

European Value

EQUITY

Shift to more defensive stocks

Positive economic surprises

Markets The already strong macroeconomic figures were continuing at high levels in the month of February. In many cases they even strengthened further – especially for business and consumer confidence surveys. Several of these surveys have now reached the highest levels in many years and the leading indicators across regions all point to higher growth in the coming months.

MSCI World (EUR) gave a return of 4.5% in February. Part of the increase was due to a weakening of the euro, which is again being outpaced by the US dollar, but in general, the equity market did well due to an improvement in the income growth outlook.

Across the G10-countries, economic releases continue to surprise positively and the surprises have actually not been seen stronger since 2010. Despite the improving macroeconomic figures, long interest rates actually dropped throughout the month.

This was especially the case in the Eurozone where financial uncertainty in Southern Europe reappeared. Greece is again negotiating with the Troika, which is so far not turning out as hoped. Government bond spread vs. Germany are therefore widening again.

Still ahead of benchmark

The Portfolio In February, the fund gained 2.87%, while the benchmark, MSCI Europe index, gained 2.92%. Despite losing some ground, the strong January performance was enough to maintain the lead over the benchmark. YTD, the fund has increased 3.20% - 0.67% ahead of the benchmark's 2.53%.

Earnings season has overall been positive which seems to have supported general equity gains, but sentiment changed during the month. In the beginning of February, the cyclical, reflationary rotation from Q4 slowly continued, but in the second half of the month, investors shifted into more defensive sectors and styles. This shift seems to be spurred by a mix of political and policy risks. Uncertainties about Trump's fiscal stimulus policies combined with news flows about French and Dutch elections, sent investors back into perceived safe yield sensitive assets. Consequently, sector allocation was a sizeable detractor where the fund suffered from its underweight in health care and consumer staples.

Style impact (value and small cap) was neutral, and broad based stock selection was positive – almost making up for the sector allocation losses. We note that we have been witnessing a breakdown in stock-to-stock correlation lately. This means that individual equities are expected to have a larger impact on relative monthly performance than they have had during the recent market rotation. More importantly, it creates an interesting environment for active investors like ourselves.

See performance and fund data

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Strategy

European Value invests in European equities, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and countries.

For further information we refer to the prospectus, the key investor information document 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 indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees.