



Ethical Global Value

Headlines

- Performance
- Portfolio Composition
- Portfolio Valuation
- Individual Positions
- Ethix SRI Advisors: Summary of the Exclusion Filters
- Ethix SRI Advisors: Ethical Reporting

Fund Facts

Strategy	Value Equity
Risk	N/A
ISIN	LU0362355355
Share Class Currency	EUR
Fund Inception	30-May-2008
Fund Manager	Jens Moestrup Rasmussen
Benchmark	MSCI World (EUR)
Morningstar Category	Global Large-Cap Value Equity

- sparinvest.eu

Performance

In the first half of 2010, Sparinvest Ethical Global Value posted a return of 8.87%, compared with 5.61% for the general equity market, as measured by the MSCI World index. During the second quarter, the fund retreated by 2.50%, while the index dropped by 3.53%.

Sparinvest Ethical Global Value & Index Returns, in %	Q2 2010	YTD
Sparinvest Ethical Global Value	-2.50	8.87
MSCI World Index	-3.53	5.61
MSCI World Value Index	-4.08	5.10
MSCI World Growth Index	-2.97	6.11
MSCI World Small Cap Index	-1.13	12.76

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.

Breaking the second quarter down further, value stocks dropped by 4.08%, while growth stocks fell by 2.97%. The small cap market dropped by 1.13%.

We aim for absolute returns and, during the last three months, the equity market has taken something of a breather. However, the fund is performing relatively strongly compared with indices. Moreover, we see many factors which should drive solid returns in the months and years to come. Many of these, we discuss in more depth in the Letter to Shareholders.

Let's take a closer look at what drove returns in the second quarter. Europe was the decisive factor. Our performance in Japan was mixed, with relative strength in consumer durables and technology. Our North American holdings lost relatively little ground compared to indices, but we continue to have a relatively low weighting in the US.

In Europe, despite a very tough environment, our holdings performed well. Generally speaking, the largest falls of the past three months were seen in Southern Europe, where we have relatively low weightings. For example, the fund has no investments in Portugal, Greece, or Spain. As we discuss in the Letter to Shareholders, this was not the result of a strategic top down decision but, in recent years, when we have evaluated companies in those countries, we have found it hard to find many with compelling valuations relative to their earnings power.

Meanwhile, in those European countries where we do have investments, we generally performed considerably better than benchmark indices. This was partly thanks to our relatively high exposure to cyclical sectors such as industrials, consumer discretionary, and materials. Despite the lack of visibility in the overall economy, we are seeing many positive developments in fundamentals and earnings at our holdings – both cyclical and non-cyclical. We continue to believe that as the market starts to pay more attention to fundamentals and individual corporate quality, instead of an overwhelming focus on top-down fears, our holdings will be well rewarded.

Bear in mind that, so far this year, currencies have actually worked against the fund, due to its relatively high weighting in Euro-denominated stocks. While the MSCI World index has a weighting of around 50% in US stocks, the fund has just under 10%. So, with the US dollar up 17% against the Euro in the first half, and 10% in the second quarter alone, this has certainly cost the fund a few percentage points in relative performance. This is not something that troubles us. Considered over the short term, of course there are quarters when currency moves hurt, and others where they help. Naturally, we have often studied the long-term impact of currencies on the funds and the potential benefits of hedging the exposures. However, the results have clearly suggested that, over the course of the years, relative currency swings have had an extremely limited impact on performance. For us, it always boils down to the actual quality of our investments and what potential they have for the years to come.

Portfolio Composition

At the end of the quarter, the cash position was 5.7% of assets under management. The fund had 90 holdings and our ten largest positions accounted for 33.77% of the total.

Since we last wrote, we have made new investments in International Speedway Corp, the US operator of motor-racing facilities such as the Daytona speedway, and

Tokyo Steel, a Japanese electric-furnace steel maker. In general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We have now sold our position in 4Kids, 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

Valuations of our holdings are compelling and suggest impressive potential for the future. Aggregating the fund holdings into one theoretical company, it trades at a price-to-book of just 0.91 times, while the MSCI World index is at 1.94 times.

We have a relatively high exposure to cyclical companies which inevitably saw weaker earnings during the crisis, but are now recovering swiftly. The speed of this earnings rebound is indicated by valuation measures. Price-to-earnings for the year ended was 36.3 times, a relatively high multiple caused by the short-term earnings decline last year. But if we look forward to estimated earnings for 2010, the multiple drops to 12.0 times Bloomberg estimates, and for 2011 it is just 9.3 times, compared with 11.5 times for the MSCI World Index. EV/EBITDA is a useful indicator of the price of a company relative to its raw earnings power. Our fund is trading at 2.8 times 2010 estimates, and 2.5 times 2011 estimates. This compares with 6.9 and 6.2 times for the MSCI World.

On top of these compelling earnings valuations, the aggregate balance sheet is solid, with net-debt-to-equity of just 25% (versus 54% for the MSCI World), and intangibles-to-equity of only 19% (versus 51% for the index). We think that this financial strength will be a crucial distinguishing factor in the coming years, as we discuss in more depth in the Letter to Shareholders.

Individual Positions

A.P. Moller-Maersk

A.P. Moller-Maersk has been removed from the portfolio due to ethical considerations. More details are provided in the Ethical Reporting section, below.

4Kids

Sold with Loss

In order to ensure that our portfolio retains its quality and potential to deliver good returns, we monitor our holdings rigorously. Where we see disintegration of the investment

case and deterioration in our assessed intrinsic value, we are disciplined in selling the position. This is never pleasant, but it is an inevitable part of investing and crucial to ensure long-term performance for the funds.

4Kids is a US company specialising in the licensing of toys and games. It has been involved in brands such as Pokemon, Cabbage Patch Kids, Yu-Gi-Oh, and so on. When Sparinvest Global Value first invested in 4Kids in December 2005, paying around USD 16 per share, the stock was trading at a price-to-book of around 1.4 times, and had a considerable net cash position equivalent to around half of its market capitalisation. It had shown a good ability to keep refreshing its product range – and thereby its earning power.

However, in subsequent years, it proved more difficult for the company to find suitable products to replace those whose licenses were expiring, and earnings deteriorated as a result. We always consider earnings power in a long-term context, and accept that even strong companies will have difficult periods. However, it is important to ascertain that the earnings model itself is intact, or can be successfully regenerated. With 4Kids, we ultimately concluded that this was not the case and therefore began to sell our shares in 2009. The liquidity of the stock had declined, meaning that it took some time to exit fully, but we completed the sale in the second quarter of 2010, realising an average price just under one dollar. Clearly, we consider this to be a most disappointing case, but we are happy to say that in our diverse portfolio of close to one hundred investments, such cases are rare – and as discussed above, we are very confident in the quality of our existing investments.

Ethix SRI Advisors: Summary of the Exclusion Filters

Norm-based Screening (UN principles)

- Zero tolerance

Sector-based Screening

For Porn, Alcohol, Tobacco and Gambling

- Zero tolerance for production
- 5% tolerance for distribution

Weapons

- Zero tolerance for combat equipment
- 5% tolerance for other military equipment and associated services

Ethix SRI Advisors: Ethical Reporting

New holdings

During the quarter, no potential new investments were excluded as a result of the ethical screening criteria.

Tokyo Style

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Tokyo Style	Japan	—	—	—	—	—	—	—	—

No comment regarding involvement in controversial activity and revenue shares derived from such activities.

International Speedway

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
International Speedway	US	—	—	—	—	—	—	—	—

International Speedway Corporation owns and manages motorsports entertainment facilities and promotes motorsports themed entertainment activities in the United States. Motorsports Events consist of racing events in the motorsports entertainment facilities. The segment 'food, beverage and merchandise' is involved in the sale of concessions and souvenirs. The sale of alcoholic beverages forms a part of these activities. The Group owns and operates 13 major motorsports entertainment facilities.

Total revenue amounted to USD693.2m in 2009. Revenue from the segment ' food, beverage and merchandise' amounted to USD56.4m or 8% of total. It is estimated that alcohol accounted for less than 5% of total revenue.

Additional information: The company has a 50/50 partnership with Penn National Gaming ("Penn") to pursue the development of a casino, hotel and retail and entertainment project in Wyandotte County, on property adjacent to the Kansas Speedway facility. Penn will serve as the managing member and will be responsible for the development and operation of the casino and hotel. Construction is expected to commence in the second half of 2010 with a planned opening in the first quarter of 2012, at which time the company will begin to draw revenue from gambling activities.

Existing holdings

A.P.Moller-Maersk

Exiting Position due to Production of Combat Equipment

On the basis of new information, Ethix SRI Advisors have determined that A.P. Moller-Maersk is engaged in the production of combat equipment, which is not compliant with the sector-based screening criteria. Therefore, it has been removed from the portfolio subsequent to the end of the second quarter.

Statement from Ethix SRI Advisors

A.P. Moller-Maersk produces combat equipment. In 2006 the company's subsidiary Odense Steel Shipyard Group announced a contract to build 3 patrol vessels for the Danish Navy, to be delivered in the period 2010-2012. The patrol vessels will be fitted with weapons including 127 mm mk.45 artillery guns, 35mm Millennium CIWS guns, and Harpoon block II missiles. The weapons are not manufactured by Maersk, but boats prepared for the fitting of weapons and sold to naval forces are considered to be combat equipment. Maersk has already announced that Odense Steel Shipyard Group will discontinue its shipbuilding activities when existing contracts are concluded. Ethix SRI Advisors is seeking further information from the company regarding when the last of the patrol vessels will be delivered.

Maersk also provides transportation and operational services to the US military. The company's US subsidiary Maersk Line Limited owns and operates vessels under exclusive contact with the Military Sealift Command in support of the US Military's sealift requirements. These vessels operate in a prepositioned capacity; they provide transport and storage for rolling stock, break-bulk, containers and ammunition for the US Army and Marine Corps, as well as ocean surveillance and radar support to the US Navy.

Turnover from the supply of military specific equipment and services is assessed to be negligible on the basis of available information about the company's business range. Maersk had revenue of DKK311b in 2008.

Jens Moestrup Rasmussen

Lead Portfolio Manager
12 July 2010

This Fund Update should be read together with the latest 'Letter to Shareholders', in which our Value Equities team offer their perspective on value investment and market developments.

Sparinvest Ethical Global Value available share classes	ISIN
EUR E	LU0362355512
EUR I	LU0362355439
EUR R	LU0362355355
EUR UKI	LU0362355785
EUR UKR	LU0362355603

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. Sources (where applicable): Sparinvest, Morningstar Standard & Poors, Bloomberg, Telos, Feri. For investors in Switzerland the fund's representative and paying agent is RBC Dexia Investor Services Bank S.A., Zurich Branch, Badenerstrasse 567, P.O. Box 101, CH-8066 Zurich. Published by Sparinvest, 28, Boulevard Royal, L-2449 Luxembourg.