



March 18, 2011

Dear clients and colleagues,

Following last Friday's earthquake and tsunami in Japan, we want to express our deepest sympathy for the people who have been affected by those tragedies.

Much has been written in the last week about the economic and social consequences of these disasters. In our opinion, the impact remains unknown. However, one of the most shortsighted comments is how this disaster will create economic growth. How could this be possible? Destruction does not create wealth! Those resources that will be used to rebuild Japan are resources that would have been better utilized to create real growth!

We want to give you an update on the Japanese companies in the portfolio as well as our opinion on the potential effects of the disaster.

Our Global Small cap portfolio holds seven companies, a total of 11.3% of the portfolio compared to 8.9% in the MSCI index. Many companies were profiled in the last few months and are in different industries from medical supplies to semiconductor equipment to industrial waste recycling. None of our companies suffered material damage to their physical assets. However, some have facilities north of Tokyo, the region most affected. Those companies may suffer production delays and higher costs as a result of power blackouts and difficult logistics. Nakanishi and Disco come to mind. In the short term, some companies may be positively affected as they will participate in the effort to clean-up and rebuild, Nabtesco, Daiseki and Kamigumi among them.

Company	Sales from Japan	Products/Services
Nakanishi	25%	Dental equipment
Disco	30%	Precision equipment
Horiba	36%	Measurement equipment
Nabtesco	70%	Motion-control products
Kamigumi	90%	Logistics and transportation services
Hogy	98%	Disposable surgical-use products
Daiseki	100%	Waste management services

In terms of the impacts on the Japanese economy and the Global economy, the Great Hanshin earthquake of January 1995 dealt a heavy blow to the economy in the city of Kobe but had minimal impact elsewhere. The adverse effects to consumer sentiment were short-lived also. The big unknown this time is the unfolding of the nuclear accident at Fukushima and its impact on Japan's capital and biggest city, Tokyo.

An important slowdown in the Japanese economy would no doubt have an impact on global growth. Japan is the 3rd largest economy in the world and the 2nd largest importer of oil. With its population of 130 million people, the Japanese consumer market is the 2nd largest in the world, more than 3 times the size of the Chinese consumer market.

The country is well known as a leader in industries such as automobiles and electronics. It is also a leader in the fields of environmental technologies, alternative energy and energy conservation. So, no doubt, a slowdown in Japan will impact the global economy.

In terms of Japan's high debt level and the potential for a financial crisis due to the cost of rebuilding (currently estimated between US\$250B and US\$1 Trillion): We believe that the risk is that Japan, the world's largest creditor, repatriates capital to rebuild the country thus impacting interest rates elsewhere, particularly in the US.

In terms of potential longer-term effects, the political landscape has been ready for changes and reforms for years and the population is generally supportive of these changes. This tragic event may be the incentive needed to embark on those reforms.

The banks and the financial system are in a good shape and will absorb the shock. The credit rating of Japan's top four banks is AA-. The country has a better private, non-financial debt ratio than the US or the UK: currently it is 140% of GDP in Japan vs. 170% in the US and 220% in the UK (an all-time high). Finally, most Japanese companies have very strong balance sheets.

In terms of lasting impact on some industries, some come to mind.

The future of nuclear energy is in doubt. But the future of other forms of alternative energies is now brighter than ever.

The Property and Casualty insurance sector as well as the reinsurance industry will no doubt review risks and premiums following a series of catastrophes in the last few years.

Again, our thoughts are with the Japanese people.

Have a good week.

The Global Alpha team.