COMMENTARY

GLOBAL ALPHA

January 15, 2009

Dear clients and colleagues,

Happy new year and welcome back to our first weekly commentary of 2009.

2008 was an encouraging debut for our team. From inception in July 08 to year end, the portfolio had outperformed the benchmark by 5.41%. Going forward, we will maintain the country & sector diversification and focus on stock picking. In the near term, we continue to overweight healthcare, industrials, and consumer sectors, and underweight materials and financials. Defensive plays with great growth potential are favored.

In the past few weeks many worse-than-expected economic data were released, indicating a deepening global recession. US unemployment rate rose to 7.2%, factory order dropped 4.6%, and December retail sales pulled back 3.1%. Although the stimulus measures are supposed to show positive effects starting from the second half of 2009, investor sentiment is still very nervous. We believe volatility will dominate the market through most of the year.

Recently we added 3 companies in the portfolio which now includes 59 stocks.

- HomeServe PLC (HSV LN) www.homeserve.co.uk , is a UK company that offers home emergency repair insurance coverage. It markets, administers and handles claims for the policies, and deploys qualified repairmen to fix plumbing and drainage, electrical wiring, and gas boiler breakdowns. Revenue and earnings have showed consistently strong growth for 10 years. Management owns 34.5% of stake. Its growth strategy is customer franchising. HomeServe aims to be the first place people turn to when it comes to fixing, maintaining and looking after the home. International expansion is well developing with revenue in the US doubled in 1H08. HomeServe also offers furniture warranty policies, and in the UK more than half of the apartments are leased furnished.
- Massey energy Co. (MEE US), www.masseyenergyco.com , is the 4th largest coal producer in the US. It operates coal mines in West Virginia, Kentucky, and Virginia, and supplies to utility, industrial and metallurgical customers with 70% for energy and 30% for metallurgy. MEE plans 27% annual increase in production in the coming years based on strong global coal demand and high pricing.
- Hospitality Properties Trust (HPT UN) www.hptreit.com , is a REIT that owns 290 hotels with 43,000 rooms and 185 travel centers throughout North America. It does not operate the hotels or travel centers, but leases them to unaffiliated hospitality management companies including Marriott International, InterContinental Hotels, Hyatt Corporation and Carlson Hotels Worldwide. Its travel centers are operated by TravelCenters of America LLC. HPT is the only hotel REIT with investment grade debt rating. It offers high dividend yield of 22%. The average room rate is $80.

The company we will profile this week is Phillips-Van Heusen Corp.

Phillips-Van Heusen (PVH listed on NYSE) www.pvh.com , is one of the largest apparel companies in the world. It designs, sources, manufactures and markets men's, women's and children's apparel and footwear. Business includes wholesales through department stores, direct sales at retail stores and brand licensing. Its portfolio includes over 20 brands, of which some are owned brands like Calvin Klein and others licensed brands like Kenneth Cole and DKNY. PVH's history dated back to the early 1900's. Now it has 6,300 employees worldwide. Its core business segment is wholesale, accounting for 53% of revenue. The most profitable segment is Calvin Klein licensing, representing 12% of revenue and 36% of operating income.

Market cap $923M, div yield 0.84%, net debt/assets 8.9%, p/e (FY10) 7.3x, roe 14.5%, ev/ebitda (TTM) 3.43x, operating margin 11.9%, one year return -45%.

Target Market Size
PVH has about 1/3 of shirt's market share in the US. For Calvin Klein's global expansion, the company expects to grow annual sales from $5.4B in 2007 to $7B in 2010.

Competitive advantages
Premium brand of Calvin Klein. Diversification of multi-brand portfolio. World's largest shirt company.

Growth strategy
Distribution strategy through new store opening and acquisition. The company has moderate expansion plan supported by solid balance sheet.

Risk
Softer demand and margin erosion due to economic slowdown.

Investment Theme
Diversified portfolio: Shirt business is relatively less cyclical while other brands are well-positioned for economic recovery. We expect Calvin Klein to continue its successful expansion worldwide.

Valuation
Target price = $41, using DCF model at growth rate of 15% for 7 years, 6% at maturity, and risk premium of 10%. Expected rate of return = 135%

Have a nice weekend.

Qing Ji, Analyst