



Global Small Cap Value

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Fund Facts

Strategy	Value Equity
Risk	Medium (5)
ISIN	LU0264925131
Share Class Currency	EUR
Fund Inception	02-Nov-2006
Fund Managers	Kasper Jacobsen & Trine Uggerhøj
Benchmark	MSCI World Small Cap (net dividends)
Morningstar Category ^{TM 2}	Global Small/Mid Cap Equity



Performance

During the last quarter of 2011, Sparinvest Global Small Cap Value gained 2.94%, taking the full-year return to a loss of 11.57%. The general small-cap equity market, as measured by the MSCI World Small Cap index, gained 11.85% in the quarter, while losing 6.02% over the year. The broader equity market (as measured by the MSCI World index) gained 11.20% during the quarter and ended the year with a loss of 2.38%. While MSCI World Small Cap Value was down by 6.76% and MSCI World Small Cap Growth dropped 5.34% YTD.

Sparinvest Global Small Cap Value & Index Returns, in %	Q4 2011	YTD
Sparinvest Global Small Cap Value	2.94	-11.57
MSCI World Small Cap Index	11.85	-6.02
MSCI World Index	11.20	-2.38
MSCI World Small Cap Value Index	12.28	-6.76
MSCI World Small Cap Growth Index	11.42	-5.34

MSCI World Small Cap Index, MSCI World Index, MSCI World Small Cap Value Index and MSCI World Small Cap Growth 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 2011 as a whole, Sparinvest Global Small Cap underperformed its benchmark, the MSCI World Small Cap index by 5.55% caused largely by the relative loss of 8.91% in Q4 2011. We are not satisfied with either the absolute or relative performance of our fund during the past 12 months, but continue to have strong confidence in the potential of the portfolio.

In geographical terms, the fund has a relatively high weight in European and Japanese companies, and low exposure to North America. With North American stocks among the best performers of the small cap universe in 2011 – especially in Q4 – our relatively low weight there certainly cost us relative performance. However, the most

significant factor for returns in 2011 was the emergence of deep uncertainty over the sovereign debt of certain European countries, and indeed concerns over the future of the fiscal union itself. This led to an overall aversion to European investments, with European stock markets suffering sharp losses, and the Euro itself weakening.

From a sector perspective these European fears, combined with concerns over slowing recovery in the US, have meant that cyclical stocks globally have suffered. For example, cyclical stocks in Japan were generally recovering relatively swiftly from the impact of the earthquake early in the year, but in the second half, they suffered considerably steeper losses on the back of events in Europe.

Meanwhile, traditional safe havens such as Health Care and Consumer Staples were relatively strong, and although the fund has limited Health Care exposure, it was able to benefit somewhat from its Consumer Staples holdings. It also benefitted from a relatively low weight in Financials, which clearly had a tough year.

It is important to note that in 2011 in Europe, as investors were spooked by the macro uncertainty, they turned away from smaller companies and looked for safety in larger names. During the final quarter European Small caps returned 3.97 %, but gave a full-year return of -17.46 %. Another important thing is to remember that our general exposure to more economically-sensitive stocks has not been as a result of any top-down decision. As always, it is the result of our search for the cheapest companies that can give our investors the best returns over time.

In short, it has been a toxic environment for a fund with a high weight in small-cap European cyclical stocks. Naturally, it is not satisfactory to see a negative full-year performance. We have written many times of our approach to cyclical sectors, and we will not repeat in depth here. Suffice it to say that while the market prices of many cyclical holdings have suffered significantly in 2011, these moves look 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. Moreover, these markets have been providing excellent new investment opportunities with ten new companies bought for the small-cap fund during the year.

There are of course still challenges ahead for Europe as well as other parts of the world. 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 many listed 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. This is clearly reflected in the valuation of our portfolio shown below.

Portfolio Composition

At the end of the quarter, the cash position was 1.5% of assets under management. The fund had 87 holdings and our ten largest positions accounted for 27.94% of the total.

During the quarter, we made one new investment in the Japanese company, Lintec (manufacturer of adhesive products and paper) and we exited our investment in Arctic Cat, an American manufacturer of snowmobiles and ATV vehicles. 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 in general 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 0.73 times, compared to 1.4 times for the MSCI World Small Cap index. The balance sheet remains solid, with no financial leverage actually cash positive (median net-debt-to-equity of -7% versus 7% for the MSCI World Small Cap). If we strip out intangible assets, and look at price-to-tangible-book, the fund trades at 0.99 times, compared to 1.91 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 11.87 times for the current fiscal year, and 10.12 times for the following fiscal year (compared with 13.46 and 11.79 times, respectively, for the MSCI World Small Cap). EV/EBITDA, which is a useful indicator of the price for companies relative to their raw earnings power, is just 3.20 times current year estimates, and 2.26 times next year estimates – compared with 6.45 and 5.29 times, respectively, for the MSCI World 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.

Sparinvest Global Small Cap offers a wide range of companies, with solid asset backing and robust cross-cycle earnings power. Despite the current volatile stock markets, 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.

Individual Positions

Arctic Cat

Reached target

Arctic Cat engineers, manufactures, and markets snowmobiles and all-terrain vehicles (ATV), and also sells related parts, garments, and accessories. The Arctic Cat brand name has existed for more than 40 years and is among the most widely recognized and respected names in the snowmobile industry. The snowmobile was originally developed in the 1950s as a utility vehicle, but the focus gradually shifted to more recreational use.

We looked at Arctic Cat in early summer 2007. Sales the previous winter had been impacted by poor weather: a lack of snow. The company remained optimistic; it was known for its best-in-class products, and planned to continue that tradition, and gain market share, with the launch of an innovative new snowmobile model for the 2007 winter season. At the same time, they announced a strategic partnership with Italian Piaggio Group. As part of their international expansion, this deal aimed to expand Arctic Cat’s direct-dealer distribution of ATVs in Europe. So, the company was positive on the outlook, and certainly not disheartened by a year of poor weather conditions – an issue they have always had to deal with.

The stock was trading at 1.7 times book value, had a stable earnings history. Its strong balance sheet was cash positive, and management were contemplating investments.

We bought our first shares in early June. Shortly after, the stock tumbled further as sales in 2007 were again hit again by unfavourable weather. In 2008, the company took action, and started to make organizational changes

to become more focused, and relocating headquarters and marketing to bring them closer to certain business partners. Unfortunately the financial crisis also set in that year, and various operating numbers turned negative.

During the crisis, Arctic Cat’s dealers had difficulty obtaining credit lines, which pushed down sales and meant 2009 results were severely hit, taking the company into the red. However, with time the reorganization paid off, market conditions – and the weather – improved, meaning that earnings rebounded significantly.

We remained confident in the investment case during these tough years, acquiring additional shares throughout the whole period. This gave the fund an average buy price of USD 12.9 and in November 2011 the stock reached our target of USD 20. We exited the investment, generating a reasonable profit of 43.1%.

For Arctic Cat, things had looked very bad during the crisis, but the strong balance sheet and restructuring measures allowed the company to get through – of course helped on the way by the last two snowy winters. But this is a good example of the importance of robust financial health when times get tough.

Kasper Billy Jacobsen
Chief Portfolio Manager
11 January 2012

Trine Uggerhøj
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 Global Small Cap Value available share classes	ISIN
EUR I	LU0264925487
EUR R	LU0264925131
EUR UKI	LU0264925644
EUR UKR	LU0264928317



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.

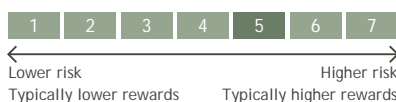
The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. For further information we refer to the full and/or simplified prospectus and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest 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, Singapore or Hong Kong. The Sub-Fund invests at least 2/3 of its total assets in equities with a market capitalization below the upper limit of the MSCI Small Cap definition.

Risk and Reward Profile



Basic Information

ISIN	LU0264925131
Bloomberg	SPGSCVR LX
Share Class	EUR R
Fund Inception	02-Nov-2006
Share Class Currency	EUR
Income Type	Accumulating
Company name	Sparinvest S.A.
Domicile	Luxembourg
Share Class Inception	02-Nov-2006
Fund size (MN) - 31-Dec-2011	34.74 EUR
Manager	Sparinvest Fondsmaeglerselskab A/S
Fund Manager	Kasper Billy Jacobsen, Trine Uggerhøj
Managed Since	02-Nov-2006
Benchmark ¹	MSCI World Small Cap (net dividends)
Morningstar Category ²	Global Small-Cap Equity
Latest NAV - 30-Dec-2011	81.17 EUR
Subscription fee (up to)	3.00 %
Redemption fee (up to)	0.00 %
Management Fee	1.85 %
Total expense ratio - 31-Dec-2010	2.38 %

Notes

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

Returns - Month End, Dec-2011

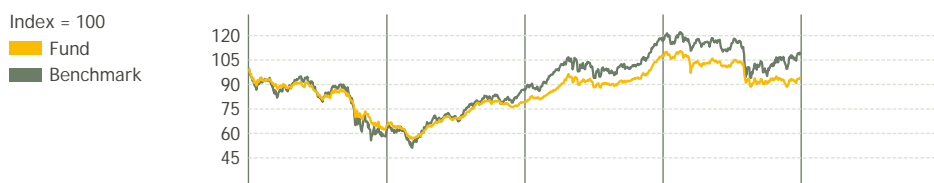
Returns	Fund	Benchmark ¹	Difference
YTD	-11.57%	-6.02%	-5.55%
1 Month	2.41%	2.83%	-0.42%
3 Months	2.94%	11.85%	-8.91%
1 Year	-11.57%	-6.02%	-5.55%
3 y ann.	13.46%	20.97%	-7.50%
5 y ann.	-4.23%	-0.33%	-3.90%
10 y ann.	-	-	-

Risk 3 years - Month End, Dec-2011

Risk	Fund	Benchmark ¹	Morningstar ²
Volatility	14.97%	18.04%	-
Sharpe R.	0.86	-	-
Info Ratio	-0.83	-	-

Morningstar Rating™ **★★★★★**

Performance - 31-Dec-2011

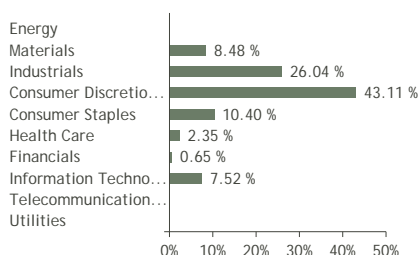


Returns	2008	2009	2010	2011	-
Fund	-35.12%	22.28%	35.09%	-11.57%	-
Benchmark	-38.87%	39.63%	34.89%	-6.02%	-
Morningstar Category™	-42.89%	40.49%	29.17%	-	-

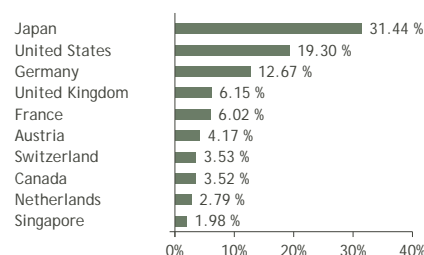
Asset Allocation

Holdings	Equities	Bonds	Other	Cash
87	98.5%	0.0%	0.0%	1.5%

Sector Breakdown



Top 10 Countries



Portfolio (Top 10) - 30-Dec-2011

Name	Sector	Type	Country	Weight
Grammer Ag	Consumer Discretionary	Equities	Germany	3.09%
Apogee Enterprises Inc.	Industrials	Equities	United States	3.09%
International Speedway Corp	Consumer Discretionary	Equities	United States	3.06%
Bovis Homes Group Plc	Consumer Discretionary	Equities	United Kingd...	2.98%
Jungheinrich Ag /Vorz.O.St	Industrials	Equities	Germany	2.91%
Tuesday Morning Corp	Consumer Discretionary	Equities	United States	2.89%
Werner Enterprises Inc	Industrials	Equities	United States	2.53%
Pal Co Ltd	Consumer Discretionary	Equities	Japan	2.50%
Radioshack Corp.	Consumer Discretionary	Equities	United States	2.50%
Freds Inc A	Consumer Discretionary	Equities	United States	2.39%

Benchmark Comment

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