

March 18, 2016

Dear clients and colleagues,

One of the approaches we use to determine the intrinsic value of a company is the discounted cash flow (DCF) approach. Typically, a company will be added to our “Buy” list if it offers sufficient upside. Our margin of safety, as Warren Buffet would call it.

With companies in 23 different countries and 67 different industries, having a solid methodology to arrive at a discount rate to use in a DCF is critical. A discount rate requires three inputs: a risk-free rate, a measure of relative risk (Beta), and an equity risk premium.

Although we will produce a DCF for all the companies we analyze, we also use other evaluation methods. For example, we may use industry comparisons. We also use multiples paid in privatization transactions or acquisitions.

In many cases, the companies we analyze own assets that are very unique. For example, assets which may not produce cash flows in the near term. In such cases, we must determine a proper value for these assets.

Last October, we profiled one such company: Limoneira (LMNR US), one of our portfolio companies. Limoneira (LMNR US) is one of the largest growers and marketers of lemons in the US. Why was it difficult to evaluate? First, it takes many years for a fruit tree to start producing fruit. Second, Limoneira owns land that is more valuable for real estate development than fruit growing. Limoneira has a long-term strategy to unlock that value. Third, the company owns water rights in Southern California, an asset that is on the books at US\$5.6M but worth several times that in this droughts-stricken region.

| Significant Asset Base Unlocking Hidden Value | | |
|---|--|--|
| As of October 31, 2015 | FMV | Net Book Value |
| <ul style="list-style-type: none"> Agricultural assets ⁽¹⁾ <ul style="list-style-type: none"> Ventura County (4,000 acres) \$XXXM Tulare County (3,200 acres) \$XXXM Yuma, Arizona (1,300 acres) \$XXXM | <p>Current median/mean range for agricultural land transactions in Ventura County is \$64K to \$89K/acre; Tulare County is \$13K to \$16K/acre⁽¹⁾</p> | <p>Net book value for Limoneira's agricultural land in Ventura County is \$5K/acre; Tulare County is \$8K/acre</p> |
| <ul style="list-style-type: none"> Real estate development assets ⁽²⁾ <ul style="list-style-type: none"> Santa Paula Gateway- Residential⁽³⁾ \$XXXM Windfall Farms \$XXXM Santa Maria \$XXXM | <p>See page 17 for details</p> | <p>Net book value for the East Area 1 project is \$39K per unit or \$59M</p> |
| <ul style="list-style-type: none"> Rental assets \$XXXM Water investments \$XXXM Calavo investment⁽⁵⁾ \$18.5M Less associated debt (\$89.2M) | <p>\$19.6M</p> <p>\$5.6M</p> <p>\$18.5M</p> <p>(\$89.2M)</p> | <p>\$159.9M</p> |
| Net Asset Value | \$XXXM | \$159.9M |

⁽¹⁾ Ag assets include land, buildings and orchards
⁽²⁾ Exclude agricultural assets
⁽³⁾ In addition to residential, the Company also has retail, parking, and net residential, commercial and light industrial development in Santa Paula Gateway
⁽⁴⁾ Per company website, recorded March 2012
⁽⁵⁾ Calavo Growers (NASDAQ: CALO) investment is based on 360,000 shares at \$51.41 share price as of Oct. 31, 2015

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Another company that was harder to evaluate and that we recently added to the Global Small Cap portfolio is Rayonier (RYN US). In the last few years, we have seen a number of pension funds and wealthy individuals acquire timberland based on the sustainability of the asset, its tangible value and its inflation protection characteristics. With Rayonier, we own a company with prime assets, substantial value-creation opportunities and is trading at a large discount to its net asset value.

Rayonier (RYN US - \$22.49)

www.rayonier.com

Business Description

Headquartered in Florida, Rayonier is the second-largest timber REIT in the US with 2.7 million acres of high-quality timberland located in the US South (70%), US Pacific Northwest (15%) and New Zealand (15%). In addition to growing its timberland base, Rayonier has attractive HBU (higher business uses) opportunities across the US South, including the Florida and Georgia coastal corridor.

Target Market

Hardwood consumption in the US has been relatively stable over the last 15 years at around 10 billion board feet. Softwood consumption has fluctuated more as 60%-70% of softwood lumber consumption in the US is related to construction of single-family homes, residential repairs and remodeling projects. A steady improvement in housing starts is projected over the next few years.

Competitive Advantage

Rayonier is focused on areas with favourable supply/demand dynamics (the US South and West). Logs typically travel less than 100 miles. Rayonier forests are more productive due to a better location (weather, soil, access) and silviculture.

Growth Strategy

In the past few years, the company has sold non-core properties in the US Northeast to make selective acquisitions in the US South. It is also enhancing returns through intensive silviculture and genetics which has improved productivity as measured by projected tons/acre (Year by Site Index).

Finally, the company owns approximately 200,000 acres in prime locations in the Florida and Georgia coastal corridor. This includes approximately 40 miles of water frontage and 250 miles of road and highway frontage and land holdings at five interchanges on the I-95 and two planned future interchanges.

This land is currently valued at around \$1,300 per acre. Rayonier recently sold 137 acres near Savannah, Georgia for \$42,000 per acre. It still owns 833 acres adjacent to that property. The company has identified 25 distinct projects, with 2 currently active and 3 set to come on line soon.

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Management

The CEO and CFO joined when the company was split in two in 2014. The operational team has been in place for a number of years.

Risks

Timber prices have been extremely weak. Subdued demand combined with excess supply caused by tree diseases in Canada has depressed prices.

ESG

The company is a leader in environmental practices and social conduct. Each year, it makes more than 2.1 million acres available to the public for camping, hiking and other outdoors activity. Its forestry activities are conducted in accordance with the Sustainable Forestry Initiative. The company is also committed to ensuring wildlife protection and water quality and conservation.

Market Data

Market Cap: US\$2.77B, Net debt: US\$775M, Dividend Yield: 4.4%.

Have a great weekend.

The Global Alpha team

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