

April 30, 2010

Dear clients and colleagues,

Investment Themes – Part 2

After discussing resources, the environment and emerging market consumers, here is a comment about another two of our main investment themes.

Technology enhancement

Whether to boost efficiency or to increase standard of living, both companies and consumers are contributing to this technology boom.

Although software companies' short-term performance depends on IT spending cycles and seasonal patterns, we believe this industry will remain attractive over time. More than just offering an upside through new licensing sales, software companies provide recurring revenue streams from very profitable maintenance services. The growth of this industry is expected to come in part from new product cycles and emerging market needs. The Gartner group expects China's software market to grow 15% in 2010, more than four times the European software growth. The overall IT infrastructure should continue to enjoy healthy growth as well. Despite the recession, datacenter market has managed to grow by 10% to reach \$100B.

On the consumer side, e-commerce, which is a relatively new way of shopping, has reshaped the retail environment. Even if its size is still a fraction of the overall retail market (5%), it should grow around 10% in 2010, and to an even faster pace in the following years. A recent survey made by MKM Intelligence pointed in the same direction, claiming that 32% of consumers are now shopping online "more often" than in the recent past. Companies pursuing e-commerce strategies have typically experienced stronger growth and juicier margins, and have provided their customers with an enhanced shopping experience. E-commerce has changed the dynamics of many industries, especially travel, airlines and consumer-based.

The speed at which communications are evolving is impressive. Companies that historically approached their customers with traditional media are now forced to communicate through e-mail and social media. For the first time during 2009, social networking users outsized e-mail users. The amount of unique users of social networking has reached approximately 860 million, up 32% year over year. Mobile internet, the latest communication channel, represents a new big opportunity in this space. Some studies show that mobile internet users, which account for approximately 700 million users, should double in numbers and reach desktop internet users by 2013.

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All these new ways of using technology need to be supported with high capabilities and well-secured infrastructure. The volume of data processing and the development of new applications are therefore likely to keep rising, and the demand for reliable and innovative technology equipments will continue to drive the overall hardware sector. One thing is for sure: there will be a faster, safer and more efficient way to process data in the next decade.

There are now 16 companies in our portfolio that are part of this investment theme.

Demographic

The combination of rising life expectancy and a declining birth rate is bound to create important societal challenges, and lucrative business opportunities.

Over the next decade, an unprecedented shift in wealth and spending is likely to occur. For the first time in history, not only will the aging population in developed countries control the balance of wealth (i.e., Americans 50+ are expected to own 60% of wealth), they will also be responsible for at least 50% of consumption volume in many categories. Industries such as leisure, travel and investment management are in positions to benefit from such demographics.

Generations have always posed a real challenge and opportunity for businesses. Few companies can claim having been successful in serving two very different generations without radically changing or adapting their brand, product or services. To properly assess the growth potential of any holding, we therefore believe it is paramount to first understand the attribute of every target customer behind a marketing strategy. Whether we are referring to boomers, Ys, homeowners or gamers, every group has distinctive tastes and characteristics that will prompt a different reaction to promotional and commercial activities.

Generation Y - individuals between the ages of 11 and 30 - are just as numerous as baby boomers (approximately 71 million), and would make for an interesting group of individuals to follow. In addition to customizing their product and service offering in a way that fulfills the needs and requirements of this generation, companies will also have to adapt the way they communicate with this group of multi-cultured, media-savvy individuals. These strategies will be key to determining and achieving long-term growth.

We feel it is important to position our portfolio so that it gains exposure to different groups of individuals through a wide variety of industries, including service companies, retailers and other groups that are themselves exposed to the needs and wants of different generations.

There are currently 16 companies in our portfolio that fit this investment theme.

Regards

The Global Alpha Team