

October 23, 2015

Dear clients and colleagues,

Good diversification is critical to achieving consistent outperformance. Our global small cap portfolio is exposed to 64 companies in 13 countries across 35 different industries. Attribution since inception has proven our approach in that most of the added value is from stock selection, not asset allocation.

Let's use Japan as an example. We have been investing in Japan since inception in 2008, because we found many high-quality niche leaders at cheap valuations in the world's third largest economy. Then, at the end of 2012, the Japanese stock market took off and doubled within two years. Our portfolios have enjoyed the rally since day one.

The diversification story continued. As you know, the rally in 2013 and 2014 was mainly driven by exporters thanks to weaker yen, which dropped from 80¥/US\$ to 120¥/US\$. As a result, domestic players were largely ignored and traded at a discount. We believed from the start that the strong momentum of yen depreciation could not last forever. Thus, to enhance well-diversified industry exposure, we added three domestic names in Q3 2014. Pola Orbis is the fourth largest cosmetics maker in Japan. Sanrio is the creator and owner of Hello Kitty. Ariake is a top producer of natural seasonings in Japan. Since initiation, these stocks have returned about 90%, 7% and 130% respectively, compared to Nikkei 225 at 20%.

We have profiled Pola Orbis and Sanrio in the past, so this week we provide an overview of Ariake.

Ariake Japan Co., Ltd (2815 JP - ¥5,510)

www.ariakejapan.com

Business Overview

Founded in 1966, Ariake is the #1 producer of natural seasoning concentrates extracted from animal bones in Japan. It has over 3000 products used in soup, bouillon, broth, and sauce bases. Customers are all commercial users that include hotels, restaurants, and makers of instant noodles, frozen foods, retort food, and prepared meals. The original brand of infusion bouillon was developed together with the famous French chef Joel Robuchon.

The investment themes behind Ariake are Healthy Living & Convenience. Natural seasonings are getting more and more popular because they are safer and taste better compared to artificial seasoning. Ariake's target market is growing at 2% annually in Japan and double digits in Asia. 19% of sales are from overseas.

ESG

Ariake's products are HACCP, ISO9001, ISO14001 and Good Agricultural Practices (GAP) certified. Ariake Farm is one of the largest organic farms in Japan, and promotes ecological cycle operation by making full use of biotechnology.

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.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

Chairman Kineo Okada and his family own 40% of the company. 3 out of 12 board directors are independent.

Market Data

Market Cap U\$1.5B, Net cash U\$126M, Dividend Yield 1.0%, P/E (2017/3) 27.6x, Ev/Sales 3.2x, Ev/Ebitda 14.3x, Gross Margin 31%, Operating Margin 15%, Profit Margin 12%, ROE 9%

Competition

No major competitor. It is a very fragmented market in Japan. Ariake is #1 with 40% market share, mainly competing with in-house production of seasonings by other food companies.

Competitive Advantages

- Superior quality
- Proprietary technologies
- Cost leader thanks to economies of scale

Growth Strategy

- Distribution: New growth driver is convenience stores in Japan. It has overseas plants in the US, China, Taiwan, France, Belgium and Netherland.
- Consolidation: In 2013 it acquired Henningsen Nederland B.V. for new sales channels.

Risks

- Animal diseases
- FX volatility: 20% of raw materials are procured from Europe and the US.

Ariake expects operating profits to grow 27% in the fiscal year ending March 2016. In the past June quarter, its operating profit grew 58% driven by both higher volume and margin. With major capex of ¥20B worldwide ending last year, we are confident that the strong business momentum will continue to reward long-term shareholders.

Have a nice weekend.

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.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.