

October 1, 2010

Dear clients and colleagues,

In mid-September we attended two conferences in San Francisco, one on clean technology by Wedbush, the other one multi-sector by Bank of America. A total of over 170 companies and 500 investors were present. In particular, we got the chance to meet management of three holdings in our global small cap portfolio. Here are some takeaways.

Company consensus: positive on recovery but cautious on expansion

After three days' of conferences, it was very easy to sense the unanimous view among companies across industries. All expressed confidence in their business improvement based on growing external demand and effective cost control. As these companies expect a very slow recovery pressured by high unemployment and a weak housing market, they emphasized lean operations and cash preservation. Most companies were reluctant to increase their dividend or increase share buybacks in order to save for rainy days.

Clean technology: growing awareness yet slow adoption

Presentations at the Wedbush conference covered a variety of subjects such as electric motors, solar power, wind power, biofuels, and smart grid technology. Investors expressed a high level of real interest on clean technology. While recognizing that the technology offers emerging and tangible opportunities, the current economic situation has created budget constraints for many governments. And government support remains the key driver of this industry. This has created an uncertain operating environment.

Technology adoption has been slow, with targets out of many investors' time horizon. For example, the price of solar energy is expected to reach parity with that of traditional energy no earlier than 2014. The US government's goal for vehicle electrification is 1 million plug-in electric vehicles on the road by 2015.

While acknowledging the attractiveness of clean technology as an investment theme, we remain disciplined in stock picking and shy away from speculative theme plays. We own a few securities with exposure to clean-tech: Ormat, the third largest geothermal power producer in the US and a world leader in geothermal technology, with a total of 520 MW of geothermal generating capacity worldwide. Portucel, a Portuguese integrated paper company but also the largest private energy producer from biomass. Disco, a Japanese company and an important supplier of equipment to the LED industry. Waste Connections, a US waste and recycling company, but also an important producer of energy from landfill gas. PMC Sierra, a US semiconductor company with an important exposure in power management.

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Update on three holdings: Aptar, Chico's and Waste Connections

Aptar, www.aptargroup.com, is a leader and the only pure play in the dispensing system industry with about \$2B in annual sales. Its products are widely used for the packaging of beauty & home, food & beverage (F&B), and pharma products worldwide. The company experienced a strong recovery in 2Q2010, with sales up 19% and EPS up 52% y/y. Management expects high single-digit sales growth in the coming years, vs. 1999-2009 sales CAGR of 9%. The company re-aligned its business segments this year to single out F&B business and made it a key growth driver. Besides conducting share buybacks, Aptar was one of the few companies at the conference that continued to increase dividends.

Chico's, www.chicosfas.com, is a women's specialty retailer in the US with \$1.7B in annual sales and 1125 stores across the country. It operates under 3 brands: Chico's, White House | Black Market, and Soma Intimates. Target clients are fashion-conscious mature women aged 25 and above with moderate to high incomes. Same store sales in 2Q2010 grew 6.4% and were expected to increase to mid teens in 2011. Management was confident about the fashion attractiveness of their brands. Pricing power is expected to increase in 2H2010 due to fewer markdowns. Costs should decrease thanks to cheaper sourcing. Both initiatives should help to improve margins. With \$487M cash, management intended to keep the dividend stable and buy back 10% of outstanding shares through January 2013.

Waste Connections, www.wasteconnections.com, is the third largest publicly-traded solid waste company in the US with \$1.3B in annual sales, serving over 2 million customers in 26 states. In 1H2010 the company had sales growth of 12.8% and expected 7% in 3Q2010. Volume stabilized and turned positive. Pricing was expected to increase 2.5-3% y/y in 2010. Acquisitions in secondary and exclusive markets remained the growth driver. The share buyback target for 2010 was 5-6% of outstanding shares with 3% already completed.

In conclusion, the conferences introduced new ideas to our research, which we will follow up on. We maintain a positive view on our three existing holdings.

Have a good week.

The Global Alpha team

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