COMMENTARY

January 11th, 2010

Dear clients and colleagues,

Happy New Year and welcome back to our first commentary of 2010.

In 2009 our Global Small Cap portfolio beat the benchmark for the 2nd consecutive year, adding value by 8.41%. Thanks to our very disciplined stock selection approach, the portfolio outperformed in both bear and bull markets. The benchmark MSCI World Small Cap Index also outpaced its large cap counterparts, with an annual return of 22.92% vs. 11.07%.

In the first trading week of 2010, both S&P large cap index and small cap index had a strong start, up about 2.7%. S&P 500 reached a 15-month high, much encouraged by stronger-than-expected manufacturing activities in both the US and China. Now it is trading at nearly 25 times companies reported earnings, the highest level since 2002.

One company in our portfolio reported its Q4 earnings ending Nov. Lennar, the third largest homebuilder in the US, surprised the street with its first quarterly profit since 2007. The stock jumped 12.9% on the date of announcement. Behind the non-continuing tax benefits that contributed to all the profit, we see leaner operation, less JV risk, healthier balance sheet, and strategic move to capture distressed land opportunities. The company is expected to return to full-year profitability in 2010, when the US housing market is stabilizing thanks to increased affordability and government tax credits. Lennar's valuation is still very attractive compared to its peers.

Looking ahead, we view 2010 as a roller-coaster year for stock markets, with a moderate uptrend. This is due to two key reasons: 1) Global economic recovery is showing signs but not yet self-sustaining without massive government stimulus. The risk of double dips stay serious, when stimulus is being removed and when inflation is crawling up. 2) Investors confidence is still shaky. At such high earnings estimates and stock valuations, market corrections are inevitable.

As a result, in Dec 2009 we conducted the year-end portfolio rebalancing. Changes turned out to be minimal as we confirmed the well diversified country and sector allocations. The current portfolio is tilted slightly towards defensive sectors. Foreseeing an environment of low growth and rising inflation in the next few years, we continue to focus on secular growth while remaining sector and currency neutral.

Wish you all another successful and prosperous year!

Regards

The Global Alpha Team