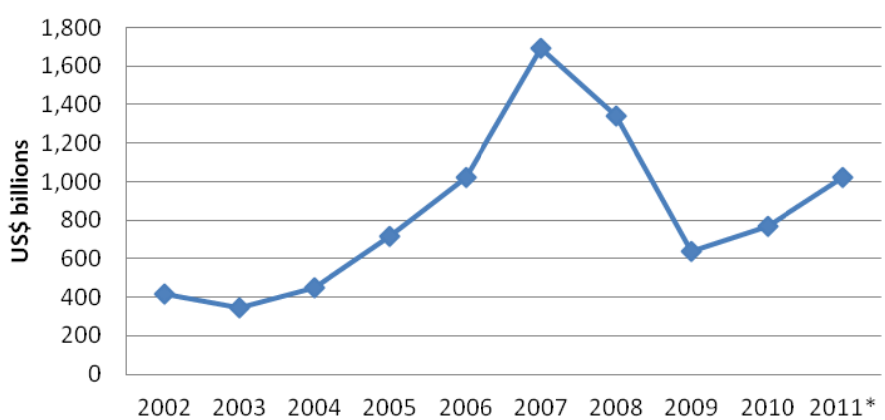
June 1, 2012

Dear clients and colleagues,

In this week's Wall Street Journal, there was an interesting article on "Cash-rich Japanese Firms Go on Global Buying Spree". Last year Japan's foreign mergers and acquisitions reached a record high of $80B. This year the boom continues, bolstered by a strong yen, abundance of cash and limitation of domestic growth.

Actually Japan is just one of many active global shoppers. An OECD report showed that international M&A investment has been resilient despite the political and economic turmoil, expected to top $1 trillion in 2011; that represents a y/y increase of 32%. The top five sources of international M&A in 2011 were US, UK, France, China & HK, and Japan. The top five destinations were US, UK, China & HK, Italy, and France.

International M&A 2002-2011*



Source: OECD, * projection

The rational for the boom is simple. Having recovered from the financial crisis, many large companies possess solid balance sheets, near record profit margins, and easy access to cheap credit. What they lack is growth, and international M&A provides an ideal way to enter new markets and new businesses while creating synergies.

Small cap companies are the natural targets and beneficiaries. Last year, five companies in our portfolio were acquired, two by foreign companies, and two by US-based global players. The average takeover premium was 30%. This year, a Luxembourg-based financial services company in the portfolio, GlobeOp, is to be acquired by a US firm. This week, a Norway-based internet browser provider in the portfolio, Opera Software, is rumored to be bought by Facebook.

On the other hand, relatively larger companies in the small cap universe are acquirers as well. The median market cap of our portfolio is U$1.6B. Companies at such size often seek growth through international M&A.

Global revenue sources help companies to reduce geographic risk and explore larger market potential. In our Global Small Cap portfolio, 40% of the companies generate the majority of their sales from overseas. In the EAFE portfolio, the number is 57%.

We manage a very diversified portfolio with companies listed in 13 countries. These firms conduct business in over 100 countries on six continents. By selecting under-valued high-quality companies worldwide, our portfolio is well positioned to benefit from continued M&A activity globally.

Have a good weekend.

The Global Alpha Team