COMMENTARY

**August 14, 2015**

**Dear clients and colleagues,**

Avid readers of our weekly may recollect our bullish view on global M&A from previous commentaries. We have pointed out low funding cost, balance sheet strength, corporate governance and dry powder with private equity funds as reasons behind our bullishness.

According to the latest UBS research, CFOs will soon face a $1T dilemma. For global leverage levels to rise away from current lows, up to $1T of after-tax earnings would have to be incrementally spent or distributed every year, on top of what has been done in recent years.

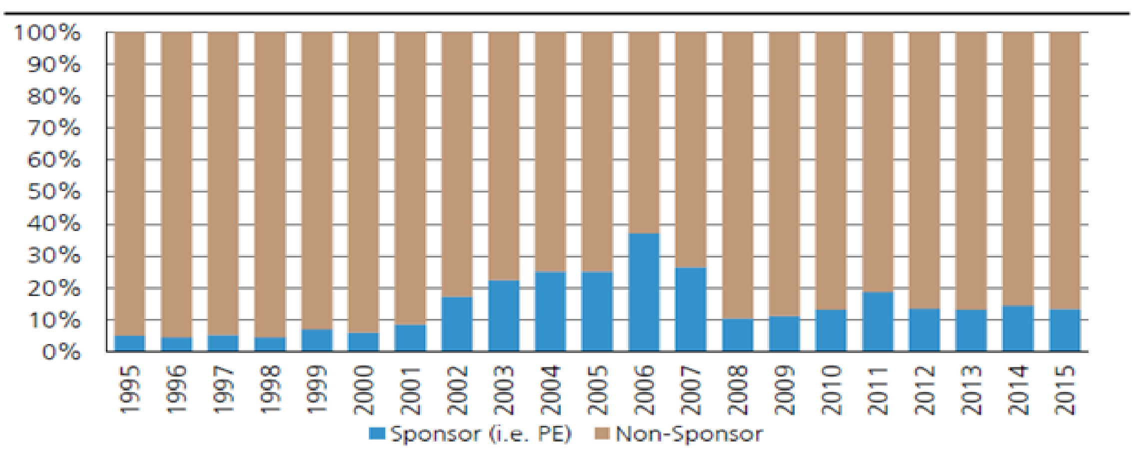
**How is M&A trending so far?**

2014 was an impressive year for global M&A. YTD volume of $2.9T is the second highest behind 2007. According to Dealogic, Global M&A volume was up 8% in July 2015, as compared to June 2015, and stood at $549.7B. July logged the second highest monthly volume on record behind April 2007. However, the number of M&A deals is lagging when compared to the volume. July had eight $10B+ deals.

**What else is different this time?**

Given the slow pace of global economic recovery and margins at their peaks, particularly in the US, corporations are in search of top-line growth. Companies want to access new customer and geographies. The last M&A cycle was helped by cheap financing. The current cycle is being driven by strong cash balances and Free Cash Flow. Global private equity activity has also descended from its high during the 2003-2007 cycle as seen in the chart below.

**Private Equity Activity Less of a Driver**

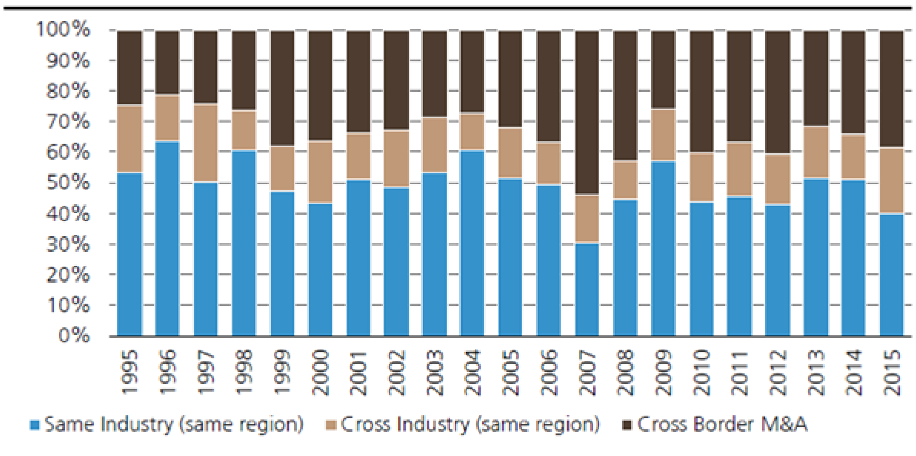



Source: Dealogic, UBS

**Is the pace similar globally?**

Given that each country is at a different stage of economic expansion, M&A growth is not the same across the globe. Activity in the US is strong thanks to a stronger dollar and cash offshore. However, in Europe an improving economy and lower rates should help activity pick up. As for Japan, the increased emphasis on shareholder value could be another driver. Cross border deals are on the rise as seen in the chart below.

**Diversification is Key – Across Geography and Industry**




Source: Dealogic, UBS
Note: Universe includes global deals >$100m in deal value in which the acquirer was publicly listed.

**Fertile ground for acquisition of small cap**

The accelerating M&A environment is positive for smaller companies. Their mega counterparts are willing to pay to acquire small and innovative companies that can provide positive long-term growth perspectives. What's more, big companies seem to be diversifying the types of acquisitions they make. Larger, maturing companies do not have the same ability as small companies to innovate. Small companies have the capacity to adjust, create and develop faster due to their nimble structure.

**How does this impact the portfolio?**

We own Evercore an independent investment bank and asset manager. They account for 18% of announced M&A volume amongst the top boutique/independent advisory firms.

YTD three companies have been acquired in our portfolio. We also see many companies in our portfolio as potential targets for M&A. Since inception of our fund in July 2008, seventeen of our companies have been acquired. M&A is one of our favorite exit routes, as it typically validates our investment thesis.

Have a good weekend.

The Global Alpha Team