

**April 4, 2014**

**Dear clients and colleagues,**

In October 2012, Global Alpha proudly became 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 ESG issues. Today there are more than 1100 companies worldwide representing over US\$32 trillion in assets under management, or about 15% of total capital.

Since then we have been proactive in integrating environmental, social, and corporate governance (ESG) criteria into stock selection and in engaging with companies we invest in.

In 2013 we achieved three targets:

- Established a responsible investment policy.
- Defined the criteria of evaluating ESG performance of companies.
- Evaluated all companies in our portfolios with ESG score.

What are our ESG objectives?

### **Environmental**

- Cautious and responsible approach to environmental management of business operations
- Efficient use of natural resources
- Mitigation / Enhancement of product and service impacts on the environment

### **Social**

- International labour and human rights standards, safe and healthy working conditions and responsible labour management
- Fair treatment of customers including consideration of product safety, data protection and responsible marketing practices
- Positive engagement with regulators, communities and other stakeholders impacted by business activities

### **Corporate Governance**

- Compliance with relevant laws and regulation in countries of operation
- High standards of business integrity and work against bribery and corruption
- Clearly defined responsibilities and procedures in company management structures with appropriate internal control mechanisms
- Independence of board.
- Communication and disclosure of how ESG matters are managed

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What is our ESG integration approach? It includes negative screening, quantitative screening, investment themes, qualitative analysis, and valuation adjustments.

- Negative screening excludes certain industries such as tobacco, gambling, nuclear power, adult entertainment, and defense/weapons from our portfolio.
- Quantitative screening uses measures such as profitability, revenue growth and balance sheet strength.
- Investment themes help narrow the universe. We select companies in the context of themes consistent with ESG compliance.
- In qualitative analysis, an internal template of key ESG company data is used to calculate an ESG score for an individual company.
- The integration of ESG score into valuation tools is mainly through adjustments to discount rates and growth rates.

At Global Alpha, we believe that those companies that manage ESG issues better than their peers can outperform over the long term. Our experience with many companies suggests that the transparency level 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 the 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.

In 2014 we submitted our first PRI reporting and set up three new objectives.

- To update the responsible investment policy by continuously seeking best practices.
- To refine our ESG approach with reference to methodologies of brokers and other independent research.
- To engage with companies more actively, especially when we vote against management.

Have a nice weekend.

The Global Alpha Team

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