

January 14, 2011

**Dear clients and colleagues,**

Investors often hear about indices like the S&P500 and, in Canada, the S&P/TSX.

In Canada, 3 sectors (there are 10 GICS sectors) - Financials (28%), Energy (27%) and Materials (23%) - account for more than 78% of the S&P/TSX. Hardly a true representation of the Canadian economy and certainly not a very diversified index. Interestingly, those 3 sectors are also the most important sectors of the MSCI Emerging Markets Index.

The MSCI World Small Cap, our benchmark index, is very diversified. All 10 sectors are represented and 5 sectors have a weight of more than 10%.

Going a bit deeper to the industry level (there are 66 industries), the top 3 industries in Canada are Oil & Gas at 26.5%, Metals and Mining at 18.5% and Commercial Banks at 18%. So 3 industries represent 63% of the index, leaving 37% for the remaining 63 industries. Again, all 66 industries are represented in the MSCI World Small Cap Index, with the top 3 industries being Real Estate Investment Trusts (REITs) at 5.9%, Metals and Mining at 5.2% and Machinery at 5.0%. This totals 16%, leaving 84% for the other 63 industries.

We wanted to reiterate the great diversification benefits of the MSCI World small cap for Canadian investors.

Real Estate is an important industry in our benchmark index. We have a few holdings in the portfolio: Mid-American Apartment, [www.maac.net](http://www.maac.net), a US owner of some 46 000 apartments in the southeast, Midwest US and Texas; and also Hong Kong and Shanghai Hotels, [www.hshgroup.com](http://www.hshgroup.com), the owner of the Peninsula Hotels around the world as well as commercial and residential properties in Hong Kong.

Real estate, and REITs in particular, has had very strong returns since March 2009. This was mainly driven by improving occupancy and rent, low interest rates and strong investment demand. As we wrote in our comment of September 22, 2010, we feel that commercial and office real estate opportunities around the world are very few due to near record valuations. We believe that investment demand will remain strong, however, and as such have a strategy to participate in other ways.

We own Jones Lang Lasalle, [www.joneslanglasalle.com](http://www.joneslanglasalle.com), the second largest real estate and investment management service company, profiled in our September 18, 2008 comment. We also recently purchased the number four player, Savills PLC, [www.savills.com](http://www.savills.com), profiled on September 10, 2010. We also own Lennar, the fourth largest US homebuilder, [www.lennar.com](http://www.lennar.com), profiled October 15, 2010. We recently added China Real Estate Information, [www.cric.com](http://www.cric.com), a China provider of real estate information and the exclusive partner of both SINA and BAIDU, which we will soon profile.

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Finally, we also recently added CoreLogic, [www.corelogic.com](http://www.corelogic.com), to the portfolio.

### **Description**

US-based CoreLogic is a leading player in providing information and business analytics to the residential real estate industry, lenders, owners, agents. It has 2 divisions:

*Business and Information services (58% of Revenues / 55% of EBITDA, EBITDA Margin 25%).*

In this division, the company provides tax information (65% market share) to real estate lenders on the status of taxes due on specific properties. It also pays taxes on behalf of lenders. The company also has a flood division where it provides lenders a report of a property's flood hazard, a Federal legal requirement in the US. The company also has a property valuation business to mortgage lenders, real estate brokers and investors. Finally, the company also sells software and services to mitigate losses on default and manage foreclosures.

This business is mature and cyclical, has high cash flow, high barriers to entry, and has large market share. This business sells information and outsourced services. Clients consist of large national mortgage lenders (e.g. Wells Fargo, BOA, JP Morgan, C, and GMAC).

The other division is *Data & Analytics (42% of Rev / 45% of EBITDA, EBITDA Margin 30%).*

This division provides risk and fraud analytics. For example, statistical scoring and tenant background screening, risk management, collateral assessment, etc.

Its realtor solution also is used by over 45% of real estate agent in the US and Canada and is used to post information on MLS.

### **Target market size**

- There are over 120 million homes in the US and over 70 million mortgages. Over US\$2 Billion in mortgages is transacted each week.
- There are approximately 5 million homes sold each year, down from a peak of about 7.25 in 2005.
- There are approximately 38 million rental units in the US and 95 million people occupying them.
- The amount of data generated and analytics required is growing fast.

### **Competitive advantage**

The company is a market share leader and has well established relationships with major lenders. It has the most extensive database of proprietary and publicly available information. The data quality is well recognized.

### **Growth strategy**

We are optimistic that the market will grow. The US population is growing. Real estate transactions are down significantly from the peak. Foreclosures will still be important for a few years. And better analytics are required to avoid repeating the mistakes of the past.

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The company has many cross-selling opportunities, and it also will expand geographically by acquisitions. It recently completed an important acquisition in Australia.

### **Competition**

Depending on the segment, the company competes with LPS, Equifax, ASPS, FICO and multiple smaller players.

### **Risks**

- Rising interest rates may slowdown refinancing and home sales.
- Capex spend at financial institutions may slow.

### **Valuation**

Based on a WACC of 10.0% and a terminal growth rate of 6%, our target price is \$28.00.

[www.corelogic.com](http://www.corelogic.com)

Market cap: US\$2.3 billion; Sales (2011): US\$1.9B; Net debt/EBITDA: 1.1x; Net working capital per share: US\$2.16; P/E (12/11): 14.9x; EV/EBITDA (12/11): 6.8x.

Have a good week.

Regards

The Global Alpha Team

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