Sparinvest

Global Value
Letter to Shareholders
Q4/06

Dear Investor

Q4 2006 return: 4.77%

The Sparinvest Global Value fund achieved a return of 4.77% for the fourth quarter of 2006. The 2006 annual return was 13.55%. The general stock market when measured by the MSCI World Index generated a 4.10% return in Q4 and a 7.40% return for the full year. Hereby, our return is satisfactory in both an absolute and a relative perspective, although our focus remains to be on creating long term stable and positive returns.

The table below presents the fourth quarter return, the 2006 full year return, and the 2005 return of the fund compared with different stock market indices:

Sparinvest Global Value versus Index			
	Q4 2006	2006	2005
Sparinvest Global value	4.77%	13.55%	31.39%
MSCI World Index	4.10%	7.40%	26.17%
MSCI World Value Index	4.88%	11.89%	26.24%
MSCI World Small Cap Index	5.52%	4.84%	33.33%

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.

Economics

With the usual focus on the US economy, 2006 proved to be a year with trade and exchange rate imbalances in the world economy growing larger. The dominant oil exporting countries in the Middle East continues to peg their currencies to USD, whereas China seems to finally be relaxing its dollar peg, allowing the Yuan to appreciate by 3.2% during 2006 and 2.6% during 2005 – tiny changes compared to the level of appreciation expected by economists, should Beijing ever choose to float their currency. So, Chinese goods remain very cheap for US consumers to buy - allowing the US to spend even more without facing inflationary pressure. Oil prices have declined by 25% from its record USD 78 per barrel since August further reducing inflation. This allowed the US to keep interest rates unchanged throughout the fourth quarter. The rolling 12 months US current account deficit grew to an extreme USD 880.3 billion at the end of Q3 (the full year number has yet to be reported), and China is now holding the World's largest USD reserves. It is unclear how big the dollar reserves stashed away in the investment funds of the Arabic region are. US maintains pressure on China to revaluate its currency. In December it sent both treasury secretary Henry Paulson and FED chairman Ben Bernanke to Beijing to persuade the Chinese to let go of the dollar peg. But, far from all of the US deficits end up in Chinese pockets. The China surplus is currently USD 200 billion annually, whereas the oil exporting emerging economies is expected to post a USD 500 billion surplus for 2006 accounting for most of the US deficit and hereby making the World balance. Russia posted a USD 100 billion current account surplus at the end of Q3 and this completes the picture of a world economy fuelled by US spending in emerging market economies giving these countries huge surpluses.

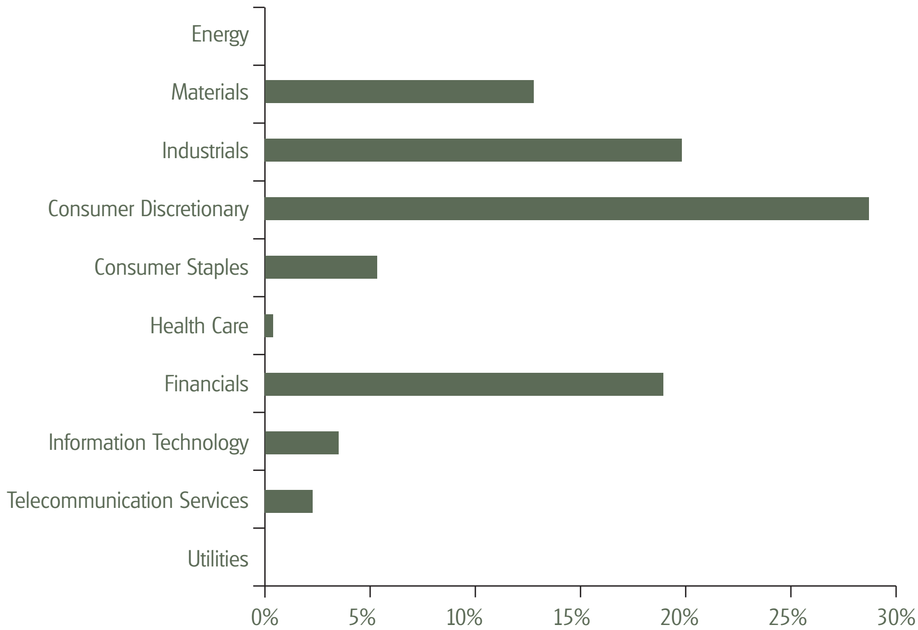
The Bank of Japan chose not to raise interest rates at its meeting in December. The banks governor, Toshihiko Fukui, on the one hand is sensitive to criticism that he will raise rates prematurely and hereby stall the very fragile recovery. It has taken time to rebuild credibility after the BoJ raised rates from zero to 0.25% in 2000 and decided to lower it again only six months later, when it turned out deflation had worsened. On the other hand, the Japanese central bankers still remember the bubble of the 1980s with skyrocketing real estate prices and stock markets, and excessive investments in general due to easy access to money, and the governors will be eager to raise rates to prevent such a situation happening again. The Bank of Japan kept their rate at 0.25% for now, so borrowing is still virtually free, and this is driving Japanese companies to a record high level of capital investment. Furthermore, with the Federal Reserve's key rate at 5.25% and the European Central Bank's main rate of 3.5% the yen continues to be used for carry trades - as investors borrow cheaply in Japan to invest in higher-yielding assets overseas. This allows the yen to continue its decline against the Euro.

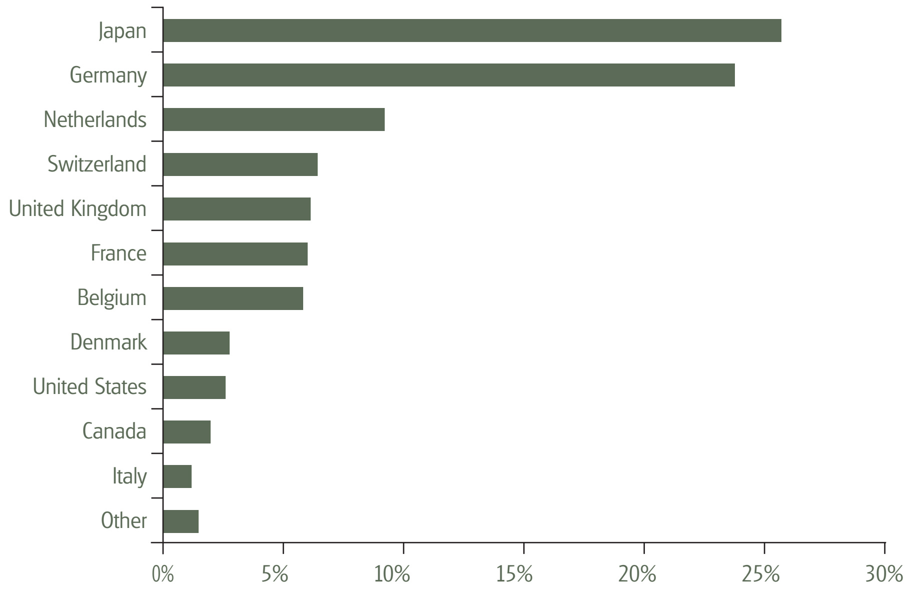
In Europe, the ECB raised interest rates six times during 2006, and it is expected to continue the monetary tightening in the spring of 2007. Recently, most of the European markets have showed signs of weakening. Only in Germany, most key economic indicators have continued to improve throughout the quarter, but the VAT increase on January 1st from 16% to 19% is expected to lessen consumer confidence and potentially lead to inflationary pressure. Whether or not we will see a European interest rate increase in March will again depend on the US development. If the US economy takes a hard hit, and the FED is forced to lower their rate, ECB might not need to raise interest rates after all.

Portfolio update
Limited trading activity

End of the year, the cash position was 7.2% of assets under management. The fund had 93 holdings with the following Sector and country breakdown:

Sector allocation





Trading activity has been limited during the quarter. With fund inflows at the end of the year, we made additional investments in some 80 holdings, when balancing the portfolio, but during the quarter there has been only one new addition to the portfolio, Dexia. This Belgian company offers retail banking, insurance, security brokerage, asset management and public sector financing services, and it is active throughout most of the world.

We mentioned last quarter that the British department store chain, House of Fraser was to be taken private by Icelandic Baugur Group. We received payment for our shares in November.

End of Q4, the 10 largest positions accounted for 29.57% of total portfolio holdings.

Top 10 holdings		
Company	Sector	Share
Volkswagen AG	Automobile Manufacturers	4.16%
Salzgitter AG	Steel	3.52%
Man AG	Industrial Machinery	3.38%
Hochtief AG	Construction & Engineering	2.93%
J.Sainsbury plc	Food Retail	2.89%
Peugeot S.A.	Automobile Manufacturers	2.78%
Nipponkoa Insurance Co., Ltd.	Property & Casualty Insurance	2.54%
Nippon Tel&Tel	Integrated Telecommunications	2.52%
Deutsche Postbank AG/Namen-Akt	Diversified Banks	2.47%
Fuji Photo Film Co., Ltd.	Photographic Products	2.38%

We have had no take-over activity during the quarter, although there has been speculations involving VW, MAN, Boskalis, Stork, Thomson and Kuoni Reisen.

European truck industry
Take-over battle

In Europe, two of our German holdings have been involved in take-over talks. It began as rumours in mid-September, materialized in October and during the fourth quarter it developed into a obscure mix of accusations and rumours. German truck maker MAN seems convinced that it will be able to buy Swedish rival Scania. Their combined businesses would make them Europe's largest manufacturer of trucks and busses and third largest globally. MAN initially offered a combination of shares and cash valuing Scania at 9.6 billion euros. Scania's board rejected the hostile take-over offer almost immediately claiming it was too low.

Volkswagen, another holding of Sparinvest Global Value, owns an 18.7% stake in Scania. VW also declined the offer stating that it was not aligned with its industrial interest to sell the Scania shares. To complicate matters, MAN's Chief Executive Officer Håkan Samuelson is a Swedish native and former Scania executive. Volkswagen CEO Bernd Pishetsrieder is chairman of the Scania board, so leadership conflicts could potentially stand in the way of a satisfactory solution for minority shareholders like our Global Value fund.

In October, rumours said that Volkswagen was planning a take-over of MAN to combine it with VW's Brazilian heavy-truck unit. Volkswagen did accumulate 15% of the outstanding MAN shares, but again the CEO claimed that it was only for strategic purposes and that VW was not planning an acquisition. Second week of October, VW-chairman Piech was quoted for saying the exact opposite – VW now wanted to combine both MAN and Scania with its truck unit.

By then, MAN had accumulated 14% of Scania's outstanding shares in the market, but both VW and Sweden's Wallenberg-controlled Investor AB would still be able to block a deal. Scania-CEO Leif Oestling meanwhile was preparing a special payout and he furthermore claimed that the potential synergies within a combined company would be outweighed by lower sales, and that MAN would have to fire at least 5,000 employees.

In Mid-November rumours that Scania was planning a counter offer surfaced. Meanwhile, the Scania ran full-page newspaper adds urging their investors not to sell to MAN. In the beginning of December Oestling compared MAN's 'odd and rude German way' to a Blitz-krieg and later had to apologize publicly for his comments.

The EU commission has approved the merger stating that it will not hurt competition in the European bus and truck market. MAN has set a deadline at the end of January for Scania investors to accept its increased offer, currently valuing Scania at 10.3 billion euro. The saga continues in 2007. Bottom-line for 2006 is, that Scania shares have gained 35% since the initial approach and around 70% for all of 2006. MAN shares have gone up by 17% since the battle started and 55% for the year.

Fyffes and Total
Spin off

It has been an busy quarter for Irish fruit and produce distributor Fyffes. We started investing in the company in June 2006. Previously, the company had spun off its real estate holdings in a separately listed company named Blackrock. Fyffes kept 40% of the shares in Blackrock and distributed the remaining shares to its shareholders.

In earlier editions of this letter to shareholders we have highlighted the importance of shareholder friendly managements, who choose to spin off non-core businesses and pay out excess cash as special dividend – if they are unable to invest in their core-business and earn a satisfactory return.

In September, Fyffes announced yet a spin off. Management suspected that the general produce and distribution business would obtain a higher stand-alone valuation than as part of Fyffes. They argued that the sum of the parts valuation should be greater than the current valuation of Fyffes and therefore would increase shareholder value. With only two business segment, the need to break up the company was not apparent. Most professional investors can work out a sum-of-the-parts analysis of the low margin produce distribution and the higher margin tropical fruit segment. Still, the strategy paid off for the Fyffes management, and the two separately listed companies - Fyffes' tropical business and the new 'Total Produce' - now have a combined value of 17% more than price of the Fyffes shares prior to the de-merger.

Outlook

In many ways, 2006 turned out to be an 'average' but indeed satisfactory year for the Sparinvest Global Value fund. The 13.55% return in 2006 is marginally short of the fund's 5 year annual return of 14%, but it satisfies our long term ambition of making 12% annually or more. Keep in mind, that investors should expect a long term average equity market returns of 8-12% depending on management skills.

The currency markets continue to be unfavourable to European investors holding investments outside of the euro-region. This quarter, the dollar continued its decline against euro - 3.5% for the fourth quarter and around 10% for full the year. The depreciation of USD is hardly a surprise given the record current account deficits. As our fund has very little exposure to US companies – currently it is less than 3% of the portfolio – our investors will not be affected. For Japanese yen, it is a different situation. Our exposure to the Japanese market was 26% at the end of the year, and the yen lost 4.7% of its value against EUR during fourth quarter. For the full year the yen lost 11.3%.

In Japan, it seems the economy is in a slow - but stable - recovery. The stock market valuations of Japanese companies are low, and the company earnings are strong. In the past year, our Japanese shares have performed modestly, but we still hold and find a lot of value companies in Japan. That means overcapitalized and well managed companies, with great excess values.

The US and European markets have experienced a boom in mergers and acquisitions activity in recent years. This has not really been the case in Japan. M&A activity is increasing though, and there is healthy potential for more take-overs, buy-outs and mergers in the coming years. We hold a substantial exposure to typical target companies in the Global Value portfolio. As a consequence, we have a very positive outlook for Japan. During the quarter, we travelled to Japan to visit companies and talk to managements. This trip verified our positive view on investing in Japan, but it also confirmed, that the general understanding of the idea and concept of shareholder value is at an early stage compared to that of Europe and the US.

As always, we are very confident in the quality of our current holdings. Japanese or non-Japanese. 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 potential of our investments in the future.

Yours sincerely,

Sparinvest Asset Management

Jens Moestrup Rasmussen
Head of Equities and Lead Portfolio Manager
January 5th, 2007

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