COMMENTARY

September 18th 2008

Dear clients and colleagues

If you recall, last week I attended the Lehman Brother's financial services conference. What a difference a week makes. I will not come back to what all of us have read in the news.

Instead, I wanted to talk about the portfolio. There are currently 57 companies in the portfolio. Our start date was July 21st. Since then, individual stock performance varies between +52% to -47%. Yes, no spelling here. Most of the companies in the portfolio did not have any news in that period. We are currently seeing enormous volatility, driven by liquidity and sentiment.

How do we manage in such an environment? Should we trade? With such price swings, maybe we should capture gains?

Our position has been to sit out the volatility. When we buy a company, we have a price target, if we have not reached it or are close to it, we normally will keep the position, especially if no new information is available.

When do we sell? Our first criteria is market cap. We are a true small cap manager. At $5B, we sell. We will also sell if the competitive advantage disappears or if there is an important change in the strategy of the firm. Valuation if it becomes excessive would also be a reason. Finally, a better idea would need to replace something already in the portfolio.

The company I will talk about this week is Jones Lang Lasalle, one of the largest real estate brokers in the World.
JLL: NYSE, market cap: $1.5B, p/e: 8.3x, yield: 2.25%, ev/ebitda: 4.84x, Total debt/EV: 0.25x, 1year return: -56%.

www.joneslanglasalle.com

JLL provides real estate and investment management services. The company employs more than 30 000 professionals around the World. The company operates in 3 segments, transactional (brokerage) – 50% of revenues, property management (35%) and investment management (15%). The company is truly global with around 40% of its revenues in Europe and the Middle-East, 30% in the Americas and 30% in Asia and in the ROW.

One may ask, why own a real estate broker now?

Faced with the worst environment in 20 years, the company is still profitable. It is gaining market share and its property management and investment management division are growing.

Over 40% of the revenues are recurring and that part of the business is worth more that the current valuation for the whole company.

In summary, we own a company operating in a very large market. It has a solid brand name. It is well diversified and has a solid recurring revenue base. Finally, it is attractively value.

Our target price is $70, for a 70% return.

Have a good week.

Robert