



September 18, 2007

Dear Investor,

As you are aware, August was a difficult month for many quantitative hedge funds. Global Alpha was hit particularly hard. While the fund has experienced both challenging and rewarding periods in the past, the dislocation across capital markets during the latter part of August resulted in unprecedented stress to the fund. This deterioration in performance was particularly dramatic, though Global Alpha's returns had been under pressure for some time before that. As a result, we are actively working to adjust our process to minimize the negative impact of future market dislocations and position the fund for positive returns going forward. We want to take this opportunity to briefly describe how we are doing this.

Historically, our investment models have used market data to apply lessons learned from the past to current economic conditions. Our investment approach has been to adopt a longer time horizon, with positions being adjusted over the course of weeks and months. Recently, market activity and volatility have indicated to us that we need to adjust our positions more quickly.

Having taken a comprehensive look at the models and processes we employ, we are addressing the following issues:

Leverage and Volatility: We have traditionally viewed leverage as a means of achieving our target volatility. In addition, most of our trading has been in what are considered extremely liquid markets and, therefore, leverage has not generally been an independent constraint. We are now giving greater consideration to leverage as a separate risk factor in constructing our portfolios and we are applying new leverage constraints. While our factors may continue to change over time, given the current level of market volatility, we currently expect to run the portfolio at the lower end of our leverage range. We are also implementing some additional risk management measures and techniques to help us to better predict and react more quickly to highly volatile periods and adjust positions accordingly. These changes may result in us maintaining at times a lower volatility than the historical long-term target of 17%.¹

¹ Volatility targets are benchmarks we use to help manage the Fund's portfolio. We intend to seek a level of risk consistent with the average annual volatility range as set forth above. Volatility targets are aspirational only and should not be considered a guarantee that such results will be achieved. The targets set forth above are current as of the date of this letter and are subject to change. Any portfolio risk management processes discussed include an effort to monitor and manage risk, but should not be confused with and do not imply low risk or the ability to control risk.

Agility: There is more money invested in quantitative strategies than we and many others appreciated. While we've always been aware of our key competitors and the general size of their businesses, the recent liquidity crunch has highlighted a broader proliferation in related strategies. We foresee fewer and smaller participants in the quant space, which will benefit Global Alpha investors. Our intent under these circumstances is to more aggressively limit the size of our fund to reflect this new environment and to increase our agility in times of market stress.

Innovation: Innovative and differentiated factors are critical to the success of quantitative models. We place a premium on the development of unique and proprietary factors and will continue to devote our research capabilities to this end. We intend to increase the weight given to differentiating factors and strategies.

We appreciate your forbearance through this difficult period. The quantitative investment space has historically been rewarding for investors, and we believe investment opportunities remain attractive. You should not hesitate to contact us if you have questions about our approach or any other issues.

Sincerely,

Mark Carhart & Ray Iwanowski