

February 19, 2010

Dear clients and colleagues,

Investment Themes – Part 1

Thematic Investing has always been a paramount step of our investment process. To help you gain some insight into our strategy, we have identified for you the top 10 investment themes that we believe will shape the economy in the near future. The majority of the companies in our portfolio are moved by one – or more – of these thematic.

This is the first of a series in which we outline each of these themes. This week's commentary focuses on emerging market consumers, resources, and the environment.

The emerging market consumer

With a very favourable exchange rate and the need for developed economies to retain low-cost country partners, there's no doubt in our minds that Asia will remain a major exporting player. We expect Asia's domestic demand to gradually gain its share of the export market. Middle class is booming in many emerging countries and Mckinsey Institute has forecasted that by 2015, middle class households will have reached the 520-million mark in China, and 580 millions in India. In 10 years, an additional 1 billion people is expected to move out of an economy of subsistence. From basic product to high ticket items, companies that are well established in this market should benefit considerably from this enormous emerging buying force.

Resources & Environment

Despite the fact that still today, human activity continues to consume more resources than it should, global reserves do not show signs of shortfall. Now more than ever before, factors such as price, technology, and end-consumer demand will dictate the shape of the commodity market for the future, which in turn means price volatility and short-term supply disruption are likely to be more frequent.

With an extraction cost that will continue to soar, and new technology that will allow substitution at a reasonable price, oil demand could certainly peak toward the end of the next decade. Yet, coal is likely to remain the main source of energy for at least another ten years. By then, China and India could make up 60% of the global demand. Carbon capture technology is on its way, but it is unfortunately likely to take several years before it is commercialized at large.

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Ongoing innovations and rising production costs will pave the way to commodity substitution, in a fashion that is reminiscent of tin in the containers market, or of a similar essence as lithium-based products for new technologies.

In an attempt to contain greenhouse gas emissions, citizen and consumers – especially Europeans – are expected to take on environmental initiatives that will eventually reach businesses and governments, who in turn will need to make adjustments to please the growing movement. When energy consumption labeling for appliances appeared on the marketplace, it took only a few years for manufacturers to offer new energy-efficient appliances. History may very well repeat itself.

We anticipate increasing environmental consumer awareness, and it wouldn't be surprising to see environmental labeling – as was the case for appliances' energy consumption – to intensify within many product categories.

Regards

The Global Alpha Team