COMMENTARY

March 15, 2010

Dear clients and colleagues,

Last week we had the opportunity to meet with more than 100 companies at one of the biggest institutional investor event in the U.S. Among the companies we met, eight are portfolio holdings.

We were impressed with the level of optimism among CEOs and CFOs for 2010, despite some industries' lack of visibility for the coming year. We were surprised to see how things have changed in a relatively short time. Last year, at the same event, companies were focusing primarily on their balance sheets, debt distribution, and credit. This year, many of them spent a great amount of time explaining how they intend to redeploy their cash (M&A, buyback, etc.), further expand their margins, and gain market share. While we agree that many have improved their balance sheets, very few seemed to show caution or bring up the impending inflation risk. Case in point, trucking companies have increased their price by 10%, hotels' by 5-10%, cruises' by 5%, convenience stores' by 5%, and medical corporations' by 5%, to name a few.

Here is an overview of our observations for some industries.

Housing & lodging:
For the first time in 20 years, builders are seeing a shift in consumer preference with customers asking for larger family rooms and smaller bedrooms. Banks remain reluctant to lend, which is resulting in a lack of large real estate transactions. In order to compete with the inventory of unsold properties, some builders have managed to cut 10% ($20k) off the cost of construction mainly by changing the type of materials used in the construction. Many Florida builders remain positive in the mid-term, claiming that the expansion of the Panama Canal scheduled to be complete in 2013 should drive business in Florida and along the East Coast.

Residential REITs expect home ownership to soon drop by 3 percentage point to the 30-year average of 64.5%. Because of the lack of lending, supply of new apartments is expected to hit post-WW2 lows.

Energy:
With an E&P program of $105B and a production level that could grow by 10% per annum over the next 3 years, Petrobras has captured a lot of interest from investors who cover that industry. Many companies are planning to expand their capex program for 2010 and 2011. Most see the price of oil being sustained in the $70-90 range, agreeing that once the $90

mark has been crossed, it could have a very negative effect on the economy. Until rig count goes down, the price of natural gas could remain depressed in the short term.

Retailers/Distributors:
Traffic has been stronger than anticipated, but the average ticket has been soft as consumers select cheaper items. Many retailers expect their average ticket to pick up in 2010. Driving same-store-sales and improving margins have become retailers' main priorities. Some are even seeking global growth by further expanding their business to Latin America and the Asia Pacific region.

During our retail check, store managers confirmed that consumers are still very sensitive to price.

Airlines:
Comparables from last year are easy to beat going into Q2 and Q3. Discount airlines continue to gain market share (now 29% total seat miles) from conventional airlines in an overall reduced capacity industry (10% drop in the past 3 years). Yet, one discount airline claims that its flight cancellations for the first 2 months of this year have hit its total cancellation number for the entire year of 2009.

IT:
E-commerce, online advertising, infrastructure, and optimization software companies are certainly among the most optimistic group regarding opportunity and future growth.

Health Care:
Software providers of electronic health records are likely to perform well in 2010, given that adoption of electronic systems is underpenetrated at 15-20%.

Among the companies in which the portfolio is invested, we met with the management from Comstock Resources. The stock has been a laggard this year, down 19%, which is somewhat puzzling given that Comstock is a US$2 billion market cap natural gas producer that has emerged as one of the leading producers in the Haynesville shale gas arena. The company has grown proved reserves per share by 25% in 2009, and production per share by 27% in Q4 2009. The company has little debt, and it is one of the lowest cost producers. The company expects to increase reserves per share by about 40% in 2010, and production per share by 20%. In light of the interest in shale gas, we believe the company, at its current stock price, has become an attractive acquisition target.

We also met Raymond James Financial, the host of the conference. RJ is firing on all cylinders, with its private client division gaining market share from larger brokerage firms. The main overhanging issue has been Raymond James Bank, as the company remains committed to expanding its Bank, a strategy with which we agree.

In the IT space, three of our portfolio holdings were presenting: Manhattan Associates, in the supply chain management software space, Commvault, in the storage and backup space, and Zebra Technologies, in the specialty printing, bar coding, and asset tracking and management space. All indicated a robust ROI-driven environment with short-time payback projects getting the go-ahead and strong growth in Asia.

In the waste management and recycling space, one of our long-term growth themes, Waste Connection, indicated a favourable environment with volume growth expected to become positive after 2 years, volume up about 2.5%, and pricing up about 5%. The company has hedged fuel prices for 2010, and with the price of scrap having more than tripled from the bottom, we expect strong earnings growth in 2010.

Finally, we met with a few pharmaceutical CROs (contract research organizations), a sector that had its first flat growth year in 2009, after more than 20 years of strong growth. All companies indicated that they expect good growth to return, driven by large pharmaceuticals looking for more strategic outsourcing deals, a better financing environment for emerging biotechs, and strong growth in Asia and emerging markets. We are very optimistic toward PPDI, a company whose stock we own in that sector and whose management we met at the conference.

Regards

The Global Alpha Team