



## Global Small Cap Value

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### Fund Facts

Strategy	Value Equity
Risk	N/A
ISIN	LU0264925131
Share Class Currency	EUR
Fund Inception	02-Nov-2006
Fund Manager	Kasper Jacobsen
Benchmark	MSCI World Small Cap (net dividends)
Morningstar Category	Global Equity Small/Mid Cap

- [sparinvest.eu](http://sparinvest.eu)

### Performance

In the third quarter of 2009, Sparinvest Global Small Cap Value rose by 16.31%, bringing the year-to-date return to 24.37%. The general small cap market, as measured by the MSCI World Small Cap Index gained 17.28% in the quarter and 33.28% year-to-date. The MSCI World and MSCI World Value indices increased by 12.70% and 14.80%, respectively, in the third quarter. Growth stocks posted a return of 10.60%.

The small cap market overall remains one of the best performers year-to-date, and while we feel that our fund is performing reasonably well in absolute terms, it is lagging the index. The fund continues to benefit from high exposure to strongly performing consumer discretionary and industrial stocks, but has suffered somewhat due to a low weighting in financial stocks – a sector which contributed significantly to the index's gains during the quarter. By region, we retain a high weighting in Japan, where markets were relatively sluggish in the past three months, but we benefited from our relatively high weighting in Germany in particular.

We think it is also worth noting that the Small Cap portfolio includes many stocks with relatively low liquidity, which brings a certain amount of day-to-day volatility in share prices compared with the broader index.

### Portfolio Composition

At the end of the quarter, the cash position was 5.2% of assets under management. The fund had 75 holdings and our ten largest positions accounted for 20.41% of the total.

Although markets have indeed risen somewhat, we continue to find plenty of attractive value stocks. Since we last wrote, we have made three new investments. We bought shares in Canam Group, a Canadian maker

of construction products, PAL, a Japanese clothing maker and retailer, and Bovis Homes, a UK house-builder. This means that we have made thirteen new investments in the year-to-date and we are positive that more opportunities will materialise during coming months.

In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We sold our position in IDS Scheer, which is discussed below.

*For further data on the fund, including complete portfolio holdings, performance and breakdowns by industry and geographical sector, please refer to our website and the latest fund factsheet.*

### **Portfolio Valuation**

Despite recent share price increases, valuations of the fund remain attractive. The average price-to-book ratio is only 0.82 times, with an EV/EBITDA of around 5.4 times. In terms of balance sheet health, the average net-debt-to-equity ratio is under 1% – in other words, bordering on a net cash position. We are convinced that the strength and low pricing of our portfolio will allow us to generate healthy long-term returns.

### **Individual Positions**

#### **IDS Scheer**

*Sold in Takeover*

IDS Scheer is a German software and IT consulting company, whose core strength lies in Business Process Management (BPM) software and in particular the ARIS platform developed by its founder. IDS also worked as a vendor of Enterprise Resource Planning applications from companies such as Oracle and SAP and saw this as a core strength. Thus instead of working in competition with the industry's large players, IDS worked in conjunction with

them. It enjoys a diverse client base around the world.

However, the shares had fallen during the first half of 2008, after results fell short of some expectations and the short term earnings outlook appeared cloudy. We saw a well-managed company with a stable earnings history and a strong, net-cash balance sheet, which was trading at attractive multiples, both in terms of assets and its long-term earnings. We bought shares in IDS Scheer during the latter half of 2008, paying an average price of just under EUR 7.

In July 2009, the large German IT player, Software AG, launched a takeover bid for IDS Scheer. The offer of EUR 15 per share was in excess of our estimate of IDS Scheer's intrinsic value and so we chose to accept the offer. In late September, we received payment, giving us a return on our investment of over 100%.

**Kasper Billy Jacobsen**  
Lead Portfolio Manager  
8 October 2009

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