

October 16, 2015

Dear clients and colleagues,

A few years ago, many investors jumped into commodities as they believed we were starting a super cycle. With drivers such as the rise of the emerging market middle class, urbanization, and infrastructure, etc., commodities seemed to be a primary beneficiary and a great investment.

As we write this comment, the CRB Index (the main benchmark) is down 27% in the last year and has now been negative every year since 2011. What happened?

Many reasons are given. Increased supply spurred by years of high prices. Slower demand growth. The strength of the US\$. The weakness of the Chinese economy. All good reasons. However, in the last few months, many commodity producers mentioned that the prices do not reflect the underlying demand. Investor selling and speculation are probably amplifying the downward movement.

We are not going to forecast short term commodity prices. However, the long term price should be at approximately the 90th percentile of the cost curve.

Commodities are divided into many different categories. Energy (such as Coal, Oil, Natural Gas, etc.). Base metals (such as Aluminum, Copper, Zinc, Nickel, etc.). Precious metals (such as Gold, Silver, Platinum, Palladium). Grains (such as Wheat, Corn, Soybeans, etc.). Softs (such as Sugar, Cotton, Milk, Orange Juice, etc.). Livestock (such as Hogs, Live Cattle, Pork Bellies, etc.). A very diverse group.

Agricultural commodities are an industry we favor. It is driven by many of the themes and sub themes in our strategy. Demographics, Consumer, and Environment, etc. We also like them because they are renewables, unlike energy or metals.

In September 2013, we profiled Landec, a company we had recently added to the Global portfolio and still part of it. www.landec.com The stock price is still around the price we paid, although the company's sales of fresh salads in a bag under the brands of Eat Smart and GreenLine have grown steadily and will have more than doubled by the end of next year. Those brands have achieved top market share. 2016 will see double digit earnings growth. We continue to like the company.

A company we more recently added this year is Limoneira, www.limoneira.com, (Nasdaq, LMNR US: \$16.50).

Limoneira was founded in Ventura County, California in 1893. It is one of the largest growers and marketers of lemons in the US. It is also the largest grower of avocados in the US. Besides the steadily growing agribusiness, Limoneira's strategy is to unlock the value of over 10 000 acres of Agricultural land, Real Estate Development opportunities and Water Rights mainly in Southern California.

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Target Market

Limoneira represents less than 10% of the fresh lemon market in the US and around 12% of the US export market. Fresh lemons represent a \$400M market in the US and a \$2B market globally which are growing fast. For avocados, the US market is \$1.3B at the producer lever and has grown at 7% per annum in the last decade. The company is also increasing its production of oranges and specialty citrus.

Growth Strategy

Limoneira has grown its agricultural land by 60% since 2010. It is also investing in packing. It is planning to double revenues in the next 5 years. In addition, the company is re-zoning some land to real estate development and recently announced its first project following zoning approval, a process that took 10 years. The company owns substantial water-rights in drought-stricken California and is evaluating the best way to monetize.

Competitive Landscape

Limoneira is a commodity producer. However, Santa Paula, California is nicknamed the Citrus capital of the World due to its ideal climate.

Management

Insiders own about 10% of the company. The management team is very experienced and stable. Mr. Harold Edwards became the CEO in 2004. Mr. Joseph Rumley took the CFO role in 2010.

Rich Assets

Significant Asset Base Unlocking Hidden Value		
As of October 31, 2014	FMV	Net Book Value
<ul style="list-style-type: none"> Agricultural assets ⁽¹⁾ <ul style="list-style-type: none"> Ventura County (4,000 acres) \$XXXM Tulare County (3,000 acres) \$XXXM Yuma, Arizona (1,300 acres) \$XXXM Real estate development assets ⁽²⁾ <ul style="list-style-type: none"> East Area I – Residential⁽³⁾ \$XXXM Windfall Farms \$XXXM Santa Maria \$XXXM Rental assets \$XXXM Water investments \$XXXM Calavo investment⁽⁵⁾ \$24.3M Less associated debt (\$67.8M) Net Asset Value \$XXXM 	<p>Current median/mean range for agricultural land transactions in Ventura County is \$64K to \$80K/acre; Tulare County is \$13K to \$16K/acre⁽⁴⁾</p> <p>See page 17 for details</p>	<ul style="list-style-type: none"> \$42.5M \$23.3M \$23.2M \$55.0M \$22.0M \$11.0M \$16.4M \$5.2M \$24.3M (\$67.8M) \$155.1M <p>Net book value for Limoneira's agricultural land in Ventura County is \$11K/acre; Tulare County is \$8K/acre</p> <p>Net book value for the East Area I project is \$37K per unit or \$55M</p>

Source: Company presentation

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Market Data

Market Cap U\$234M, net debt U\$85M, Dividend Yield 1.1%, P/E (2016/12) 30x, Ev/Sales 3.3x, Ev/Ebitda 19x, Gross Margin 24%, Operating Margin 10%, Profit Margin 6.3%

Have a nice week.

The Global Alpha Team

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