

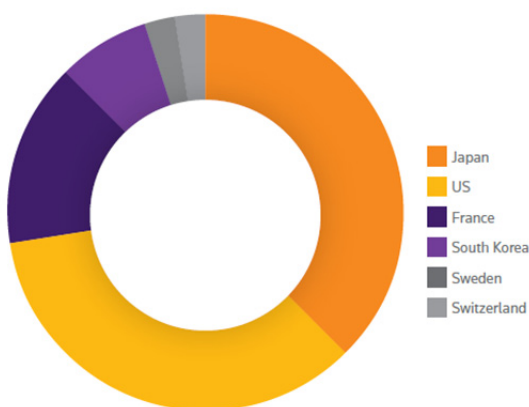
November 4, 2016

Dear clients and colleagues,

Last month a Japanese scientist was awarded the 2016 Nobel Prize in Medicine. It was the seventeenth Nobel Prize for Japan since 2000, making it the third largest recipient of Nobel Prizes, behind the US and the UK, for the period 2000-2016.

Thomson Reuters’ Top 100 Global Innovators list honours world leaders in innovation. Last year, 40 Japanese companies were on the list, more than the US (35), France (10), Germany (4) and Switzerland (3). Actually, since the founding of this list five years ago, Japan has been in the leading position repeatedly. See below.

Five-Time Top 100 Global Innovator Honourees



Source: Thomson Reuters Derwent World Patents Index

In 2013, a McKinsey report predicted 12 disruptive technologies that would transform life, business and the global economy. It included innovations such as mobile internet, autonomous vehicles, advanced robotics and the cloud, to name a few. Japan is already on the forefront of these technologies. Its R&D spending versus GDP is among the top three in the world.

The innovative capabilities of Japan have been more behind the scenes in recent years. For example, although the iPhone leads in the smart phone world, half of its core components are made by Japanese companies.

Innovation is a major investment theme in our stock selection. Since the inception of Global Alpha, we have visited Japan each year and met many excellent niche leaders. Examples of Japanese companies in our portfolios are as follows:

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- Horiba is a manufacturer of measurement equipment, specialized in the analytics and measurement of small particles in the field of environment, health, safety and energy. About 70% of Horiba's sales are from overseas. It has an 80% global market share in emission measurement systems. The Volkswagen emissions scandal was discovered using Horiba's system.
- Disco provides cutting, grinding and polishing equipment for semiconductor manufacturing. About 80% of Disco's sales are from overseas. It has a 75% share of the global market in dicing saws and 65% in grinders.
- Glory manufactures money handling machines and systems using its leading-edge recognition/identification and mechatronics technology. About 50% of Glory's sales are from overseas, and it has a 60% global market share in teller automation.
- OSG makes solid cutting tools (such as tap, end mills, drills and rolling dies) for manufacturing industries and derives about half of its sales from overseas. OSG is ranked number one worldwide in each of its product categories with global market share ranging from 5% to 30%.
- Nabtesco is known for motion control technology. It provides equipment for the manufacturing of robots used in the transportation and industrial sectors. About 40% of its sales are from overseas. Nabtesco produces 60% of the world's precision reduction gears which are used in the joints of industrial robots. It also has a 60% share of the global machine automatic tool changer market and a 30% share of the global market for travelling motors used in hydraulic excavators.
- THK manufactures linear motion guide systems that are used as machinery components for the production of robots, machine tools and semiconductor equipment. About 55% of THK's sales are from overseas, and it has a 50% global market share in linear motion guide systems.
- Fuji Seal is a producer of flexible packaging used primarily for food, beverage, dairy, home and personal care, and pharmaceutical products. About 40% of its sales are from overseas. Fuji Seal has a 60% share of the shrink sleeve label market in Japan, 35% in US and 30% in Europe.

You may have noticed the high exposure to overseas markets. Net overseas assets held by the Japanese government, businesses and individuals rose to a record 325 trillion yen in 2013, making it the world's biggest creditor nation for 23 years in a row. Japan's gross national income grew by 2.5% in 2015 versus its 0.8% growth in GDP.

The Japanese stereotype of not wanting to stand out from the crowd is well-known. It is often said that in Japan you may live right next door to a millionaire and not know it because his house looks just like yours. And maybe that will be the secret to its success in the coming decades.

Have a nice weekend.

The Global Alpha team

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