

European Value

EQUITY

Encouraging economic setting

Strong growth and low inflation

Markets The month of October was characterized by a continuation of the strong trend in equity markets and the macro economy. Third quarter growth in the Eurozone was reported at 2.5 percent, while core inflation remains quite low at only 0.9 percent, which was below expectations.

The combination of strong economic growth and low inflation corroborates the current, supportive monetary policy from ECB, even though Draghi at the October meeting indicated that the QE-program would be reduced considerably in 2018. The fact that QE most likely is slowing down in 2018 is not currently seen as a threat in the stock market, since inflation remains so low. In other words, monetary policy – despite the coming tightening – will remain accommodative for risky assets.

The stocks market (MSCI World, EUR) returned 3.4 percent in October, but almost half of the movement was caused by a weakening EURUSD. Optimism can also be seen in the energy markets where the price of oil advanced by 5.0 percent in October.

The leading indicators are still showing that we can expect decent growth over the coming months. However, the U.S. economy will most likely decelerate somewhat after year-end.

Slightly outperformance

The Portfolio European equities (MSCI Europe) returned 1.96 percent. The fund gained 2.29 percent outperforming slightly.

The economic backdrop remained encouraging and corporate earnings continued to be strong. Meanwhile, political risk was on the rise after Catalonia's referendum, which caused some uncertainty and curbed investor enthusiasm for European equities for a few days.

In terms of sectors, Materials performed well as commodity indices rose, just like energy stocks followed the oil price up. Healthcare was the worst performing sector following a mixed bag of earnings reports. All in all the sector allocation of the fund (overweight Materials, underweight Healthcare) generated a mild tailwind in October. However, the style bias was a meaningful detractor as value and small cap stocks slightly underperformed, especially in the last weeks where bond yields turned downwards.

October's outperformance was due to stock selection, partly thanks to M&A activity. A take-over bid in hotel group Millennium & Copthorne made it the best performer. The Singaporean majority owner offered to buy the remaining shares and the stock was up 35 percent. Another significant gainer was soft drinks bottler Refresco, where a consortium led by French private equity firm PAI Partners emerged with a new and higher bid for the company. In the other end of the table, shares of the Swedish kitchen specialist, Nobia worked against us after a disappointing Q3 report sent the shares down by more than 16 percent during the month.

See performance and fund data [Click here >](#)

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. Returns is calculated gross of fees and excluding swing.

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.