

European Value

EQUITY

Continued outperformance

Euro dropped in spite of good news

Markets During the month of October, macroeconomic releases were generally better than expected for the Eurozone. Especially Germany surprised positively with better than expected PMI-numbers, ZEW-survey, industrial production, IFO-survey and retail sales. The rest of the Eurozone figures were not quite as impressive, but overall figures for the Eurozone were strong enough to push the Bloomberg composite of European government bonds about 0.25 percentage points higher in October.

In the US, key figures were somewhat weaker and generally disappointing. That was especially the case for the change in Nonfarm Payrolls, which came out at only 156,000 vs. 172,000 expected. The US unemployment rate increased to 5.0%, which is the highest since April, but this was primarily caused by an increase in the number of job seekers. Initial Jobless Claims remained at the lowest level since the 60s.

Despite the overall key data, EUR dropped about 2.5% compared to the dollar. The reason is probably more speculation that the FOMC is going to hike interest rates in the near future (even this year). The British pound dropped to a new low-point and the Ruble continued moving higher, supported by higher energy prices. The WTI price of oil is now at 48 USD per barrel, which is about 80% higher than at the beginning of the year.

Long inflation expectations in the Eurozone crept higher to about 1.47%. In the US, long inflation expectations have increased to about 2.17%.

Market rotation adds to returns

The Portfolio The fund gained 0.77% outperforming MSCI Europe index's loss of 0.82%. As of end-October, the fund has gained 1.13% YTD, while the index lost 4.13%.

In our quarterly Letter to Shareholders we recently wrote how rising bond yields have started both a sector and a style rotation within equities. The sector rotation continued during October, with European financials being the best performing European sector followed by Energy and Material. The fund benefitted from its sector allocation given its relatively cyclical exposures.

In terms of style exposures, MSCI Europe Value index outperformed strongly (obviously helped by its 13% overweight in financials), which indicates that value stocks in general did well. This was something of a tailwind for the fund, but individual stock selection was also a driver of outperformance.

Selection was broad based, with solid results within industrials and energy. Within industrials larger names like Philips, Maersk and Fraport contributed to the strong selection, while our smaller names within energy equipment and services outperformed the larger integrated oil companies.

Another strong performer was our Finnish forest industry conglomerate UPM, who presented very strong results in the quarter and was up 13%. In spite of a challenging environment with structural declines in certain business areas, the company showed how cost cutting and good results in other segments can still result in strong free cash flow generation.

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.