



European Small Cap Value

Headlines

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Fund Facts

Strategy	Value Equity
Risk	High (6)
ISIN	LU0256591552
Share Class Currency	EUR
Fund Inception	22-Jun-2006
Fund Managers	Karsten Løngaard & Lisbeth Søgaard Nielsen
Benchmark	MSCI Europe Small Cap (EUR)
Morningstar Category ^{TM 2}	Europe Small-Cap Equity



Performance

During the last quarter of 2011, Sparinvest European Small Cap Value gained 0.02% taking the full-year return to a loss of 15.81%. The European Small Cap equity market – as measured by the MSCI European Small Cap index – gained 3.78% in the quarter, while losing 17.45% over the year. The general European market – as measured by the MSCI Europe index – gained 8.93% in the quarter, while losing 8.08% over the year.

Sparinvest European Small Cap Value & Index Returns, in %	Q4 2011	YTD
Sparinvest European Small Cap Value	0.02	-15.81
MSCI Europe Small Cap Index	3.78	-17.45
MSCI Europe Index	8.93	-8.08
MSCI Europe Value Index	8.00	-9.45
MSCI Europe Growth Index	9.82	-6.72

MSCI European Small Cap Index, MSCI Europe Index, MSCI Europe Value Index and MSCI Europe Growth are all indices that contain a broad selection of companies in Europe. All returns on investment are in EUR.

This means that in 2011, Sparinvest European Small Cap Value outperformed the European Small Cap stock market by 1.64%. Obviously, European small caps were particularly hurt in 2011 by a general lack of risk appetite and, despite healthy fundamentals in many of the smaller companies, stock prices plummeted amid uncertainty about the future of the fiscal and monetary union. The fourth quarter performance of small and micro caps in particular was profoundly more negative than the rest of the market.

A low weight in Southern Europe helped mitigate the fund's drop, as did a low weight in the financial sector, which plunged due to worries about the real value of banks' holdings in sovereign debt.

The stock market reaction to the political turmoil has, as expected, been negative but looks excessive when compared to fundamental conditions at the holdings, whether we are talking about earnings in the near term, or – as remains our primary focus – the company's longer term prospects. As we have written during previous crises, it is vital not to capitulate and sell off holdings at irrationally low prices. Instead, one must remain focused on their true long-term worth.

There are still challenges ahead for Europe as well as other parts of the world. The outcome of the European debt crisis is of course 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 macro developments of the year ahead, 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 conclude that a lot of bad news is factored in already. This is clearly reflected in the low valuations of our portfolio shown below.

Portfolio Composition

At the end of the quarter, the cash position was 3.2% of assets under management. The fund had 43 holdings and our ten largest positions accounted for 41.51% of the total.

No new investments were made in the quarter but in general rebalancing of the portfolio, we made additional investments in some existing holdings and reduced others. We exited our position in Derby Cycle (details below).

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 the document, or to our website.

Portfolio Valuation

European stock markets in general are trading at compellingly low valuations and valuation for our holdings is even lower. As a rough indication, we amalgamate the fund holdings into one theoretical company.

This company has a price-to-book of 1.07 times, compared to 1.09 times for the MSCI European Small Cap index. This is around the same low level as seen in March 2009. And yet the balance sheet remains solid, with low financial leverage (median net-debt-to-equity of 32.3 % versus 26.3% for the MSCI Europe). In fact the ratio would be even lower for the fund if we disregard

two rental companies which quite naturally finance the assets they rent out, i.e. rail wagons and accommodation rigs with debt.

Earnings-based multiples suggest that a very negative scenario is now priced in. The price-to-earnings ratio, based on consensus estimates, is 10.73 times for the current fiscal year, and 9.36 times for the following fiscal year (compared with 11.29 and 9.95 times, respectively, for the MSCI European Small Cap). EV/EBITDA, which is a useful indicator of the price of companies relative to their raw earnings power, is just 4.93 times current year estimates, and 4.60 times next year estimates – compared with 5.93 and 5.16 times, respectively, for the MSCI European Small Cap. 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.

The companies in the fund all have robust proven business models and solid financial foundations and despite the difficult macroeconomic settings, the intrinsic value of the portfolio remains very much intact. We are confident that this portfolio will generate healthy investment returns over the years to come.

Individual Positions

Derby Cycle

Takeover

Many small cap companies are still topical in relation to M&A activity and the fund sold the shares in Derby Cycle in Q4 to Pon Holding which now owns more than 90% of the shares.

We bought shares in Derby Cycle in February 2011, paying EUR 12.5. The company traded at a handsome discount to intrinsic value, had strong order backlog, earnings power, and market position. Taken together with a solid balance sheet and good execution of strategies, we believed the company would perform strongly and make its value visible to the market.

The German company Derby Cycle is one of the biggest producers of bicycles and e-bikes (electrically-powered bikes) in Europe, only topped by the Dutch market leader, Accell. Derby Cycle's product offer includes a complete range of bicycles such as racing bikes of the well-respected brand Focus, city bikes, mountain bikes and not least e-bikes. Derby benefits from the fact that people in all age groups want a more active lifestyle. For e-bikes the growth is, to a great extent, driven by elderly people that find this flexible means of transport, which offers the possibility to get around without too much

effort, appealing. E-bikes account for 20% of Derby's sale and are a tremendous success. Several examples of dealers not being able to keep up with demand have been seen in 2011, showing its popularity. The company has plenty of opportunities in cross selling within its existing distribution network but also in expanding this.

Dutch Pon Holding, which is an international company engaging in a wide range of businesses, made a bid for Derby Cycle of EUR 28 per share. This was above our estimate of the company's intrinsic value and therefore we sold the shares. The return on the investment was a satisfying 124% and hence the best-performing investment for the fund in 2011. The potential was realized swiftly in this case and confirms once again that overlooked undervalued companies indeed exist.

Karsten Løngaard

Lisbeth Søgaard Nielsen

Senior Portfolio Manager

Portfolio Manager

11 January 2012

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 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.

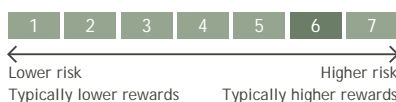
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest 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 Fund seeks to provide long term attractive returns, making investments primarily in stocks of small and medium sized European companies with market capitalisation of between EUR 100 million and EUR 1.5 billion. By using a value approach in the investment process the Fund seeks stocks that are believed to be priced at a significant discount to the Fund's calculated fair value. The portfolio aims to consist of 30-50 financially solid companies.

Risk and Reward Profile



Basic Information

ISIN	LU0256591552
Bloomberg	RHAMEUR LX
Share Class	EUR R
Fund Inception	22-Jun-2006
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	22-Jun-2006
Fund size (MN) - 31-Dec-2011	2.67 EUR
Manager	Sparinvest Fondsmæglerelskab
Fund Manager	Karsten Løngaard, Lisbeth Nielsen
Managed Since	22-Jun-2006
Benchmark ¹	MSCI Europe Small Cap (EUR)
Morningstar Category ²	Europe Small-Cap Equity
Latest NAV - 30-Dec-2011	89.95 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.85 %
Total expense ratio - 30-Sep-2011	4.06 %

Notes

The mentioned sub-fund is a part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company.

Returns - Month End, Dec-2011

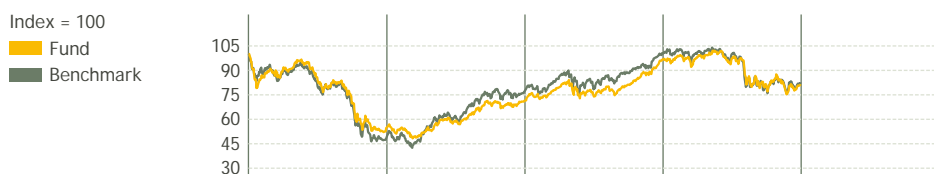
Returns	Fund	Benchmark ¹	Difference
YTD	-15.81%	-17.45%	1.64%
1 Month	1.72%	0.20%	1.52%
3 Months	0.02%	3.78%	-3.76%
1 Year	-15.81%	-17.45%	1.64%
3 y ann.	14.27%	19.59%	-5.32%
5 y ann.	-3.67%	-5.30%	1.63%
10 y ann.	-	-	-

Risk 3 years - Month End, Dec-2011

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	18.15%	20.60%	18.83%
Sharpe R.	0.77	-	0.87
Info Ratio	-0.42	-	-

Morningstar RatingTM ★★★★★

Performance - 31-Dec-2011

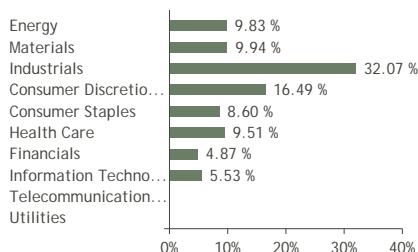


Returns	2008	2009	2010	2011	-
Fund	-44.98%	30.91%	35.40%	-15.81%	-
Benchmark	-51.87%	59.50%	29.91%	-17.45%	-
Morningstar Category TM	-50.48%	48.19%	29.58%	-16.48%	-

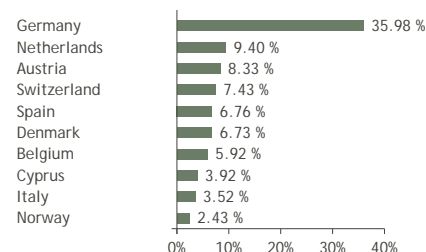
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
43	96.8%	0.0%	0.0%	3.2%

Sector Breakdown



Top 10 Countries



Portfolio (Top 10) - 30-Dec-2011

Name	Sector	Type	Country	Weight
Wolford Ag	Consumer Discretionary	Equities	Austria	5.37%
Broedrene Hartmann -B- *opa*	Materials	Equities	Denmark	4.70%
Washtec Ag	Industrials	Equities	Germany	4.69%
Aareal Bank Ag	Financials	Equities	Germany	4.41%
Pescanova Sa Pontevedra	Consumer Staples	Equities	Spain	4.02%
Arseus Sa	Health Care	Equities	Belgium	3.94%
Prosafte Se	Energy	Equities	Cyprus	3.92%
Vossloh Ag	Industrials	Equities	Germany	3.83%
Tkh Group Cert	Information Technology	Equities	Netherlands	3.82%
Zehnder Group Ag	Industrials	Equities	Switzerland	2.81%

Benchmark Comment

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