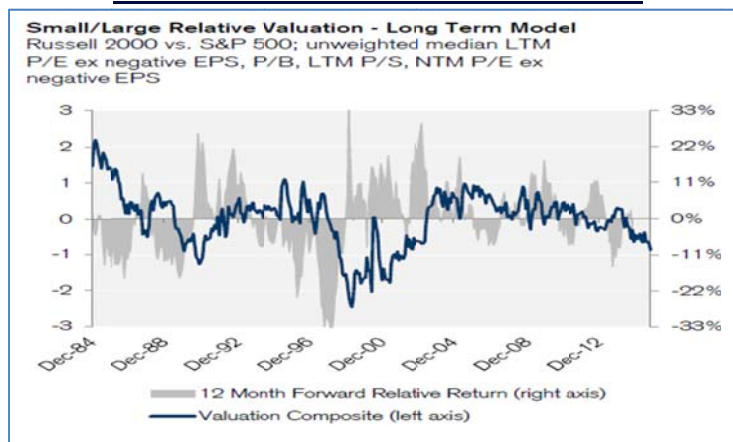


November 27, 2015

Dear clients and colleagues,

Stock markets have yielded remarkably well in the past few years. We continue to see selective opportunity in the global small cap space which should support equities. Here are a few of our observations.

Valuation of the Russell 2000 vs S&P 500



Source: Credit Suisse

- When taking a blended valuation composite, small caps valuations look attractive compared to the S&P 500. We have to go back to the tech bubble to see similar discounts
- Although fewer U.S. small caps are reporting better than expected Q3 revenue growth due to a stronger dollar, more than half of the Russell 2000 constituents are still beating earnings estimates
- During Q3, small caps companies have outpaced their larger counterparts on a revenue basis. On average, small caps have posted revenue growth of +1.5% from the same period last year versus -4.1% for the S&P 500
- In a context of weaker global growth, owning small cap companies that exhibit faster growth is justified

Returns of the Stoxx 600 vs S&P 500



Source : UBS

- European equities have underperformed in comparison to the rest of world for quite some time now however returns delivered year-to-date have improved considerably
- After a few years of bearish sentiment, European small caps are finally benefiting from strong earnings momentum
- Many factors should support European equities going forward such as a weak euro, lower raw material prices, real wage growth, a better employment situation and a very accommodative monetary policy

Volume of mergers and acquisitions (Year to date)



Source : Dealogic

- Volumes of M&A announcements have increased rapidly in contrast to the same period last year. These deals are driven by very favorable financing terms and the willingness of cash-rich companies to intensify external growth strategies. Small companies are best positioned to benefit from the M&A trend
- Share buyback and dividend increase announcements are also on the rise globally. In Japan alone, the number of companies announcing buybacks has soared 19% compared to 2014. More cash returned to shareholders is another incentive to be invested in global equities

Have a good weekend.

The Global Alpha Team