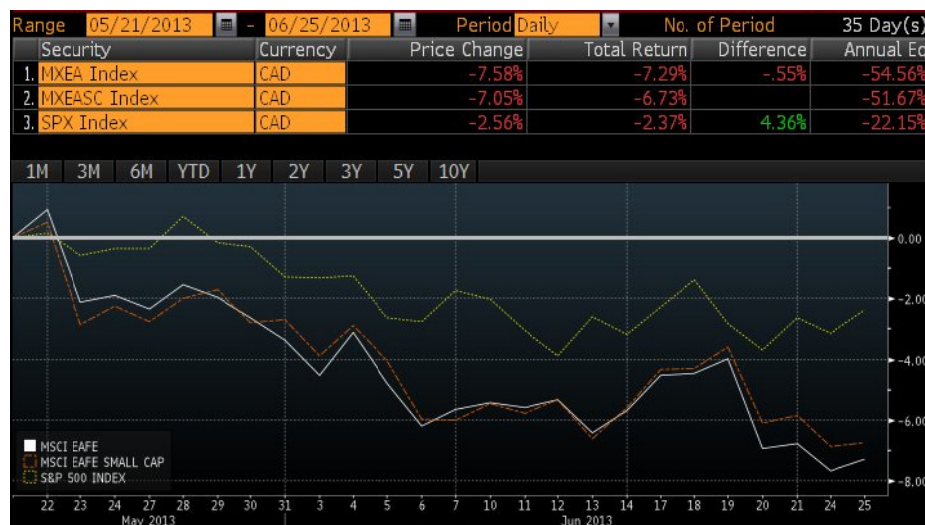


June 28, 2013

Dear clients and colleagues,

Here are few events that caught our attention in the past weeks:

- So far this quarter, Italy, France & Israel are the top performing countries in the small cap space. On average, these 3 countries posted an 8% return in CA\$. On the other end, the bottom 3 countries were Australia, Canada and Singapore with an average return of -13.5%
- Monetary policies remain accommodative but the probability that the FED starts reducing its asset purchase program by the end of 2013 has shaken the markets. Surprisingly, European markets have suffered additionally following the announcement.



Source: Bloomberg

- Emerging markets and commodities continue to suffer from tough liquidity conditions. These asset classes should remain vulnerable to a less supportive monetary policy.
- We have noticed recently, after many months of negative trends, some stability in earnings revisions. Will we see more positive revisions during the summer? Let's see how they will look following the next earnings season.

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Source: Bloomberg

- On valuations, the small cap universe remains below historical average. Indeed the MSCI EAFE Small Cap trades at 25% discount to its high of 2007 with an undemanding valuation of 14.6x estimated P/E and a 2.9% dividend yield. Similarly, many Small Cap countries trade at 7x Enterprise Value to EBIT, below their historical average of around 8x.



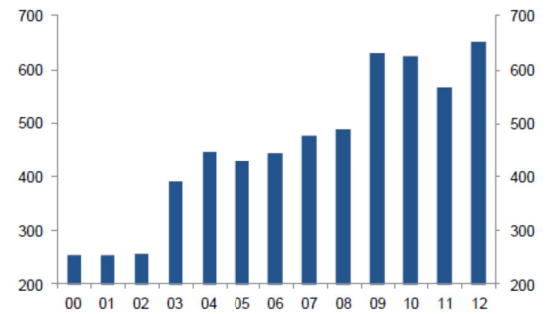
Source: Bloomberg

- At the company level, our recent checks suggest that management teams are still adopting a cautious outlook. While many companies mentioned better market conditions for April and May, we expect fundamentals to improve during the second half of 2013. Overall there has been a slight improvement in corporate sentiment.

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- Companies are showing healthy balance sheets with cash levels standing at an all-time high. Demonstrated on the right hand side are the median cash positions for the Stoxx 600 members (in million \$). Note that share buybacks and M&A activities have remained very low since 2007. Only dividends have been increasing since their low of 2009. Companies will be faced with an increasing pressure by shareholder to redeploy that cash.



Source: Société Générale

With attractive valuations and rerating upsides, we believe that the second half of 2013 should bode well for smaller companies. However, visibility remains very limited and volatility should intensify. We will keep you informed following the Q3 season.

The Global Alpha Team

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