COMMENTARY

July 15th 2010

Dear clients and colleagues:

As we come in the office this morning, one of our recently added holdings, NBTY (NTY:US) is being acquired by the private equity group Carlisle for $55, a premium of 48% over the previous day's closing price. NBTY, the World's largest integrated vitamin maker, wholesaler and retailer was profiled in our May 11th commentary.

Our thesis for the stock was that the company was a leader in a large market US$75B, growing faster than the economy (10%). The company was a leader, with industry leading margins, an excellent management team. Finally valuation was very attractive at 5.4x trailing EBITDA. An ideal candidate for a private equity or LBO firm.

There is an interesting observation to be made about the price Carlisle is paying – $55. This was the highest price the company reached in February of 2007. The price then retreated to $12 in March of 2009, subsequently recovered to around $51 in April of this year on takeover rumors before trading down to the $31 area recently on slower sales growth than expectations (still >10% growth). In many takeovers, for solid growing companies, we have noticed that the price paid is generally close to the highest price reached. That is something to be expected as investors and management have the expectation that the company is worth that much.

Actually, today was an interesting day with many takeovers announced. **Aecom (ACM US)** has acquired Tishman Construction Corp., a leading provider of construction management services in the United States and the United Arab Emirates, in a US$245-million transaction. The CKX **(CKXE US)** board has amended its poison pill – allowing Bob Sillerman, former CEO and its biggest shareholder, a better chance of making a play for the company. In Greece, Piraeus Bank had placed a bid for large stakes in ATEbank and Hellenic Postbank, and in Australia, Canada Pension Plan Investment Board (CPPIB) has made a C$3.5B takeover bid for Australian toll-road operator Intoll Group (ITO AU). Markel (**MKL US)** is to buy Aspen, a privately held insurance group that provides workers' compensation insurance and related services, principally to small businesses, in 31 states. Mylan (MYL US) announced plans to acquire Bioniche Pharma Holdings Limited, a privately held, global injectable pharmaceutical company for $550 million in cash. NTT of Japan is buying U.K. information-technology company **Dimension Data (DDT LN)** for 2.1 billion pounds (US$3.2 billion). On Semiconductor (ONNN US) is to buy Sanyo's semi business for US$366MM cash.

As one can see, most of these deals are for smaller companies. We often read the big headlines about megamergers, but most transactions are in the smaller cap area. We expect the pace of M&A to accelerate in the near future as many companies have strong balance sheets and financing appears to be easier and LBO funds are sitting on over $500 billion of funds committed by their investors.

We do not buy companies because of their likelihood of being acquired. However, we like this margin of safety, or important discount to intrinsic value as Graham or Buffet would say. With that approach, it is not surprising that each year we have approximately 10% of our portfolio that gets a takeover offer.

Our last comment is on the impact of index weight on portfolio management.

For most portfolio managers, the biggest risk is to underperform benchmarks. As such, the more important individual stock weights are in the benchmark, the more likely the stock will be included in the portfolio. A stock like NBTY, before it got acquired this morning, had a market capitalization of US$2.3 Billion. In our index, the MSCI World Small Cap Index, that would be a weight of 7 basis points. A takeover at a 48% premium, if we do not own the stock, would cost us around 3 basis points in relative performance. A very different story in the S&P/TSX Small Cap Index where the same company would be around 1.75% weight in the index, a must own.

In our universe, not owning a stock is not a critical error, "errors of commission", i.e. owning the stock like Buffet would say, will determine our performance. This is how we explain that our team can manage a universe of over 5,000 companies to choose from. Our goal is to find 15 to 20 good ideas each year rather than finding the best company in each of the 24 countries in which we can invest.

Have a good week.

The Global Alpha Team