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CRM Global Opportunity Strategy
2Q 2010 Commentary

The Markets
"Nowhere to Hide" is an appropriate description of the predicament investors faced in the second quarter as the post 2009 financial crisis rally came to a screeching halt. The Greek fiscal disaster and fight for survival proved not to be an isolated incident, thus awakening the market to the real risk of a wider European sovereign crisis. In the end, it required a full scale >EUR 750bn European-wide backstop package announced in early May. As a perceived contagion, this proceeded to spread its influence far and wide, thereby driving concerns over risks to global growth expectations and coupled with a weak euro, crystallizing fears of downward U.S. earnings revisions. At its peak, the fears revolved around the European banking sector, boxed in by funding concerns and the imposition of impending regulation, succumbing to serious solvency issues. Acting as a second leg of assault on the global markets was the mounting concern over a potential drop in growth from the world's foremost engine China (transparent through a depressed local A Share market). Investors questioned the Chinese government's ability to smoothly transition its economy from dependency on foreign investments to leadership by its domestic consumer. Not without an invitation, the U.S. via a series of weak economic data in June did its part to create concern that the global recovery would be short lived.

Putting the macro backdrop aside, upon reflection we find ourselves wondering how much of this sell-off should really be attributed to massive de-risking or liquidity driven influences. The lack of discrepancy and differentiation between companies, especially those with the least direct exposure to the above issues, was our primary evidence that this may be the case. Further underlying this thesis are both the severe and widespread rise in correlations (between markets, sectors and asset classes) and the unprecedented aggressive flight to quality, as evidenced by both the strong dollar and the meteoric rise in the 10 year government bond markets. Combining the non-fundamental influences of the VIX trading at an elevated level of ~35 (+30% above the 15 month average), the second quarter's U.S. earnings season and the European banking stress tests, we left the first half of 2010 anticipating a short term rally from the oversold positions. We remain constructive on global growth over the medium to long-term.

We believe the markets are entering the second half of 2010 with as many questions as answers. This in our view sets the stage for the return of interesting debates (both old and new), which include: 1) emerging market decoupling - why and where it may be different this time around; 2) what is the right base of reduced growth rate in developed markets (factoring in fiscal/austerity measures and stimulus withdrawal) to build an investment strategy around; 3) when will markets come to realize China, even under decelerating growth, is still one of the more attractive global economies; 4) what is the catalyst for differentiation of the have and have not's (pitting growth and self help vs. stagnant recovery exposed sectors and stocks) and; 4) what/where is next bubble (as defined by crowded hot spot) to burst. These are some of the main issues we shall navigate over the next 18-24 months, as we expect further market volatility to present us with tactical opportunities.

We continue to find emerging market opportunities, particularly in Brazil where we feel the fundamentals remain robust. We initiated and augmented positions that have high exposure to the consumer given the strong domestic demand within the country. Examples are Usiminas, one of Brazil's largest steel producers and Itau, a leading bank with a strong countrywide consumer footprint. We are still constructive on the long term growth prospects for Asia and China, thereby continuing to hold positions like Komatsu, as the company has high exposure to infrastructure growth. Additionally, we own companies within the energy and materials sectors like Vale or Antofagasta, which should continue to benefit from the longer term growth drivers in the Chinese and other emerging economies. We are invested in many companies that continue to take "self help" measures such as: substantial permanent cost reductions; accretive strategic acquisitions; divestitures; stock buybacks; and new products, services and markets drivers. In the short term, we know valuation may not matter as the cheap can get cheaper. However, behind robust profits, there are many inexpensive corporate equities which do not need a vigorous economy to produce sustained strong free cash flow, which can be used to enhance shareholder returns. While everyone seems to be waiting for the next big macro catalyst (European bank stress tests, the midterm elections, containment of the Gulf oil spill), maybe there will not be one and perhaps, it will not matter.

The Strategy

The leading contributors to this quarter's performance were Santen Pharmaceutical, Pacific Rubiales Energy, The Weir Group PLC, Diagnosticos da America SA (DASA) and Syniverse Holdings. Santen's shares outperformed after reporting a higher than expected operating profit in the first quarter. Management continued to aggressively cut SG&A costs and focus spending on its highest return R&D projects. Moreover, Santen's key glaucoma treatment, Tapros, continued to gain market share in Japan and the company secured approvals for two new drugs: Cosopt, for certain types of glaucoma and Diquas, for dry eye disorder. The shares of Pacific Rubiales continued to benefit from the company's robust production growth profile and consistent delivery on its development plans in the Rubiales field. Management also continues to deliver on its exploration strategy in the Quifa field; and we believe the prospects for additional reserves and future production growth remain attractive. Weir continued to deliver on top-line growth and margin expansion. At the recent capital markets day, management announced a medium target of doubling PBT by 2014. We believe this is achievable and the company may likely surprise on the upside with achieving this goal. Management clearly stated a plan of action to deliver on this target, which we think is credible given the growth drivers behind each of Weir's core businesses. DASA outperformed after reporting better than expected profit margins in the first quarter, thus reinforcing the Street's confidence in its new management and operational turn-around. DASA, a leader in clinical testing services in Brazil, is starting to exercise its bargaining power by renegotiating service prices, driving economies of scale on medical equipment and consumables, and consolidating sub-scale patient service centers. We believe the company is poised to benefit from structural growth in preventive and diagnostic medicine, the expanding middle class' health insurance coverage, favorable population demographics and consolidation of the clinical laboratory landscape. Syniverse surpassed first quarter expectations and increased its earnings guidance, as management identified a rebound in roaming traffic with the return of business travel. In addition, the integration of VeriSign's messaging business is ahead of plan and messaging volume growth continues to accelerate as more carriers deploy smartphones. We believe the stock continues to be inexpensive at less than 10x our 2011 earnings forecast.

The leading detractors to performance were Vale S.A., Teck Resources Limited, Monster Worldwide, Petroleo Brasileiro S.A. – Petrobras, and Impala Platinum Holdings. Vale, Impala and Petrobras were all detractors from performance due to a general market movement toward risk aversion, which included reducing exposure to emerging markets. Additionally, all three companies fall under the commodities/cyclical part of the market, which was characterized by net selling throughout the second quarter. Investors remain concerned about Vale's global growth, in particular Chinese GDP growth coming under pressure through the rest of the year. We believe the main concern for Impala is the number of global auto sales, more so in Europe given the higher diesel penetration in this region. Petrobras has the uncertainty associated with the upcoming elections and offering which we believe continues to weigh on the shares. We believe the supply side remains constrained in all of these commodities and the slowing growth and uncertain outcome on demand is more than priced into shares at these levels. Teck Resources was a detractor for many of the same reasons, as well as coking coal and copper prices coming under pressure during the second quarter mainly driven by concerns regarding China's slowing growth. Monster's underperformance was due to concerns that the European debt crisis would lead to slower economic growth and delay an employment recovery. We continue to believe the company is well positioned for any cyclical job recovery given the continued secular shift from print to online classifieds. Further, Monster's recent announced acquisition of HotJobs from Yahoo! should bolster its industry leading position and create meaningful synergies.