

European Value Fund Update Q1/08

Performance highlights
Q1 2008 loss of 12.75%

Economics

Dear Investor

Q1 2008 proved to be yet another challenging quarter for global stock markets. Our fund had a negative return of 12.75%. We are of course very disappointed with this performance, but we take comfort from the fact that the fundamentals of our portfolio holdings have been largely unaffected by the fears of recession and market turbulence. They continue to display healthy earnings and strong balance sheets.

The European equity market as measured by the MSCI Europe Index lost 15.68% in the quarter, while MSCI Europe Value and MSCI Europe Small Cap had losses of 17.25% and 12.54% respectively. Growth stocks also struggled, with the MSCI Europe Growth Index falling 14.15%.

The table below presents the first quarter 2008 return and the 2007 return of the fund compared with different stock market indices.

Sparinvest European Value versus Index		
	Q1 2008	2007
Sparinvest European Value	-12.75%	-4.13%
MSCI Europe Index	-15.68%	2.69%
MSCI Europe Value Index	-17.25%	-2.38%
MSCI Europe Growth Index	-14.15%	7.82%
MSCI Europe Small Cap Index	-12.54%	-7.51%

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. ■

The first quarter of 2008 has been dominated by the continuing themes of sub-prime related losses and the associated credit crunch, and concerns of a recession in the United States. Central banks – in particular the US Federal Reserve, the ECB, and those of England, Canada and Switzerland – continue their coordinated efforts to ease liquidity pressures, and the Fed has moved aggressively on interest rates. It had cut rates by a total of 100 basis points in Q4 2007, but after an unscheduled meeting on January 22nd, the Fed announced a sharp 75 basis point cut, and made a further 50 point cut at its regular meeting eight days later.

Many feared that the liquidity crisis would eventually fell a major US investment bank. March 17th brought the bittersweet news that Bear Stearns had emerged as a victim, but that JPMorgan Chase would acquire the investment bank in a hastily arranged deal involving considerable capital input from the Fed. The following day, another 75 basis point rate cut and relatively encouraging earnings from Lehman Brothers and Goldman Sachs combined to give some solace to markets. Later in March, US Treasury Secretary, Henry Paulson outlined proposals to reorganise government regulation of financial institutions, including a broader role for the Fed.

In Japan, Bank of Japan Governor Fukui ended his tenure, but the appointment of a replacement has been delayed by a stalemate between the ruling Liberal Democrats and the opposition Democratic Party of Japan. A compromise candidate finally appears to have emerged in the form of Masaaki Shirakawa, formerly deputy governor.

The US dollar has fallen steeply during the quarter, approaching EUR 1.60 and JPY 95 in mid-March, although the final two weeks of the quarter have seen some easing of this downward pressure. Perhaps unsurprisingly amid such dollar weakness, rising oil prices have remained another source of pressure on the markets. After New Year highs, prices dropped back to below the USD 90 mark, but rallied again from mid-February, breaking over USD 110 in mid-March. Gold prices have been similarly strong.

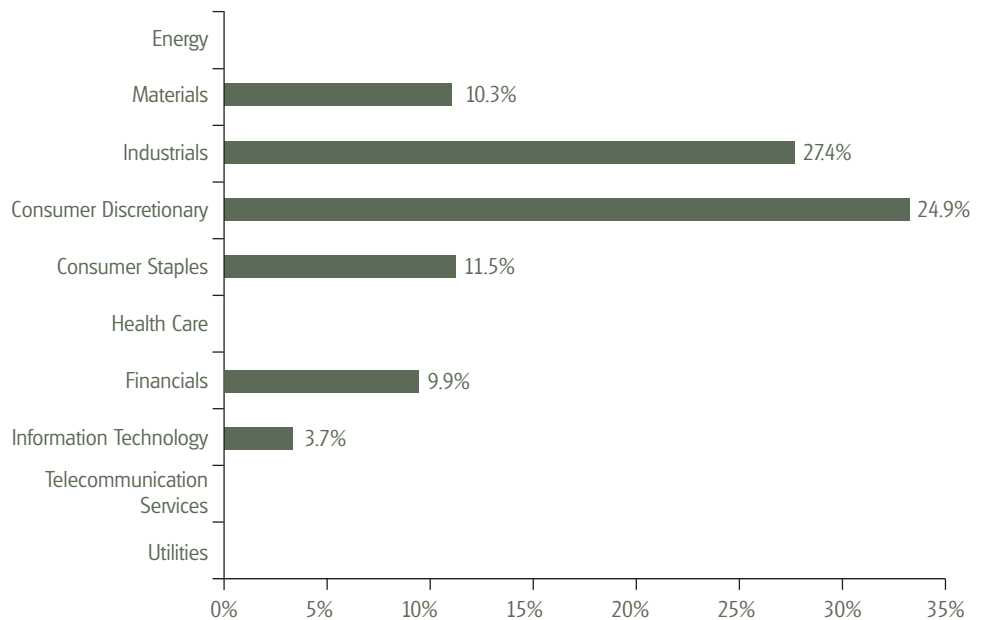
Japan is offering some encouraging signs, with preliminary estimates for Q4 2007 real GDP showing 3.7% annualised growth, and February core CPI was up 1.0%: the steepest growth in 15 years. In the US, existing home sales rose in February for the first time in 7 months, but consumer confidence for March emerged at a 5 year low. On April 2nd, Fed chairman Ben Bernanke testified to Congress, warning of the risk that the US economy could “contract slightly” in H1 2008.

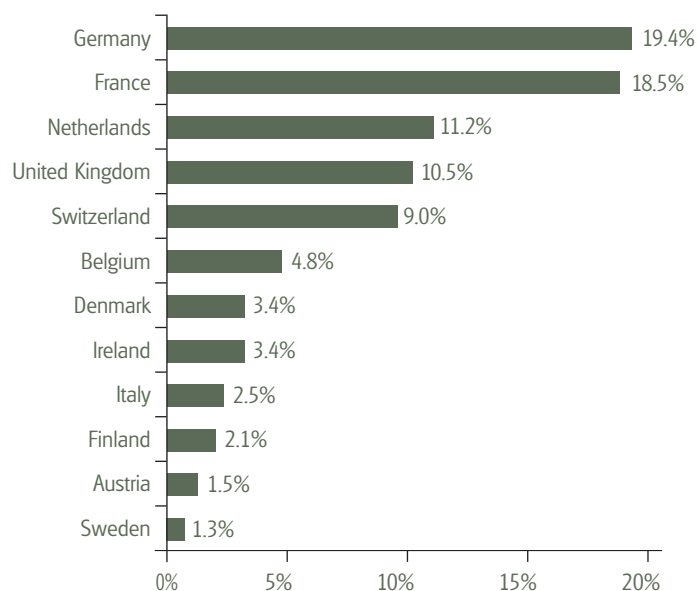
In the Euro-Zone the final estimate for Q4 2007 GDP was released on April 9th, confirming that growth slowed to 2.3% from 2.7% in the previous quarter. As we head into the second quarter, there are some signs of stabilisation, but financial markets look likely to remain under stress for some time. ■

Portfolio update

At the end of the quarter, the cash position was 12.3% of assets under management. The fund had 62 holdings with the following sector and country breakdown.

Sector allocation



Country allocation

We continue to build the number of positions in the fund. During the quarter, we made a new investment in Swedish telecom equipment maker LM Ericsson, and additional investments in 23 of our holdings.

At the end of the quarter, our 10 largest positions accounted for 26.9% of total portfolio holdings.

Top 10 holdings			
Company	Industry	Country	Share
A.P. Moeller - Maersk A/S B	Marine	Denmark	3.43%
Dexia SA	Banks	Belgium	3.14%
Deutsche Postbank	Banks	Germany	2.95%
Royal Philips Electronics	Industrial Conglomerates	Netherlands	2.89%
Renault SA	Automobile Manufacturers	France	2.78%
Peugeot SA	Automobile Manufacturers	France	2.59%
RSDB NV	Commercial Printing	Netherlands	2.45%
Jungheinrich AG	Construction & Farm Machinery	Germany	2.23%
Grammer AG	Auto Parts & Equipment	Germany	2.22%
Millenium & Cophome Hotels	Hotels, Resorts & Cruise Lines	United Kingdom	2.22%

Cumerio and Alfred McAlpine
Take-overs completed,
payments received

In our previous letter, we wrote of the possible take-over of Cumerio, the Belgian copper smelter, by Hamburg-based competitor Norddeutsche Affinerie. An impasse had emerged when A-Tec Industries, an Austrian engineering company, raised its stake in Cumerio to 25%, enabling it to block the deal. However, on 12 February 2008, A-Tec announced that it had accepted the offer of EUR 30 per share.

We had initially received our shares in Cumerio in April 2004, when it was spun off from Umicore. The new entity offered healthy earnings, a relatively unleveraged balance sheet, and was priced close to book value, at EUR 10.5. The EUR 30 received in the takeover gives a total annual return on the position of 48%.

Agfa Gevaert

Case reviewed, sold with loss

The acquisition of another of our holdings, British builder Alfred McAlpine, was also completed. Even though we had turned down the offer from McAlpine's larger competitor Carillion because the bid was lower than one earlier rejected by management, the deal went through. We received payment in the form of both Carillion stock and cash, and we put the stock for sale, as it did not fulfil our value criteria. ■

Agfa Gevaert NV is the Belgian manufacturer of both analogue and digital imaging products for the graphics, health care and other industries. The company has sales of approximately EUR 3.3 billion and employs 1,400 people.

We first bought shares in Agfa Gevaert in March 2004. The stock was trading at 1.7 times book value and, with limited net debt and few intangible assets, we assessed that the strong balance sheet gave us satisfactory downside protection. The stock market had punished Agfa for declining revenues in its consumer imaging business, caused by the shift from film to digital cameras. This meant the stock was trading on a P/E below 10x and EV/EBITDA at the 4-5x level, and we saw good upside.

The company was divesting its consumer imaging business, to focus more on the growing graphic systems and health care businesses, and it looked set to be in a steady state once free of the shrinking business segment. Agfa had planned strategic acquisitions, and did move ahead over the next few years, but sadly the expected improvement in earnings did not materialize. With the balance sheet gradually deteriorating, we became concerned that unless earnings improved sharply, the amount of debt, goodwill and pension liabilities could become serious issues in future.

With stock market concern increasing, in August 2007, Agfa announced its intention to split into three independent, listed companies - representing the activities of Agfa Graphics, Agfa HealthCare and Agfa Materials - by the end of the year. This seemed to be a potential solution, but by late 2007 it was clear that it would not be realised in the foreseeable future. With concerns over the state of the balance sheet, and few signs of improvement on the operating side, we decided to exit our investment.

We sold our last shares in January at EUR 7.46. With an initial buy price of EUR 20.28 in March 2004, this translates to a loss of 59% after dividends or an annual equivalent of -20.5%. ■

Outlook

Stock markets have had an extremely negative first quarter of 2008, caused by an intensification of the credit crunch that started in the summer of 2007. We are now witnessing the impact of a credit bubble that built up over the past 3-4 years, in which money basically became too cheap. If easy access to capital made for a party, then the markets are now suffering from the hangover.

The recent bear market has been severe by any standards, but history has proven that stock markets will recover over time. During periods like this, market participants tend to reduce their shareholdings, without particular focus on the fundamental valuations of individual companies. The market value reflects the current price attributed to the company on the stock exchange. In contrast, the intrinsic business value reflects the "true" value of the company based on net asset values and earnings power, criteria which would apply if the company were traded as a whole in a take-over or merger situation. On occasion, the market value (share price) of a company accurately reflects the intrinsic business value, but most of the time it is either above or below it. The current stock market weakness means

an increasing number of companies are trading below their intrinsic value and this swells the number of stocks that fit into our investment universe and fulfil our investment criteria. At a time when sentiment on the world's stock markets is pre-dominantly negative, this strikes us as a very positive feature.

Looking ahead, many questions remain: the possibility of more bad news from the financial sector, the scale of any recession in the US and how that spreads to affect corporate earnings and economic growth around the world. We can debate about hard or soft landings, but one thing is certain: we need the global banking sector to land on its feet again before we can truly speak of 'light at the end of the tunnel'.

Periods of extreme uncertainty in the stock markets are not favourable for any long-only investment style wishing to generate positive returns. Investing in such conditions can demand considerable patience and it is after a quarter like the one just ended that one has to keep in mind the long-term investment philosophy behind Sparinvest European Value.

Looking at our portfolio today, we would argue that a recession has been priced in to a large extent in most of our holdings. This is supported by the low average valuations within the Sparinvest European Value fund, whether in terms of price-to-book, or earnings based metrics.

We are here to produce positive returns, and so can in no way be satisfied with a period of negative returns. However, we remain convinced of the strength of our portfolio, and the risk of permanent loss of capital in Sparinvest European Value is limited. The decline in the markets does not reflect a decline in the fundamental quality of our investments, and we continue to see considerable upside in them. We are confident in the future potential of our holdings. ■

Yours sincerely,

Sparinvest Asset Management

Jens Moestrup Rasmussen
Lead Portfolio Manager
April 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.