

Sep 10th, 2010

Dear clients and colleagues,

First we would like to say that we are pleased to welcome the Bank of Montreal as a new client. We started managing the BMO Guardian Global Small Cap Fund on August 20th.

The last few weeks have seen a lot of economic data paint a picture of an economy slowing, but not going into a double dip. The markets have been in a wait and see mode until a clearer picture emerges. However we think that the inventory rebuilding cycle that boosted growth between Q3/09 and Q2/10 is now over and that final demand will influence sales and profit growth from now on. We remain very cautious as we believe that the American and European consumers will continue to be prudent and deleverage while Asia will remain relatively strong. We do not see growth accelerating and risks are to the downside.

In that context, we continue to favor companies that will experience secular growth driven by factors not overly influenced by the economy. Healthcare, outsourcing, infrastructure, continue to be favored themes.

We recently added a new holding in the portfolio. The company is Savills PLC, one of the world's largest real estate firm.

SAVILLS PLC (SVS LN- GBp310.4)

www.savills.com

Business Overview

Established in 1855 Savills PLC is the 5th largest global real estate services provider employing more than 20 000 people in 200 offices around the World. The company is the leading residential and commercial agency in the UK. Around the World, the company provides **Agency services**, 38% of revenues (investment, sales, acquisitions, leasing), **Consultancy**, 20% of revenues (valuation, etc.), **Property and facilities management**, 37% of revenues, managing over 90 million sq. meters, and **Fund management**, 3% of revenues. Revenues are split between the UK at 49% of revenues, Asia at 42% and Europe at 8%.

Market Data

Market cap GBP410M, no debt, cash GBP51M, div yield 2.9%, P/E (12/2011) 15.6x, EV/T12 ebitda 11.2x, profit margin 3.2%, ROE 9.8%, insider ownership, 1.5%, 1-year total return -6.1%

Target Market

- The international real estate services market is estimated at more than \$100 B per year and very fragmented. The largest company in this market is CB Richard Ellis (CBG US) with around US\$5 billion in sales. That market is cyclical with transaction values affected by the Global Economy and the health of the real estate sector. However, three strong trends are driving growth:

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- Outsourcing of property and facilities management
- The growing importance of real estate as an asset class for pension funds.
- The emergence of Asia and other developing economies.

Competitive advantages

The industry is very fragmented but a few dominant global players have emerged in the last few years as the industry consolidated.

Savills competitive advantages are:

- Global player with international presence. Can serve multinationals globally.
- Leader in the UK and no. 2 in Asia
- Strong balance sheet.

Competition

- Other Global companies include CB Richard Ellis (CBG US), Jones Lang LaSalle (JLL US), a holding in the portfolio, Colliers International and a great number of local or regional companies.

Growth strategy

- The company's strategy is to continue its geographical diversification. Over 50% of revenues now come from outside the UK. Asia will continue to grow strongly. The company is not present in the US and this could represent a long term opportunity.
- Over 60% of revenues are recurring. The company will continue to expand the areas of consultancy, property management and fund management.

Risks

- As we saw in the 2008/09 period, transactional revenues are very affected by real estate cycles.
- Relationships with Corporate clients often depend on a few individuals that may decide to leave.

Investment Theme

Favorable industry trend: Global Real Estate as an asset class. Outsourcing of property management, Asian growth. Industry consolidation. All favorable trends for Savills. The company still is viewed as a UK real-estate broker whereas more than 50% of revenues are from outside the UK and almost 60% of revenues are recurring (consulting and property management).

Valuation

Target price = GBP550, using DCF model at growth rate of 10% for the next 5 years, 6% at maturity, risk premium of 8%, and payout at maturity of 60%.

Have a nice week.

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COMMENTARY cont.



Regards

The Global Alpha Team

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