



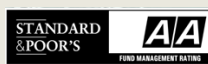
## European Value

### Headlines

- Performance
- Portfolio Composition
- Portfolio Valuation
- Individual Positions

### Fund Facts

Strategy	Value Equity
Risk	High (6)
ISIN	LU0264920413
Share Class Currency	EUR
Fund Inception	02-Nov-2006
Fund Managers	Jens Moestrup Rasmussen & Per Kronborg Jensen
Benchmark	MSCI Europe (net dividends)
Morningstar Category <sup>TM 2</sup>	Europe Mid-Cap Equity



- [sparinvest.eu](http://sparinvest.eu)

### Performance

During the last quarter of 2011, Sparinvest European Value gained 1.50%, taking the full-year return to a loss of 22.31%. The general European market, as measured by the MSCI Europe index, gained 8.93% in the quarter, while losing 8.08% over the year. The European value stock universe (as measured by the MSCI Europe Value index) gained 8% during the quarter and lost 9.45% over the year. The fund holds a fair proportion of small cap holdings, and during the quarter European Small caps returned 3.78%, giving a full-year return of -17.45.

Sparinvest European Value & Index Returns, in %	Q4 2011	YTD
Sparinvest European Value	1.50	-22.31
MSCI Europe Index	8.93	-8.08
MSCI Europe Value Index	8.00	-9.45
MSCI Europe Growth Index	9.82	-6.72
MSCI Europe Small Cap Index	3.78	-17.45

MSCI Europe Index, MSCI Europe Value Index, MSCI Europe Growth Index and MSCI Europe Small Cap Index are all indices that contain a broad selection of companies from all over Europe. All returns on investment are in EUR.

This means that in the full year 2011, Sparinvest European Value underperformed the European market by 14.23% – including the 7.43% relative loss in the fourth quarter. Obviously, European stock markets were hurt in 2011 by a general lack of appetite for European investments due to uncertainty about the future of the fiscal union. However, we underperformed the overall market, and we are not satisfied with our relative performance.

It has been a challenging environment for a European portfolio with a relatively high weight in smaller companies – small-cap stocks were clearly the biggest detractor to the fund's performance in both the final quarter, and the entire year. These holdings were very beneficial to

the fund during 2010, but in 2011, with general concerns over sluggish European growth and the potential for one or more countries to default, investors have turned away from smaller companies and looked for safety in larger names.

The same tendency can be found when comparing different sectors. Consumer Staples and Health Care – which are normally considered safe havens when investors tremble – outperformed in 2011 with positive returns. Meanwhile, European Consumer Discretionary, Finance, IT, Industrials and Materials presented annual losses in the range of 10-25%. Hence, our relatively high exposure to the more economically sensitive industries was not beneficial in 2011. It's important to remember that our general exposure to smaller and more economically-sensitive stocks is not the result of a top-down decision. As always, it is the result of our search for the cheapest companies that can give our investors the best returns over time. We have written many times of our approach to cyclical sectors, and we will not repeat in depth here. Suffice it to say that while market prices of many cyclical holdings have suffered significantly in 2011, these moves look excessive when compared to fundamental conditions at the holdings, whether we are talking about earnings in the near term, or – as remains our primary focus – the company's longer-term prospects. As we have written during previous crises, it is vital not to capitulate and sell off holdings at irrationally low prices. Instead, one must remain focussed on their true long-term worth.

There are still challenges ahead for Europe, as well as other parts of the world. The outcome of the European debt crisis is of course unpredictable, but even in a best-case scenario the effects will be felt for a number of years. We refrain from trying to predict the macro developments of the year ahead, but when we look at the state of European companies – whether measured on their balance-sheet strength or their expected earnings, adjusted for some difficult years to come – we conclude that a lot of bad news is factored in already. This is clearly reflected in the low valuations of our portfolio shown below.

### **Portfolio Composition**

At the end of the quarter, the cash position was 0.7% of assets under management. The fund had 68 holdings and our ten largest positions accounted for 27.14% of the total.

During the quarter, we made one new investment in Belgian Delhaize (supermarkets) and we exited our investment in the British home builder, Berkeley Group. Furthermore, 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**

European stock markets in general are trading at compellingly low valuations, but the valuations of our holdings look even more interesting. As a rough indication, we amalgamate the holdings into one theoretical company.

This company has a price-to-book of just 0.74 times, compared to 1.41 times for the MSCI Europe index. The balance sheet remains solid, with low financial leverage (median net-debt-to-equity of just 15% versus 43% for the MSCI Europe). If we strip out intangible assets, and look at price-to-tangible-book, the fund trades at 1.30 times, compared to 2.24 times for the index.

Earnings-based multiples are just as compelling. The price-to-earnings ratio, based on consensus estimates, is 9.60 times for the current fiscal year, and 8.94 times for the following fiscal year (compared with 10.35 and 9.59 times, respectively, for the MSCI Europe). EV/EBITDA, which is a useful indicator of the price of companies relative to their raw earnings power, is just 3.66 times current year estimates, and 3.16 times next year estimates – compared with 5.95 and 5.55 times, respectively, for the MSCI Europe. 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 European Value offers a wide range of companies, with solid asset backing and robust cross-cycle earnings power. Despite the current volatile stock markets and the recent weak performance, 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**

#### **Berkeley Group**

*Sold near target*

Berkeley Group is a British home builder established in 1976 by Mr Anthony Pidgley. Initially Berkeley was focused on construction of single homes, but after years of growth and geographical expansion, the company went into urban regeneration in the 1990s. In the early 2000s, Berkeley refined its strategy, to focus increasingly on urban redevelopment in the London area.

Not long after we first invested in Berkeley, the stock attracted a lot of attention because of a takeover bid. Anthony Pidgley remained as Managing Director. His

son – Mr Pidgley Jr – had left the company a few years earlier, and now came on the offensive with a GBP 1 billion takeover offer: giving an interesting indication of the potential value in the company. The company had always been well run and had a consistent track record of profit delivery. The strong balance sheet combined with prudent management was very important and gave us confidence that this was a company that should be able to bring forth the value of the long-term asset values of its land bank, and not be forced into a potential ‘fire-sale’ in the case of a downturn. We bought our first shares in February 2003 at around 600p, when the company was trading at 0.8x book value and a P/E of 6. The European fund has held the position since inception.

Shortly after our initial investment, it was announced in 2004 that Berkeley would abandon its traditional volume house building segment and focus on urban regeneration. The company also announced plans to downsize operations by around 50% and release any surplus capital to investors. The result was the return of GBP 1.4 billion to investors over the following years. The company kept presenting good results while returning capital as promised.

In 2008, the company chose to defer a pay-out of GBP 3.00 per share to investors, in order to build up cash to take advantage of falling land prices amid Britain’s biggest housing slump in 25 years. Berkeley kept on presenting positive results through the crisis, and we held on to the shares through a very difficult time for the industry.

In June 2011, the company announced a new ambitious plan for returning capital to investors: a further GBP 13.00 per share by September 2021. This announcement triggered a share price increase of more than 10%. Although the stock had not entirely reached our estimated intrinsic value, we chose to sell our investment, which gave an annual return of about 20% since the first investment. In the current environment, there are companies that trade at larger discounts to intrinsic value, and it is our job to maximize the margin of safety in the funds.

**Jens Moestrup Rasmussen** Chief Portfolio Manager  
**Per Kronborg Jensen** Senior Portfolio Manager  
 11 January 2012

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 European Value available share classes	ISIN
EUR I	LU0264924241
EUR R	LU0264920413
EUR UKI	LU0264924753
EUR UKR	LU0264920926
GBP UKR	LU0264927772



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.

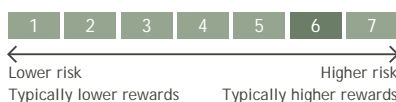
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest 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 of companies having their registered office or undertaking a preponderant part of their business activities in Europe and that are admitted to official listing on a stock exchange or that are traded on a Regulated Market within the EU- and EFTA-Member States. The Sub-Fund invests at least 3/4 of its total assets in the aforementioned securities.

## Risk and Reward Profile



## Basic Information

ISIN	LU0264920413
Bloomberg	SPEUVLR LX
Share Class	EUR R
Fund Inception	02-Nov-2006
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	02-Nov-2006
Fund size (MN) - 31-Dec-2011	48.19 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Per Jensen, Jens Rasmussen
Managed Since	15-Feb-2010
Benchmark <sup>1</sup>	MSCI Europe (net dividends)
Morningstar Category™ <sup>2</sup>	Europe Mid-Cap Equity
Latest NAV - 30-Dec-2011	65.05 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.50 %
Total expense ratio - 31-Dec-2010	2.00 %

### Notes

The mentioned sub-fund is a part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company.

## Returns - Month End, Dec-2011

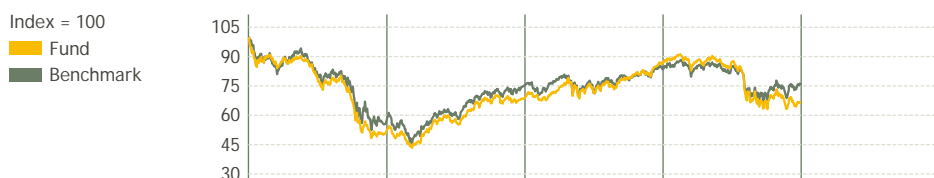
Returns	Fund	Benchmark <sup>1</sup>	Difference
YTD	-22.31%	-8.08%	-14.23%
1 Month	-2.11%	2.10%	-4.20%
3 Months	1.50%	8.93%	-7.43%
1 Year	-22.31%	-8.08%	-14.23%
3 y ann.	8.84%	10.35%	-1.52%
5 y ann.	-8.46%	-4.90%	-3.56%
10 y ann.	-	-	-

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

Risk	Fund	Benchmark <sup>1</sup>	Morningstar <sup>2</sup>
Volatility	20.58%	17.18%	18.23%
Sharpe R.	0.46	-	0.72
Info Ratio	-0.09	-	-

Morningstar Rating™ **★★★☆☆**

## Performance - 31-Dec-2011

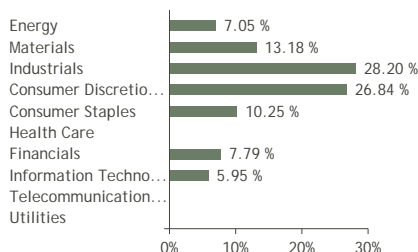


Returns	2008	2009	2010	2011	-
Fund	-48.00%	32.13%	25.59%	-22.31%	-
Benchmark	-43.65%	31.60%	11.10%	-8.08%	-
Morningstar Category™	-46.50%	38.22%	21.80%	-15.32%	-

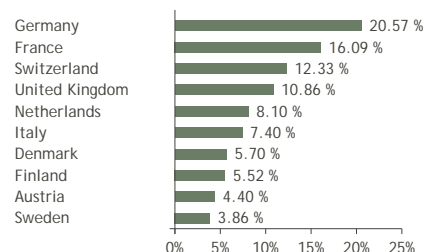
## Asset Allocation

Holdings	Equities	Bonds	Other	Cash
68	99.3%	0.0%	0.0%	0.7%

## Sector Breakdown



## Top 10 Countries



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

Name	Sector	Type	Country	Weight
A.P. Moeller - Maersk A/S B	Industrials	Equities	Denmark	3.12%
J.Sainsbury Plc	Consumer Staples	Equities	United Kingd...	2.88%
Renault Sa	Consumer Discretionary	Equities	France	2.81%
Zurich Financial Services/Nam	Financials	Equities	Switzerland	2.80%
Man Se	Industrials	Equities	Germany	2.65%
Salzgitter Ag	Materials	Equities	Germany	2.64%
Grammer Ag	Consumer Discretionary	Equities	Germany	2.61%
Danske Bank As	Financials	Equities	Denmark	2.58%
Hochtief A.G.	Industrials	Equities	Germany	2.53%
Eni Spa Roma	Energy	Equities	Italy	2.52%

## Benchmark Comment

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