

September 2, 2016

Dear clients and colleagues,

As people are getting ready to enjoy the long weekend before back-to-school and then the rush to Thanksgiving and Christmas, we thought we would update you on a few subjects that we have talked about in the past few quarters and years.

It has been a very warm summer. According to NASA "July 2016 was the absolutely hottest month since the instrumental records began." The record-warm July was the tenth consecutive month (since October 2015) to set new monthly high-temperature records. The Northern hemisphere, particularly near the Arctic, experienced the most pronounced temperature increases.

The above average temperatures have continued into August. Here in Montreal, the average temperature so far has been 27° C (81° F) compared to a normal average of 24° C (75° F).

The hot summer has been accompanied by drought, but also extreme flooding; in the UK in May, France in June, China in July and Louisiana in August.

The impacts of extreme weather are already being felt by property and casualty insurance companies which are facing rising claims, and we expect this trend will continue. Superstorm Sandy cost \$60 billion. According to *Nature* and research by the World Bank, global flood damage could reach over \$1 trillion per year by 2050.

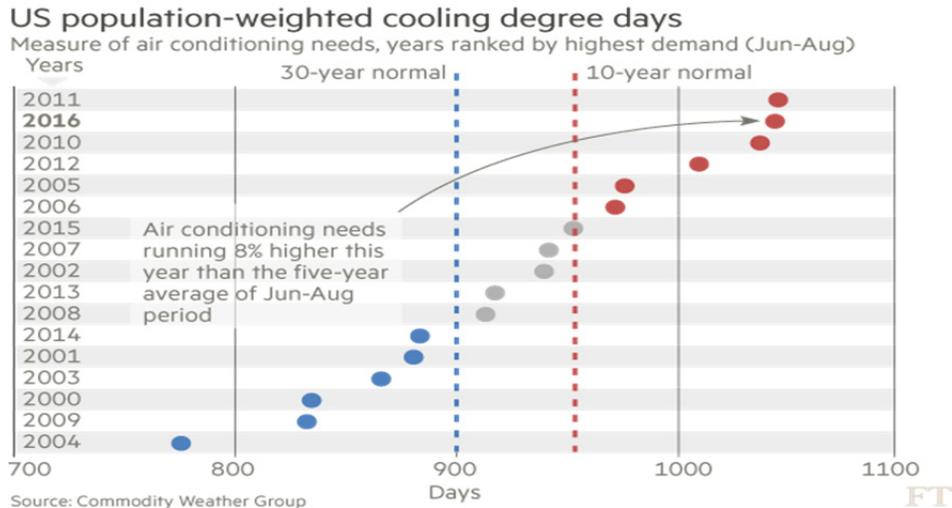


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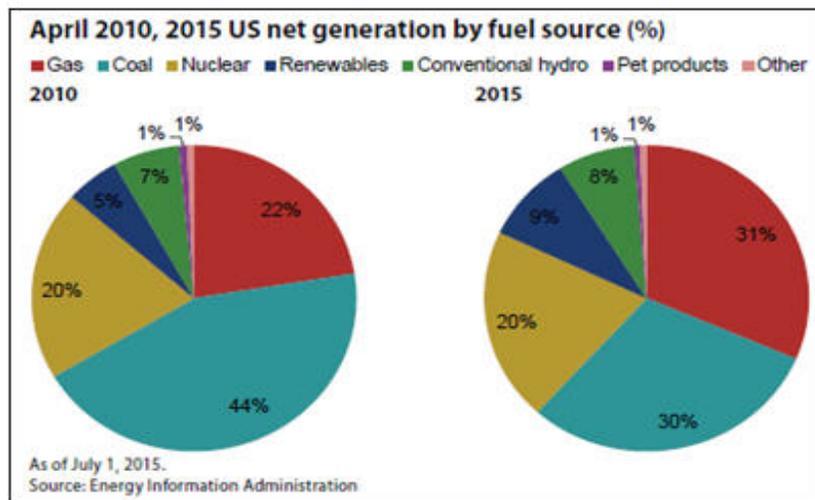
Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

The hotter weather also had an impact on commodity markets. We have often discussed our bullish thesis on natural gas. In July, natural gas stockpiles had their first summer drawdown in a decade, as people ran their air conditioning full blast to keep cool.

According to PIRA, a global energy market consultant, US electric power plants have burnt record amounts of natural gas this summer.



The heat is not the only reason gas stockpiles have shrunk. According to EIA, natural gas has surpassed coal as a source of electricity and continues to gain market share as more coal plants are shut down due to environmental concerns.



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We continue to be optimistic about the price of natural gas in the US as increased demand, including LNG exports combined with flattening production, will sustain prices.

The spring and summer have also been marked by unfortunate terrorist attacks in countries such as Turkey and Egypt, both popular tourist destinations, but also in Paris and Brussels.

Despite these sad events, global travel and tourism continues to register strong growth according to the World Travel & Tourism Council (WTTC). The sector is still expected to grow faster than GDP in 2016. South Asia leads the growth at 5.9%, driven by strong economic prospects in India. Latin America will be the worst performer, with an anticipated decline of 0.9%, driven by weakness in Brazil. North America is performing well and Europe has seen a shift in preferred tourist destinations, favouring Spain, Portugal and Italy.

Our portfolio is well positioned to benefit from the secular growth trend in travel and tourism with Autogrill (HMS Host in North America), the leading food and beverage company servicing travellers; Melia, a leading Spanish hotel chain; and L'Occitane, a premium natural cosmetic company.

Another big news story this summer was the surprise decision by the British people to leave the European Union. Although the decision caused extreme volatility in equity and bond markets, calm has returned, and benchmarks are trading higher than they were before the vote. The next few months should witness more news as the talks to negotiate the UK's exit will certainly not be quiet and peaceful. In the longer term, we believe that this decision by the British people will be a negative for the UK, but will not have much of an impact outside the UK.

We have a number of investments in UK companies. A few, like Greggs (a sandwich shop chain) and Crest Nicholson (a home builder in the south of England), operate only in the UK and therefore may be more affected by local conditions. However we feel the impact on Greggs will likely be small. Our other UK holdings will be less affected as only 10% -50% of their profits originate in the UK.

It will be a busy fall with the upcoming US election and a referendum in Italy, leading to elections in France, Germany and the UK in 2017.

Have a great weekend.

The Global Alpha team

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