value equity market – measured by the MSCI World Value index – fell 10.37%. The main reason for the negative return, in both absolute and relative terms, is the fund's relatively high exposure to European, cyclical and small cap stocks. The MSCI Europe index dropped 16.37% during the quarter, while the global small cap market declined by 14.04%.

Sparinvest Ethical Global Value & Index Returns, in %	Q3 2011	YTD
Sparinvest Ethical Global Value	-15.66	-19.15
MSCI World Index	-9.89	-12.21
MSCI World Value Index	-10.37	-12.27
MSCI World Growth Index	-9.43	-12.16
MSCI World Small Cap Index	-14.04	-15.98

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.

This means that in 2011 year-to-date, Sparinvest Ethical Global Value has declined by 19.15%, compared with a decline of 12.21% for the MSCI World. During the first half of the year, the fund had suffered as a result of the earthquake in Japan, but in the third quarter, our holdings there have been relatively robust. The speed of operational recovery in Japan has been impressive, and indeed, once the strong Japanese yen is factored in, our Japanese holdings have been among our strongest performers year-to-date.

Clearly the major drag on performance has been the Eurozone crisis and concerns of slower global growth, or indeed, recession. Stock markets have been driven

primarily by fear. This has clearly been a challenging environment for a portfolio with a relatively high exposure to European equities, albeit concentrated primarily in Northern Europe. At times, simply having a European postcode seemed enough to trigger sharp share price declines. Moreover, at a global level, the fund has relatively high exposure to sectors such as consumer discretionary, industrials, and materials, which have been the sectors hardest hit in the recent bout of market pessimism – within Europe, of course, but also in North America and Japan.

Naturally, it is not satisfactory to see such a steep decline in quarterly performance. However, we must stress that the recent extreme share price movements bear little relation to what we have seen in fundamental developments at our holdings. Moreover, these markets have been providing excellent new investment opportunities, with eight new companies bought during the quarter.

There are major problems to be solved, particularly in the Eurozone. Decisive political action is vital. As we have long said, the recovery from a credit crisis was never going to be quick and easy. We will not predict here precisely what macro scenario the world is facing, but the situation is very different from late 2008 in one crucial way. In 2008, the sheer speed of the downturn took many companies by surprise. Today, in late 2011, business conditions themselves have not yet shown a significant downturn; generally, our holdings report that orders and earnings remain roughly on track. But if a down swing does come, companies are prepared. Balance sheets have been shored up, with, for example, reduced leverage and lower inventories. Disciplined cost cutting has led to dramatically lower breakeven points. This is a theme we expand on in our current letter to shareholders.

So, while we share concern about the current situation in Europe, and can certainly see risks of relatively low growth globally in the near term, current stock markets strike us as deeply irrational. Portfolio valuations are discussed below – but we have no doubt that, whatever macro developments may come, the current share prices of our holdings offer deep discounts to intrinsic value, which will drive solid performance over the years to come.

### **Portfolio Composition**

At the end of the quarter, there was no cash position. The fund had 100 holdings and our ten largest positions accounted for 25.53% of the total.

During the quarter, we made eight new investments. We bought shares in BlueScope Steel (Australia, steel), Nokia (Finland, mobile telecommunications), Clariant (Switzerland, chemicals), and Nyrstar (Belgium, zinc

mining and smelting). In Japan, we invested in Nintendo (gaming), and Mitsui OSK (shipping). We also invested in two home appliance makers, Whirlpool (US) and Electrolux (Sweden).

We should note that from time to time, some stocks enter the portfolio as a result of corporate actions by existing holdings. One example is spin-offs, where an existing holding spins off a business division into a new, separately listed entity. In recent quarters, this has resulted in two additions to the portfolio: ANF Immobilier, a real estate investment trust spun off from existing French holding, Eurazeo; and Autoneum, an automotive component maker spun off from existing Swiss holding, Rieter. Mergers can also lead to the creation of new corporate entities, and a recent example of this would be the merger of Tokyo Style and Sanei International, both existing holdings, to form the new company TSI Holdings, a Japanese clothing maker and retailer. In all such cases, we analyse the newly-formed entity in its own right, and where we see that the market price offers a healthy discount to intrinsic value, we typically remain invested.

No positions were entirely exited during the quarter. However, below, we comment on Dillard's, a US holding which was sold during the second quarter. In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others.

*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**

Stock markets generally are now trading at compellingly low valuations, but the valuations of our holdings look extreme. As a rough indication, we amalgamate the holdings into one theoretical company.

This company has a price-to-book of just 0.77 times, compared to 1.52 times for the MSCI World index. The balance sheet remains solid, with low financial leverage (median net-debt-to-equity of just 5% versus 29% for the MSCI World). If we strip out intangible assets, and look at price-to-tangible-book, the fund trades at 1.22 times, compared to 2.38 times for the index.

Earnings-based multiples suggest that an extremely negative scenario is now priced in. The price-to-earnings ratio, based on consensus estimates, is 10.0 times for the current fiscal year, and 8.82 times for the following fiscal year (compared with 10.8 and 9.68 times, respectively, for the MSCI World). EV/EBITDA, which is a useful indicator of the price of companies relative to their raw earnings power, is just 3.7 times current year estimates, and 3.1 times next year estimates – compared with 5.9 and 5.2

times respectively for the MSCI World. If one compares these multiples to what is actually paid for companies in M&A transactions, the implicit upside in the entire market, and the fund in particular, looks significant.

Sparinvest Ethical Global Value offers a wider range of companies, with solid asset backing and robust cross-cycle earnings power. Despite the current stock-market volatility, the intrinsic value of the portfolio remains very much intact, and we are confident that this portfolio will generate healthy investment returns over the years to come.

## Individual Positions

### **Dillard's**

#### *Reached target*

Dillard's operates retail department stores in the Southwest, Southeast, and Midwest regions of the US. It was founded in 1938 by the father of the current CEO and is family controlled. When we looked at Dillard's during the summer of 2007, the company had been through a prolonged difficult period where same store sales and margins had been shrinking, and in a fierce competitive environment they were underperforming compared to their peers.

Although the stock traded at 0.75 times book value, it was not compelling from an earnings perspective, and was unpopular with many analysts. For us, however, there was more to it. It owned the vast majority of its stores, which to us looked highly valuable – indeed, more valuable than the numbers stated in the balance sheet – and we considered that this would provide a solid floor value to the company if things went wrong. Meanwhile, we could see considerable potential to improve earnings. We were not alone. In the summer of 2007, Barington Capital, a hedge fund, sought a meeting with management urging them to close unprofitable stores, use sale-and-lease-back on the company's properties, and manage stores and inventory better. We assessed Dillard's based on conservative assessment of the real estate values and applying a low multiple to its potential earnings power, and we saw a significant discount. In the Global Value Fund, we bought our first shares in Dillard's in August 2007 at USD 26 per share, and Dillard's entered the Ethical Global Value Fund at fund inception in 2008.

Shortly after investing, the economic downturn hit Dillard's along with the rest of the industry. Despite the decreasing value of the Dillard's share price, we were confident in our investment. During the crisis it traded below USD 3 per share, but what mattered to us was the underlying investment case, which we actually saw improve. The board structure was changed during 2008 and an official strategy on capital deployment, cost cutting and maximization of shareholder value was communicated. As an example, Dillard's sold an excess corporate jet and used the proceeds to buy back shares.

Emerging from the crisis Dillard's started to run its stores better and free cash flow turned from minus USD 1 per share in 2007 to over USD 6 per share in 2009. Then, in January 2011, Dillard's announced that it intended to set up a real estate investment trust to unlock the substantial value of its real estate. The share price hit USD 55 in July 2011 and we sold our shares as it reached our estimated intrinsic value. It was a satisfying return, and is a fine example of how market volatility can temporarily make an investment look bad, in spite of robust intrinsic value based on solid asset values and operating potential.

## **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 and illegal weapons
- 5% tolerance for other military equipment and associated services

## Ethix SRI Advisors: Ethical Reporting

### New holdings

During the quarter, eight new investments were made – details are below.

#### Nokia

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

Nokia's subsidiary Nokia Siemens Networks advertises its involvement in military communication systems on the company website. However, in 2010 Nokia's contracts with the US Ministry of Defense – advertised as the major partner in this sector – encompassed the provision of basic (not military-specific) telecommunication hardware and related services worth less than USD 5 million (far less than 0.1% of Nokia's annual revenue in 2010).

#### Nintendo

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

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

#### Mitsui OSK

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

Mitsui OSK is a Japanese transport company primarily involved in international shipping. The company is also involved in the operation of cruise ships. The sale of alcohol and tobacco forms a part of these activities.

Total revenue amounted to JPY1.54t in 2011. The majority of revenue was derived from bulk-ships and container-ships. The segment 'Associated Businesses', which encompasses the company's cruise-liner operations, accounted for 7% of revenue. It is estimated that the amount of revenue derived from the sale of alcohol and tobacco is negligible.

#### Clariant

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

Clariant's 2010 corporate brochure lists 'military' as an end customer for its flame-retardant products. However, these products are dual-use in nature – there is no evidence that the company's range of flame retardants is designed on the basis of military specifications. Some of Clariant's other plastic, textiles and ceramics products may also have military applications but have not been specifically designed for this purpose.

*BlueScope Steel*

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
BlueScope Steel	Australia	—	—	—	—	—	—	—	—

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

*Whirlpool*

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

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

*Electrolux*

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

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

*Nyrstar*

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

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

**Jens Moestrup Rasmussen**

Chief Portfolio Manager

11 October 2011

**Kasper Billy Jacobsen**

Chief Portfolio Manager

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
GBP UKR	LU0362355603



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.

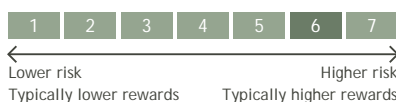
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors/representatives 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. For investors in Switzerland the funds' 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. Sparinvest makes reservations for typos, calculation mistakes and other possible mistakes in the material.

## Description

### Investment Concept: Value Equities

The Sub-Fund aims at providing a positive return over the long term by investing in equity securities and, to a limited extent, convertible securities and warrants on transferable securities that are admitted to official listing on a stock exchange or that are traded on a Regulated Market within the OECD countries, EU member states (the "EU Member States"), Singapore or Hong Kong. The Sub-Fund applies an ethical screening that identifies the companies that do not fulfill an ethical framework, and they are excluded.

## Risk and Reward Profile



## 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) - 30-Sep-2011	109.93 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Kasper Jacobsen, Jens Rasmussen
Managed Since	01-Jun-2011
Benchmark <sup>1</sup>	MSCI World
Morningstar Category™ <sup>2</sup>	Global Large-Cap Value Equity
Latest NAV - 30-Sep-2011	83.11 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.50 %
Total expense ratio - 31-Dec-2010	1.99 %

## Returns - Month End, Sep-2011

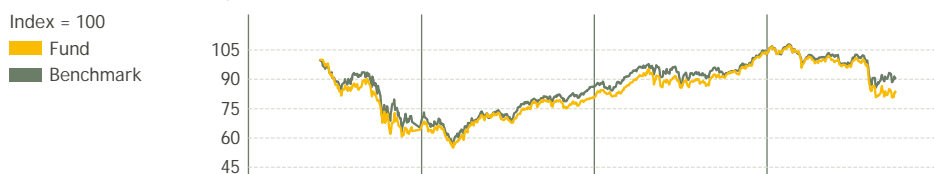
Returns	Fund	Benchmark <sup>1</sup>	Difference
YTD	-19.15%	-12.21%	-6.94%
1 Month	-3.44%	-1.96%	-1.48%
3 Months	-15.66%	-9.89%	-5.77%
1 Year	-9.36%	-2.67%	-6.69%
3 y ann.	1.75%	1.46%	0.28%
5 y ann.	-	-3.34%	-
10 y ann.	-	-	-

## Risk 3 years - Month End, Sep-2011

Risk	Fund	Benchmark <sup>1</sup>	Morningstar <sup>2</sup>
Volatility	19.29%	16.00%	16.80%
Sharpe R.	0.12	-	0.07
Info Ratio	0.10	-	-

Morningstar Rating™ **★★★★★**

## Performance - 30-Sep-2011

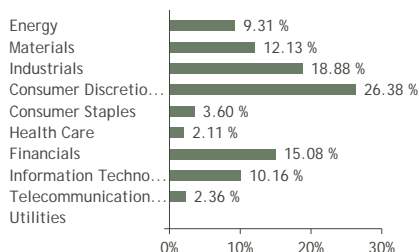


Returns	2008	2009	2010	09-2011
Fund	-	22.75%	27.88%	-19.15%
Benchmark	-37.64%	25.94%	19.53%	-12.21%
Morningstar Category™	-37.78%	27.06%	15.45%	-12.69%

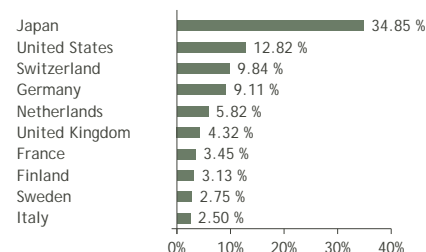
## Asset Allocation

Holdings	Equities	Bonds	Other	Cash
100	100.0%	0.0%	0.0%	0.0%

## Sector Breakdown



## Top 10 Countries



## Portfolio (Top 10) - 30-Sep-2011

Name	Sector	Type	Country	Weight
Hochtief A.G.	Industrials	Equities	Germany	3.07%
Frankfurt Airport Serv. Worldw.	Industrials	Equities	Germany	2.95%
Ms&Ad Insurance Group Holdings	Financials	Equities	Japan	2.84%
Koninklijke Dsm Nv	Materials	Equities	Netherlands	2.74%
Nippon Tel&Tel	Telecommunication S...	Equities	Japan	2.36%
Millennium & Cophorne Hotels	Consumer Discretionary	Equities	United Kingd...	2.36%
Toyota Industries Corp	Consumer Discretionary	Equities	Japan	2.34%
Roy.Philips Electr./Eur 0.2	Industrials	Equities	Netherlands	2.33%
Ericsson Tel. B	Information Technology	Equities	Sweden	2.28%
Hutchison Whamp/Hk0.25	Industrials	Equities	Hong Kong	2.26%

## Notes:

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

## Benchmark Comment

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