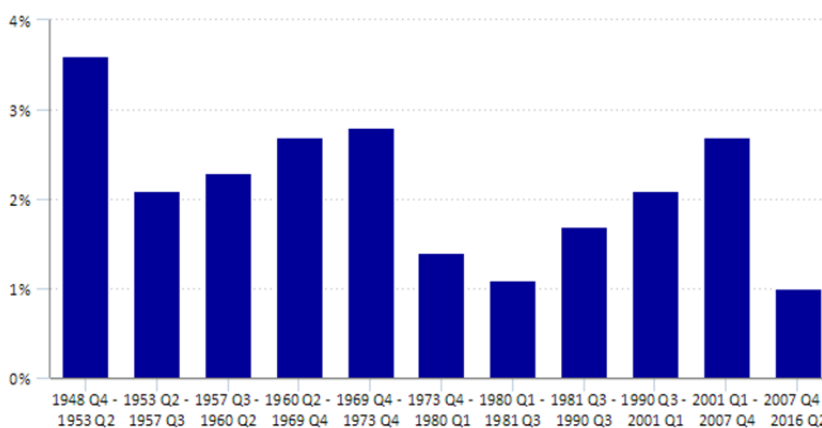


November 18, 2016

Dear clients and colleagues,

After the recent US election, we are attempting to pinpoint why the elected platform, which aimed at creating manufacturing jobs, was so popular during a low unemployment environment. The US Bureau of Labor Statistics produces labour productivity statistics every quarter that tell us how much economic efficiency is improving. These measures compare the amount of goods and services produced with the number of hours worked. Labour productivity is improved through new equipment, technologies and training. These statistics are the Bureau’s way of measuring the increase in the standard of living, which one could say correlates to political anxiety.

Chart 1. Average annual percent change in labor productivity in the nonfarm business sector during business cycles



Note: Each business cycle begins at the start of a recession, as determined by the National Bureau of Economic Research. Source: U.S. Bureau of Labor Statistics.

Labour productivity growth in the nonfarm business sector is lower in the current business cycle than during any of the previous ten business cycles. The wage gap (difference between productivity and real hourly compensation) has increased steadily since 1971, and manufacturing employment ratios peaked in June 1979. Since then, the number of manufacturing jobs has fallen by more than 37 percent while the number of government jobs has grown by nearly 39 percent.

Reinvigorating productivity of goods and services is done through technology and innovation. We believe that one of the next pillars of productivity growth will come through automation technology, and it will help transform all areas of the economy, not only manufacturing. McKinsey predicts that almost all jobs, to a greater or lesser degree, will be affected by automation in the next 10 years. 20% of US labour involves tasks related to physical activity, and 78% of that group could be affected by automation, according the consulting firm.

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Automation is not all about job losses, in some cases managerial positions will be added or entire industries will be reinvigorated. A concrete example of this is companies moving their factories onshore as they find operations work best when production facilities are situated close to their end markets. Adidas opened its first automated SpeedFactory in Germany and a second is being built in Atlanta. The US shoe industry worker was added to the endangered species list and neared extinction in 2014 as their numbers had dropped to 2,000 from 250,000 at its peak. Better days are coming.

Technical workforce training is certainly going through a renaissance with software-assisted education increasing skills and learning speed. As well, the US remains the most mobile and versatile workforce on the planet.

Global Alpha closely follows the opportunities related to automation and innovation as we believe this transformation is set to accelerate in the next decade.

Earlier in November, we discussed Japan's contribution to the technological equipment sector. We also expect the US to continue to lead the way in terms of localized technology deployment due to its \$11 trillion consumption base.

Automation will touch most goods and services industries and will affect a significant portion of our holdings in the future. The following Global Alpha holdings derive revenues directly from automation today:

- Omnicell Inc: Pharmaceutical dispensing equipment. Its products help track, store, acquire, dispense and administer medications and supplies in a hospital setting.
- Tomra Systems ASA: Materials sorting equipment. Its automated sorting solutions are sensor-based and aimed at providing optimal resource productivity.
- Nabtesco Corporation: Cycloidal gearboxes. Its gearboxes are used in robotic equipment to provide precise and rapid movement.
- Disco Corporation: Semi-conductor manufacturing equipment. Its products automate cutting, grinding and polishing of semi-conductor parts.
- GLORY LTD: Money handling equipment. Its products use high volume sensors to identify and automate money handling processes.

Have a good weekend,

The Global Alpha Team

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