

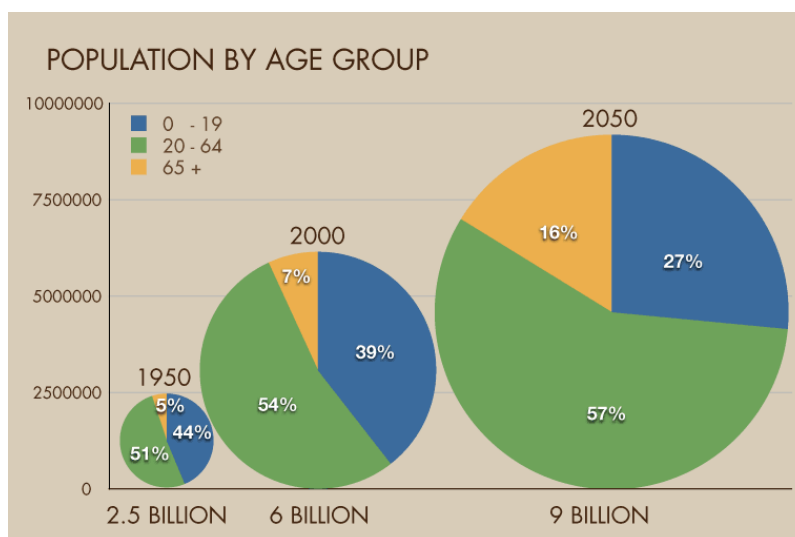
June 22, 2015

Dear clients and colleagues,

On one flight I took recently, I happened to watch a documentary about Thomas Edison. It was fascinating to see the incredible wager he took when he electrified New York City. I could not help to think that in terms of how it has changed our lives, it must have been one of the most important technological innovations ever. Innovation is much more evolutionary than revolutionary. Along the same theme is an excellent book entitled, "*How we got to now - six innovations that make the modern world*", by Steven Johnson. The book came out last year and is a must read.

We often hear the famous line, "it is different this time". As a hobby historian, I realize that it is not. Technological changes, wars, political changes, financial manias, recessions, etc. What one realizes studying history is that it is NOT all that different this time. Actually, the current period is perhaps more normal than anytime in the past 150 years.

The Global Alpha team takes a thematic approach to investing, identifying long term secular growth trends. Our team has put a lot of thought into the subject and we have come up with Three Factors that are truly different this time. We feel these dynamics will have an enormous influence on the World and investors for the coming decades.



Source: United Nations, Department of Economic and Social Affairs Population Division

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The First Factor that is different this time is the demographic shock caused by an aging population. By 2050, over one third of the Developed World's population will be over 65 and approximately 1.4 billion people in total will be over 65. Our global society has never had to deal with this. It will create enormous pressure on governments, healthcare costs will explode, and pension costs will be enormous. This is an unsustainable situation today that will only get worse.

For investors, I would be very cautious regarding companies that depend on the government for a large part of their revenues. The healthcare sector, often mentioned as the main beneficiary of an aging population, may not be such a clear winner. Selectivity will be essential.

The Second Factor that is different this time is Climate Change. I re-watched the Al Gore documentary, "*An Inconvenient Truth*". What struck me is that the predictions he made for 2030, which were ridiculed as too dire, are happening right now in 2015. The Pope's latest encyclical is on climate change. The issue is no longer about reducing emissions or reversing climate change and its effects. We have passed the tipping point and now the focus is how to adapt.

For investors, the impact is broad, from the divestment of carbon assets (coal and oil), to the rise of alternative energy, to real estate or agriculture as well. There will be losers and winners. At Global Alpha, we have no coal investments and limited oil investments. We participate in alternative energy (geothermal), natural gas, and service-focused companies. We also participate in equipment suppliers to the Solar, Wind, and LED lighting industries.

The Third Factor is the enormous debt load in the World. Since 2008, the total amount of global indebtedness has increased by over 50% and now represents roughly three times the World GDP.

There are two possible outcomes. First is a rise in inflation, which Central Banks around the World have tried to engineer unsuccessfully for the last few years. In this case, debt would be reduced as a percentage of GDP. The second result is deflation and years of subdued economic growth. Both scenarios have to be considered by investors.

What is certain is that these Three Factors are not going to occur in 100 years, but rather, are happening now and will accelerate in the next 10 to 20 years. This is a period that is within our investment horizon.

Have a nice week.

The Global Alpha Team

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