

December 11, 2008

Dear clients and colleagues,

Since bottoming on November 21st, markets around the World are up more than 10% with small cap indices leading the way.

More disappointing economic data is being released, but markets are trying to figure out if it is already factored in stock prices. In addition, Governments around the World are announcing important stimulus measures to restart their economies.

More important data points this week came from the fixed income market. The Bank of Canada lowered its main rate to 1.5%, the lowest since 1958. And the US T-Bill yield actually went negative for the first time ever.

We added one company in the portfolio and removed one as well.

We added Greggs PLC, www.greggs.co.uk, Greggs is the UK's leading baker retailer, specializing in sandwiches, savouries and other baker-fresh food on the go. There are over 1100 Greggs shops throughout the UK serving over 5 million customers each week. Because of its attractive value-proposition and remaining growth prospects in the UK, we believe Greggs will outperform its competitors.

We have sold Rosetta Resources, a US gas exploration and production company and reinvested the proceeds in our other energy holdings.

Only one of our companies reported results this week. Carl Zeiss Meditec. For the year ending September 30th, Revenues grew 5.4% and net income grew 13.2%. The company increased its dividend by 15%.

Carl Zeiss Meditec (AFX on the Frankfurt exchange) www.meditec.zeiss.com, is the ophthalmology subsidiary of Carl Zeiss Group, one of the World leaders in the field of optics.

Market cap: Euro 672 million, Sales: Euro 600 million. P/E (TTM): 12.3x, P/E (2010): 9.3x, EV/EBITDA (TTM): 6.6x, Net debt: -150 million (net cash), expected sales growth: 6%, Dividend yield: 2.1%.

Carl Zeiss Meditec is an integrated medical technology company with two main areas of business activity.

In the field of ophthalmology the company offers complete solutions for treating the four main eye ailments: vision defects (refraction), cataract, glaucoma and retinal disorders. The company is also an emerging player in the growth market of neuro/ear nose, throat surgery. The company also has promising future technologies such as intraoperative radiation therapy which allows the targeted treatment of breast cancer and brain cancer during the operation stage itself.

Target Market and growth

The World market for ophthalmology is US\$25B of which Systems and devices and Intraocular lenses and disposables are US\$7 Billion growing at around 10% per year driven by demographics.

The World market for surgical microscope and displays is around US\$1B growing at 4%. Zeiss is the dominant player

Competitive advantage:

#1 player in most of its market. Truly Global player. Best in class technology (Zeiss brand).

Growth strategy

Customer franchising. Zeiss's strategy is to penetrate eye specialists to grow their market share, particularly in the intraocular lenses where it only has 2% of the market.

Management assessment

Experience management, cross management between Zeiss and Meditec.

Risk

A general economic slowdown. Less reimbursement by insurance companies and government.

Valuation and target price

Our target price using a DCF, discount rate of 8.2% and growth rate at maturity of 6% gives us a target price of Euro19.38, a return of 133%.

We will now take a pause for our weekly comments until January. On behalf of all of us at Global Alpha, we wish you a very happy holiday season.

Robert Beauregard