COMMENTARY

October 31, 2008

Dear clients and colleagues,

This is the last day of October, Halloween. And it has been a frightening month. The MSCI World Index both large and small cap had its worst month on record. Driven in part by the continuing credit crisis, the global slowdown, de-leveraging and massive redemptions, especially in hedge funds.

As I mentioned last week, the recession is now priced in many stocks. As an example, the Hang Seng Index (Hong Kong) now sells for 8.5x trailing earnings and yields 5%. Europe sells for 7.6x trailing earnings and yields 6.2%. The US, mainly because of the number of financial companies with no earnings looks expensive at 21x earnings and 3.2% yield, but excluding unprofitable companies, we are at around 10x earnings. Our portfolio sells for around 13x earnings with 17% sales growth. It now yields 3.6%. Our median market cap is around US$1.1B

These valuations have not been seen in many years and in our opinion represent a great opportunity. However, we believe that active management and good stock picking will be key.

We had many companies reporting this week. On balance, these companies continued to report very strong numbers. As an example, Prosegur (PSG SM), a Spanish security (guarding/alarm) company reported that sales grew 13% and net profit grew 46%. Driven by strong organic growth in Europe (60% of revenues) and Latin America (40% of revenues). The Company generates strong cash flow, has a net cash balance and no debt, pays a 3.2% dividend and sells for 10x earnings. BEA Aerospace (BEAV US) reported revenues up 37% and profit up 66%. Curtis Wright (CW US) reported sales up 10% and earnings up 9%. Zebra Tech (ZBRA US), reported sales up 12% and profit up 10%. A few companies are facing more difficult times, Jones Lang Lasalle reported revenues up 8% but profits down 65%. But no disasters.

We removed one company from the portfolio this week, Tom Tom (TOM2 NA) was sold. We like the company's products and market leadership. But deteriorating consumer confidence combined with a high debt level arising from last year's acquisition of TeleAtlas, made us too nervous about debt service. We sold our position and reinvested proceeds in other companies In the portfolio.

The company we will profile this week is Mine Safety Appliance, www.msanet.com (MSA: NYSE, $25.97). Market Cap: US$930M, P/E:12.6x, Yield, 3.7%, 1yr return: -42%, 1yr sales growth: 16%, 1yr net income growth: 7.2%. Net debt/ebitda: 0.7x.

Established in 1914, MSA is the world's leading manufacturer of sophisticated safety products to protect people. Products include respirators, helmets, gas detection equipment, eye, face and hearing protection, fall protection, etc. Industries served include fire protection, police, military, mining, construction, etc. Headquartered in Pittsburgh, 4500 employees. Sales of US$1.1 B, 50% in the US, the rest around the World.

Investment theme: Large and fragmented market, safety regulations continue to increase.

Competitive advantage: Product features, R&D, Distribution network

Growth Strategy: Leverage distribution network

Management: Owns 14.6% of the Company

Mine Safety Appliance is a well run company that has in the last few years developed an international presence where it can still experience strong growth. It operates in mature markets such as fire and police protection. The company reported results this week with sales rising in all segments. The company also said it continues to see strength in its core business.

Our target price is $50, for a 94% expected return.