February 14, 2011

Dear clients and colleagues,

We recently took part in the Oddo Small Mid European Conference and met with a good number of European companies. We found that, overall, management teams shared a particularly positive view of 2011. Three themes seemed to emerge from the conference we attended:

Increasing mergers and acquisitions activity - this trend is already well under way with M&A deals reaching $310B in value; this represents 69% growth over 2010 and the best start since 2000. M&A should accelerate further if the European sovereign debt issue is resolved and confidence in the Euro zone picks up. Small and mid-sized companies are likely to once again benefit from this trend.

The recovery in the U.S. - There is clear evidence of improvement in the U.S. market, and many companies are experiencing a gradual acceleration in demand. Several of the companies we met mentioned price increases across their North American offering in an attempt to offset raw material price inflation. In some cases, prices will rise 5-8%. It will be interesting to see how consumers will react to this adjustment.

Emerging market exposure – Against a backdrop of weak GDP growth in Europe, companies are being forced to find ways to expand to higher-growth profile markets. Some are considering taking advantage of attractive interest rates to pursue M&A in those regions, while others may prefer to look for joint ventures with local partners.

Our view of some of the companies we met and which we own in our portfolios:

Vilmorin (Materials): positive pricing for vegetable and crop seeds. Surface areas for corn are increasing in Europe and in the U.S., with pre-order levels in both regions much higher than those of the previous year.

Sopra (IT services): With volume acceleration, stable pricing, and wage inflation under control at 1.5%, this company remains a perfect takeover candidate.

Ipsos (Media): Management sees positive signals in the U.S., but it has some concerns in the UK. Margins should continue to improve.

Zodiac (Aerospace): Riding the momentum as both travel traffic and production cadences for commercial airplanes are increasing.

Eurofins (Health care): Cautious tone in the short term, as investment may slow with capex- to-sales that is expected to drop to 6% in 2011. External growth should continue, but not to the detriment of margins and free cash flow.

Wirecard (IT): Its travel and e-commerce exposure should allow this payment service provider to grow by double digits in 2011. Its exposure to Asia will increase. It remains a takeover candidate.

Rentabiliweb (IT): This internet service provider will continue to engage in small but strategic acquisitions, as its micropayment segment and product offering continue to grow nicely, and cross-selling opportunities remain high.

While 2011 isn't likely to be an easy ride, we expect that companies will experience an upturn in their top lines. We believe earnings upgrades will gradually slow toward the end of 2011, leaving investors little to cheer for while looking into 2012. With respect to Europe, we believe some stock markets could surprise investors and perform relatively well. Once the European sovereign debt is behind us, we expect countries such as Italy to bounce back from their lows of last year. Italy was unfairly linked to Portugal last year, and we see very limited sovereign debt exposure from Italian banks. Germany could be another interesting place for investors to look at. The latest figures from the German Business Climate index and consumer confidence index confirm the level of optimism of German companies and consumers. In a nutshell, we don't see Europe having the same issues as Japan does. With favourable demographics, high saving rates and clear willingness from governments to reduce deficits, we don't expect the region to collapse.

Regards,

The Global Alpha Team