

Global Small Cap Value Fund Update Q4/07

Performance highlights

Q4 return -11.15%
2007 return -14.99%

Dear Investor

2007 was a disappointing year for stock market investors in general and also for investors in the Sparinvest Global Small Cap Value fund. The fourth quarter saw a loss of 11.15%, taking our full-year return to -14.99%.

The general small-cap market lost 7.42% in the fourth quarter and 9.1% in 2007, while large cap-stocks performed a little better with a full-year loss of only 1.66%. The return of our fund is unsatisfactory in both absolute and relative terms. For new investors, it is important to stress that we - as long term value investors - must sometimes face losses in the short and medium term in order to achieve superior returns in the long run.

The table below presents the fourth quarter return and the 2007 return of the fund, compared with different stock market indices:

Sparinvest Global Small Cap Value versus Index		
	Q4 2007	2007
Sparinvest Global Small Cap Value	-11.15%	-14.99%
MSCI World Small Cap Index	-7.42%	-9.10%
MSCI World Index	-5.08%	-1.66%
MSCI World Value Index	-7.38%	-6.74%
MSCI World Growth Index	-2.87%	3.51%

MSCI World Small Cap, MSCI World, MSCI World Value and MSCI World Growth are indices that contain a broad selection of companies from all over the world. All returns on investments are in EUR. ■

Economics

History repeated itself in 2007. It is far from being the first time that a real estate bubble and a lack of proper credit controls have caused problems that have spread to the stock markets. The sub-prime crisis is, however, proof that globalisation and the integration of the international financial markets have changed the rules of the game. The current situation compares in many ways to the crisis in the Japanese real estate market in the late eighties. Back then, the losses were mostly limited to Japanese companies and investors. Today, although the large US banks have suffered some of the largest losses, victims of sub-prime have emerged in Germany, Japan and many other countries.

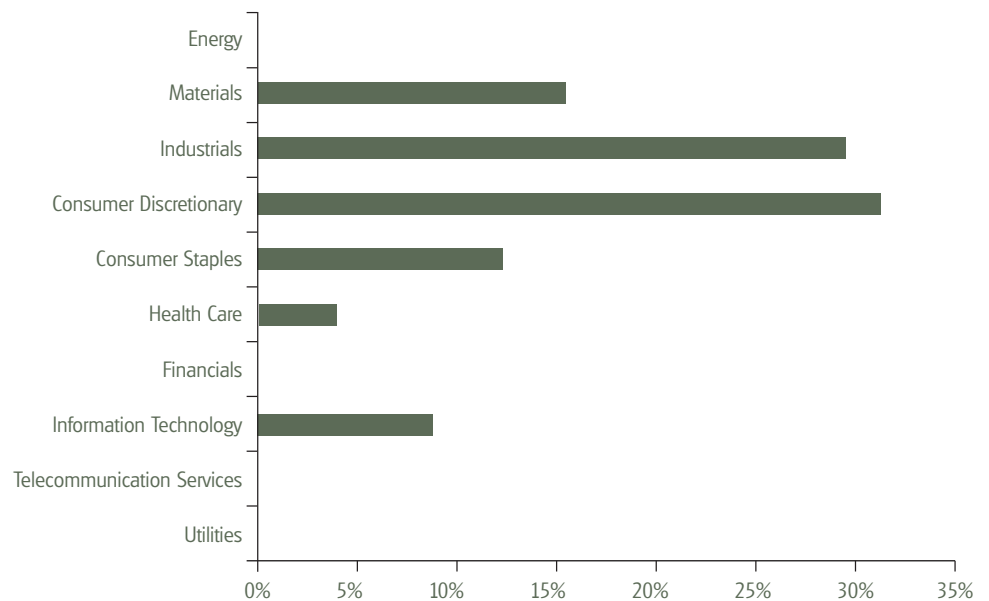
Using both individual rate cuts and coordinated efforts, the larger central banks tried to ease markets as liquidity dried up and market participants failed to engage out of the fear that a counterparty could have sub-prime exposure. At first, the Federal Reserve lowered its rate by 0.5% in September and later by 0.25% in November. But, when the credit crunch continued its rage at the beginning of December, market participants were expecting another 0.5% rate cut. The FED settled for only 0.25%, and the stock markets dropped again. On December 12th, the largest coordinated central bank effort since 9/11 2001 took place. Besides the Federal Reserve, ECB, Bank of England, the Canadian and the Swiss central banks participated.

Alongside the negative impact of the sub-prime crisis on stock markets, the US-dollar came under serious pressure. USD fell to a record low level against EUR, as the expected re-allocation of China's massive 1.4 trillion foreign reserves away from USD caused concern. The US dollar has lost almost half its value against EUR when compared to the 2001 level.

The outlook for both inflation and output in the developed countries has deteriorated significantly during 2007. The one exception is Japan, where growth has finally climbed closer to the 2 percent level, although the country still suffers from serious economic difficulties. The oil price has not improved the situation, as it has gone up steadily and broken new records during fourth quarter. In the beginning of the new year, it crossed the USD 100 level, causing stock markets to drop even further. ■

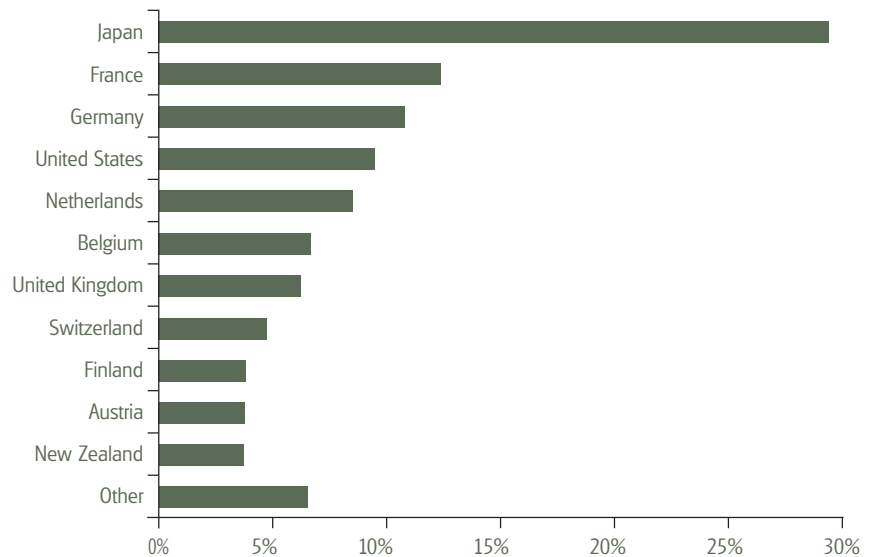
At the end of the quarter, the cash position was 3.7% of assets under management. The fund had 55 holdings with the following sector and country breakdown:

Sector allocation



Portfolio update Three new stocks in the portfolio

Country allocation



We are still building the fund towards 80 or more positions, and the current market conditions – however tough on the return – create new opportunities for us to find small cap value stocks. During the quarter, we invested in three new stocks. They are US transportation company, Werner Enterprises, Japanese clothing retailer, Sanei International and Swiss radiator manufacturer, Zehnder Group.

End of Q4, the 10 largest positions accounted for 26.9% of total portfolio holdings.

Top 10 holdings

Company	Sector	Share
Cumerio	Materials	4.32%
Finnair	Industrials	2.67%
L.D.C.	Consumer Staples	2.65%
Scholastic	Consumer Discretionary	2.55%
Miba	Consumer Discretionary	2.53%
Alfred McAlpine	Industrials	2.53%
Guyenne & Gascogne	Consumer Staples	2.46%
Tourism Holdings	Industrials	2.44%
Freds	Consumer Discretionary	2.43%
Exacompta Clairefontaine	Materials	2.30%

Take-over activity may stall

The Sparinvest Value funds have historically benefited from a large share of take-overs in the portfolios. Approximately one third of the stocks we have exited, were taken private by financial buyers such as private equity funds. The reason that private equity funds target the companies in the Sparinvest value funds is that they focus on similar criteria - such as stable long-term earnings power and strong balance sheets.

However, the sub-prime crisis has made it more expensive for the private equity funds to finance their leveraged buy-outs. Furthermore, many of the largest US investment banks have struggled when passing on the loans that they had already guaranteed before the sub-prime crisis surfaced to investors. This has, in turn, forced the banks make write downs on the financing of deals that took place in the spring and summer of 2007. ■

Alfred McAlpine Take-over

When private equity funds struggle to keep up the pace of the aggressive buy-out behaviour that we have seen in recent years, new opportunities arise for industrial buyers – companies buying companies in their own or related industries – as they can benefit from the stock market losses and buy a low-priced competitor. Carillion, England's second largest builder, showed interest in the engineering group Alfred McAlpine, a member of our Global Small Cap portfolio. At first, the McAlpine management rejected the offer as being too low. But, when stock markets took a dive in the fourth quarter, McAlpine suddenly changed its mind, despite the fact that Carillion had lowered its bid in the meantime.

The take-over offer consisted of both cash and shares, and therefore as a general rule we are against this method of payment. In addition, we consider the management's hostile attitude towards the first offer - and subsequent endorsement of the second but lower offer - very odd, to say the least. ■

Outlook

It has been a rough first year for the Sparinvest Global Small Cap Value fund. The fund underperformed both the global small cap and the global value index.

One of the reasons, besides the fact that the value segment underperformed the growth segment, was our regional exposure and the relatively large exposure towards Japanese companies. With a loss of 17.2% in local currency, the MSCI Japan Small Cap shows that Japan was the worst performing country in 2007 for smaller companies. Our poor performance in Japan was due to the Japanese performance in general, and we did not experience any negative issues on a company-specific level. We are as confident as ever in our Japanese holdings, because of their strong balance sheets and their low pricing. Furthermore, we have seen some structural changes in Japan which we expect will help the environment for M&A activity in the future.

Historically, our long-term focus and exposure towards stocks that are typically out of favour and located in markets where the economic outlook suffers, has often made us look poor in the short term, but superior in the long term.

The average weighted price-to-book ratio of our fund is now at only 0.93, and the Japanese companies are helping us keep this ratio so low. Although 2007 gave us a loss of almost 13%, the conservative valuation of our portfolio gives us confidence that we have healthy down-side protection. With a median EBITDA at only 5.04 including turn-around cases and a weighted net-debt-to-equity of only 5%, the upside potential is indeed satisfactory.

Even though we experienced very volatile markets with a lot of uncertainty during the past quarter, and we see very few signs of improvement in the short term, we have a genuinely

positive view on the future potential of our investments, due to the quality of the companies in the portfolio.

Yours sincerely,

Sparinvest Asset Management

Kasper Billy Jacobsen
Head of Equities, Portfolio Manager
January 9th, 2008

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 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 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 Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.