COMMENTARY

July 8th 2010

Dear clients and colleagues:

The second quarter was characterized by the peaking of leading indicators around the World, Sovereign debt crisis in Europe and the worst oil spill in history in the Gulf of Mexico.
Unemployment in developed economies remains stubbornly high, hurting consumer confidence. And the credit crisis in Europe has put light on the unsustainability of growing deficits and might force governments to reduce their stimulus spending.
As a result of this uncertainty, equity markets around the World suffered their first decline since the 1st quarter of 2009.

What do we think today?

We believe that the market is still very vulnerable for the 3rd quarter. After a sharp recovery, driven by restocking and strong growth in the emerging economies, particularly in Asia, we are seeing a peaking of leading indicators which could mean slower growth ahead. Q2 earnings should be very strong compared to Q2 2009, but expectations are very high, and year on year comparisons will become more difficult starting Q3. Currency volatility will also be a big unknown in upcoming earnings guidance.

From a bottom-up perspective, many cyclical stocks are still selling at very high multiples, indicating that investors think we are at the mid-point of the cycle. We believe that these sectors are very vulnerable. In the past year, China has been the worst performing market, the decline was led by the cyclical industries, with more defensive sectors such as healthcare and staples outperforming. We have not yet seen such a rotation in the developed markets.

In Q2, our portfolio outperformed our benchmark by 3.49%, bringing our YTD performance above our benchmark.

We did not make any important change in the portfolio. Our annualized turnover is around 30% of the portfolio.

Our strategy is to put an emphasis on companies with superior margins, 11.8% pretax margin for our portfolio vs. 9.8% for the index, better sales growth, 12.2% for our portfolio vs. 7.3% for the index and less debt, net debt/ebitda negative for our portfolio vs. 1.0x for the index. This emphasis should allow us to deliver better returns in both up and down markets going forward.

Our strategy remains the same; we have a well diversified portfolio with investments in all 10 sectors, 24 of the 24 industry groups and 16 countries. Our most important overweight's are in the commercial and professional services (security, waste collection and disposal and house maintenance), food and beverage (soy milk, wine, vegetable seeds and bakery products), life science (drug testing and ingredients). Our biggest underweight is in capital goods, mainly the construction and equipment companies.

During the quarter, we sold Gourmet Navigator, a Japanese internet company and replaced it with Horiba, another Japanese technology company we profiled a few weeks ago. We sold Wirecard, a German payment processor and replaced it with Opera, a Norwegian Internet browser company. We bought Game Group, one of the World's largest retailers of videogames and game consoles. We also bought NBTY, one of the World's largest manufacturers and retailer of vitamins and nutritional supplements. Finally, we sold Federated Investors, a money manager in the US.

Have a good quarter.

The Global Alpha Team