December 27, 2012

Dear clients and colleagues,

This will be our closing comment for 2012. We will come back to some of our predictions for 2012, you can look at our comment of January 12 of this year and give you our forecast for 2013.

In 2012, with a few exceptions equity markets around the World had decent performance with many enjoying returns exceeding 10%. Canada for the second year was a laggard, despite strong performance by the Banks.

Our Global Small Cap fund had a performance close to the index while our International Small Cap Fund (EAFE) is exceeding its benchmark 2.4% as of December 24. How can this be? The two funds follow the same strategy and all the non US companies in our Global Fund are also in our International Fund. We could just say that with about 30 companies that are different in each fund or about 50% of the fund, a small outperformance of less than 1% compared to the benchmark for 25 of those companies might explain the difference, which might very well be reversed in another period.

Looking back at the year it can be broken down in 3 periods, first quarter was very strong, followed by a very difficult middle half of the year and a strong fourth quarter. As of writing the MSCI World Small Cap Index has outperformed large cap. US small cap slightly underperformed foreign small cap. Emerging Markets slightly outperformed Developed Markets. As of December 24 the top sectors in the MSCI World Small Cap index were Telecommunication and Healthcare. The lagging sectors were Energy and Utilities.

The latter part of 2012 saw a lot of positive news for the Global Economy. China's economy, after a soft landing is reaccelerating, a positive for the whole region. The new leadership will continue its pro-growth agenda with a focus on encouraging consumer demand. The US will continue its slow and improving recovery. Europe in 2012 has implemented many reforms. It will likely still be front and center next year and bring volatility to the markets, but we believe that the economy will bottom sometime in the first half of the year.

Growth should be somewhat stronger in 2013 than it was in 2012. We are expecting World GDP growth of around 3.5%.

We are very optimistic on stock markets. Sentiment is still very negative. But with record low interest rates, equities might very well be the New Bonds.

Our investment strategy remains the same. The disciplined process aims to add value through security selection, not through industry or currency/country selection. As a result, we have a diversified portfolio of 59 companies in 13 countries and 37 different industries. Our favored investment themes are aging population, emerging market consumer, environment and alternative energy, high-tech, outsourcing, and infrastructure. In stock picking, we emphasize companies with better sales growth vs. industry, superior margins, low debt, insider ownership and cheap valuation. This should allow us to deliver better returns in both up and down markets.

We wish you all another successful and prosperous year!

Regards,
The Global Alpha Team