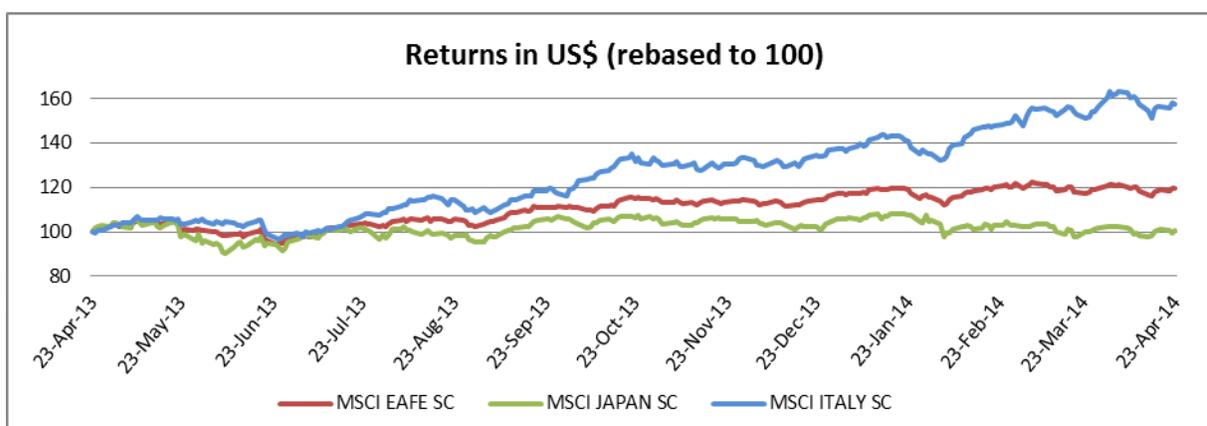


April 25, 2014

Dear clients and colleagues,

Since the beginning of 2014, Euro zone periphery countries are converging with the rest of the Euro zone. Risk premiums have come down rapidly and there seems to be a regain of confidence among households and businesses. Not long ago, the 10-year Italian bonds were trading at above 7% which is 400bps more than today's yield.

Italian companies have clearly benefited from a change in market dynamics where investors have returned to euro-domestic assets to the detriment of Japanese or US assets.



Sources: MSCI, GACM

Although the employment situation is expected to stabilize this year, Italy still faces many challenges. Similar to France, Italy's high labor cost has penalized its overall productivity. However, a recent law that was passed this week will ease rules for companies who hire temporary workers. This is a good example of measures taken to address the labor cost.

In the financial sector, banks are still struggling with growing nonperforming loans. Some institutions might even fail the upcoming ECB asset quality review due in October. Investors should expect more write-offs and capital increases in the coming months.

On the positive side, structural reforms proposed by the new government have the potential to improve Italy's long term growth. Part of this plan, which consists of reducing government spending and lowering taxes for low-income workers, should stimulate consumption and ultimately help to tackle Italy's massive public debt.

Surprisingly, Italian households are in better shape than many other European countries. Household debt as a percentage of income stands at 65% in Italy, better than Germany (84%), France (83%) and Spain (121%). Also, Italian saving rates are once again on the rise.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

On the corporate front, extended loan and credit guarantee schemes for small and medium enterprises should compensate for the current credit crunch.

Although Italian corporates have maneuvered in a sluggish economy, many have delivered good results allowing them to consolidate their positions while improving their margins. Companies in our portfolio were no exceptions. Between 2010 and 2013, our Italian holdings have successfully expanded their EBITDA margins by an average of 240bps.

We believe that the Italian stock market still looks attractive today. Besides some very depressed industries such as the financial and construction industries we acknowledge that it is becoming harder to find stocks that trade at a discount. That being said, keep in mind that in many cases high multiples are often a result of depressed earnings rather than excessive multiple expansions.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.