

December 13, 2019

Dear clients and colleagues,

This is the time of year when we reflect on the past year and look at the year ahead.

What a difference a year makes. After a very weak 2018 for equity markets, 2019 saw stock prices roar back, and most equity markets will post their strongest returns since 2013. As we write this, the MSCI World Index is up 25.7% in US dollars and the MSCI World Small Cap Index up 23.7%. The Canadian dollar has been very strong in 2019, backed by a robust economy, higher interest rates than in many other countries and relatively good fiscal policy.

The year 2019 was marked by a lot of uncertainties: trade wars, Brexit uncertainty, a slowdown in global growth and rising global food prices. This prompted many central banks to lower rates. There were over 700 rate cuts around the world and a record amount of negative yielding debt, in excess of \$17 trillion. This coupled with an economy that slowed down somewhat but still experienced growth and therefore sustained earnings, supported equities.

The last few days have brought some relief to markets as the US, Canada and Mexico ratified a new trade agreement. The US and China have agreed to a phase one trade deal that sees a pause in any new tariffs. The UK just held elections and gave a large majority to Boris Johnson and his Conservative party, which will allow him to pull the UK out of the European Union (EU) at the end of January 2020 and give him the authority to negotiate the terms of the exit and trade agreement with the EU. 2019 also saw the popularity of extremist parties ebb, and several elections brought more centrist and moderate politics to many countries.

So what are some of Global Alpha views for 2020?

The global economy is still growing, and we do not foresee a recession in the world's most important economies in 2020. The US will continue to grow at around 2% and China, which has many policy tools at its disposal, will also grow around 6%, a slight slowdown compared to 2019. Some countries like the UK and Germany will experience a more pronounced slowdown and may suffer a technical recession. We are more negative on large emerging economies like India and Brazil which have structural issues on top of weak governance.

This year we also saw a slowing in profit growth. Combined with rising stock prices, many markets look expensive compared to their historical averages and profit growth forecasts. However, we see this overvaluation concentrated in just a few segments of the markets, for example the mega cap

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 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.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.

companies in the technology and media sectors, the very large consumer staple companies that have some defensive growth, and in Europe the ultra-luxury sector. However, there are many sectors that look very attractive provided the world economy does not experience a major slowdown. The energy sector, the more cyclical sectors as well as small cap indexes appear undervalued when looking at their profit growth and compared to the sectors that are overvalued.

As a reminder, Global Alpha has a universe of over 12,000 companies in which to invest, so the opportunity to discover good, undervalued companies remains excellent.

Mergers and acquisitions (M&A) should continue apace. After a record year in 2018, which saw over \$3.7 trillion of transactions, making it the third biggest year on record, 2019 saw a small decline in activity. However, some sectors, such as pharmaceuticals, experienced their biggest year on record. Smaller company M&A volumes continued to be healthy throughout 2019 and should be again in 2020. In fact, we could see an acceleration in 2020 as private equity firms have raised record amounts of money. Corporate balance sheets, particularly in Japan and Europe, are very strong and under-levered. Interest rates remain accommodative, and the risk of antitrust problems is minimal.

What are some of the risks in 2020 that may negatively affect the markets?

Interest rates is one. Many central banks have commented on the consequences and limited effectiveness of negative interest rates. Many, like Sweden's, possibly the ECB and others, have indicated they will raise rates to zero or higher and will no longer allow negative rates. That means little support for equities can be expected from rates being lowered.

Inflation is another risk. Food prices around the world are at record highs and are engendering a lot of turmoil in some countries. Wage inflation is solidly above the 2% and even 3% around the world. Oil prices have gone up in 2019 and may continue to increase in 2020. Is the inflation genie out of the bottle? How high can it go before central banks intervene?

Then there's geopolitical risk. 2019 saw a move towards a more fractured world and a peak in globalization. We are witnessing a rising confrontation between China and the rest of the world. We believe it will become more pronounced as time goes by and will bring increased risks. How the Hong Kong situation gets settled will be something to watch in 2020.

The record amount of debt, especially by consumers and companies, is another risk. Any additional pronounced slowdown could have a cascading effect.

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 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.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.

2019 was a good year of relative performance for Global Alpha Global and International Small Cap portfolios. Outperformance was driven by security selection. A good year for takeovers saw the acquisition of names like Inmarsat, Cambrex, Greencross, Electronics for Imaging, Safecharge, Stallergenes and Hemfosa, and a few more companies received indications of interest of partial takeover.

The Global Alpha team welcomed a new employee this year, Jean-Eric Parisien, who is our client relations manager. Jean-Eric will ensure that we exceed our clients' expectations when it comes to client service.

We are confident for 2020. Our portfolios continue to offer a good exposure to the markets in which our clients wish to invest. We remain well diversified across the countries, currencies and industries that make up our benchmark, keeping a good risk management approach to factor risks.

2020 will mark the 12th anniversary of Global Alpha Capital Management. We would like to thank you all for your confidence in our team, our investment philosophy and process.

This will be our last commentary for 2019. We will resume in January 2020. We would like to wish you a Happy Holiday Season and a Wonderful 2020 filled with health, happiness and success.

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 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.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.