

September 23<sup>rd</sup>, 2009

**Dear clients and colleagues,**

Welcome back. Hope everyone had a good summer.

The last six months have witnessed one of the strongest stock market rally ever with most benchmarks gaining in excess of 50% and with the riskier asset classes such as Emerging Markets more than doubling and approaching their all time highs.

Does that mean that the economy is back on track and we can expect pre-crisis global growth?

We do not think so. This rally was driven mainly by improving economic conditions, i.e. not as bad as before and massive liquidity. In order to have the next leg up in the markets, we need to see some meaningful earnings growth as markets are now at their most expensive in 7 years.

Our outlook for the rest of the year is generally positive. We do not discount a minor correction before the end of the year, but we believe that markets should finish the year higher as Q3 results will generally be in line or better with good guidance for Q4.

Investors want to feel good about this year and will only revisit their assumptions for growth and the risks of a "W" shaped recovery sometime in the New Year.

We believe that there is a significant risk for the economy to get back into recession as unemployment is still increasing, the consumer is still de-leveraging and the growth in consumption was mainly incentive driven and those incentives have no lasting impact on demand as declining car sales in Germany and France in August showed the short term impact of incentives. In addition, most Countries have deteriorating balance sheets and will eventually need to address it, either through higher taxes or lower services.

Metal Bulletin, the most important Metal's industry conference of the year beside LME week in October took place in Dusseldorf Germany last week and many of the participants indicated a recent softening of demand. The Baltic Dry Index, an index of shipping rates is down 43% since peaking on June 3<sup>rd</sup>. Steel prices have also been on a downtrend in August.

The last few weeks have seen resurgence in M&A activity. With large strategic buyers making acquisitions often for cash. Earlier this week, Dell Computer purchased Perot systems, one of our top 10 positions, offering a 68% premium to the last trade, and 3x what

the stock was trading at on March 9<sup>th</sup>. Illustrating our investment approach that if the stock market fails to realize the value, strategic buyers may.

In terms of portfolio strategy, we made no change. Our portfolio remains well diversified with quality companies that for the most part have been able to grow in the past 12 months and in many cases have increased their competitive advantage in the crisis.

In the next few weeks, we will be making a few changes as a few of our holdings were or will be sold because they were no longer “small cap” (>US\$5Billion market cap). We will be happy to introduce our new companies in the weeks to come.

We would now like to give you an update on one industry that we believe will experience tremendous growth for many years to come, the geothermal industry. There is one company in our portfolio that we profiled before, Ormat (ORA US) that is a leader in this industry.

### **Geothermal Energy**

While Solar and Wind power get a lot of attention, geothermal has been largely ignored.

Geothermal energy has key characteristics which make it increasingly attractive and commercially viable especially compared to other renewable. .

Geothermal energy is the heat generated by the earth’s core which is hot magma and that will be generated until the end of the earth as we know it. There is 50,000 times more energy available from geothermal resources than all the oil and gas combined, but contrary to other earth energy sources it is essentially clean, free and limitless. It is right under our feet and all it takes is to tap into it.

### **Geothermal electricity generation**

Typically, a geothermal reservoir forms when underground water is heated by hot rocks, themselves heated by magma, deep in the earth’s crust. The hot water and steam are more often than not trapped in porous rock under layers of impermeable rock. These are conventional hydrothermal resources, the only ones used commercially at the present time are found at depths ranging from 100 to 3000 m.

The principle is fairly simple. You drill into the reservoir and put pipes to bring the hot water to the surface where you have turbines to produce electricity.

The advantages of Geothermal are:

Competitive cost of energy (all-in costs);

Continuous, 24-hour per day base load availability;

High capacity factor at 84%, the second highest after nuclear at 90% and compared to solar at 20%;

Mature and proven technology;

Reliable, high efficiency, clean and renewable energy

Secure and U.S. based energy resource;

Large number of untapped reservoirs;

Land use compares favorably with wind (about 3 to 1 advantage), solar (8 to 1 advantage) and coal (9 to 1 advantage).

**Disadvantages of geothermal electric generation:**

High Capital costs ~ \$3,400 per KW;

Long development cycle.

As mentioned earlier, we own Ormat in the portfolio. Ormat is a vertically integrated company which is both an emerging power producer as well as a leading equipment and technology supplier. Given the favorable fundamentals of this industry and the increased level of incentives in the US, we feel very comfortable about the prospects for the company.

Have a good week.

The Global Alpha Team.