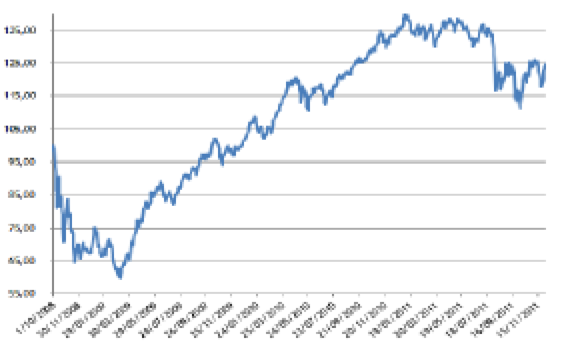
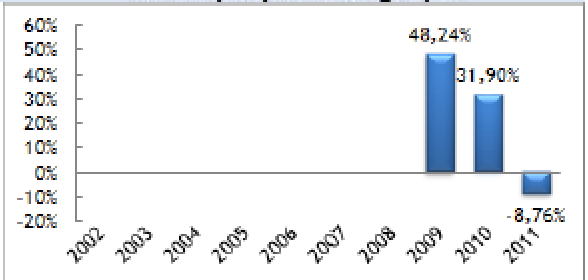
Value Square Fund Equity World

Report by the Managers - 30/12/2011

NAV evolution



Returns per year ending 31/12

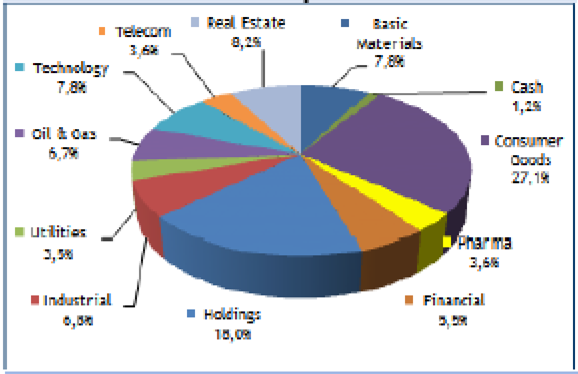


Annualised return per 30/12/2011

	1 year	3 years	5 years	10 years	Since start
C-class	-8,76 %	21,28%			6,91 %
I-class	-8,70 %	21,37%			6,98 %

Past results are not indicative of future returns. The above mentioned returns do not take into account possible entry and exit fees and taxes.

Sector Exposure



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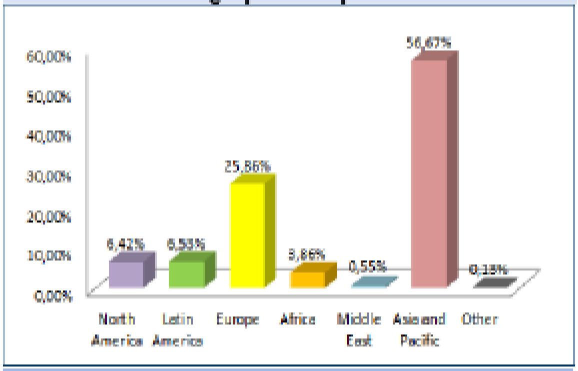
NAV

Class	Start	31/12/2008	31/12/2009	31/12/2010	30/12/2011
C	100	69,63	103,22	136,15	124,22
I		/	103,25	136,34	124,48

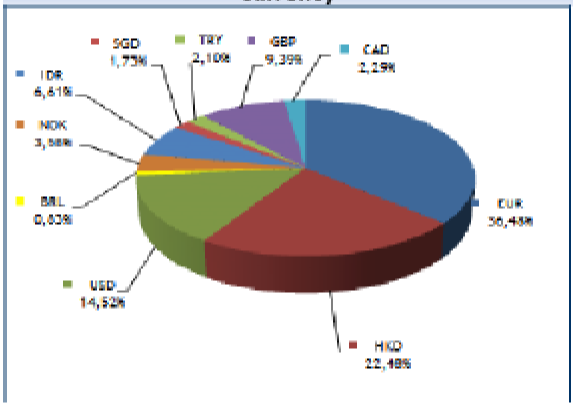
5 Important Positions

Jardine Strategic	6,10 %
Caisses Rég. Crédit Agricole	5,51 %
First Pacific	4,90 %
Anglo-Eastern Plantations	3,89 %
Asian Citrus	3,82 %

Geographical Exposure



Currency



Basic Facts and Figures

Compartment of	Value Square Fund– UCITS under Belgian law
Risk(scale BEAMA):	0 - 1 - 2 - 3 - 4 - **5** - 6
Start date:	1/10/2008
Currency:	EUR
ISIN-code C-shares:	BE0948331591
ISIN-code I-shares	BE0948332607 (only for institutional investors)
Size of the fund:	91,56 million EUR
Investment horizon:	minimum 5 years is recommended
Entry fee:	maximum 3% (negotiable)
Exit fee:	0,5 % for benefit of fund
Taxation:	Exit not subject to Ecofin/Belgian tax ICB
Stock exchange duty:	0% entry, 0,5% exit (max. 750 €)
Management fee:	1 % on annual basis
Performance fee:	10 % on the excess return above 6% /year
Subscription/Redemption:	Daily before 11 A.M.
Stettlement date:	Trade date + 3 working days (in Belgium)
Distributors:	Value Square, Binck Bank, ...
Financial agent:	RBC Dexia Investor Services, Brussels
Share px publication:	De Tijd, De Standaard
Authorised in:	Belgium, the Netherlands

Prospectus and (simplified) prospectus, as well as the most recent (semi-)annual reports can be obtained without costs at Value Square, Derbystraat 319, 9051 Gent, **Tel.: +32 9 241 57 57, info@value-square.be**

Investment Strategy

The assets of this fund are predominantly invested in shares of listed companies with no geographical limitation and in any securities giving access to the capital of these companies. The shares are selected on the basis of fundamental analysis and a bottom-up approach with the emphasis on the principles of value investing. The aim of the fund is to achieve as high a return as possible in absolute terms rather than the improvement of stock market indices and simultaneously limit risks. In circumstances where the manager estimates the downward risks higher than the potential return, the portion invested in shares can be reduced in favour of investments in liquidities and money market instruments.The fund will at all times invest at least 50% in shares. **Volatility can be high, due to the composition of the portfolio.**

Semi-annual report of the managers: Patrick Millecam en Nic Van Broekhoven

Dear Shareholders of Value Square Fund Equity World,

The C-class shares of **Value Square Fund Equity World** declined by 8,76% since 31/12/2010. Since its inception on the 1st of October 2008 until 31st of December 2011 the fund increased by 24,22%. The long term goal of Value Square Fund is to generate a positive absolute return. We do provide comparative returns of the fund versus several key stock market indices since 1st October 2008, 31st December 2008 and 31st December 2010 (**APPENDIX 1**). As you can see the fund has markedly outperformed all these large indices. The most comparable index is probably the MSCI World Index in Euro. This index is a mix of stock market returns worldwide. The MSCI World (in €) declined by 5,53% since the end of 2010. How 2011 shaped up in historical perspective can be seen in **(APPENDIX 2).** This graph shows the results of the S&P500 since 1825.*(results prior to 1925 are taken from Yale professor Shiller database and S&P Composite 90, the S&P 500 was only officially launched in 1957*). One observation while looking at this Christmas tree-like graph is that the American stock markets performed remarkably well in 2011 compared to most European indices which were down between 15-20%. The BRIC countries also showed large declines with Brazil (Bovespa) down by 18,11%, Russia (RTS Index) down by 21,94%, India (Sensex 30 Index) down by 24,64% and China (Shanghai composite Index) declining 21,68%.

(for more information please check www.morningstar.be)

As previously communicated Morningstar gives out star-ratings to funds that have a minimum 3-year track record. In October 2011 the fund passed its third anniversary. Value Square Fund was awarded a 5-star rating by Morningstar, which is the highest rating possible. A 5-star rating indicates that, in its category, the fund was amongst the 10% best performing funds. Morningstar is an independent rating agency and Value Square did not pay any fee or commission to get a rating by Morningstar. Morningstar has classified our fund in the category Worldwide FlexCap, indicating our fund invests globally in small, mid-cap and large-cap equities. Over the past 3 years our fund was the nr. 1 fund in this category compared to +/- 40 similar funds distributed in Belgium or The Netherlands.

Since early 2011 the assets under management of Value Square Fund have increased by 24%, from 73,89 million EUR to 91,56 million EUR. This growth in assets under management is partly due to rising share prices but primarily due to new inflows. It is our aim to keep on looking for new partners and investors in 2012. We try to achieve this by communicating as much as we can with existing and potential investors giving presentations in primarily Belgium and The Netherlands.

As an investor you are most likely interested in the management of the fund. It is useful to review how we select companies in the fund. *(Regular readers will probably notice this part of our report doesn't really change as our method of picking stocks doesn't change either*). As managers of this fund we try to make few predictions on what will happen in the future but we try to gather as much information as we can on specific companies. We assemble this information by reading annual reports, meetings with management worldwide, attending analyst briefings and annual meetings. All this information we process into our internally developed valuation model. For every company we follow we have a detailed model with historical figures. When we believe that company X is worth 20 EUR today and it is trading at 10 EUR on the stock market we think this is an interesting discount. If the *Margin of Safety* is small we don't invest. Additionally we screen every company in our internally developed QualityIndex (QI). Here we screen each company on 6 different parameters:

1. Valuation: how cheap are the shares trading?
2. Profitability: how profitable has the company been in the past?
3. Solvency: how good is the balance sheet?
4. Liquidity: can the company pay-off its debts in the short term?
5. Track Record: does the company have a long history and a good track record creating value for shareholders?
6. Insiders: does the company have a reference shareholder/family controlled?

Top & Flop 3

In this part we discuss our three worst performing and our 3 best performing stocks over the last twelve months. (we only write about those stocks we still have in our fund). We are only talking about capital appreciation, which is not necessarily the same as underlying value creation. This is by all means a snapshot at one point in time but does give an indication where we have lost/gained the most money. *(the returns are since 31/12/10, inclusive of FX changes and excluding dividends)*

TOP

Lumina Copper: Lumina Copper was able to increase its copper reserves at its Argentinian Taca Taca project via multiple drill results. The stock price appreciated by 171,6% over the last twelve months. Ross Beaty, the most important shareholder of Lumina Copper and mining guru, called this project one of the most interesting in his entire career. Ross Beaty recently bought more shares at 11 CAD. Taca Taca is 100% owned by Lumina Copper and is currently the largest copper project in the world owned by a junior exploration company. With what we know today Lumina Copper is currently worth 18 CAD per share. The next few months we are expecting more drill results to come out of Taca Taca. A sale of the company to a large mining group is always a possibility.

Kawasan Jababeka: The Indonesian industrial property developer Jababeka in 2011 advanced its plan to operate an electricity plant and a dry port. These activities should lead to a sharp rise in the revenue and profitability of the company in the next few years. The share price appreciated by 61,4% over the last year. In November 2011 the company projected an earnings per share of 23 IDR in 2012. On the current stock price this would mean a P/E ratio of 8,3.

DBA Telecom: the Chinese producer of telecom equipment kept on growing in its niche market in 2011. Its share price rose by 56% over the last 12 months. DBA Telecom produces phone booths and automatic vending machines for prepaid telephone cards. This is a very boring activity but with better prospects that one would believe initially. The main shareholder recently increased its stake to 53% of the company. In 2012 we expect more good results.

FLOP

Xingda: The Chinese competitor to Bekaert had a difficult 2011. The first few months everything went well but as of May 2011 the company was faced with a severe slowdown in the demand for sawing wire and steel cord. The share price corrected by 57,1% over the last year. Bekaert was hit even harder because the supply/demand situation for sawing wire went from an undersupplied market to an oversupplied market. Xingda is less dependent on sawing wire than Bekaert but it does depend on China for 90% of its business while Bekaert is active worldwide. The last economic figures show a continued slowdown in 2012, but Xingda already trades at 7 times expected profits.

Asian Citrus: Asian Citrus continues to grow as it plants more orange trees and integrates its BPG acquisition. The stock price came under pressure and dropped by 56,7% over the last twelve months after Sino Forest was accused of being a fraud by online research bureau Muddy Waters. The problems at Sino Forest caused a wave of selling at similar companies such as Asian Bamboo, Chaoda, China Green, China Minzhong and Asian Citrus. Chaoda reduced its stake in Asian Citrus to 5% and hopefully they will exit the shareholder register completely in 2012. According to our research there are no fundamental problems at Asian Citrus and the stock is undervalued at 8x expected profits and 0,6x shareholders equity.

Anhui Tianda Oil Pipe: The Chinese producer of OCTG pipes that are mainly used in the oil sector is having difficult times and saw its share price correct by 60,2% over the last twelve months. Sales are growing but due to strong competition in its home market margins are under pressure. Vallourec, listed in France, owns 20% of the shares which they bought for 3,95 HKD per share. Vallourec has an option to acquire an additional 51%. Today the shares are trading at 1,4 HKD or 0,5x book value.

Our 10 largest positions can be found in **APPENDIX 3**.

APPENDIX 1 (source: Value Square Asset Management)

Performance Value Square Fund Equity World

and some important indices, each in local currency

prices as of 12/30/2011

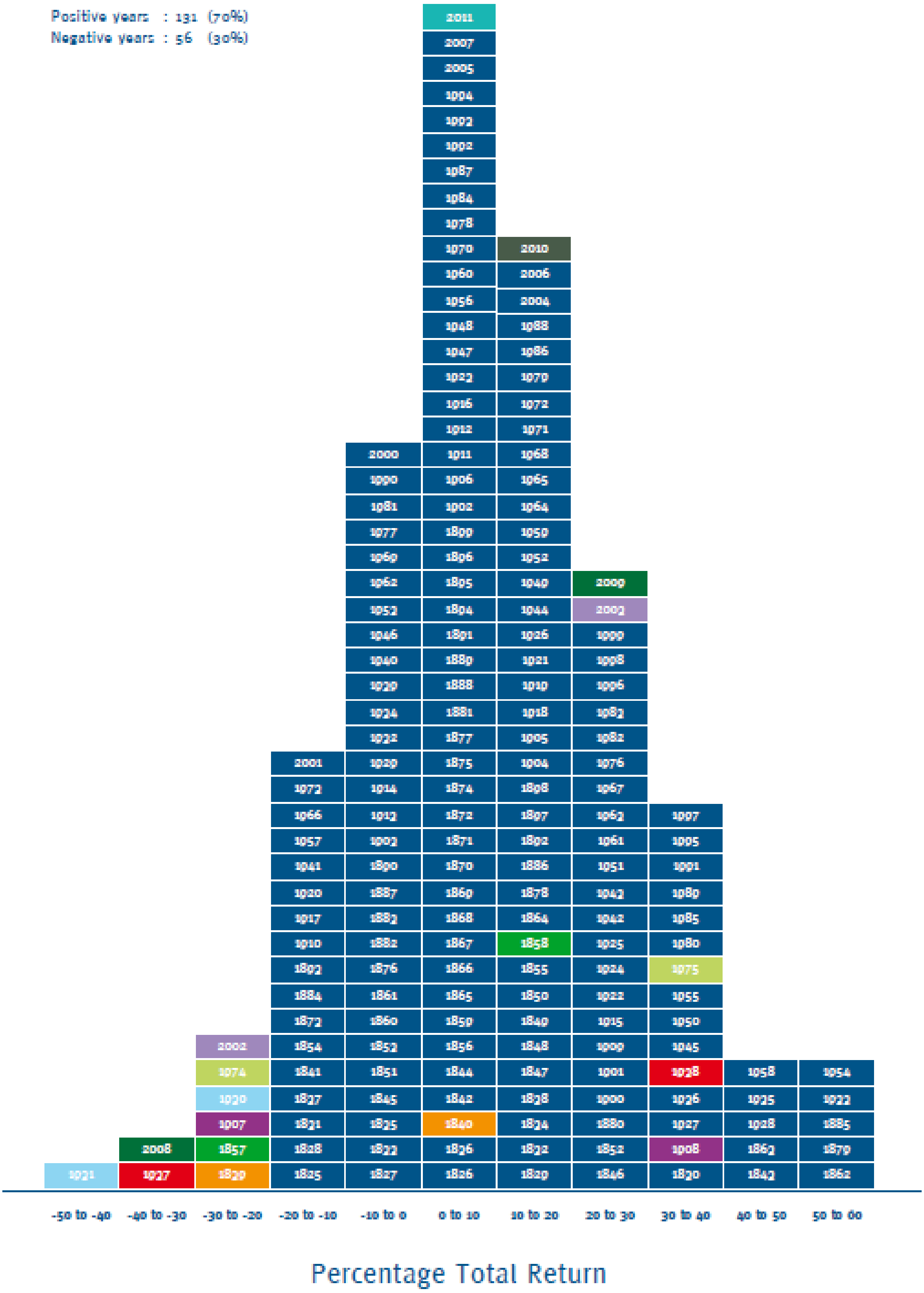
FUND/INDEX	Annual Return		
	Since inception	3 years	1 year
VALUE SQUARE FUND EQUITY WORLD	6,90%	21,28%	-8,76%
MSCI WORLD in EURO	2,40%	11,48%	-5,53%
BAS RETURN	-1,74%	7,33%	-9,76%
DOW JONES	3,78%	11,66%	5,53%
BEL20	-7,84%	2,96%	-19,20%
HANG SENG	0,71%	8,61%	-19,97%
S&P 500	2,49%	11,66%	0,00%
EUROSTOXX 50	-8,28%	-1,87%	-17,05%
NIKKEI 225	-8,71%	-1,54%	-17,34%
SHANGHAI COMPOSITE	-1,28%	6,50%	-21,68%

The fund is not required to invest in any index or benchmark

5

Gezien Value Square Fund Equity World een wereldwijd aandelenfonds is, houdt een investering in de bevek een aantal risico's in, verbonden met wereldwijde aandelenbeleggingen. Rendementen uit het verleden bieden geen enkele garantie op rendement in de toekomst. De beheerder van de bevek hanteert bronnen die hij betrouwbaar acht doch kan op geen enkele wijze verantwoordelijk worden gesteld voor mogelijke fouten in de inhoud van dit bericht. De informatie kan op elk ogenblik worden gewijzigd zonder verdere aankondiging of waarschuwing.

<u>APPENDIX 2: S&P returns since 1825</u>
<u>(source: Value Square Asset Management)</u>



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APPENDIX 3 (source: Vale Square Asset Management)

Top-10 positions of Value Square Fund Equity World on 30/12/2011

Value Square Fund Equity World	
TOP 10 HOLDINGS	12/30/2011
NAAM	% Weight
JARDINE STRATEGIC HLD LTD	6,10%
FIRST PACIFIC CO	4,90%
ANGLO EASTERN PLANT.	3,89%
ASIAN CITRUS HOLDINGS LTD	3,82%
PETROLEO BRASILEIRO -ADR -A	3,16%
KAWASAN IND.JABABEKA FOREIGN	3,11%
GBL	3,07%
M P EVANS GROUP PLC	3,05%
SANOFI-AVENTIS	2,94%
WINSWAY COKING COAL HOLD REG	2,88%

“Shareholders are our partners”

The 4th annual meeting of Value Square Fund Equity World is approaching and we kindly ask you to note down Saturday 10th of March in your diary. Last year we had about 230 participants and this year we are also expecting a large crowd. Apart from our own presentation we are also expecting presentations by the CEO of GIMV and CEO of Champagne-house Vranken-Pommery.

Value Square Fund believes it is important to communicate with our partners. We expect the companies we invest in to communicate with their investors and that managers own shares in their own companies. It is therefore self-evident that as shareholders of the fund you also expect us to communicate openly and to invest in the fund we manage. With our annual presentation, monthly factsheets and twice-yearly management reports we try to communicate effectively. Both managers are invested in the fund and increased their position since the beginning of 2011.

We have to warn you there will be periods in which the fund will underperform versus other indices. The past twelve months we outperformed most indices, but lagged the US-centric Dow Jones and S&P 500. In absolute terms we had a negative return and we are clearly not happy with this outcome. As you read our next part *“Securities in an Insecure World 1963 vs 2012”* there are many reasons to be optimistic on the long term outlook for equities and particularly those ones we are invested in.

As a final word we want to thank all shareholders for their trust and support. The fund started on the 1st of October 2008 under difficult circumstances. What started with 5 million euro has recently (27/01/2012) grown to 97 million euro. Obviously historical returns are no guarantee of success in the future but we will try our best to achieve satisfactory results for our partners/shareholders. Investing successfully is a marathon, not a sprint.

Sincerely,
The managers of Value Square Fund Equity World

Patrick Millecam & Nic Van Broekhoven

Securities in an Insecure world: 1963 vs 2012

Normally in our half yearly reports we discuss one company or industry in greater detail. In previous reports we looked at Jardine (July 2009), the local banks of Crédit Agricole (January 2010), the palm oil sector (July 2010), Nyrstar (January 2011) and Petrobras (July 2011). This time we will not discuss one company but we use a speech given in 1963 to delve into the question how we value companies in an insecure world. We could be writing about the debt crisis in Europe, the US or Japan but prefer to focus on what is our bread and butter: the valuation of individual companies.

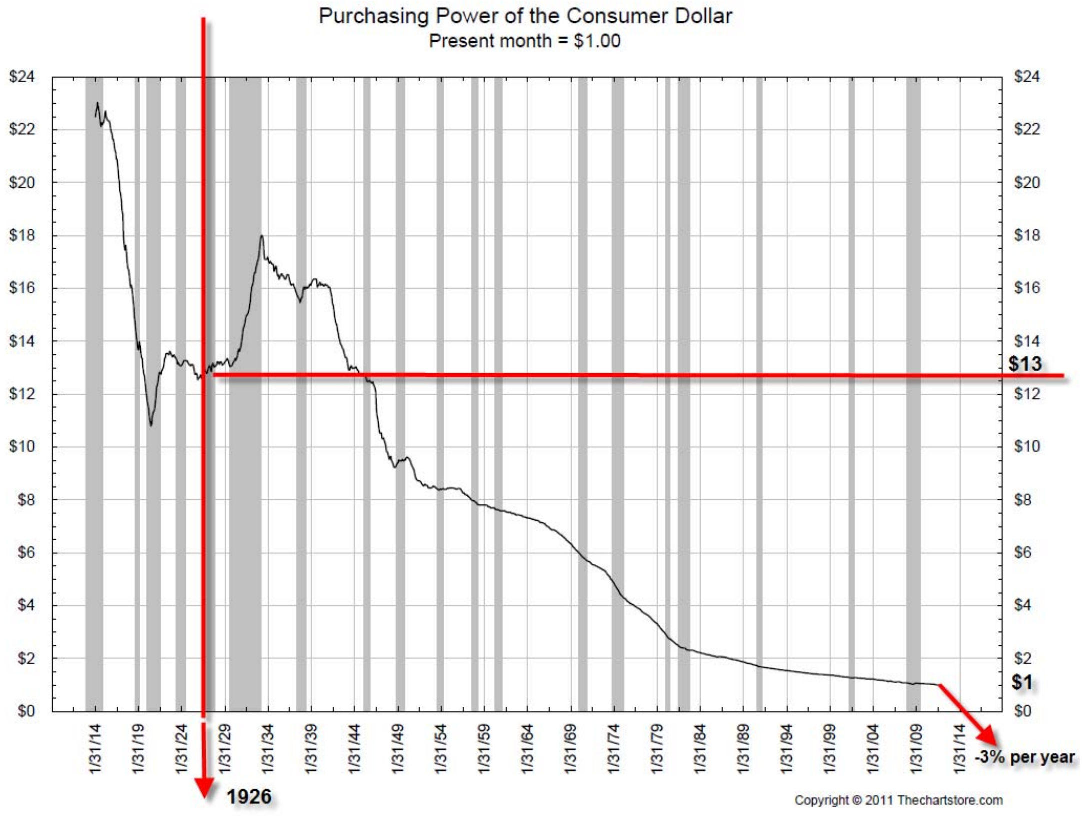
On the 15th of November 1963 Benjamin Graham gave a speech about investing in the stock market: "*Securities in an Insecure World*". Benjamin Graham is considered to be the inventor of "value investing" and was the teacher of Warren Buffett. We will try to summarize this speech but also give our comments on how Graham's ideas could be interpreted today. *(Our comments will be in Italics).*

2 Big Dangers

According to Graham there were 3 big dangers for financial security in 1963: we will not delve into the first issue (the risk of an atomic war) but we will focus on the two other dangers: inflation and market volatility.

First Danger: Inflation

According to Graham owning listed securities is the best way to protect yourself against inflation over the long haul. In the following graph you can see the decline in purchasing power of 1 USD the last 100 years. The purchasing power declined by an average of 3% per year during this time. *(source: thechartstore.com)*



Graham said that in the short term (less than 5 years) there is no direct correlation between inflation and equity pricing. Stock market prices can anticipate inflation some years, yet other years we can see declining equities while inflation is high. *(An example of this would be Argentina in 2011 where inflation was estimated to be close to 20% yet the Merval Index declined by 33,69%.)*

Corporations will try to pass on cost increases in their final selling price. If inflation happens gradually and without large swings this is usually easier to achieve and is accepted by clients. Once big price swings occur this becomes more tricky and it can lead to lengthy discussions between suppliers and their clients. One way these discussions can be tempered is by making clear agreements how to automatically pass on the cost of rising/declining prices.

Historical research has shown that equities have performed well over the long term. This is logical as investing in equities carries many risks and these risks have to be compensated by a higher return.

In the table on following page you can see the evolution of the S&P 500 since 1926. From 1926-1956 the S&P 500 consisted only of 90 companies, it was only as of 1957 it was expanded to include 500 companies and hence was called the S&P 500. If you had invested in the S&P 500 at the end of 1925 you would have achieved an average annual return of 9,75%. One dollar would have risen to 2978,7 USD (nominal terms), which was enough to compensate the average inflation of 3%. In the third column one can see there have been 25 negative years and 61 positive years.

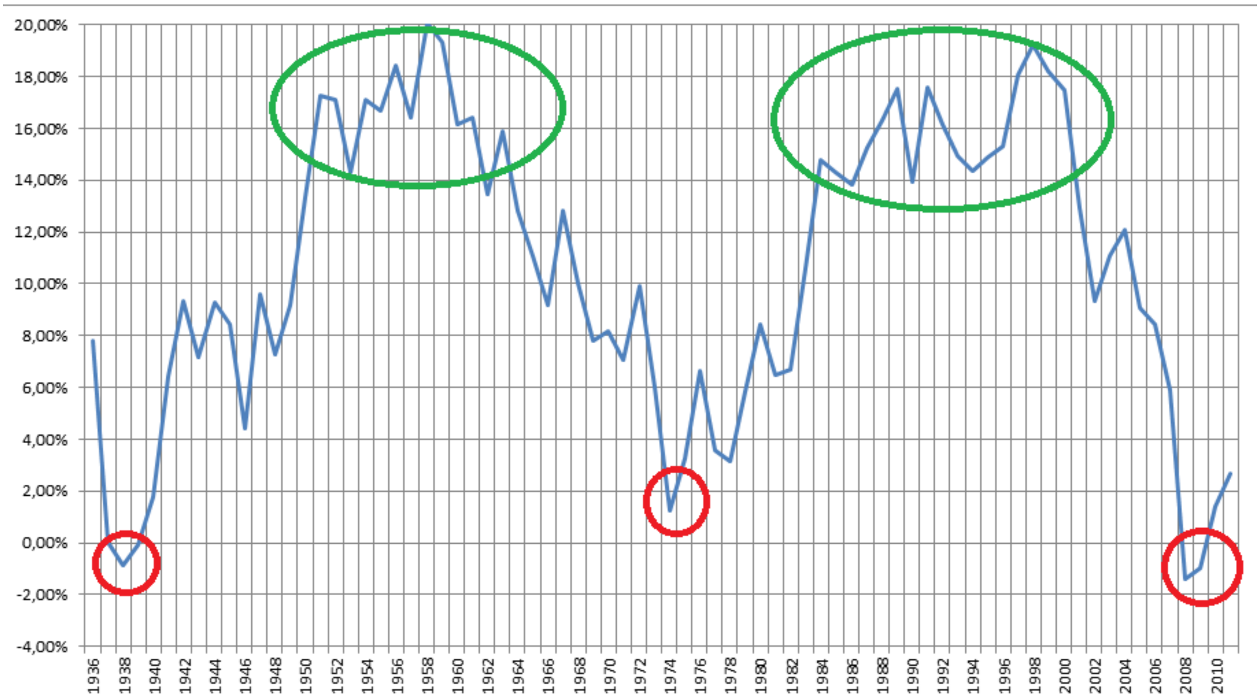
In 1963 Graham was skeptical on overall stock market valuations. The previous 10-15 years the stock market gave annual average returns of 15 to 20%. In the seventh column (average 10 year return) one can see that investors were euphoric in 1963 after having experienced high gains over the last 10-15 years. These zones were colored in green on the next page. A similar result can be seen from the mid '80's to 2000. Whenever annual average returns over a 10 year period are too high too many speculators are attracted to the stock market and people give up their job in order to gamble on buying equities.

In the same column (7th counting from the left) you can see that the last 10 years most investors have made 0% returns or slightly negative returns. This is very rare as can be seen from the areas shaded in red.

12/31/2011	10-year avg. Return	# years	S&P 500 return Index	$ 1,00	Avg. Yearly Return	Avg. 5-year return	Avg. 10-year return	Avg. 15-year return	Avg. 20-year return	Avg. 25-year return
1926		1	11,62%	$ 1,12	11,62%					
1927		2	37,49%	$ 1,53	23,88%					
1928		3	43,61%	$ 2,20	30,14%					
1929		4	-8,42%	$ 2,02	19,19%					
1930		5	-24,90%	$ 1,52	8,67%					
1931		6	-43,34%	$ 0,86	-2,50%	-5,11%				
1932		7	-8,19%	$ 0,79	-3,34%	-12,47%				
1933		8	53,99%	$ 1,21	2,46%	-11,24%				
1934		9	-1,44%	$ 1,20	2,02%	-9,93%				
1935		10	47,67%	$ 1,77	5,86%	3,12%				
1936	7,81%	11	33,92%	$ 2,37	8,15%	22,47%	7,81%			
1937	0,02%	12	-35,03%	$ 1,54	3,65%	14,29%	0,02%			
1938	-0,89%	13	31,12%	$ 2,02	5,54%	10,67%	-0,89%			
1939	-0,05%	14	-0,41%	$ 2,01	5,11%	10,90%	-0,05%			
1940	1,80%	15	-9,78%	$ 1,81	4,04%	0,50%	1,80%			
1941	6,43%	16	-11,59%	$ 1,60	2,99%	-7,51%	6,43%	2,44%		
1942	9,35%	17	20,34%	$ 1,93	3,93%	4,62%	9,35%	1,53%		
1943	7,17%	18	25,90%	$ 2,43	5,05%	3,77%	7,17%	0,64%		
1944	9,28%	19	19,75%	$ 2,91	5,77%	7,67%	9,28%	2,46%		
1945	8,42%	20	36,44%	$ 3,96	7,13%	16,96%	8,42%	6,62%		
1946	4,41%	21	-8,07%	$ 3,64	6,35%	17,88%	4,41%	10,12%	6,10%	
1947	9,62%	22	5,71%	$ 3,85	6,32%	14,86%	9,62%	11,16%	4,71%	
1948	7,26%	23	5,50%	$ 4,06	6,29%	10,87%	7,26%	8,39%	3,11%	
1949	9,17%	24	18,79%	$ 4,83	6,78%	10,69%	9,17%	9,75%	4,46%	
1950	13,38%	25	31,71%	$ 6,36	7,68%	9,91%	13,38%	8,91%	7,43%	
1951	17,28%	26	24,02%	$ 7,89	8,27%	16,69%	17,28%	8,36%	11,72%	8,14%
1952	17,09%	27	18,37%	$ 9,34	8,63%	19,36%	17,09%	12,78%	13,15%	7,49%
1953	14,31%	28	-0,99%	$ 9,24	8,27%	17,86%	14,31%	10,68%	10,68%	5,90%
1954	17,12%	29	52,62%	$ 14,11	9,56%	23,92%	17,12%	13,88%	13,13%	8,09%
1955	16,69%	30	31,56%	$ 18,56	10,23%	23,89%	16,69%	16,78%	12,48%	10,54%
1956	18,43%	31	6,56%	$ 19,78	10,11%	20,18%	18,43%	18,24%	11,20%	13,37%
1957	16,44%	32	-10,78%	$ 17,64	9,38%	13,58%	16,44%	15,91%	12,98%	13,24%
1958	20,06%	33	43,36%	$ 25,30	10,29%	22,30%	20,06%	16,92%	13,48%	12,91%
1959	19,35%	34	11,96%	$ 28,32	10,33%	14,96%	19,35%	18,39%	14,15%	13,49%
1960	16,16%	35	0,47%	$ 28,45	10,04%	8,92%	16,16%	14,04%	14,76%	11,76%
1961	16,43%	36	26,89%	$ 36,11	10,48%	12,79%	16,43%	16,52%	16,86%	11,52%
1962	13,44%	37	-8,73%	$ 32,95	9,91%	13,31%	13,44%	15,38%	15,25%	13,04%
1963	15,91%	38	22,80%	$ 40,47	10,23%	9,85%	15,91%	16,56%	15,11%	12,75%
1964	12,82%	39	16,48%	$ 47,14	10,38%	10,73%	12,82%	16,40%	14,95%	13,46%
1965	11,06%	40	12,45%	$ 53,00	10,44%	13,25%	11,06%	15,18%	13,84%	14,46%
1966	9,20%	41	-10,06%	$ 47,67	9,88%	5,72%	9,20%	12,74%	13,72%	14,54%
1967	12,85%	42	23,98%	$ 59,10	10,20%	12,39%	12,85%	13,09%	14,63%	14,67%
1968	10,01%	43	11,06%	$ 65,64	10,22%	10,16%	10,01%	13,96%	14,92%	14,10%
1969	7,81%	44	-8,50%	$ 60,06	9,75%	4,97%	7,81%	10,14%	13,43%	12,88%
1970	8,18%	45	4,01%	$ 62,47	9,62%	3,34%	8,18%	8,43%	12,10%	11,66%
1971	7,06%	46	14,31%	$ 71,41	9,72%	8,42%	7,06%	8,94%	11,65%	12,64%
1972	9,93%	47	18,98%	$ 84,96	9,91%	7,53%	9,93%	11,05%	11,67%	13,17%
1973	6,01%	48	-14,66%	$ 72,51	9,33%	2,01%	6,01%	7,27%	10,85%	12,22%
1974	1,24%	49	-26,47%	$ 53,31	8,45%	-2,35%	1,24%	4,31%	6,87%	10,08%
1975	3,27%	50	37,20%	$ 73,15	8,96%	3,21%	3,27%	6,50%	7,10%	10,26%
1976	6,63%	51	23,84%	$ 90,59	9,24%	4,87%	6,63%	6,12%	7,91%	10,26%
1977	3,59%	52	-7,18%	$ 84,08	8,90%	-0,21%	3,59%	6,44%	8,12%	9,19%
1978	3,16%	53	6,56%	$ 89,60	8,85%	4,32%	3,16%	5,44%	6,53%	9,51%
1979	5,86%	54	18,44%	$ 106,12	9,02%	14,76%	5,86%	5,56%	6,83%	8,41%
1980	8,45%	55	32,50%	$ 140,61	9,41%	13,96%	8,45%	6,72%	8,32%	8,44%
1981	6,47%	56	-4,92%	$ 133,69	9,14%	8,10%	6,47%	7,12%	6,76%	7,94%
1982	6,70%	57	21,55%	$ 162,50	9,34%	14,09%	6,70%	6,98%	8,30%	9,29%
1983	10,63%	58	22,56%	$ 199,16	9,56%	17,32%	10,63%	7,68%	8,29%	8,60%
1984	14,78%	59	6,27%	$ 211,65	9,50%	14,81%	14,78%	8,76%	7,80%	8,38%
1985	14,32%	60	31,73%	$ 278,80	9,84%	14,67%	14,32%	10,49%	8,65%	9,56%
1986	13,83%	61	18,67%	$ 330,86	9,98%	19,87%	13,83%	10,76%	10,17%	9,27%
1987	15,27%	62	5,25%	$ 348,23	9,90%	16,47%	15,27%	9,86%	9,27%	9,89%
1988	16,31%	63	16,61%	$ 406,07	10,00%	15,31%	16,31%	12,17%	9,54%	9,66%
1989	17,55%	64	31,69%	$ 534,75	10,31%	20,37%	17,55%	16,61%	11,55%	10,20%
1990	13,93%	65	-3,11%	$ 518,12	10,09%	13,19%	13,93%	13,94%	11,16%	9,55%
1991	17,59%	66	30,47%	$ 675,99	10,38%	15,36%	17,59%	14,34%	11,89%	11,19%
1992	16,17%	67	7,62%	$ 727,50	10,34%	15,88%	16,17%	15,47%	11,33%	10,56%
1993	14,93%	68	10,08%	$ 800,83	10,33%	14,55%	14,93%	15,72%	12,76%	10,52%
1994	14,38%	69	1,32%	$ 811,40	10,20%	8,70%	14,38%	14,52%	14,58%	10,98%
1995	14,88%	70	37,58%	$1.116,33	10,55%	16,59%	14,88%	14,81%	14,60%	12,22%
1996	15,29%	71	22,96%	$1.372,64	10,71%	15,22%	15,29%	16,80%	14,56%	12,55%
1997	18,05%	72	33,36%	$1.830,55	11,00%	20,27%	18,05%	17,52%	16,65%	13,07%
1998	19,21%	73	28,58%	$2.353,72	11,22%	24,06%	19,21%	17,90%	17,75%	14,94%
1999	18,21%	74	21,04%	$2.848,94	11,35%	28,56%	18,21%	18,92%	17,88%	17,25%
2000	17,46%	75	-9,11%	$2.589,40	11,05%	18,33%	17,46%	16,02%	15,68%	15,33%
2001	12,93%	76	-11,89%	$2.281,52	10,71%	10,70%	12,93%	13,74%	15,24%	13,77%
2002	9,34%	77	-22,10%	$1.777,30	10,21%	-0,59%	9,34%	11,48%	12,71%	12,98%
2003	11,06%	78	28,68%	$2.287,04	10,43%	-0,57%	11,06%	12,21%	12,98%	13,84%
2004	12,07%	79	10,88%	$2.535,87	10,43%	-2,30%	12,07%	10,93%	13,22%	13,54%
2005	9,07%	80	4,91%	$2.660,38	10,36%	0,54%	9,07%	11,52%	11,94%	12,48%
2006	8,42%	81	15,79%	$3.080,45	10,43%	6,19%	8,42%	10,64%	11,80%	13,37%
2007	5,91%	82	5,49%	$3.249,57	10,36%	12,83%	5,91%	10,49%	11,81%	12,73%
2008	-1,39%	83	-37,00%	$2.047,23	9,62%	-2,19%	-1,39%	6,46%	8,42%	9,77%
2009	-0,95%	84	26,46%	$2.588,92	9,81%	0,41%	-0,95%	8,04%	8,21%	10,54%
2010	1,41%	85	15,06%	$2.978,82	9,87%	2,29%	1,41%	6,76%	9,14%	9,94%
2011	2,70%	86	0,00%	$2.978,72	9,75%	-0,67%	2,70%	5,30%	7,70%	9,19%

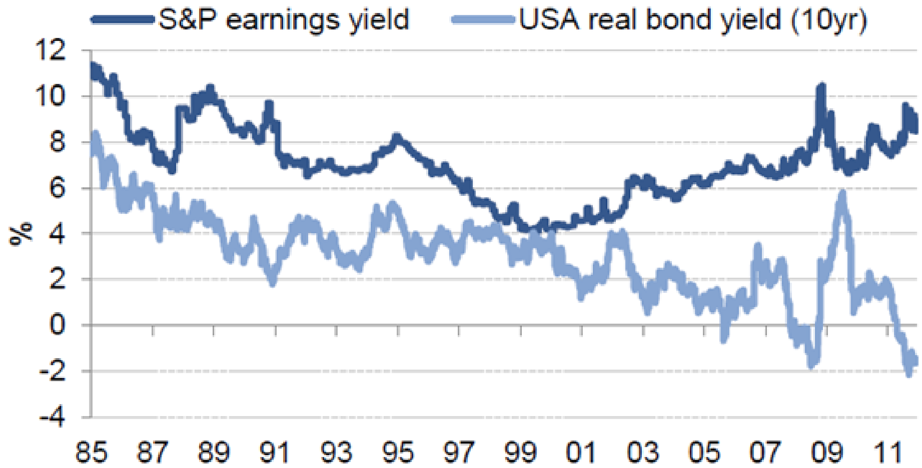
Or this can be clearer in following graph (which uses the input data

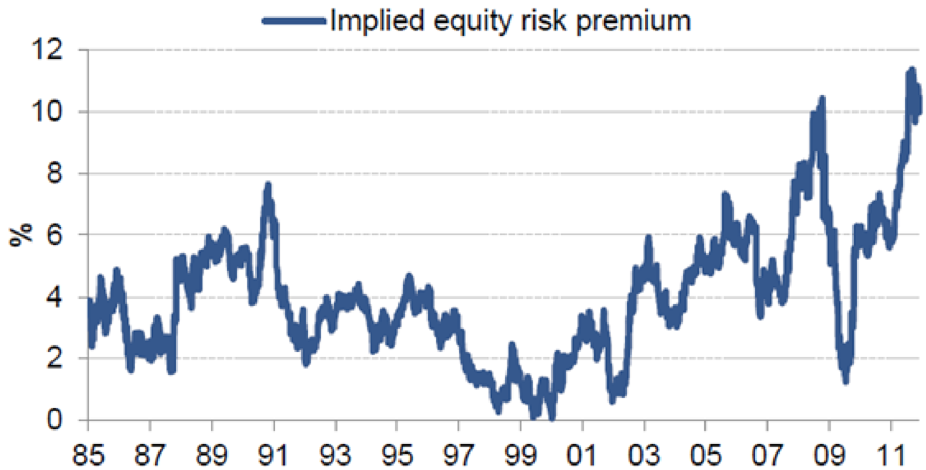
GRAPH: 10-yearly return of S&P since 1926 (average 9,75%)



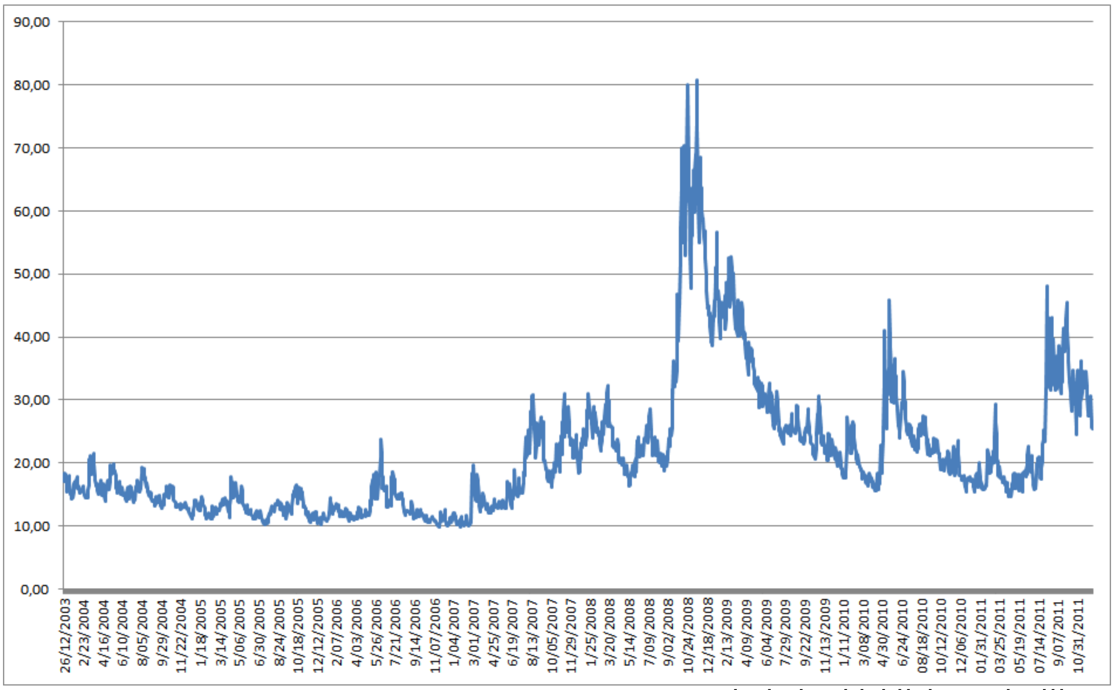
In the following graphs you get to see the implied risk premium. In 2000 the implied equity risk premium was 0%. This was followed by 2000, 2001 and 2002 which all showed negative stock market returns.

<u>Today the implied equity risk premium is 10%.</u> In other words, today investors are compensated for the risk they take by investing in equities. In fact, the equity risk premium is at its <u>highest level in 25 years.</u>





Second Danger:
Large volatility (with increased risk of declining equity prices)



Vix-index highlights volatility

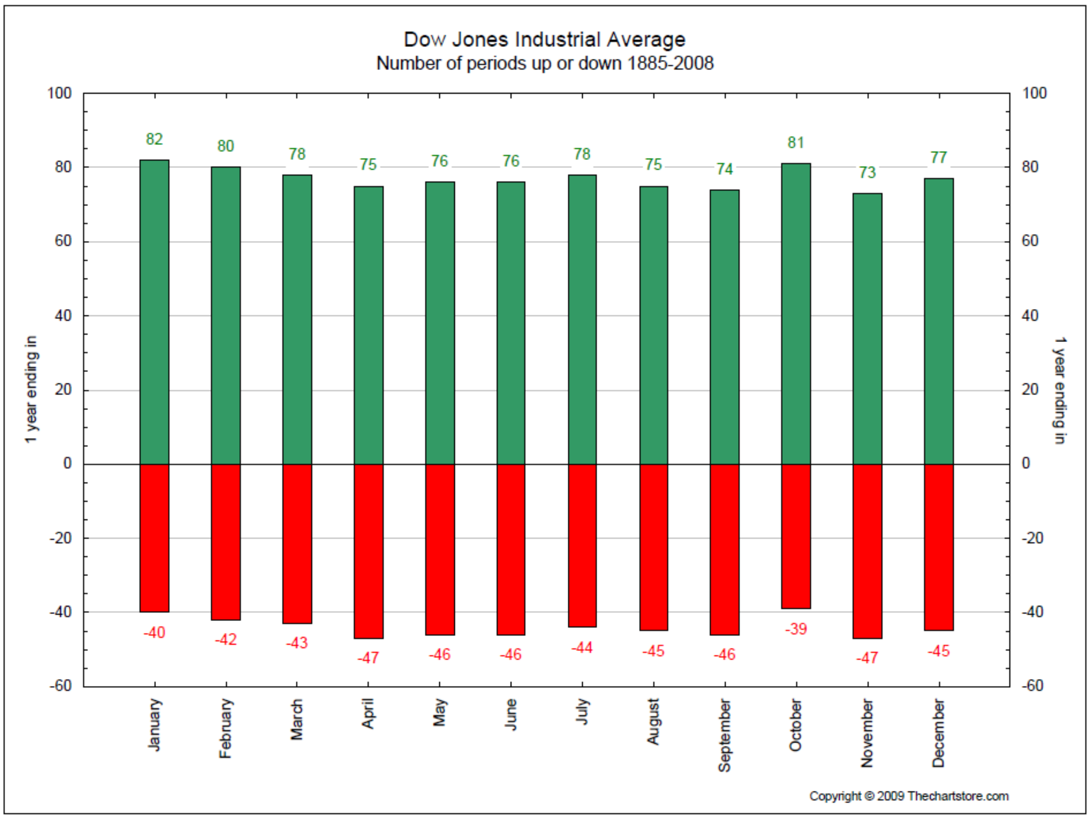
Potential declines of equity prices are a real danger for investors and speculators alike. After long periods of high equity returns it is often forgotten that equities can also decline sharply. Graham emphasized the longer markets rise unabated the higher the chance is they will decline sharply going forward. Investors and sales people looking to sell their products often forget to mention this to prospective or current clients. Obviously the reverse is also true. If investors have just experienced long periods of negative returns the chances of long term positive returns are greatly enlarged.

Declines of 27% in 1962 hide large declines in several specific stocks which saw prices drop between 50 to 90%. The stocks with the biggest declines were mostly recent IPO's which had come to market between 1960 and 1962.

The general statement that the stock market does not exist but that is rather a market of (different) stocks should be treated skeptically according to Graham. Few equities can escape the overall trend of the market over the long term. A large and long lasting increase in stock market valuations should therefore be greeted with considerable caution, not with increased confidence that prices would go up even further.

The Dow Jones increased from 163 points in 1949 to 750 points in 1963. This is an average annual return of 12% over a period of 14 years. Periods like this are not meant to last forever and should instill caution with investors rather than euphoria. This is one of the main reasons that the SEC requires finance professionals to mention clearly that past returns are no guarantee of future returns.

Stock prices fluctuate heavily as can be seen from the VIX index. In the following graph one can see a table that shows the monthly volatility of the Dow Jones index since 1885. *(source: thechartstore.com)*



Most statistics that are available are based on the history of the American stock exchange. We checked how worldwide stock markets have performed the last 10 years and recalculated all returns to EUR in order to have a fair comparison basis for EU based investors. If we wouldn't adjust them from their respective currency to our base currency (the EUR) we would not be taking into account inflation and currency devaluation. The Brazilian BOVESPA index increased by 80,25% annually over the last 20 years expressed in local currency. The Turkish stock index, ISE National, increased by 43,14% annually in Turkish lira.

One aspect that Graham did not mention was global investing as in the '60's this was less of an issue than today. Hereby we give a list of stock market returns over the last 10 years. What becomes clear from these returns is that we cannot speak about general stock markets all around the world. In the long term one can make a serious difference investing in good regions/countries with cheap valuations. On top of the list we find many countries in Latin-America, Asia and Russia. On the bottom of the list we find Greece, Italy, Ireland and Europe as a region.

				Period 31/12/2001-30/12/2011
	Country	Stock Index	Total Return	Return per year
1	Mexico	MSE Top 20 Index	1363,55%	30,78%
2	Peru	Lima General Index	1350,74%	30,66%
3	Columbia	IGBC General Index	853,66%	25,30%
4	Indonesia	Jakarta Composite Index	667,26%	22,60%
5	Kazakhstan	Kase Stock Index	632,47%	22,03%
6	Zambia	Lusaka Stock Exchange	622,34%	21,86%
7	Sri Lanka	Colombo All Shares	440,97%	18,39%
8	Pakistan	Karachi 100 Index	307,35%	15,08%
9	Lituania	OMX Vilnius	295,42%	14,74%
10	Mauritius	Mauritius Stock Exchange	292,77%	14,66%
11	Hong Kong	Hang Seng Index	289,49%	14,56%
12	Egypt	EGX 30 Index	285,20%	14,44%
13	Romania	Bucharest Bet Index	275,12%	14,13%
14	Russia	RTS Index	269,37%	13,96%
15	Estonia	OMX Talinn	267,11%	13,89%
	…..			
77	United States	Dow Jones Industrial Index	-16,33%	-1,77%
78	Japan	Topix Index	-17,07%	-1,85%
79	Europe	Bloomberg European 500	-21,57%	-2,40%
80	UK	FTSE 100 Index	-21,68%	-2,41%
81	United States	S&P 500 Index	-24,82%	-2,81%
82	Belgium	Bel 20 Index	-25,11%	-2,85%
83	Vietnam	Ho Chi Minh Stock Index	-26,51%	-3,03%
84	Portugal	PSI20 Index	-29,84%	-3,48%
85	France	CAC 40 Index	-31,67%	-3,74%
86	Europe	Stoxx 50 PR Index	-36,08%	-4,38%
87	Holland	AEX Index	-38,34%	-4,72%
88	Europe	Eurostoxx 50 PR Index	-39,14%	-4,84%
89	Ireland	ISEX Index	-49,15%	-6,54%
90	Italy	FTSE MIB Index	-53,31%	-7,33%
91	Greece	ASE Index	-73,74%	-12,52%

Valuation is crucial

During the period '49-'50 shares were trading at the lowest valuations in peace-time, or about 7 times earnings. In 1963 stocks were trading at 20 times earnings. Graham considered 7 times earnings to be cheap and 20 times earnings to be very overvalued.

Let's focus our attention how valuations stack up today by using some fundamental data. First we focus on the Eurostoxx 50 Price Index, which reached its lowest point on the 6th of March 2009. At this time European shares were trading at 0,93x book value. Today European bluechips are trading at an average of 1x book value.

If we look at price/earnings ratios we see a similar trend. The lowest level was reached in November 2008, when shares were trading at 7,06x profits. Today shares of Europe's 50 largest companies are trading at 8,7x expected profits.

Many economists and investors are looking at China and the potential for a hard landing in the world's second largest economy. China has for years been the dominant economic power behind the growing world economy. Valuations in China don't look very expensive either.

The Shanghai Composite Index, which is comprised of 300 large corporations has an average price/earnings ratio of 10,65. This is the lowest level of the last 6 years and can't really be labeled excessive.

If we take all shares of Value Square Fund Equity World into consideration we arrive at an average P/E of 7,75 and a P/B ratio of 0,89. The weighted average debt level (total debt/shareholders equity) of all companies in the fund (excluding our investments in the local savings banks of Credit Agricole) is 37,1%.

The Graham - formula

Graham believes it is illogical that during the period between 1949 and 1963 investors achieved total returns of 14% per year (S&P 500 index). If this would be true nobody had to work anymore and we could all retire and play on the stock market. Graham saw this happening in the late 1920's when people gave up their jobs to work on Wall Street right before the great crash of 1929. As markets continued to go up there were more and more people saying that the conventional way of looking at shares did not matter anymore…

Graham had a simple rule to estimate the value of the market. He called this rule 'the Graham'. In order to calculate this he took the average profit of the last 10 years, multiplied by two times the interest rate of high grade bonds/US Treasuries. The interest rate in 1963 was 4,3%. The discount rate is therefore 2 times 4,3% or 8,6%. 1/8,6% is equal to 11,63 which is the P/E Graham used. The earnings yield should be twice as high as the interest which can be achieved by buying bonds.

We have tested this formula on the Eurostoxx 50 Index. The problem we are faced with is how to determine high grade bonds in Europe. There is no European interest rate like there is on US treasuries. In Europe the interest rate on German bunds was only 2% which is comparable to US treasuries today. Italy on the other hand has yields above 6%. If we apply Graham's rule we get to very different outcomes if we discount by 4% or 12%. It basically means either using a P/E ratio of 8,33 or 25. If we used the German Bunds as our benchmark and consequently used a P/E 25 only 5 stocks would be too expensive. If we took the Graham method using Italian interest rates 35 out of 50 stocks would be too expensive. As demonstrated the decision which interest rate to use in Europe is crucial and is, we think, partly to blame for the large swings in equity markets.

Hence, one understands that if European politicians can structurally lower interest rates in the European Union this should give some 'oxygen' to stock markets. The introduction of Euro-bonds in the long term would also be good in this regards. Currently Euro-bonds are not possible as Germany would suffer too much with rising interest rates. Once other countries *get their budgets under control and make realistic spending and revenue forecasts this could be possible and the interest rates of the PIIGS countries could decline.*

Graham admitted that his method ('The Graham') worked really well between 1871 and 1954. Afterwards he saw that this strategy was not working so well and he started applying a 50% premium on previously discussed valuation technique. It is not entirely clear why he thought this 50% premium should be granted but possibly it is related to a larger role of governments who would do anything to avoid depressions.

Benjamin Graham thinks a long term total return on the stock market of 7,5% per year is reasonable. The average return between 1871 and 1963 was 7,5%. Going forward you need an average growth of 4,5% in and 3% in dividends to justify the valuation of the Dow. Graham estimated the correct value of the Dow Jones was 750 points. If the growth was only 3,5% instead of 4,5%, the dividend had to be 4% and the estimated true value of the Dow Jones was only 750*3%/4% or 562,5 points, or how a small change in variables can have a large difference in the final outcome.

During Graham's investment time frame it was very normal for shares to yield more than bonds. In speculative bull markets it sometimes happened that yields on dividends dropped below those of bonds, which signaled a market that was most likely overvalued.

From 1958 to 1963 the dividend yield was clearly lower than that of US treasuries. During bull markets standard valuation rules are often pushed aside in favor of new valuation techniques. This happened in 1928, right before the stock market crash of 1929.

The current yield on Eurostoxx50 is 5%.

Name of company	Dividend Yield
Telefonica	11,81%
France Telecom	11,61%
Banco Santander	9,93%
Vivendi	8,55%
Enel	8,19%
Telecom Italia	7,91%
Deutsche Telecom	7,68%
RWE	7,48%
GDF Suez	7,20%
Iberdrola	6,93%

Telecom shares in Europe are yielding big dividends. In Belgium both Mobistar and Belgacom give annual dividend yields of close to 10%.

Regardless of the valuation of the market or a specific company one should be ready for large swings in prices of securities. This has always been the case and will be the case in the future as markets fluctuate from overvaluation to undervaluation all the time. Out of general market studies we know that the stock market price of an average company listed on the American stock market fluctuates by 50% (high-low stock price) every year!

Predicting the stockmarket is impossible

Graham was only once tempted to give a prediction for the overall stockmarket. This was in 1914 when the company he worked for on Wall Street deemed him qualified enough to make a general statement on the stock market after he had joined them for one month. Since then Graham refused to give predictions about the overall stock market as he thought that was useless.

IPO's are generally a sign that markets are probably overvalued and should be treated with caution according to Graham.

Today we are not seeing many IPO's (apart from the new dot.com craze with companies like Zynga, Linked-In, RenRen etc coming to market at crazy valuations). On the contrary we saw stock market exits at Omega Pharma and Harbin Electric. Industrial players are offering large premiums to acquire other companies like Mexchem-Wavin and Transocean-Aker Drilling.

The average investor doesn't beat the index

Graham believes that the average investor cannot outperform the index. This is also proven by the fact that even most fund managers underperform, while theoretically they should be the brightest and smartest individuals and have a higher chance of outperforming.

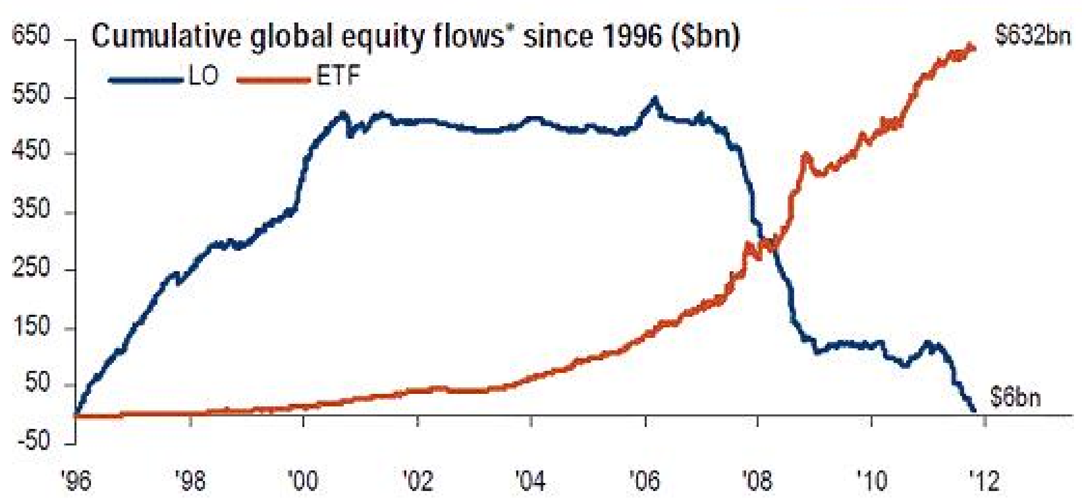
Predicting economic events is next to impossible and Graham recommends against trying it. One has to assume that most events are immediately discounted in prices and also long term overall forecasts are not recommended. Graham argues his point by using the Dow Theory between 1898 and 1930 as an example. The Dow Theory got so popular that investors who used it blindly between 1933 and 1958 performed very poorly.

Investors have difficulty outperforming "the market" as in fact they are for a large part "the market". Only a small group of investors will do significantly better than the average and that will be determined by two pre-requisites: 1) the focus on value investing principles rather than on technical or trend evolution theories. 2) this method should be different from what other investors are doing as otherwise it will be impossible to outperform. The art is to be contrarian and be ahead of the market in terms of news flow of expected events.

We can safely say that many banks, insurance companies, hedge funds and individual investors that dominate the stock exchanges today do not follow value principles that Value Square adheres to. The money that is flowing to markets is primarily going into ETF's (Exchange Traded Funds); these ETF's are primarily linked to indices hence they don't do stock picking and are definitely not contrarian.

The graph below shows the very large inflows into ETF's over the last 4 years and how long only stock picking has gone out of fashion. For value investors this should be very good news as it increases the future chances of value oriented stock pickers around the world !

Chart 4: Cumulative equity flows to long-only and ETFs since 1996



* data 1996-2002 from Lipper FMI; 2002-onwards from EPFR Global
Source: BofA Merrill Lynch Global Equity Strategy, EPFR Global, Lipper FMI

Value Square's focus continues to be on many small and mid-cap stocks which are often neglected by the analyst community.

Graham says that even after 50 years experience on Wall Street he definitely can't predict the direction of the stock market. Graham believes strongly he does have a better understanding how investors should be invested. Graham's belief was that an average portfolio should be invested in equities between 25% and 75% depending on how cheap/expensive equities were at the time. While this would seem to be the logical approach to take Graham continues to be amazed how few people invest like this. Contrary to Graham's logic most investors are more eager to invest after a large increase in stock prices and are less eager to invest after a great decline in equities. The majority of investors are led by emotions and psychology and not by the relationship between equities and their underlying intrinsic value.

Graham is a proponent of dollar cost averaging. This means that every month/quarter/year you invest a similar amount in equities. If prices have decreased you buy more, if prices have increased you buy less.

There are two possible ways to invest in the market. Either you buy 20 or 30 well managed companies or you buy a well managed mutual fund. If you decide to go at it alone sometimes it is better to buy a holding if it is trading at an attractive discount to its Net Asset Value (NAV). Investing in high quality well managed companies is not easy as they usually have good prospects but their valuation already reflects this. IPO's should be treated with caution as they usually are priced for perfection. Graham uses the example of IBM that was loved by everyone and was trading at 607 USD or a price-earnings ratio of 70. Six months later it had declined by 50%. Graham thinks that analysts who follow companies should focus on the investment component and the speculative component. Graham believed that the investment component of IBM in 1961 was 200 USD while the speculation "value" accounted for the rest. This "speculation" value was a reflection of IBM's excellent prospects at the time.

How can you outperform?

Graham concluded his speech by saying that for intelligent investors it should be possible to outperform the averages if they adhered to value investment principles rather than give into "hype" or emotion. Benjamin Graham gave a few examples: buy companies of good companies at attractive prices and/or buy companies that trade below their net financial assets. Graham also liked special situations such as takeovers, reorganizations or bankruptcy filings. Every investment is different and the riskier the investment the greater the caution one should have.

Land	# shares < net working capital	# quoted shares	in % of # of quoted shares
India	257	3.949	6,5%
USA	219	14.371	1,5%
Japan	93	3.742	2,5%
Hong Kong	43	1.492	2,9%
UK	35	2.643	1,3%
Singapore	41	776	5,3%
Australia	40	1.953	2,0%
South-Korea	23	1.919	1,2%
Canada	43	3.711	1,2%
Malaysia	22	962	2,3%
Serbia	29	1.712	1,7%
Germany	30	2.228	1,3%
Turkey	23	379	6,1%
Vietnam	23	826	2,8%
Romania	12	1.553	0,8%
Israël	11	971	1,1%
Poland	12	733	1,6%
Bulgaria	10	400	2,5%

Value Square uses its internally developed Quality Index. The Value component is one of the most important criteria in our Quality Index. The higher the value component, the cheaper the stock is and the bigger the margin of safety.

After the big crash of 1929-1933 about 40% of all industrial companies in the US were trading below their net financial assets. (current assets – all debt). Today the situation is not as dire but after conducting a screen on 66.431 companies we find 3.113 trading below their net financial assets. Graham thinks that net financial assets are a really conservative way to value a company where you don't look at goodwill, factories or other assets.

The largest company trading below its net financial assets has a market capitalization of 2,8 billion EUR. On the total list there are only 27 companies with a market cap above 500 million EUR. Another sign that many small caps are cheap.

The markets where we find the most stocks trading below their net financial assets are: Vietnam, Turkey, Hong Kong, Singapore, India and Japan.

In February 2012 we will visit India. Our earlier visits to India in 2009 and 2010 failed to uncover much value as we found most companies too expensive and often highly leveraged. Today Value Square Fund Equity World only holds one Indian company. However, 2011 was a particularly bad year for the Indian stock market and the Mumbai Sensex index dropped by 25%, while the Indian Rupee also corrected 20%.

Graham ended his speech with an old Wall Street story whereby a client asks his advisor which stocks he should buy. The adviser answers: *"What is your preference? Do you want to eat well or sleep well?"*

Benjamin Graham believes that by following sound value investment principles – even in an insecure world- one should be able to invest in such a way that you can both eat well and sleep sound at night.

<u>What 2012 has in store for us we can't predict. The decade long "bear" market in Western equity indices has a tight grip on the "bull" but low valuations, a high equity risk premium and negative investor returns over the past 10 years make us believe the bull will break-out sooner or later.</u>

(source cartoon: Barron's)

APPENDIX 4: Putting large numbers in perspective…

The budget explained in simple English.

I love it when complex things are simplified so that we can all understand.

- United States Tax revenue: $2,170,000,000,000
- Fed budget: $3,820,000,000,000
- New debt: $1,650,000,000,000
- National debt: $14,271,000,000,000
- Recent budget cut: $38,500,000,000

Now, remove 8 zeros and pretend it's a household budget.

- Annual family income: $21,700
- Money the family spent: $38,200
- New debt on the credit card: $16,500
- Outstanding balance on credit card: $142,710
- Total budget cuts which some politicians are proud about: $385

Stop the insanity now. Vote them out and demand a balanced budget.

APPENDIX 5: 53,2 % of American debt was created by one family…