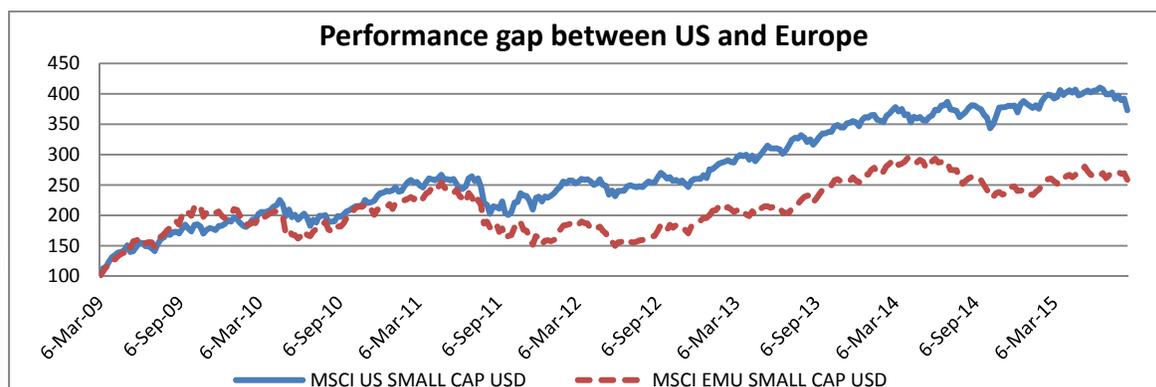


August 28, 2015

Dear clients and colleagues,

With Emerging market economies slowing and the unexpected devaluation by China, global equity markets have been quite volatile in the past few days. We believe the current correction offers some buying opportunities.

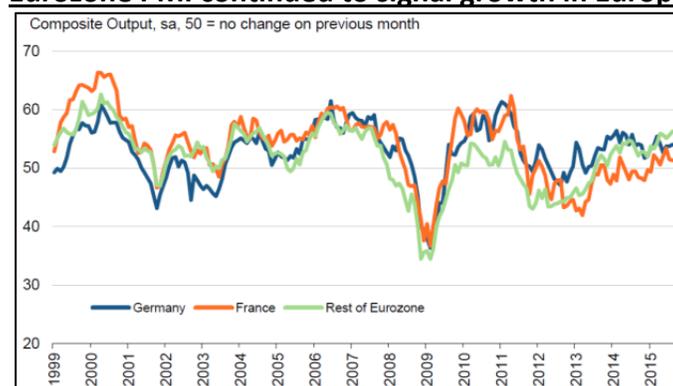
As regular readers know, we have been confident on European equities since the lows seen in 2011. We think that Europe is a better place to invest in today than it was a year ago. Although real progress has been made in Europe over the course of the year, the performance gap between Europe and the U.S. remains high. As macroeconomic data improves and earnings revisions intensify, the performance gap should narrow.



Source: GACM, MSCI

The August business survey published last week suggests that the Eurozone economy will continue to expand. The survey signaled that the Eurozone employment level has increased for the tenth consecutive month while backlogs rose at the fastest pace in more than 4 years. Even more interesting is that new export orders have outperformed the overall new orders index, a sign that European manufacturers are really benefiting from the weak euro.

**Eurozone PMI continued to signal growth in Europe**



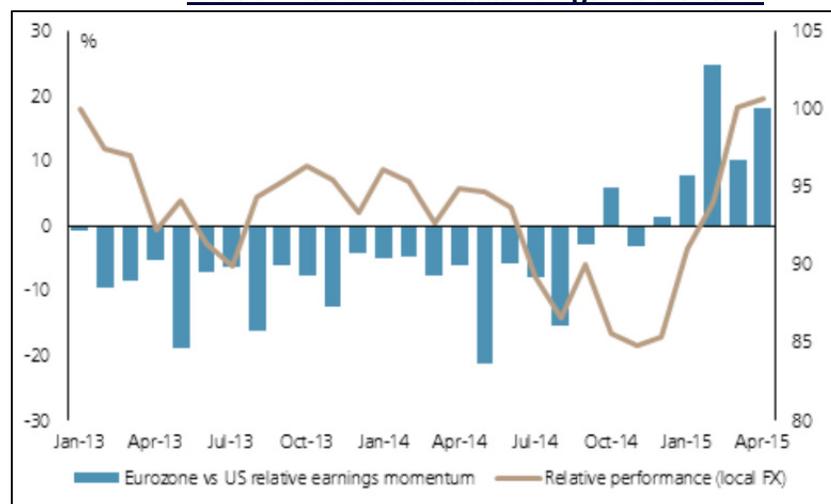
Source: Markit

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European small caps have benefited from strong earnings momentum compared to their U.S. counterparts. As noticed in our portfolios, Europe’s first half reporting season has been quite encouraging.

On average, our holdings that reported this summer have grown revenue by 16% while posting EBIT growth of 19%. The vast majority of those companies reported numbers ahead of anticipations. Although organic and external growth factors contributed, these strong results were certainly driven by a weaker euro.

**MSCI EMU vs MSCI US earnings momentum**



Source: UBS

We expect the remainder of 2015 to be favorable for European small caps. We believe that lower prices will benefit consumer spending and therefore domestic demand. In that context, companies that are domestically exposed should do well.

Have a good weekend.

The Global Alpha Team