

October 6, 2017

**Dear clients and colleagues,**

Increasingly, Environmental, Social and Governance (ESG) factors are being analyzed by the investment community, and climate impact is one of the priorities. The Montreal Carbon Pledge and the Portfolio Decarbonization Coalition are initiatives created to report on investment portfolios' emissions and to reduce greenhouse gas exposure. In France, there is already legislation that makes it obligatory for institutional investors to analyze and disclose the carbon footprint of their investments.

Since October 2012, Global Alpha has been a signatory to the UN Principles for Responsible Investment (PRI). We are conscious that our investment in a company finances its emission of greenhouse gases. We are pleased to report that as of June 30, 2017 the carbon intensities of our Global Small Cap and International Small Cap portfolios were well below their benchmarks and peer groups.

The overall annual carbon footprint of our Global Small Cap portfolio (Scopes 1 & 2) is 8,894 tonnes of CO<sub>2</sub>e, which is 60% less carbon intense than an equivalent investment in its benchmark, the MSCI World Small Cap Index.

The overall annual carbon footprint of our International Small Cap portfolio (Scopes 1 & 2) is 7,561 tonnes of CO<sub>2</sub>e, which is 65% less carbon intense than an equivalent investment in its benchmark, the MSCI EAFE Small Cap Index.

### How do you calculate the carbon footprint of a portfolio?

The primary approach is to measure how many tonnes of Co<sub>2</sub>e an investor would finance in relation to the respective ownership in a portfolio. The metric describes the carbon intensity (emissions divided by USD million invested) of an investment amount. A company's share of emissions is determined by dividing the value of the shares held by the company's market cap.

### What are Scopes 1 & 2 & 3?

- Scope 1 is defined as emissions from sources that are owned or controlled by the organization; for example, from burning fossil fuels or emissions released during the production process.
- Scope 2 is defined as emissions from the consumption of purchased electricity, heat, steam or other sources of energy (e.g. chilled water) generated upstream from the organization.
- Scope 3 is defined as emissions that are a consequence of the operations of an organization but are not directly owned or controlled by the organization; for example, emissions generated by business travel.

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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<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

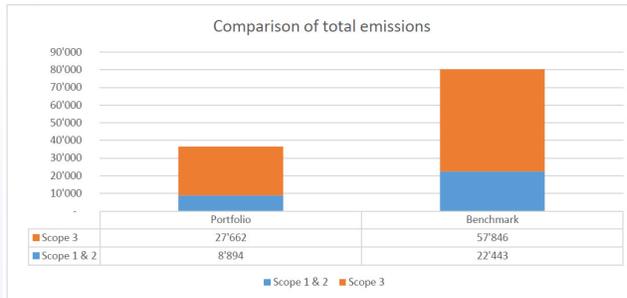
**Who assessed our portfolios?**

ISS-Ethix Climate Solutions (ISS-Ethix). ISS-Ethix provides the largest coverage of companies in the entire investible equity universe (25,000+ companies). When a company does not disclose its carbon footprint data, ISS-Ethix can generate an approximation based on 800 sub-sector specific models developed in-house.

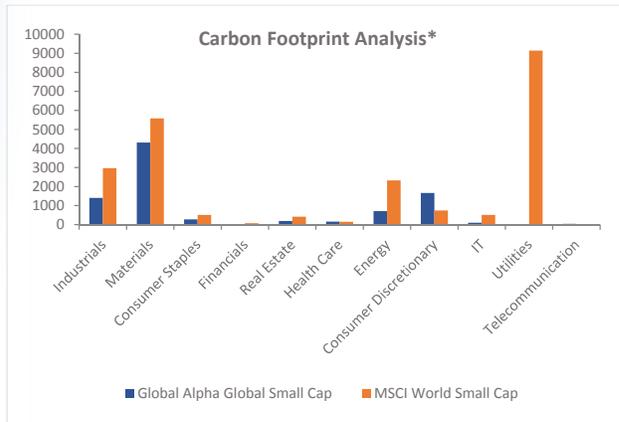
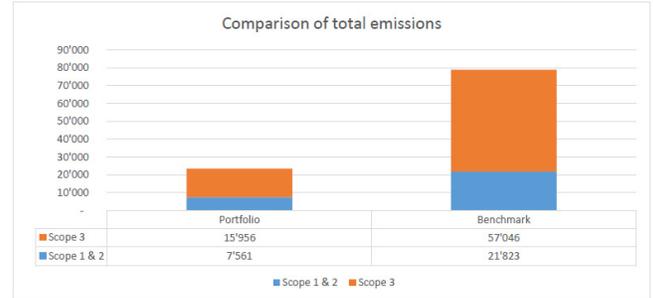
**How did we score compared to our peers?**

ISS-Ethix said it's hard to compare our portfolios' carbon footprints to those of our small cap peers because small cap managers seldom disclose such data. But looking at figures made available by asset managers in the global investment universe, ISS-Ethix believes the average carbon intensity of a portfolio is between 240 and 326 tonnes of CO<sub>2</sub>e. The carbon intensity of our portfolios is well below average, with our Global Small Cap portfolio at 89 tonnes of CO<sub>2</sub>e and our International Small Cap portfolio at 76 tonnes.

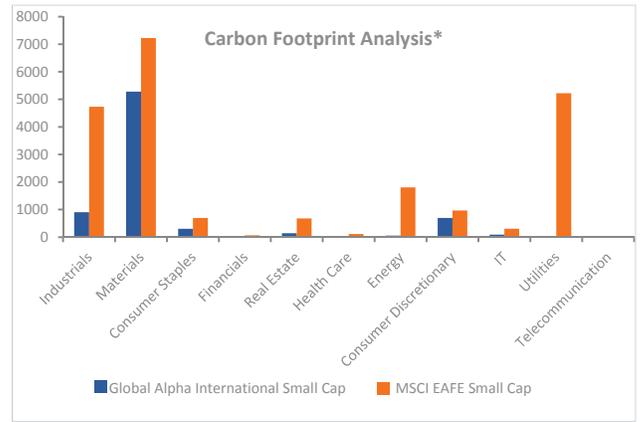
**Global Alpha Global Small Cap Portfolio**



**Global Alpha International Small Cap Portfolio**



\*Y axis represent Absolute Scope 1 & 2 emissions (tCO<sub>2</sub>e) as of June 30th, 2017, on an investment of \$100,000,000 (USD)  
Source: ISS-Ethix



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ESG integration is a very complex subject. We want to provide substance, not just tick boxes. Right now we are designing an ESG questionnaire for companies to complete and also creating specific guidelines on executive compensation. We will keep you updated on our progress.

Have a great weekend.

The Global Alpha team

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