

Global Value Fund Update Q1/08

Performance highlights

Q1 return of -14.27%

Economics

Dear Investor

Q1 2008 proved to be yet another challenging quarter for global stock markets. Our fund had a negative return of 14.27%. 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 general equity market, when measured by the MSCI World Index, lost 16.09% in the quarter, while MSCI World Value and MSCI World Small Cap had losses of 16.34% and 15.23% respectively. Growth stocks performed slightly better at -15.84%. Despite its discouraging Q1 2008 return, our fund outperformed all these indices.

The table below presents the first quarter return, the 2007 and the 2006 return of the fund compared with different stock market indices.

Sparinvest Global Value versus Index			
	Q1 2008	2007	2006
Sparinvest Global value	-14.27%	-1.04%	13.55%
MSCI World Index	-16.09%	-1.66%	7.40%
MSCI World Value Index	-16.34%	-6.74%	11.89%
MSCI World Growth Index	-15.84%	3.51%	3.00%
MSCI World Small Cap Index	-15.23%	-9.10%	4.84%

MSCI World Index, MSCI World Value Index, MSCI World Growth 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. ■

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.

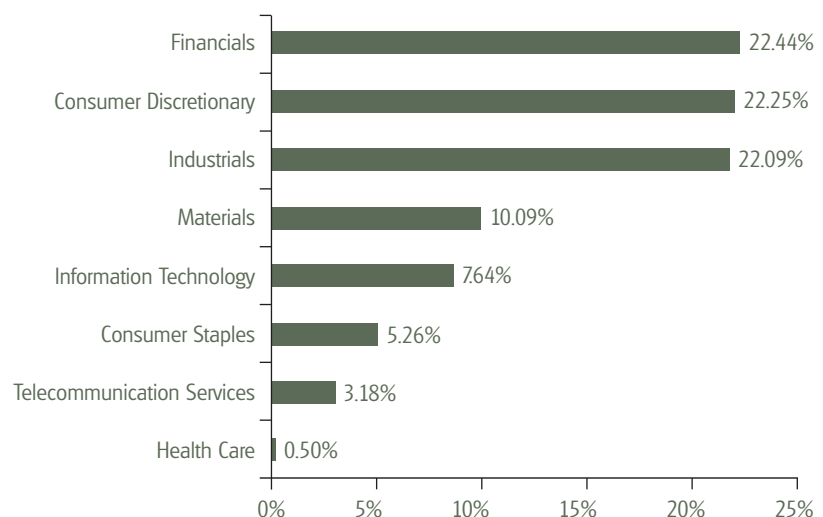
Japan is offering some encouraging signs, with preliminary estimates for Q4 2007 real GDP showing 3.7% annualised growth, and February core CPI was up 1.0% the steepest growth in 15 years. In the US, existing home sales rose in February for the first time in 7 months, but consumer confidence for March 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. ■

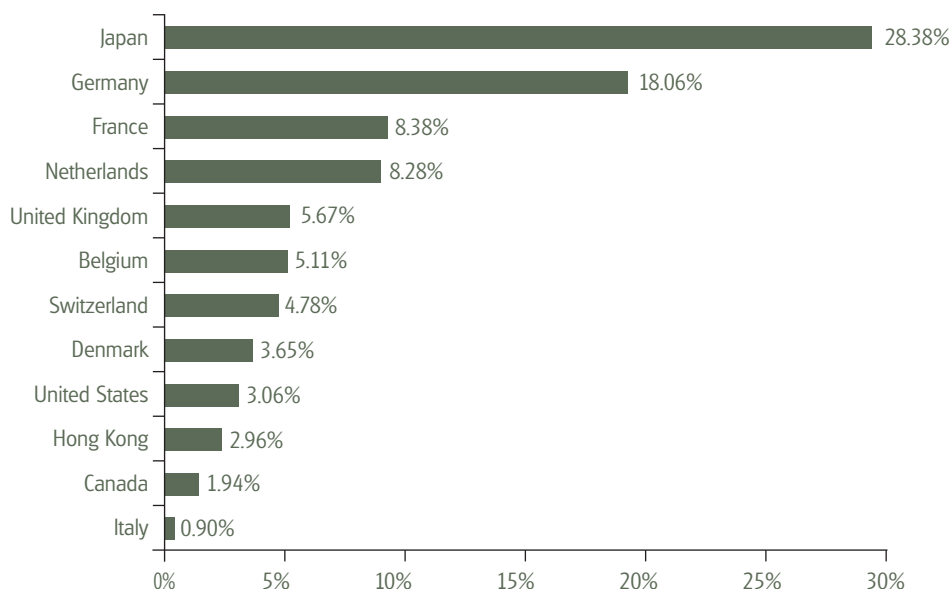
Portfolio update

At the end of the quarter, the cash position was 6.6% of assets under management. The fund had 93 holdings with the following sector and country breakdown:

Sector allocation



Country allocation



During the quarter, we invested in two new companies. In January, Swedish telecom equipment maker, LM Ericsson entered the portfolio and shares of Japanese pharmaceutical company, Takeda were bought in March. We made additional investments in 34 stocks.

At the end of the quarter, our 10 largest positions accounted for 33.0% of total portfolio holdings.

Top 10 holdings

Holding	Sector	Weight
Deutsche Postbank Ag/Namen-Akt	Financials	3.97%
Dexia SA	Financials	3.90%
A.P. Moeller - Maersk A/S B	Industrials	3.65%
Peugeot SA	Consumer Discretionary	3.50%
Roy.Philips Electr./Eur 0.2	Industrials	3.32%
Nippon Tel&Tel	Telecommunication Services	3.18%
MAN AG	Industrials	3.08%
Hutchison Whamp/Hk0.25	Industrials	2.96%
Frankfurt Airport Serv.Worldw.	Industrials	2.73%
Mitsui Sumitomo Insurance Co	Financials	2.71%

Global Value Fund Update

Rayonier
reached target

Based in the United States, Rayonier is an international forestry products company with three core businesses: timber, real estate and performance fibres. It has considerable real estate assets, with approximately 2.6 million acres of timber and land in the US and New Zealand.

We made our first investment in the stock in January 2003 at USD 41.80, although subsequent stock splits mean the effective price was USD 15.65.

In Rayonier we saw a company offering stable sales, profits, and dividends, generating solid cash flows year after year and priced cheaply both on book value and earnings-based valuation metrics. Since 2000, steady sales and cash-flow generation have continued, whilst improving operating efficiency has raised the bottom line. A key change came in January 2004, when the company converted into a REIT (Real Estate Investment Trust). This sharply reduced its tax burden, triggering dramatic improvements in net income and key efficiency measures such as return on equity.

Rayonier's valuations have risen steadily to reflect these improvements, and we sold our holding in Rayonier during March 2008 at an average price of USD 40.7, giving an annual return on the investment of 26.4%. ■

Hosiden
reached target

Hosiden is a Japanese electronics company producing a wide range of components for diverse applications: connectors and jacks for audio-visual equipment; battery chargers, switches and LCDs for mobile phones and remote controls, to name a few. In addition, it is a major supplier and console assembler for games giant, Nintendo.

We made our first investment in Hosiden in September 2005 at around JPY 1140, after a period of relatively uninspiring earnings had depressed the stock to around book value. However, the company had a diversified product base with exposure to various promising markets and a solid, proven relationship with its main customer, Nintendo. In addition, downside protection was offered by a strong balance sheet with a healthy net cash position.

Since then, Hosiden has enjoyed impressive growth, primarily thanks to the success of Nintendo's Wii console and DS handheld console. Sales and profits for the fiscal year ended March 2008 look likely to exceed March 2005 levels by well over 50%. With the stock approaching twice book value, the net cash position reduced by share buybacks and capital expenditure and an increasing reliance on its main customer, we chose to sell our position in Hosiden during early 2008. We realised an average price of JPY 1,630, giving a total annual return of 17%. ■

Sompo Japan
case reviewed, position exited

Sompo Japan is one of the country's leading non-life insurance companies, with the second largest share of the domestic property and casualty insurance market.

Sompo Japan - in its current form - is the result of various mergers over the years, but the original company has been in the portfolio for over five years. Premium income and total revenues have steadily increased, and net income has grown almost five-fold over the past 10 years.

In recent months, Japanese insurers have – like financial companies everywhere – come under scrutiny as to their exposure to sub-prime related products. Although Japanese exposure does not appear to have been particularly high when compared with American

counterparts, some exposure was perhaps inevitable. In Sompo Japan's case, although it had not invested significantly in sub-prime areas, it had issued financial guarantee insurance on some mortgage-backed credit derivatives and subsequently announced asset write-downs related to this.

Although we took a fairly sanguine view of the damage done to the company's balance sheet, we decided to exit our relatively small holding in Sompo as current market conditions have brought a wide range of attractive companies into our potential investment universe. We exited the position in February 2008 at an average price of JPY 878, giving a modest 3.2% annual return on the stock. ■

Agfa Gevaert

Case reviewed, sold with loss

Agfa Gevaert NV is the Belgian manufacturer of both analogue and digital imaging products for the graphics, healthcare 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 healthcare 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%. ■

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%.

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.

We bought McAlpine shares for the Global Value fund in February 2003 at GBP 2.49. The acquisition price and the healthy dividend yield of 2-4% annually has taken our annual return to approximately 21.9%. ■

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 hang-over.

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, the 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 predominantly negative, this strikes us as a very positive feature.

Looking ahead, many uncertainties 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 Global Value.

Looking at our portfolio today, I would argue that a recession has been priced in to most of our holdings to a large extent. This is supported by the average valuations within the Sparinvest Global Value fund. Today, the price-to-book ratio is around 1.1x, the EV/EBITDA is 4.5x and the ratio of net-debt-to-equity is close to 10%. These valuations are similar to those we saw in 2003, after the extremely negative markets of 2002.

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 that the risk of permanent loss of capital in Sparinvest Global Value is limited. The decline in the markets does not reflect a decline in the fundamental quality of our investments.

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
Chief Portfolio Manager
April 8th, 2008

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.