

May 22, 2020

Dear Clients and Colleagues:

In recent weeks, governments in many of the developed nations have eased lockdown measures and are gradually reopening their respective economies as the number of new coronavirus cases declines. Equities were up this week amid rising hopes for a COVID-19 vaccine and optimism about a release of pent-up demand after the economy reopens, despite the growing tension between the United States and China. However, many notable investors, including Howard Marks, are warning that the market comeback has gone too far, considering where we are in fighting the virus. While there is no clarity on when and how the global economy may recover, there has been a growing realization that economic activity is unlikely to return to pre-pandemic levels anytime soon.

Many people refer to SARS to gain visibility on the possible shape of the recovery. However, the SARS outbreak was concentrated in Asia, where savings rates are generally high; COVID-19 is a global pandemic, and savings rates are much lower in many developed countries, including the United States. We cannot expect the V-shaped recovery seen after SARS. Also, there is a strong likelihood we will see a second wave of COVID-19 outbreaks. Several cities in the northeastern part of China are now back to lockdowns due to a resurgence in the number of new cases.

The COVID-19 crisis has major implications for global economies and energy use, in addition to its immediate impact on health. It is the biggest shock to the global energy system in more than seven decades, according to a report from the International Energy Agency¹. The latest data show that the abrupt reduction of global economic activity and mobility during the first quarter of 2020 knocked down global energy demand by 3.8% in comparison to the previous year, while full-year energy demand could decline by around 6%, which is equivalent to the combined energy demand of France, Germany, Italy and the United Kingdom in 2019. All energy sources were affected, with renewables being the most resilient to lockdown measures so far, as they receive power-grid priority in most cases and do not have to adjust output to match demand. The share of renewables in global electricity generation increased to 28% in Q1 2020 from 26% a year ago.

¹ IEA (2020), Global Energy Review 2020, IEA, Paris <https://www.iea.org/reports/global-energy-review-2020>

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.

The total renewable power capacity is expected to grow by 50% between 2019 and 2024, driven by solar photovoltaic (PV) generation, which alone accounts for almost 60% of expected growth. SolarEdge Technologies Inc., a company in our portfolio, is a leading provider of optimized inverter solutions for rooftop solar panels. SolarEdge's solutions cover a broad range of solar-market segments, including residential, commercial and small utility-scale installations. It has the dominant share of the residential market in the United States. Technology and cost advantages have allowed the company to expand rapidly. In Q1 2020, SolarEdge posted another strong quarter, growing its revenue by 59%. The company will continue to grow by expanding its product offerings and global presence.

To integrate power generated from renewable sources, aging infrastructure needs to be upgraded. Traditional power grid architecture assumes a one-way flow of electricity, while today end users can produce and consume electricity at the same time with the help of rooftop solar panels. Grids need to be modernized to accommodate this two-way power flow. Further, the development of electric vehicles brings additional power distribution challenges, as it is hard to predict when and where electricity might be needed. This is why utility companies are making substantial investments to upgrade their grids and smart meters, and the information a smart meter provides plays a role in every technology utilities deploy.

Based in Switzerland, Landis+Gyr Group is a leading provider of smart meters worldwide, serving over 3,500 utilities and energy retailers globally, with an installed base of more than 100 million connected intelligent devices deployed to date. We established a position in this company in Q1 this year after a sharp pullback of the stock price due to regulatory approval delays in the United States. The company has a leading position in most of the markets it operates in. Their smart meters will not only facilitate reverse energy flows, but also provide data analytics functions, helping utility companies predict peak times and locations. Landis+Gyr's superior technology and long-term relationship with customers create high barriers to entry.

The penetration of smart meters varies by region and country. The United States are furthest along with regard to grid upgrades. With a 70% penetration rate, the country has already entered the replacement phase. Germany, Switzerland and India are still in early stages of deployment, while countries such as the United Kingdom, Japan, Australia, and France have begun mass deployment. This means Landis+Gyr's customers are at different stages of their upgrade programs, which will help reduce project cyclicity. While COVID-19 has caused short-term regulatory delays and installation postponements, the company has not seen any cancellation of orders. It is set to benefit from the secular trend over the medium to long term.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.

COMMENTARY CONT.



Have a great weekend.

The Global Alpha team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.