

April 5th 2013

Dear clients and colleagues,

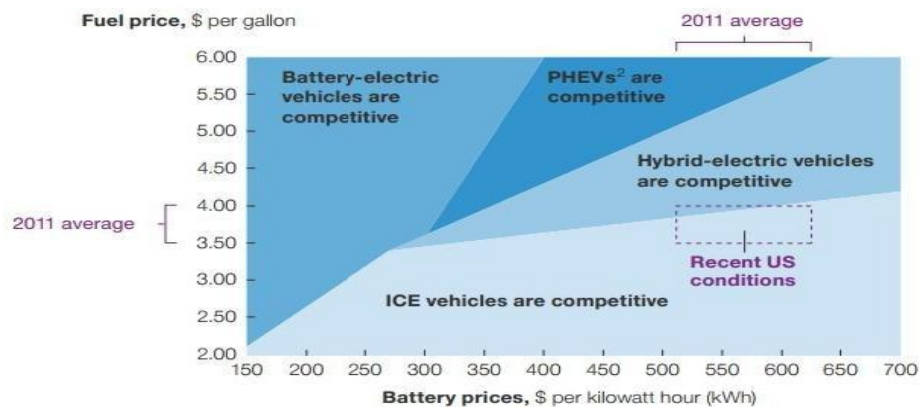
Gasoline prices remain around \$4 per gallon in the US. Despite that, new car sales have rebounded strongly in the US, led by a number of new, smaller and more fuel efficient vehicles, from Japanese, Korean, but also US car companies. In November 2010, we wrote a comment on electric vehicles as the Nissan Leaf and Chevrolet Volt were launched. We thought we would give you an update on the progress of electric cars.

Since appearing in showrooms in 2011, sales of all electric cars have been disappointing. In 2012, only 53,172 were sold in the US. Nissan was hoping to sell 150,000 Leafs worldwide in 2013; they probably will sell around 40,000. On the positive side, most car makers now offer an all-electric car. And the success of hybrid electric is undeniable accounting for over 3% of sales in 2012. In fact, over 2 million Toyota Prius have been sold worldwide since May 2008, including over 230,000 in the US alone in 2012.

One of the big reasons why electric cars have been slow to catch on is the price of batteries and the limited range. Unfortunately, unlike semiconductors, there is no Moore's law for batteries. Improvements in battery capacity can only be made by chemistry changes. A 2012 analysis from McKinsey predicts that the price for lithium-ion batteries will fall by two-thirds by 2020, to around \$200 per kWh. At this price, electric vehicles make a lot of financial sense.

The interaction of battery and fuel costs will determine the size of the market for electric vehicles.

Electrified vehicles' projected competitiveness with internal-combustion-engine (ICE) vehicles, based on total cost of ownership¹ (US example)



¹Assumes 240 watt hours per mile (as may be achieved with lightweight, efficient air conditioning) compared with today's 305-322 watt hours per mile.

²Plug-in hybrid-electric vehicles.

Source: Washington Post

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To have an idea of what performance might be like, the Tesla S, an all-electric sports sedan selling for around \$80,000 today, has a range of 480 km, reaches 60 mph in 4.2 seconds and has a top speed of 120 mph. So one can imagine those kinds of performances in a \$25,000 sedan by 2020.

The future might not be the all-electric car, but with the success of hybrid electric, and the upcoming launch of fuel-cell hybrid, yes fuel cells, anyone remembers Ballard Power?

Plus, the ever increasing problem of city pollution, especially in fast growing car markets like China and India, will lead to more eco-friendly vehicles.

We recently added one company in the portfolio to benefit from the electrification of vehicles. The company is Polypore International (PPO US), www.polypore.net. Polypore is the world leader in the production of membrane separators, a critical performance component in lithium and lead-acid batteries.

At Global Alpha, we believe our goal is not only to find good investments; it's to find good companies that are good investments.

Have a good week.

The Global Alpha Team

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