



## Ethical Global Value

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### Fund Facts

Strategy	Value Equity
Risk	High (6)
ISIN	LU0362355355
Share Class Currency	EUR
Fund Inception	30-May-2008
Fund Managers	Jens Moestrup Rasmussen & Kasper Billy Jacobsen
Benchmark	MSCI World
Morningstar Category <sup>tm 2</sup>	Global Flex-Cap Equity



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

### Performance

During the last quarter of 2011, Sparinvest Ethical Global Value gained 1.00% taking the full-year return to a loss of 18.35%. The general global equity market – as measured by the MSCI World index – gained by 11.20% in the quarter, while losing 2.38% over the year. The Global value equity market – measured by the MSCI World Value index – gained 11.18% during the quarter and lost 2.46% over the year. The main reason for the negative return, in both absolute and relative terms, is the fund's relatively high exposure to European, cyclical and small cap stocks.

Sparinvest Ethical Global Value & Index Returns, in %	Q4 2011	YTD
Sparinvest Ethical Global Value	1.00	-18.35
MSCI World Index	11.20	-2.38
MSCI World Value Index	11.18	-2.46
MSCI World Growth Index	11.18	-2.34
MSCI World Small Cap Index	11.85	-6.02

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.

This means that in the full year 2011, Sparinvest Ethical Global Value declined by 18.35%, compared with a decline of 2.38% for the MSCI World, which is the biggest relative underperformance to benchmark since launch. We are by no means satisfied with this result – in absolute or relative terms.

It has been a challenging environment for a global portfolio with a relatively high weight in Europe and Japan, especially in the last quarter of 2011. Also an overweight in small-cap stocks relative to benchmark did not help during Q4. However, the main explanatory factor for underperformance was our underweight in North America which outperformed the other regions significantly with a return of around 15% in the quarter.

The picture was much the same over the whole year where North American stocks delivered positive returns of +3 % and Europe and Japan lost around 8-11%.

On a sector level, Consumer Discretionary, Financials and Industrials have been the biggest drag on the quarterly performance relative to benchmark, but effectively all sectors lagged the benchmark during the quarter.

Investors followed the same trend as in other crises and moved into large-cap and sectors like Consumer Staples and Health Care, which are considered safe havens. This is shown by the strong positive returns for these sectors, in the range 12-13% this year, where more cyclical sectors like Consumer Discretionary, Financials and Industrials and Materials have been hurt.

When looking at the companies' performance relative to their price-to-book ratios it is very clear that low price-to-book has been the worst performing part of the markets. In fact, only those companies ranked in the first quartile, with the highest-price-to-book, gave positive returns last year. As you know, this is not the part of the market where our investment style leads us.

There are still challenges ahead almost all parts of the world, and in particular in Europe. The outcome of the European debt crisis is unpredictable, but even in a best case scenario the effects will be felt for a number of years. We refrain from trying to predict the developments in 2012, but when we look at the state of European companies – whether measured on their balance sheet strength or their expected earnings, adjusted for some difficult years to come – we think a lot of bad news is factored in already, which is clearly reflected in the valuation of our portfolio shown below.

### **Portfolio Composition**

At the end of the quarter, the cash position was 0.8% of assets under management. The fund had 105 holdings and our ten largest positions accounted for 24.67% of the total.

During the quarter, we made four new investments. We bought shares in Brother Industries (Japan, Printers), Delhaize Group (Belgium, Supermarkets), Esprit (Hong Kong, Apparel) and Kyocera (Japan, Electronic components).

We exited our investment in the British home builder, Berkeley Group. Furthermore, in general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others.

*For further data on the fund, including complete portfolio holdings, performance and breakdowns by industry and geographical sector, please refer to the fund factsheet at the end of this document, or to our website.*

### **Portfolio Valuation**

Stock markets generally are now trading at compellingly low valuations, but the valuations of our holdings look extreme. As a rough indication, we amalgamate the holdings into one theoretical company.

This company has a price-to-book of just 0.76 times, compared to 1.63 times for the MSCI World index. The balance sheet remains solid, with low financial leverage (median net-debt-to-equity of just 1.51% versus 30.29% for the MSCI World). If we strip out intangible assets, and look at price-to-tangible-book, the fund trades at 1.24 times, compared to 2.42 times for the index.

Earnings-based multiples suggest that an extremely negative scenario is now priced in. The price-to-earnings ratio, based on consensus estimates, is 10.69 times for the current fiscal year, and 10.29 times for the following fiscal year (compared with 11.8 and 10.8 times, respectively, for the MSCI World). EV/EBITDA, which is a useful indicator of the price of companies relative to their raw earnings power, is just 3.5 times current year estimates, and 2.4 times next year estimates – compared with 6.3 and 5.1 times, respectively, for the MSCI World. If one compares these multiples to what is actually paid for companies in M&A transactions, the implicit upside in the entire market and the fund in particular, looks significant.

Sparinvest Ethical Global Value offers a wider range of companies, with solid asset backing and robust cross-cycle earnings power. Despite the current stock-market volatility, the intrinsic value of the portfolio remains very much intact, and we are confident that this portfolio will generate healthy investment returns over the years to come.

We have no doubt that, whatever macro developments may come, the current share prices of our holdings offer deep discounts to intrinsic value, which will drive solid performance over the years to come.

## Individual Positions

### Berkeley Group

*Sold near target*

Berkeley Group is a British home builder established in 1976 by Mr Anthony Pidgley. Initially Berkeley was focused on the construction of single homes but, after years of growth and geographical expansion, the company went into urban regeneration in the 1990s. In the early 2000s, Berkeley refined its strategy, to focus increasingly on urban redevelopment in the London area.

Not long after we first invested in Berkeley, it attracted a lot of attention because of a takeover bid. Anthony Pidgley remained as Managing Director. His son – Mr Pidgley Jr – who had left the company a few years earlier, now came on the offensive with a GBP 1 billion takeover offer, giving an interesting indication of the potential value in the company. The company had always been well run and had a consistent track record of profit delivery. The strong balance sheet, combined with prudent management, was very important and gave us confidence that this was a company that should be able to bring forth the value of the long-term asset values of its land bank, and not be forced into a potential ‘fire-sale’ in the case of a downturn. We bought our first shares in February 2003 at around 600p, when the company was trading at 0.8x book value and a P/E of 6. The Ethical fund has held the position since inception.

Shortly after our initial investment, it was announced in 2004 that Berkeley would abandon its traditional volume house building segment and focus on urban regeneration. The company also announced plans to downsize operations by around 50% and release any surplus capital to investors. The result was the return of GBP 1.4 billion to investors over the following years. The company kept presenting good results while returning capital as promised.

In 2008, the company chose to defer a pay-out of GBP 3.00 per share to investors, in order to build up cash to take advantage of falling land prices amid Britain’s biggest housing slump in 25 years. Berkeley kept on presenting positive results through the crisis, and we held on to the shares through a very difficult time for the industry.

In June 2011, the company announced a new, ambitious plan for returning capital to investors: a further GBP 13.00 per share by September 2021. This announcement triggered a share price increase of more than 10%. Although the stock had not entirely reached our estimated intrinsic value, we chose to sell our investment, which gave an annual return of about 20% since the first investment. In the current environment, there are companies that trade at larger discounts to intrinsic value, and it is our job to maximize the margin of safety in the funds.

### 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, four new investments were made – details are below.

#### Brothers

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

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

#### Delhaize Group

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Delhaize Group	Belgium	—	—	—	—	—	—	—	—

Delhaize Group supplies tobacco products through retailing. The principal activity of Delhaize Group is the operation of food supermarkets in North America, Europe and Southeast Asia. Delhaize Group's sales network also includes other store formats such as proximity stores and specialty stores. In addition to food retailing the Group is engaged in food wholesaling to stores in its sales network and in retailing of non-food products such as pet products and health and beauty products.

The company's total net sales and other revenue amounted to EUR20.85b in 2010. The group's only business segment, Food retailing is involved in the supply of alcoholic beverages and other consumer products. Food retailing accounted for 91% of total net sales and other revenue. However, no information that differentiates these activities is available. A rough assumption is that involvement in the distribution of tobacco accounts for less than 5% of revenue.

#### Esprit

Issue	Country	Norm-Based Screening			Sector-Based Screening				
		Red	Amber	Green	Weapons	Alcohol	Gambling	Pornography	Tobacco
Esprit	Hong Kong	—	—	—	—	—	—	—	—

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

#### Kyocera

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

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

**Jens Moestrup Rasmussen**  
Chief Portfolio Manager  
11 January 2012

**Kasper Billy Jacobsen**  
Chief Portfolio Manager

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 I	LU0362355439
EUR R	LU0362355355
EUR RD	LU0725777444
EUR UKI	LU0362355785
GBP UKR	LU0362355603



Sparinvest is a signatory of UN PRI and member of EuroSif and Dansif.

UN PRI is an international investor initiative sponsored by the UN and based on six principles for responsible investments. The aim is to help investors actively to incorporate environmental, social and governance issues into their investments.

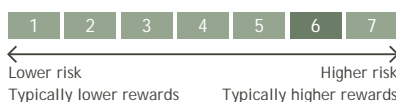
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors/representatives 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 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. Sparinvest makes reservations for typos, calculation mistakes and other possible mistakes in the material.

## Description

### Investment Concept: Value Equities

The Sub-Fund aims at providing a positive return over the long term by investing in equity securities and, to a limited extent, convertible securities and warrants on transferable securities that are admitted to official listing on a stock exchange or that are traded on a Regulated Market within the OECD countries, EU member states (the "EU Member States"), Singapore or Hong Kong. The Sub-Fund applies an ethical screening that identifies the companies that do not fulfill an ethical framework, and they are excluded.

## Risk and Reward Profile



## Basic Information

ISIN	LU0362355355
Bloomberg	SPAEGVR LX
Share Class	EUR R
Fund Inception	30-May-2008
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	30-May-2008
Fund size (MN) - 31-Dec-2011	114.17 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Kasper Billy Jacobsen, Jens Rasmussen
Managed Since	01-Jun-2011
Benchmark <sup>1</sup>	MSCI World
Morningstar Category <sup>2</sup>	Global Flex-Cap Equity
Latest NAV - 30-Dec-2011	83.94 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.50 %
Total expense ratio - 31-Dec-2010	1.99 %

### Notes

Ethical Global Value is based on the Global Value fund, inception in 2001. Norm-based Screening<sup>®</sup> by Ethix SRI Advisors. The mentioned sub-fund is a part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company.

## Returns - Month End, Dec-2011

Returns	Fund	Benchmark <sup>1</sup>	Difference
YTD	-18.35%	-2.38%	-15.96%
1 Month	0.97%	3.64%	-2.67%
3 Months	1.00%	11.20%	-10.20%
1 Year	-18.35%	-2.38%	-15.96%
3 y ann.	8.63%	13.69%	-5.06%
5 y ann.	-	-2.06%	-
10 y ann.	-	-0.29%	-

## Risk 3 years - Month End, Dec-2011

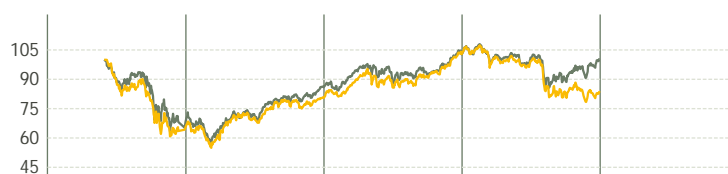
Risk	Fund	Benchmark <sup>1</sup>	Morningstar <sup>2</sup>
Volatility	17.29%	14.01%	17.51%
Sharpe R.	0.51	-	0.77
Info Ratio	-0.52	-	-

Morningstar Rating<sup>™</sup> ★★☆☆☆

## Performance - 31-Dec-2011

Index = 100

■ Fund  
■ Benchmark

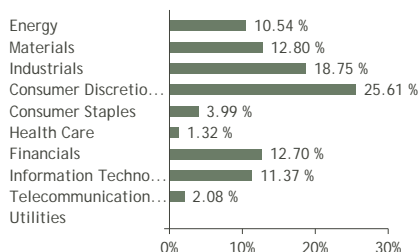


Returns	2008	2009	2010	2011	-
Fund	-	22.75%	27.88%	-18.35%	-
Benchmark	-37.64%	25.94%	19.53%	-2.38%	-
Morningstar Category <sup>™</sup>	-43.54%	35.62%	22.18%	-14.01%	-

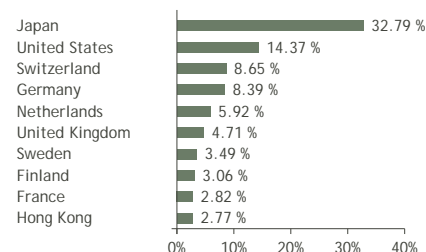
## Asset Allocation

Holdings	Equities	Bonds	Other	Cash
105	99.2%	0.0%	0.0%	0.8%

## Sector Breakdown



## Top 10 Countries



## Portfolio (Top 10) - 30-Dec-2011

Name	Sector	Type	Country	Weight
Hochtief A.G.	Industrials	Equities	Germany	3.03%
Koninklijke Dsm Nv	Materials	Equities	Netherlands	2.71%
Ericsson Tel. B	Information Technology	Equities	Sweden	2.54%
Roy.Philips Electr./Eur 0.2	Industrials	Equities	Netherlands	2.51%
Hutchison Whamp/Hk0.25	Industrials	Equities	Hong Kong	2.45%
Frankfurt Airport Serv.Worldw.	Industrials	Equities	Germany	2.39%
Millennium & Copthorne Hotels	Consumer Discretionary	Equities	United Kingd...	2.34%
Toyota Industries Corp	Consumer Discretionary	Equities	Japan	2.33%
D S Smith Plc	Materials	Equities	United Kingd...	2.21%
Ms&Ad Insurance Group Holdings	Financials	Equities	Japan	2.16%

## Benchmark Comment