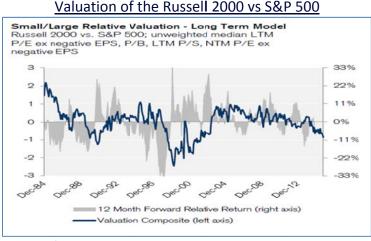
## COMMENTARY



## November 27, 2015

## Dear clients and colleagues,

Stock markets have yielded remarkably well in the past few years. We continue to see selective opportunity in the global small cap space which should support equities. Here are a few of our observations.





- When taking a blended valuation composite, small caps valuations look attractive compared to the S&P 500. We have to go back to the tech bubble to see similar discounts
- Although fewer U.S. small caps are reporting better than expected Q3 revenue growth due to a stronger dollar, more than half of the Russell 2000 constituents are still beating earnings estimates
- During Q3, small caps companies have outpaced their larger counterparts on a revenue basis. On average, small caps have posted revenue growth of +1.5% from the same period last year versus -4.1% for the S&P 500
- In a context of weaker global growth, owning small cap companies that exhibit faster growth is justified



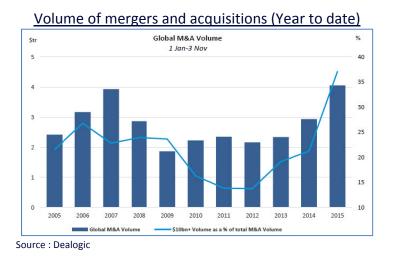
Returns of the Stoxx 600 vs S&P 500

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

## COMMENTARY cont.



- European equities have underperformed in comparison to the rest of world for quite some time now however returns delivered year-to-date have improved considerably
- After a few years of bearish sentiment, European small caps are finally benefiting from strong earnings momentum
- Many factors should support European equities going forward such as a weak euro, lower raw material prices, real wage growth, a better employment situation and a very accommodative monetary policy



- Volumes of M&A announcements have increased rapidly in contrast to the same period last year. These deals are driven by very favorable financing terms and the willingness of cash-rich companies to intensify external growth strategies. Small companies are best positioned to benefit from the M&A trend
- Share buyback and dividend increase announcements are also on the rise globally. In Japan alone, the number of companies announcing buybacks has soared 19% compared to 2014. More cash returned to shareholders is another incentive to be invested in global equities

Have a good weekend.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global Alpha believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.