

July 21, 2009

Dear clients and colleagues,

This week marks the 1 year anniversary of Global Alpha. Quite a year it has been for economies and markets around the World.

In the last 12 months, the World's economy has experienced its biggest contraction since the Great Depression. Although interest rates have been lowered to near zero by Central Banks around the World and stimulus programs have been implemented by governments to stimulate their economies, most Countries are still facing a weak economy, rising unemployment and a consumer that is still deleveraging. This will make the recovery slow at best.

History has a habit of repeating itself and a consequence of the flood of liquidity we have seen in the past 18 months to reflate the economy and, in our opinion, the most important risk to the economy, is the risk of runaway inflation.

For developed economies, we believe that the next few years will come to resemble the 70's with high inflation and low growth. In addition, the aging population will become more of an issue with unfunded pension funds and rising healthcare costs. In those years, markets had important moves both up and down but ended the decade at around the same level as they were 10 years before.

In that context, investing in companies that will grow is important. We believe that some secular themes will affect the World's economy and some companies will be affected very positively for years to come.

Asian and Latin American growth is one area and companies that have a clear strategy to grow in these regions should do well. Outsourcing will continue to be a trend for non-core activities. Healthcare will continue to be a sector growing faster than the overall economy. The environment and alternative energy sources will also grow in importance. It is important for investors to identify those "rising tides".

Finally, the last 18 months have also seen some of questions being raised about the very nature of the capitalist system, market liberalization and the "laissez faire" approach that has characterized the last 30 years. Runaway greed, financial scandals, rising income inequalities, have all shaken the confidence in the system with most now agreeing that Governments must play a role and impose rules and safeguards.

As investors, we believe in doing well financially by doing "good" ethically by choosing companies with strong ethical and environmental stewardship. We invest with companies that are leaders in terms of sustainability and environmental impact.

For our second year and many years to come, you can expect more of the same from the team at Global Alpha, a team with a very disciplined investment approach. Our strategy is to choose 50 to 60 good small cap companies, not try to find the best, and avoid the not so good ones. We choose well managed companies with a strong competitive advantage, a clear growth strategy and a valuation that is compelling.

We would like to thank all our clients, colleagues and friend who have placed their trust in our team.

The team at Global Alpha