

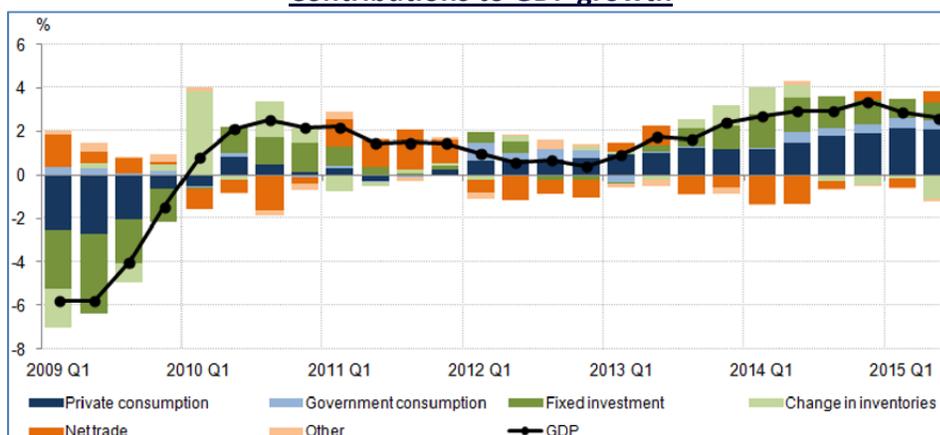
October 2, 2015

Dear clients and colleagues,

We recently had the opportunity to meet with several small and mid-cap companies in London. These meetings gave us very good insight on the consumer sector.

The UK consumer's mood remains in good shape. The majority of retailers believe that their September sales volume will accelerate. Amongst categories, clothing and food retailers seems to be the top beneficiaries. This very encouraging data should have a strong impact on the UK economy. As demonstrated below, private consumption contribution to GDP has been picking up nicely since the beginning of 2014. We expect this trend to continue.

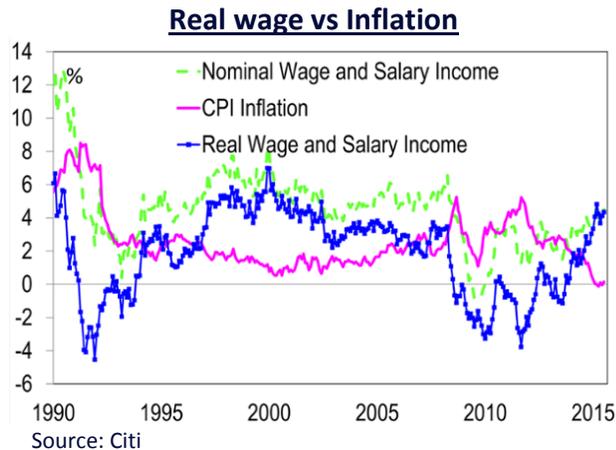
Contributions to GDP growth



Source: ONS

A significant improvement in purchasing power and a very resilient job market are the main factors behind UK's good retail sales performance. For one, consumers are saving big on fuel and transportation cost so that filling up your car now gives you an extra £15-£20 to spend elsewhere. Fierce competition in the retail space has also helped keep prices down.

Although employment growth has slowed compared to last year, the UK job market remains favorable. The productivity growth is rising close to its pre-crisis level while unemployment rates are decreasing. This healthy labour market combined with a weak inflation has had a very beneficial impact on wages. As illustrated below, real wage growth is now running at above 4% which is 300 basis points improvement over last year. We believe that wages are likely to continue to support retail sales in coming months.



We had the chance to visit some retailers during our stay. One of them was Greggs, a company we own in our portfolios. Greggs is a food-on-the-go operator in the UK with 1600 retail outlets. The company sells fresh sandwiches, savoury dishes and beverages.

We were impressed by the executions of the initiatives launched by a new management team who took over two years ago. Greggs successfully upped its standards by introducing better quality coffee, healthier product choices, a creative variety of home-style soups and new savoury dishes. The new refurbishment program has also enhanced shopping experience quite substantially. With life-for-like sales increasing 5.9% during the first 6 month of 2015, it is clear to us that shoppers have regained interest in the brand. By the end of next year, 600 outlets will be converted to this new format. We also noticed that consumer traffic in store was much higher than in previous years.

Greggs has been a strong performer year to date. Its stock price has generated a return of +52% while the median peers has posted -5% for the same period. The company is clearly benefiting from a surge in consumer spending and a better execution. We expect that the operational metrics of Greggs will continue to improve.

Have a good weekend.

The Global Alpha Team