

Global Value Letter to Shareholders Q1/07

Q1 2007 return: 7.12 %

Economics

Dear Investor

The Sparinvest Global Value fund had a return of 7.12% in the first quarter of 2007. This is very satisfactory in both absolute and relative terms, as the MSCI World Index had a return of only 1.53%.

The table below shows the first quarter 2007 return and the 2006 and the 2005 return of the fund, compared with different stock market indices:

Sparinvest Global Value versus Index			
	Q1 2007	2006	2005
Sparinvest Global value	7.12%	13.55%	30.56%
MSCI World Index	1.53%	7.40%	26.76%
MSCI World Value Index	1.16%	11.89%	26.12%
MSCI World Small Cap Index	4.15%	4.84%	39.37%

MSCI World Index, MSCI World Value Index 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. ■

'Sub-prime lending' was a frequently-discussed topic during the first quarter of 2007. The stock market started off strongly, and the MSCI World Index posted year-to-date gains of more than 4 percent during mid-February. Then, fears that the sub-prime mortgage market could start a credit crunch, and trigger a US recession, made the stock market tumble by more than 6% in only a week.

Sub-prime lending is not very well-defined, and opinions differ on whether or not the lending poses a real threat to the US and therefore the world economy. Nonetheless, sub-prime lending has been a popular source of revenue for US financial institutions with easy access to funding during the American housing boom. The term 'sub-prime' originates from borrowers whose credit score is poor. In other words, their credit history or current income prevents them from getting a low-interest loan. This is a fairly small part of the overall population, and hence should not be of sufficient importance to shake the world stock exchanges.

However, the use of the term has spread to the mortgage and housing market. The sub-prime threat really stems from lenient financing of the housing market i.e. new creative mortgage products and poor credit policy. Today, 7% of US homeowners have negative equity in their house, and 40% have less than 30% equity. This extreme leverage has come about in years when US real estate has gone up, and therefore the average US homeowner is very sensitive to the future job market and interest rate developments. In this light, it is hardly a surprise that the US Federal Reserve kept its interest rates unchanged at its meetings in both January and March.

In Europe, The European Central Bank (ECB) raised interest rates in March for the seventh time since the end of 2005 to 3.75% and council members made it clear that this increase was unlikely to be the last of its kind.

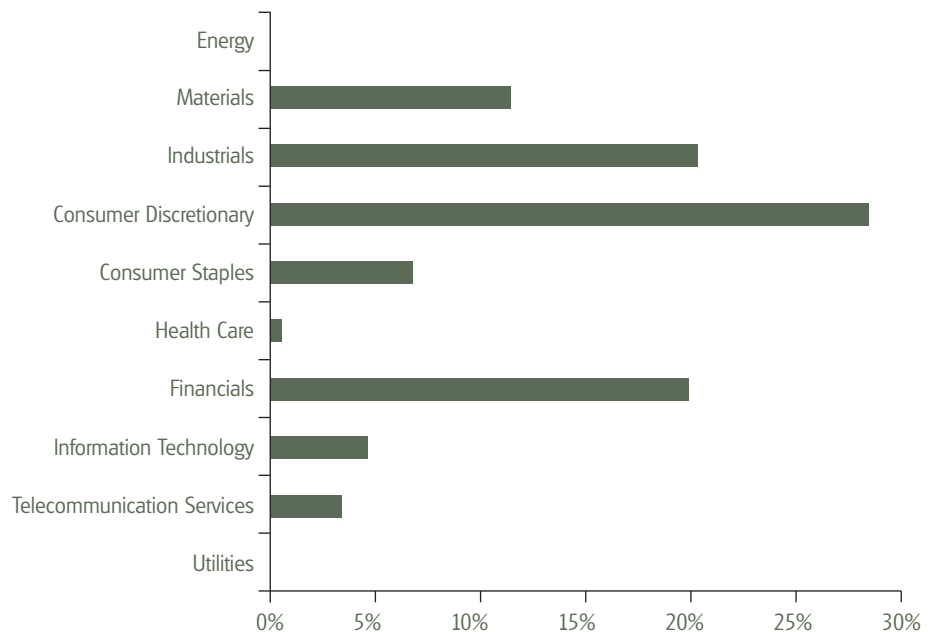
Concerns over the German economy - following the sales-tax increase in January - proved to be too pessimistic. Industrial production, business confidence and exports all continue to grow - which is yet another proof that the German business climate is dictated by exports and not by domestic consumption. Nonetheless, German retailers are optimistic that they will not be hit very hard by the increase in VAT. Unemployment has fallen to 9.3% - still a very high level with plenty of buffer for growth when compared to neighbouring European economies.

Overall, European unemployment has fallen to 7.3% in February. This is the lowest rate ever since records for the data began in 1993. Rising wages and higher energy prices are expected to make the ECB raise the interest rate to 4.0% at its meeting in June.

Japan's economy grew at the fastest pace in three years during the fourth quarter of 2006. But most economists point out that the growth is fuelled by the record exports and capital spending by Japanese companies. The yen is at its lowest level since 1985 - helping exporters, and, although the Bank of Japan doubled the interest rate to 0.50%, the climate for corporate spending is still excellent. Household spending, accounting for the other half of Japan's GDP, grew by 1.3% y-o-y in February - which is a healthy sign in case a global slow down should begin to hurt Japanese exports. ■

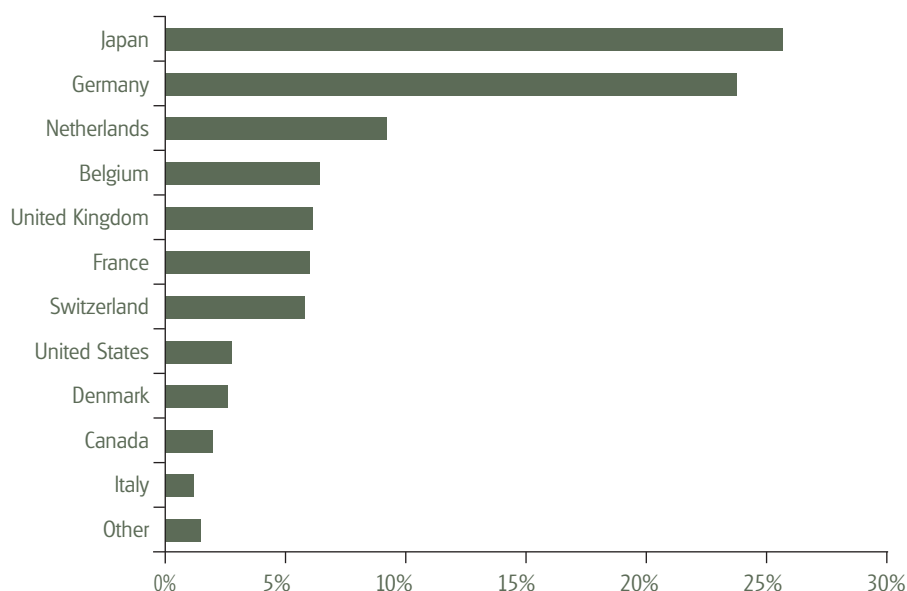
End of the quarter, the cash position was 7.61% of assets under management. The fund had 93 holdings with the following sector and country breakdowns:

Sector allocation



Portfolio update Three exits and one new entry

Country allocation



Trading activity has been normal during the first quarter. We have sold our shares in German pump and valve manufacturer KSB, Danish insurer Codan and some very small holdings accounting for around 0.01 percent. We started buying shares in French supermarket owner, Guyenne & Gascogne, and we made additional investments in 73 existing securities.

End of Q1, the 10 largest positions accounted for 30.8% of total portfolio holdings.

Top 10 holdings

Company	Sector	Share
Volkswagen AG	Automobile Manufacturers	4.90%
Man AG	Industrial Machinery	3.95%
Hochtief AG	Construction & Engineering	3.64%
J.Sainsbury plc	Food Retail	3.40%
Peugeot S.A.	Automobile Manufacturers	2.72%
Mitsui Sumitomo Insurance Co.	Property & Casualty Insurance	2.53%
Nipponkoa Insurance Co., Ltd.	Property & Casualty Insurance	2.52%
Salzgitter AG	Steel	2.42%
Nippon Tel&Tel	Integrated Telecommunications	2.37%
A.P. Moeller - Maersk A/S B	Marine	2.36%

We have had no take-overs during the quarter, but bids were submitted for two of our top 10 holdings, Volkswagen and Sainsbury. ■

KSB
Target reached

KSB is one of Europe's largest manufacturers of pumps and valves. Founded in 1871 and based in Frankenthal, Germany, KSB employs 13,000 people and has manufacturing sites in 19 countries.

In 2001, the pump and valve industry had excess capacity and very hard competition. KSB was not a troubled company. In fact, KSB had been profitable every year since 1996 and was paying a dividend of 4.25%.

Furthermore, KSB had a very strong balance sheet with EUR 100 million worth of cash, net fixed assets of EUR 219 million and a working capital of more than 300 million. Combined with debt of EUR 77 million and a very limited goodwill of EUR 17 million the down-side protection was very strong. Finally, trading at an EV/EBITDA level of less than 3 during, the company also had a very attractive upside.

We bought our shares at the launch of the fund in the winter of 2001/2002 when they were trading at EUR 87. In February, we sold at a price of EUR 401.5 as the company had reached our intrinsic value target. The annual return including dividend has been 37.9%. ■

Codan Target Reached

Codan is the third-largest insurer in Denmark. With activities in both life- and non-life insurance Codan targets retail and corporate clients. Codan has 400,000 Danish clients and holds stakes in other large Nordic insurance companies.

During the second half of the nineties, insurance was an industry that was out of favour with the very tech-focused investment community. Codan was trading at a price-to-book ratio between 0.5 and 0.8. The company was indeed very profitable and price earnings were as low as 3 to 7 during the period. In December 1999, Denmark was hit by a giant storm, and most insurance companies had an unfavourable outlook due to strong growth in claims. Still, Codan's long term earnings power was intact, and you could buy the stock at 0.5-0.6 times book.

We bought Codan shares at the launch of the Global Value fund, when they were trading in the DKK 130 range. After losses in 2001 and 2002, Codan returned to profitability in 2003. Since then, the company has posted record earnings and the share price has tripled.

We sold our Codan shares in February, as the stock price had reached our intrinsic value target. The average selling price was DKK 513, which equates to an annual return of 31.6% including dividend. ■

VW and Sainsbury Take-over

In England, the country's third-largest supermarket chain, Sainsbury, was approached by several private equity funds during the quarter. The price jumped from 440 to over 500 pence, valuing the company at close to 9 billion pounds. After well-known private equity giants Blackstone, KKR and CVC Capital Partners disclosed their interest, Marks & Spencer announced that they were considering a bid as well. Also, a different private equity group led by Bain Capital has entered the scene and the UK Takeover panel has ruled that the Blackstone/CVC/KKR group has until April 13th before submitting an offer. The Sainsbury shares rose to 550 pence, making the Sainsbury position our fourth largest holding at the end of the quarter.

In Germany, Porsche made a bid for Volkswagen. This was hardly a surprise, since German law requires investors to make a bid for the full company, when they acquire more than 30% of the shares.

Porsche's bid had to be higher than either the price paid for the most recently-purchased shares or the three-month average price. Since Porsche claims to be investing in Volkswagen for strategic reasons – VW is Porsche's largest supplier and it wants to protect VW

Outlook

from being approached by hedge and private equity funds – Porsche did not offer much of a premium to the current market price. Porsche paid EUR 100.92 for the extra 3.2% stake that took its stake above 30%. This is also the official Porsche bid for the remaining shares, although they were trading at EUR 112 by the end of the quarter. ■

In past letters to shareholders, we have emphasized that investors should not expect stocks to perform as well as the global stock market has done during the last three years. In general, we refrain from providing guidance to our investors and we never try to set short-term return expectations. Having said that, we are of course pleased with the first quarter performance but find it somewhat unlikely that this pace can be maintained and this kind of performance will continue in the quarters to come.

The fear that the US economy is slowing - and that this will spread and stall the World economy - continues to affect equity markets, and first quarter 2007 will also be remembered for a two-week period with very nervous equity markets. In a situation like this, investors often sell stocks without any consideration of the underlying fundamentals of the companies. We are, of course, never particularly pleased to see stock markets coming down, but we encourage everyone to remain calm and to focus on the long term. It is at times like this that you need to stick with your strategy and focus on the intrinsic value - and not the short-term fluctuations in the market price - of your holdings.

At Sparinvest - volatile markets or not - it is business as usual. In fact, the value team is expected to and does screen even harder during such periods. Historically, our value strategy has proven strong – especially in negative markets - as we are able to find more cheap stocks satisfying our 40%-discount requirement. In other words, we are able to do some of our best stock selection in volatile markets.

We remain disciplined and continue to focus on downside risk before looking at potential return. As always, we prefer companies with a wide margin of safety in terms of asset backing i.e. hidden value in land, property, plant and equipment - and at the same time we demand that the companies have long-term stable earnings potential. We are still able to find healthy and undervalued companies around the world. End of Q1, our portfolio had an average price-to-book ratio of around 1.6 compared with 3.7 for the MSCI World Index.

As always, we are very confident in the quality of our holdings. The risk of permanent loss of capital in Sparinvest Global Value is limited, and the upside potential continues to be very satisfactory. We have a genuinely positive view of the future potential of our investments. ■

Yours sincerely,

Sparinvest Asset Management

Jens Moestrup Rasmussen
Head of Fund Management and Lead Portfolio Manager
April 10th, 2007

Notes

Notes

The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the 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. 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. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.