

April 12, 2019

Dear clients and colleagues,

Our firm manages global portfolios. Our team is organized around regional coverage, but each team member is also a sector specialist and looks at industries on a global basis. When we find an industry attractive, often because it is benefiting from a secular growth trend, we will search around the world to find companies benefiting from that same trend.

A few weeks ago, we discussed Rexford Industrial Realty, a US real estate company that is benefiting from the rise of e-commerce and logistics in general.

Logistics is the management of the flow of objects between the point of origin and the point of consumption in order to meet requirements of customers or corporations. The global logistics market was estimated at \$12 trillion in 2017. As logistics chains become more complex, the global logistics market is expected to grow slightly faster than global GDP growth and reach over \$16 trillion by 2026.

The e-commerce and logistics trend through which we identified Rexford as a holding for our global small cap portfolio also helped us find two other companies for our portfolios: Kerry Logistics and Clipper Logistics. Kerry Logistics is a holding in both our global and international small cap portfolios and Clipper Logistics is a holding in our international small cap portfolio.

Kerry Logistics Network Limited (636 HK – HKD\$14.46)

www.kerrylogistics.com

Business overview

Headquartered in Hong Kong and controlled by Kerry Properties and Kerry Group (Kuok group), Kerry Logistics Network operates under two main brands: Kerry Logistics and Kerry Express. Kerry Logistics is one of Asia's largest logistics service providers and has extensive operations across the globe. Kerry Express operates in the fast growing e-commerce sector, offering last-mile delivery to B2C, B2B2C and C2C customers. Kerry Logistics Network has more than 40,000 employees in 53 countries and territories worldwide. The company owns over 60 million square feet of logistics facilities and more than 10,000 vehicles. The company is a selected member of the Hang Seng Corporate Sustainability Index.

Target market

Kerry Logistics Network has been focused on the fastest growing segment of the global logistics market – Asia. Asia accounts for 82% of the company's total profits, a growth of 37% in 2018.

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Competitive advantages

- The company has its own world-class assets in Asia
- Global network
- Strong balance sheet

Growth strategy

- Expand network. For example, in 2018 the company opened MeatLab in Hong Kong, the first world-class semi-automated meat processing plant. The company has also completed construction of five logistics centers and two dry ports.

Statistics (converted into US\$)

Market Cap: US\$3,120 million; Revenues: US\$4,866 million (23% growth in 2018); P/E (19): 13.8x; Yield: 1.75% (excluding special dividends); EV/EBITDA: 6.7x; Net debt to EBITDA: 1.14x

Clipper Logistics (CLG LN - GBp 269.00)

www.clippergroup.co.uk

Business overview

Headquartered in Leeds, UK, Clipper Logistics offers warehousing, garment handling, e-fulfillment and transport services to customers in the UK and across Europe.

When the company was founded in 1992 it had a team of three people and one driver. Today, the group has over £400 million in revenues, 47 sites, 10 million square feet of warehousing space, over 300 vehicles and 4,700 employees.

Target market

In 2018, European e-commerce was valued at €602 billion, a growth of 13% over 2017. The UK (€178 billion), France (€93 billion) and Germany (€93 billion) are the three largest markets (source: Ecommerce July 2018). Thirty-eight percent of the orders it processes have a destination that is in a different country from where it was ordered. Clipper specializes in retail logistics. In the UK, it has been a leading provider of e-fulfilment for over 10 years.

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Competitive advantages

- A more complete suite of services
- Clicklink is a sortation and delivery service that provides delivery of online orders to retail stores
- Boomerang is a return management operation which allows for full outsourcing by etailers and retailers
- ServiceCare is an electrical return management operation that does testing, repair and refurbishment for consumer electronics retailers.

Growth strategy

- Expand its network and capabilities in continental Europe. For example, in 2018 the company opened a second 350,000 square foot warehouse in Poland.
- Add new customers and increase existing customer penetration. For example, in 2018, the company added PrettyLittleThing, the fastest growing retailer in the UK, to its list of clients. It also expanded its relationship with Inditex (Zara) to include Zara Home.

Statistics (converted into US\$)

Market Cap: US\$350 million; Revenues: US\$575 million (21% growth in 2018); P/E (19): 15.7x; Yield: 3.35%; EV/EBITDA: 9.6x; Net debt to EBITDA: 1.43x.

Global small cap companies are not always known by name, but they invariably touch our daily lives in important ways.

Have a great weekend.

The Global Alpha team

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