

**October 17, 2014**

**Dear clients and colleagues,**

Since October 2012 Global Alpha has been a signatory to the UN Principles of Responsible Investment (PRI). The PRI is a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues. Today there are approximately 1260 signatories worldwide representing over US\$45 trillion in assets under management. Since April 2013, the initiative has added more than 200 new signatories, including PSP Investments, Harvard University Endowment, Credit Suisse Private Banking & Wealth Management, Green Investment Bank, Unilever Pension Fund, Greater Manchester Pension Fund, and Morgan Stanley Investment Management.

Last month we attended the annual conference “PRI In Person”, which was held in Montreal. More than 600 delegates attended, including representatives from many of the world’s largest pension funds and asset management firms. Many topics were discussed, covering climate change, low carbon strategies, tax strategies, political lobbying, and executive pay.

Climate change was a major theme at the conference. In the International Investor Statement released on September 18, 2014, nearly 350 global institutional investors, representing over US\$24 trillion in assets, called on government leaders to provide stable, reliable and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge.

Under the Montreal Carbon Pledge, investors would commit to measuring and publicly disclosing – on an annual basis – the carbon footprint of their equity portfolios. The current goal is to attract at least US\$3 trillion of portfolio commitment before the climate change conference in Paris in December 2015. Initial signatories include CalPERS, PGGM, and ERAPF. As asset owners sign the pledge, their asset managers may be requested to provide this data.

The current ESG database covers mostly large caps. Therefore, we will continue to rely on “on-the-ground” fundamental research to integrate ESG into our investment decisions. This year, we submitted our first PRI Reporting, and our assessment versus the peer group was satisfactory. Over the years we have established a feasible approach that combines screening, thematic and integration strategies; and we are actively engaging with companies we invest in. We will continue to increase the transparency of our responsible investment approach, promote initiative through collaboration with other organizations, and fine tune our ESG analysis.

At Global Alpha, we believe that companies who manage ESG issues better than their peers can outperform over the long term. Our experience with many companies suggests that the level of transparency is often similar when a company handles financials issues and ESG issues. When we assess two companies in the same industry with similar fundamentals, a review of their respective ESG performance can help to project which one may offer a better long-term prospect and lower risk. We believe ESG factors can have very material consequences which could drive, or destroy, shareholder value in the future.

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Responsible investing is evolving rapidly and is no longer viewed as an exclusion of “sin stocks”. Today the emphasis is more on the improvement of ESG practices by all parties in all industries. You may have heard different terms, such as “green investing”, “ethical investing”, or “impact investing”, among others. Whatever the name, it has made big strides in gaining market share. We believe that responsible investing is going main stream.

Have a great weekend.

The Global Alpha team

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