

December 12th, 2011

Dear clients and colleagues,

Following our comment on the solar industry last week, MidAmerican Energy Holdings, the utility owned by Warren Buffet's Berkshire Hathaway, and one of the largest wind-farm owners in the US, made its first investment in solar power by buying the Topaz solar farm project in California from FirstSolar. At a planned capacity of 550 MW, it's one of the largest solar photovoltaic (PV) power projects in the world. Upon completion, slated for 2015, Topaz will supply clean, renewable electricity to some 160,000 homes.

With legislation requiring that 33% of the state's electricity come from renewable sources by 2020, California continues to lead the nation in renewable energy investment and project development.

The president of MidAmerican was quoted as follows:

"This project also demonstrates that solar energy is a commercially viable technology without the support of governmental loan guarantees and reflects the type of solar and other renewable generation that MidAmerican will continue to seek to add to its unregulated portfolio,"

Definitely some good news for the industry and the environment.

This week we attended UBS' 39th Global Media Conference in NYC along with more than 2000 institutional investors. About 150 companies, large and small, presented in a fireside chat format as well as some industry panel and forecasters.

Here are some of our observations:

- The tone at the conference was very optimistic, in sharp contrast with the gloomy macroeconomic news we read every day.
- 2012 will be a great year for advertising revenues in the US with a record amount expected to be spent for the US elections, as well as the Summer Olympics. In addition, the recovery that started in 2011, driven in part by the auto and retail industry, should continue in 2012.
- Companies are in a very different situation than in 2008. Debt levels have been greatly reduced and remaining debt maturities have been extended far in the future and with much lower interest rates. So balance sheets in general are in the best shape they have been in over a decade.
- The shocks that specialty cable channels and the internet brought on traditional media companies have now been absorbed.
- All companies now have a digital strategy and most have now figured ways to make money from the internet.

An example is how many newspapers have gotten together to own various coupon sites such as find n save or zip2save.com, competing head-on with well-known sites such as Groupon or LivingSocial, but with the benefit of much better knowledge of the local market and a more important sales force.

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Another example is how some media companies have gotten together in partnership or ownership with specialist web sites like CareerBuilder (Jobs) or Zillow (Real Estate)

Let's discuss some themes from the conference.

We are back to the theme 'Content is King'. The Internet, Netflix, Hulu, YouTube and the international markets are just more distribution channel for content. A good example is the recent deal by ESPN and the NFL to expand their broadcasting rights for 8 years for \$15.2 billion. Or, closer to home, the price Bell and Rogers paid for Maple Leaf Sports & Entertainment.

Television and radio companies expect a good 2012. They now spend a lot more on local programming to reach local advertisers, an increasing part of their revenues.

Newspaper companies all now have a digital edition with a pay version for premium content. They often can derive higher rates for digital advertising than they were in their print edition. The rapid adoption of tablet and e-readers will accelerate that growth.

Interestingly enough, the print newspaper is not dead. Many companies have seen their Sunday edition circulation grow this year.

The trend to available anytime anywhere is accelerating. Smart television sets will be an enabler.

Bundles (ex: 200 channels for \$20) will slowly disappear, replaced by "a-la-carte" offers, in part to reflect the increasing cost of programming.

Our conclusion from the conference is that change will continue and that the content owners and broadcast networks which have seen their stock price go up a lot this year are not the clear winners. The increasing cost of programming might put a ceiling on earnings growth and will increase the risk profile.

On the other hand, newspaper stocks are at or close to their all time lows and may represent a good buying opportunity.

We own a few media related companies in the global portfolio; Sohu.com (SOHU US) is the #3 player in China's internet market, a leader in on-line and social gaming and growing rapidly in search and video. We also own Rentabiliweb, (BIL BB), a French-Belgian company that specializes in monetizing internet audiences. Finally, we own OPERA software (OPERA NO), a Norwegian company that has a leading market share in browsers on smart phones and on television.

Have a good week.

The Global Alpha Team.

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