Sparinvest

Global Value
Letter to Shareholders
Q3/07

Dear Investor

Q3 2007 return: -4.78 %

The Sparinvest Global Value fund had a disappointing third quarter of 2007, reasons for which will be explained later in this letter. The fund lost 4.78% (which corresponds with the MSCI World Value Index loss of 4.75%) while the MSCI World Index lost only 2.8%. In both absolute and relative terms this quarter stands out as one of our five worst quarters since the launch of the fund in 2001. Year-to-date return looks better, with a 6.59% return compared to 3.61% of the benchmark.

The table below presents the third quarter return, the year-to-date return and the 2006 return of the fund compared with different stock market indices:

Sparinvest Global Value versus Index	Q3 2007	YTD 2007	2006
Sparinvest Global value	-4.78%	6.59%	13.55%
MSCI World Index	-2.80%	3.61%	7.40%
MSCI World Value Index	-4.75%	0.69%	11.89%
MSCI World Small Cap Index	-8.97%	-1.81%	4.84%

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

The global equity markets were hit hard by the sub-prime crisis during the quarter. During the previous setback in May, there appeared some risk of sub-prime loans impacting the global economy, and that risk has now become a reality. It has become clear that sub-prime loans – mortgages issued to US homeowners with limited or low creditworthiness – have spread to the rest of the world after being repackaged and sold as asset-backed securities. Some also argue that credit rating agencies such as Standard & Poor's and Moody's have been generous when rating the sub-prime backed securities, providing investors with a false sense of safety.

Besides highly-leveraged hedge funds suffering from higher default rates earlier this year, an important indicator of the actual scale of the crisis emerged in July, when the German lender IKB Deutsche Industrie Bank announced that it had serious trouble re-financing its loans at the so-called Rhineland Funding conduit - an off-balance sheet vehicle issuing short term commercial paper and buying higher-yielding assets with the proceeds. Like other banks, IKB earns fees from setting up and managing such conduits, but they got in trouble when liquidity disappeared.

The lack of transparency regarding who actually holds US sub-prime loans created such uncertainty and a lack of liquidity – often referred to as a credit crunch - that the European Central Bank, along with the FED and other central banks, decided to inject several hundred billion euros into the money market in order to prevent the crisis from spreading. The FED even lowered interest rates by a surprise 50 basis points from 5.25% to 4.75%, while the ECB and the Bank of Japan kept their rates unchanged. In mid-August, the MSCI World index had fallen by almost 11% in a month. Some markets did recover to their pre-crisis levels, suggesting that the US rate-cut did comfort some investors.

Growth in the US has dropped to 1.8% annually, and the FED stated growth concerns and tightening credit conditions in particular as justifications for lowering rates by 50 basis points instead of the expected 25 basis points. Inflation appears to be under control, although September's record high oil prices of USD 83 could push prices upwards and further endanger private consumption and US growth.

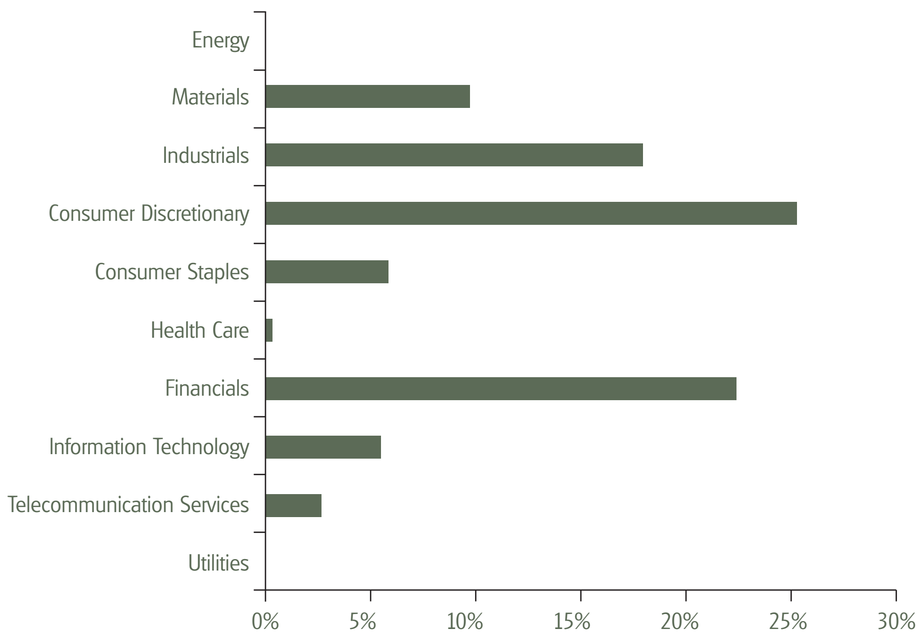
In the Eurozone, the macroeconomic situation appears to be under control with 2.5% annual growth after the second quarter, inflation at 1.7% and unemployment at 6.9%. Growth is primarily driven by Germany, the UK and a number of smaller countries, with France and Italy below average. Inflation does not appear to be a problem except in Germany, where CPI increased by 2.5% annually in September.

Both the ECB and the Bank of Japan chose not to raise rates during the third quarter. The Japanese Prime Minister, Shinzo Abe, resigned in September after only a year as government leader. A series of scandals had hurt Abe's administration, the most prominent being revelations that the state had lost pension records relating to several million claims, and that pension officials had embezzled over 300 million yen over recent decades. Japanese GDP growth is currently at 1.6% annualized, and the interest rate remains at the very low 0.5%. In August, consumer prices decreased by 0.2 YoY, but monthly wages rose by 0.1% YoY, the first increase in nine months and potentially encouraging for future consumer price trends.

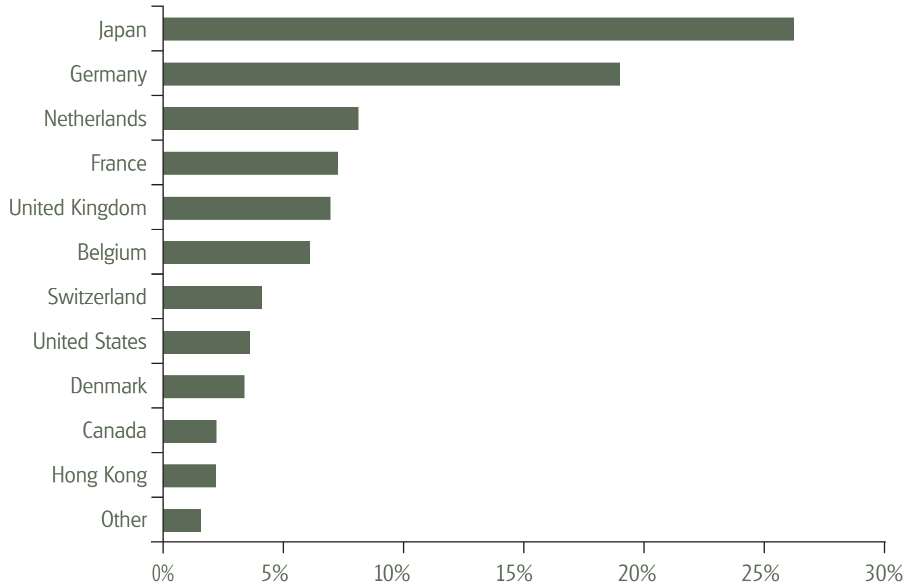
Portfolio update
Three exits and four new investments

At the end of the quarter, the cash position was 10.4% of assets under management. The fund had 94 holdings with the following sector and country breakdown:

Sector allocation



Country allocation



Trading activity increased during the quarter, as the sub-prime turmoil created new value opportunities. We started buying shares in Fred's, Dillard's, Renault and Millennium & Copthorne Hotels, and we made additional investments in 40 of our existing holdings.

Fred's Inc. operates discount general merchandise stores in the Southeast United States, Dillard's operates retail department stores in the Southeast, Southwest and Midwest United States, Renault produces passenger cars and light commercial vehicles and Millennium & Copthorne owns and operates hotels in 17 different countries. During the quarter, we sold our shares in Volkswagen, Boskalis Westminster and Umicore.

End of Q3, the 10 largest positions accounted for 29.8% of total portfolio holdings.

Top 10 holdings		
Company	Sector	Share
Man AG	Industrial Machinery	3.76%
A.P. Moeller - Maersk A/S B	Marine	3.37%
J.Sainsbury plc	Food Retail	3.37%
Hochtief AG	Construction & Engineering	3.21%
Roy. Philips Electr./Eur 0.2	Consumer Electronics	2.93%
Peugeot S.A.	Automobile Manufacturers	2.80%
Nippon Tel&Tel	Integrated Telecommunications	2.63%
Dexia S.A.	Diversified Banks	2.59%
Depfa Bank plc	Diversified Banks	2.55%
Nipponkoa Insurance Co Ltd	Property & Casualty Insurance	2.54%

Volkswagen
reached target

Volkswagen is the largest car manufacturer in Europe. The Wolfsburg, Germany, based company produces cars ranging from Skoda and Seat in the lower priced segments, Volkswagen and Audi in the intermediate and high end to Bentley, Lamborghini and Bugatti in the luxury and sports car segments.

In 2003 and 2004 Volkswagen was in deep trouble due to an old model range, high failure rates and heavy losses in the US, where sales had fallen from 435,000 in 2001 to 256,000 cars in 2004. The Audi segment was profitable however, and overall Volkswagen was still making money. But the shares were trading as low as half of the book value.

Since then, Volkswagen has managed to turn around most of its businesses. Labour costs were 20% higher than industry averages in 2004, but management has cut deals with heavily unionized production sites and started to lower costs. The company also sold divisions unrelated to carmaking including its rental car unit, Europcar, in 2006, and worldwide sales of the group's different brands have experienced high single or double-digit growth rates. By 2006, Volkswagen's earnings had quadrupled on 2004, and there was still room for significant improvement.

We bought our Volkswagen shares in March and April 2005, when they were trading in the 33-38 range. Back then, we considered our VW investment to have both strong down-side protection and an excellent upside potential when viewed as either a sum-of-the-parts or a earnings/turn-around case.

Although we claim that stock market timing is extremely hard and unlikely to succeed, we were indeed fortunate in the timing of our purchase of Volkswagen shares. The stock took off almost immediately after, and it crossed the EUR 100 level earlier this year, when sports car maker Porsche started building a strategic position that would later exceed an ownership stake of 30%, triggering a mandatory take-over offer under German law.

We sold our holding in August at an average price of EUR 145. Since then the price has climbed an additional 10% - this time proving that discipline rather than timing skills is our primary capability. Nonetheless, our annual return on the Volkswagen investment has been in excess of 75%.

Boskalis Westminster
reached target

The Dutch company Boskalis Westminster is a construction company specializing in building ports, waterways, coastlines and riverbanks. Boskalis operates worldwide, has revenues of 1.3 billion euros and has approximately 8,000 employees.

Boskalis was in a downward cycle during 2003 and 2004, as revenues declined and margins deteriorated. The company was still profitable and trading at a average price to earnings ratio in the EUR 5-10 range during 2004. Boskalis was even paying a dividend yield of approximately 4% and had no debt and no intangible assets on its balance sheet. In other words, the company was cheap on both earnings and book value, despite the fact that market participants considered it to be in somewhat of a turn-around situation.

We bought our first shares on September 19th 2004 at EUR 21. Since then Boskalis revenue has grown by 15% annually, and the margins have improved even more, producing three times stronger earnings than in 2004. Solid order inflows have helped boost the share price further, and we sold during September at the EUR 31-32 level. The company completed a 1 to 3 stock split in May 2007, taking the annualized return since our initial investment in 2004 to 71%.

Umicore
Reached target

The Belgian company Umicore specializes in metals and has four business segments: Advanced Materials, Precious Metals Products and Catalysts, Precious Metals Services and Zinc Specialities. Umicore has more than 10,000 employees and revenues of EUR 8.8 billion. Umicore's products are used by a wide variety of industries for products such as automotive catalysts, rechargeable batteries for cell phones and laptops, semiconductors and solar cells.

Another of our Belgian holdings - copper smelter, Cumerio - used to be a part of the Umicore group, but it was spun off in 2005 as a part of Umicore's strategy to exit pure commodity businesses.

During 2004, Umicore was trading below book value - despite a solid balance sheet - with limited goodwill and debt. At the same time, Umicore had healthy earnings which were growing fast after the acquisition of PMG in 2003 gave the company a presence in the automotive sector. We bought our first shares at EUR 63 on October 8th 2004. We sold during September at the 160-170 EUR level. Umicore's annual return, when measured since our initial investment, has been 48%. ■

Pending take-overs
Depfa, Cumerio, Sainsbury and Stork

We had no additional take-over offers during the quarter. Hypo Real Estate's bid for Depfa Bank was accepted by a majority of shareholders. In general, we prefer cash offers over stock. Still, the bid of EUR 6.8 and 0.189 shares of Hypo for each Depfa share was accepted by a majority of shareholders, and we will receive payment during October.

Fears that the Qatar-backed Delta fund's 600 pence bid for British supermarket chain, Sainsbury, was about to be withdrawn caused the shares fall to 510 in August. However, Delta moved forward and started the due diligence process and the search for financing for the deal, so we still consider the take-over likely to happen. At the end of the quarter, Sainsbury's share price had come back to the 580 level.

The Dutch conglomerate Stork has received a bid from British private equity fund Candover, but the Icelandic Marel group, which is interested in Stork's food-processing equipment unit has accumulated a 30% ownership stake, and Marel is now able to block the deal. The two parties appear to be negotiating a solution for the food unit.

Cumerio, the Belgian copper smelter spun off from Umicore in 2005, is in a somewhat similar situation. Norddeutsche Affinerie, a Hamburg-based competitor, has agreed to buy Cumerio in what we consider to be a friendly take-over. A-Tec Industries, an Austrian engineering company, has raised its stake in Cumerio to 25%, making it possible to block the deal. However, A-Tec is also the largest holder of Norddeutsche Affinerie, and the Germans still expect the bid to be successful. ■

Outlook

What happened this quarter, to mean that our otherwise steady value strategy could post a loss of more than 4 percent? The so-called credit crunch triggered by the US sub-prime loans default translates into a severe lack of liquidity – lenders sit tight and do not offer market participants any access to funding. This is why several central banks took rather drastic steps and made billions available to the money market.

There were several mechanisms at work. Leveraged investors, hedge funds and bank conduits in particular got in serious trouble, as they could not re-finance their short-term funding and hence were forced to sell out of their long-term holdings. All other things being equal, this will put downward pressure on the stocks – and, in turn, that can trigger additional margin calls, as the equities held as collateral depreciate in value.

Many of our holdings in the Sparinvest Global Value fund lost double-digit value during the quarter, even though the companies had not reported any news at all. Even companies posting healthy earnings and improved growth potential took a beating. We reacted by allocating more time and resources to screening and finding undervalued stocks. Out of the four new portfolio holdings, we knew three in advance. We have had an eye on Dillard's since the autumn of 2005, while both Millennium Copthorne Hotels and Renault were analyzed earlier this year, but we were unable to find sufficient discount. During the sub-prime turmoil these three stocks were suddenly trading 40%, 35% and 25% lower, respectively, than their Q2 level. As we had already analyzed these stocks, we do not consider this to be a market timing strategy, but in fact a validation of our disciplined approach: we had put the stocks on hold due to lack of upside, but August's 'forced selling' caused them to fulfil our 40% discount criteria.

Our primary skill continues to be our expertise in identification, selection and investment in value stocks. Volatile markets like the ones we experienced this quarter improve our chances of finding undervalued companies around the world, and we made important investments during this quarter that will help us sustain future returns for our fund. At end of Q3 2007, our portfolio had an average price-to-book ratio of around 1.5 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 over the longer term is limited by the fact that we always invest with a considerable 'margin of safety', and the upside potential continues to be very satisfactory. We have a genuinely positive view of our investments. ■

Yours sincerely,

Sparinvest Asset Management

Jens Moestrup Rasmussen
Head of Fund Management and Lead Portfolio Manager
October 3rd, 2007

Notes