

February 27, 2015

Dear clients and colleagues,

Market statistics and milestones such as S&P500 at 2000, Oil at \$100, negative interest rates, fascinate most market watchers. However a few milestones have yet to be reached and are now the obsession.

Milestones such as - when will the Nasdaq reach its previous peak of 5132 of March 31st 2000? We are less than 3.5% from it. The other one is: "Will Apple become the first company to ever reach a Trillion dollar valuation?" It looks as if both might be reached, whatever it means.

Apple's current market cap is US\$750B, which is up 76% in the last 12 months. The question is not whether this valuation is justified or not. What really surprised us is that it exceeds the entire market capitalization of the S&P 600, the small cap index. Those 600 fast growing companies had sales of US\$650B in the last 12 months compared to Apple's US\$200B. In 2015, those 600 companies are expected to grow earnings by 22%, the same as Apple.

We often discuss risk with our clients. A good way to manage risk is to have a diversified portfolio. Today, Apple is 4.5% of the S&P 500. If you manage a large cap portfolio, not owning Apple is a big risk. We believe small cap be considered a lower risk investment. And as managers, we do not need to own any specific company as none of them are bigger than 0.2% of our benchmark.

Year to date - Europe and Asia have both outperformed the US on a US\$ return basis. The main reasons for the improvement are faster expected profit growth, lower multiples, economies that are improving and better liquidity.

This is still not the case for small cap which are lagging their large cap benchmarks. We believe it is a matter of time, probably a few months before small cap catch up. Faster growth, attractive multiples, less impact from currency fluctuations, increased merger and acquisition activity, fund flow, will all be drivers of that outperformance.

Last week, we discussed the merger and acquisition cycle. This week, a few of our companies were in the News. First, Polypore, www.polypore.net, a world leader in polymer-based membranes used in separation (batteries) and filtration (medical/environment) processes, got acquired by Asahi Kasei from Japan and 3M from the US. World Duty Free, www.worlddutyfreegroup.com, the sister company of Autogrill which we profiled a few weeks ago received indication of interest for the controlling stake held by the Benetton family. Treasury Wine, www.treasurywineestates.com, which last year turned down a takeover offer by KKR last year at A\$5.20 is now trading at A\$5.46, and is back in the news as KKR would be contemplating a new offer for the company. TravelCenters of America, www.ta-petro.com, received a letter from an activist shareholder suggesting to break-up the company to unlock value.

A busy week for sure, but a sign of more to come. In the period between 2003 and 2007, more than a third of the companies in our portfolio got acquired.

COMMENTARY cont.



Our team will be very busy in the next few weeks, attending numerous conferences in the US, Japan and Europe. We will be meeting many companies in the portfolio as well as numerous others.

We are looking forward to keep you updated.

Have a good week.

The Global Alpha Team.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.