

July 13, 2012

Dear clients and colleagues,

It has been a busy few weeks for our team at Global Alpha. In the month of June, the team attended six different conferences in the US.

One of the conferences we attended was William Blair's 32nd Annual Growth Stock Conference in Chicago which had over 1,500 attendees and 225 presenting companies. It is one of the largest growth stock conferences in the US. We also attended Oppenheimer's 12th Annual Consumer Conference in Boston.

The benefits of attending these conferences are that it gives us a good feel as to how the economy is progressing, allows us to meet the management of the companies we own, and looking for new ideas.

A few observations from visiting New York, Boston and Chicago:

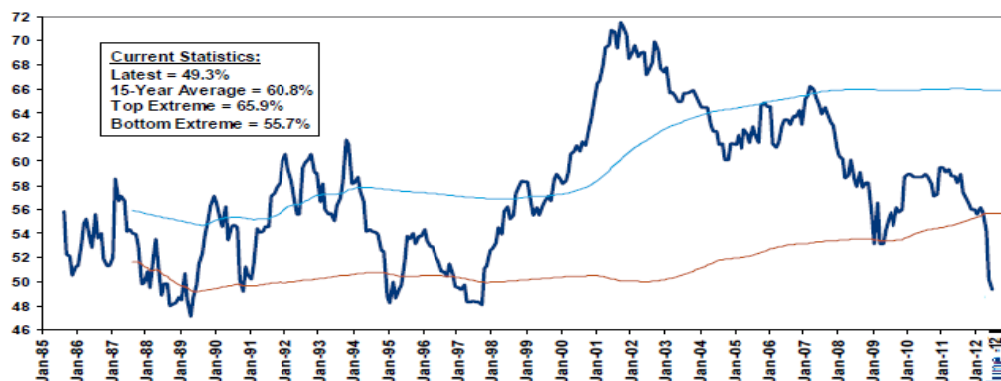
Restaurants were busy and hotels were fully occupied. Through our conversations with restaurant and hotel owners and cab drivers it seems that things are getting better slowly.

Overall sentiment: companies are positive, while investors are bearish.

We sensed this unanimous view across all industries. All companies expressed confidence in the economic recovery and are back in growth mode. Balance sheets are strong and capital is being returned to shareholders via dividends and share buybacks. We believe that if stock prices were to decline repurchase activity would accelerate.

Investors on the other end are bearish, which can be seen from 13 straight weeks of equity redemptions (see chart below) indicating bullishness for stocks.

Sell Side Consensus Indicator (as of 30 June 2012)



Source: BofA Merrill Lynch Global Research US Equity Strategy

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Existing holdings: positive feedback.

We met a few companies held in the portfolio.

NIC Inc. (EGOV US). The company builds and manages official government websites and e-Government services for 27 states and 2 federal partners. NIC operates a unique self-funded business model, allowing governments to build eGovernment services without using taxpayer funds. The company can expand its operations by winning the remaining 23 state government portals. Organic growth can be achieved by creating new services and the adoption of these new services by existing state clients. NIC can also grow by winning federal contracts and growing internationally.

Monro Muffler/Brake (MNRO US). Monro is the largest chain of company-operated undercar care facilities in the United States. The Company operates 838 stores in 19 northeastern US States. The growth strategy is simple: Increase market share through same store sales growth, acquire competitors cheaply and open approximately six new stores per year.

Of the more than 50 companies we met, our existing holdings are clearly our preferred names. They share common attributes such as a big and growing target market, revenue growth faster than industry, a clear growth strategy, a strong competitive edge, high operating margin, and low/no debt.

We also visited stores of a few of our holdings, such as Chico's and L'Occitane, in all three cities and came back with a positive feedback based on our conversations with store managers and by observing consumers.

What do we think today?

We are very optimistic for equity markets for the next few years. The US economic recovery is gaining momentum, despite some risks remaining in the shorter term. We came away from our trip with many ideas. It is likely that a few will be added to the portfolio in the coming months.

Have a nice weekend.

The Global Alpha team

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