

COMMENTARY



March 15, 2019

Dear clients and colleagues,

We've been busy at Global Alpha over the last few weeks, and we've continued to travel, most recently to Asia and the US for broker-organized conferences and company visits.

In the US, we attended the 2019 Raymond James Investor Conference, a well-diversified corporate access event that takes place annually in Orlando, Florida. The city remains busy with road and mall traffic as visitors from across the globe journey to the area to entertain their children and their inner child. The strong US dollar remains visitors' top complaint – something to watch as the year progresses.

The economic tone of the conference and the presenting companies were optimistic about 2019, as corporate guidances show growth over 2018. Investors in attendance were also confident but more conservative. The US economy, and especially the consumer, remains resilient, but markets have been reflective of this with the recent rally. Anecdotally, through our meetings, we saw positive trends in travel, furniture, boating and even agriculture. We met with over 36 companies in three days, including six we hold in our portfolio.

The political drama caused by the US-China tariff war is hopefully coming to an end. A trade agreement is expected in the near future. One of the largest bystanders to these negotiations is the US farmer, as we noted in our September 28, 2018 weekly. US farmers were already suffering with the lowest corn prices seen in decades, and then soybeans took centre stage in the tariff trade war. According to the USDA, the ending inventory of soybeans at February 2019 was 900 million bushels, this is triple the amount produced in 2016. The current price for soybeans is \$9.00 per bushel, down from the five-year average of \$10.68. This means that farmers are battling headwinds on price and volume—there is a 600 million bushel inventory surplus and they had to take a 20% haircut on 4.5 billion bushels of the total 2018 soybean production. The government has a trade contingency plan that consists of a \$12 billion bailout for farmers.

However, there is some good news for farmers with respect to corn. Ending inventories have come down from 2.3 million bushels in 2016 to 1.8 million bushels in February 2019. A sustained price above \$4.00 per bushel, up from the current \$3.65, will provide on average an extra \$500,000 in revenue for the typical corn farmer, which is enough to restart a capital equipment renewal cycle. Furthermore, any trade deal between China and the US will have to include increased trade of US soybeans for Chinese electronics. A large trade deal involving more than \$12 billion worth of soybeans (\$12 billion worth of US soybeans were sold to China in 2017) would help to win back farmers' confidence and provide a tailwind for the agricultural industry for some time.

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COMMENTARY CONT.

Global Alpha has exposure to large agricultural crops through Titan Machinery (TITN: US), Lindsey Corporation (LNN:US) and Farmland Partners (FPI:US). Titan Machinery owns and operates a network of over 70 full-service agriculture and construction equipment stores across 11 states in the US and 6 countries in Europe. Lindsey Corporation is a global leader in mechanized irrigation systems and road safety solutions. Farmland Partners is a real estate investment trust focused on acquiring diversified agricultural land.

In last week's commentary, we covered interest rates and the potential for them to stay low for an extended period. Recent anecdotal comments seem to corroborate this idea. Notably, the camera shy but infamous Dr. Michael Burry (The Big Short) published his list of holdings for the first time in many years. Overwhelmingly invested in broken-down real estate companies, Dr. Bury is clearly focusing on value and believes interest rates will remain low going forward.

Since January, we were able to identify and acquire shares in real estate companies that offer opportunities in growing markets. Specifically, we added two North American real estate investment trusts to our portfolio. We chose these companies as they offer earnings per share accretion within our long-term return expectations.

Rexford Industrial Realty (REXR:US)

Rexford Industrial Realty is a real estate investment trust focused on acquiring industrial real estate that serves the last mile of distribution (multiple delivery points/short distances). In a buoyant California home delivery market, Rexford owns 179 properties with 22.1 million square feet of strategic distribution locations.

Community Healthcare Trust (CHCT:US)

Community Healthcare Trust is a fully-integrated healthcare real estate company that acquires, owns or finances real estate properties that are leased to hospitals, doctors, healthcare systems or other healthcare service providers located in outpatient settings outside of urban centres. The portfolio consists of 103 properties across 29 states, totalling over 2.2 million square feet.

Have a good week.

The Global Alpha Team