

July 15, 2009

Dear clients and colleagues,

Global small-cap companies posted an impressive return of 18.4% for the past quarter. We were pleased with the portfolio performance, which achieved a similar return. Our barbell strategy, which combines defensive holdings and economically sensitive positions, has served us very well in this highly volatile environment. While our stock selection process proved judicious in general, some holdings in the portfolio seemingly take longer to retain investors' attention. Prosegur is one such example.

As the leading Spanish security group active in 13 different countries, Prosegur operates in three main business sub-sectors: guarding (surveillance), cash-in-transit and alarms. Although it has experienced some positive price momentum lately, the stock is still lagging its peers year to date. The financial data we compiled below highlight the remarkable position of Prosegur versus its main competitors. We feel like in the very short term, investors will return to this compelling story.

	Prosegur	Securitas	G4S
Sales 2008	€ 2'054 M	€ 5'885 M	€ 7'475 M
New market exposure	38%	1%	24%
Expected sales growth	5%-8%	0%-2%	5%-8%
EBITDA margin	12.5%	8.0%	9.0%
EBITDA per headcount	€ 2980	€ 2145	€ 1147
Net debt to EBITDA	0.9x	2.1x	2.7x
EV to EBITDA (2010)	6.2x	7.4x	6.7x
YTD local stock return	-2.0%	2.3%	5.4%

Target Market Size

Security Services (Guarding) is a US\$75B market size. Mature markets such as North America and Western Europe represent 70% of this market. Asia, Latin America & Middle East security markets are expected to grow in the range of 10%-15%, compared to 3%-4% in mature markets.

Competitive advantages

Prosegur is the market leader in Spain in the guarding segment, with over 55% of the market share, and the 2nd largest player in the alarm business, with 35% market share. Moreover, the group is the market leader in Argentina in bank security electronics, and holds a strong position in the surveillance market in Brazil. Over the year, Prosegur successfully enlarged its product offering. The company is also well known for its tailor-made solutions.

Growth strategy

At the beginning of the 1990s, almost 100% of its group sales were concentrated in Spanish and Portuguese security guard and cash-in-transit services. Since then, it has gained an impressive presence throughout Latin America. Their two biggest country exposures in this area, Brazil and Argentina, should continue to deliver high double-digit performances in the coming years.

Risk

Main factor risks include foreign exchange and operating risks. Since the industry is very fragmented, integration of acquired companies can be very risky, in some cases. The industry is also characterized by a high turnover in employees, making retention of guards a real challenge.

Investment Theme

The overall security market will continue to benefit from outsourcing and privatization trends. Companies find it less expensive and more efficient to outsource their security functions. As public budgets are getting worse, private companies such as Prosegur are taking on more tasks traditionally carried out by the police or other public authorities. On the alarm service front, penetration rate is very low, even in mature markets such as Spain (7% penetration compared to 18% in the U.S.). Crimes on property will continue to be favourable for alarm demand, especially in Latin America. Another point to consider is the fact that demand for cash is still very popular. People want to have access to their cash securely 24 hours a day, 7 days a week.

Valuation

Our target price, using a 7.5% discount rate, is €49 for an expected return of 110%.

Regards,

The Global Alpha team