



2018 Investment Theme Review & 2019 Perspectives

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January 8, 2019

B2B Software and Services
Payment Technologies
Consumer Technology
Media and Communications
Healthcare
Consumer Stocks
Industrials
Financials

2018 Review by Theme

2018 Review

- ❑ The end to 2018 was characterized by broad-based underperformance across indices, a significant drawdown from market highs, but also by a wide dispersion between the performances of our Investment Themes.
- ❑ In an environment of slowing growth and rising risk aversion, the poorest performers have been **traditionally cyclical stocks** (Industrials, Materials, Energy). Global Financials have also suffered— along with Consumer Staples, which saw significant re-ratings across the Tobacco and Brewer subsectors.
- ❑ The best performers were **Innovators**, which benefited from structural growth in the Technology industry (B2B Software & Services in particular) and in the Healthcare industries where Immuno-Oncology leaders were the clear winners. US Consumer Discretionary stocks were also reliable sources of strength even as rate-sensitive stocks such as Utilities, Telcos, and select Consumer Staples began to assert themselves at the end of the year.
- ❑ Other principles we have observed over the past month include:
 - Value does not work; “cheap” sectors such as Autos or European Banks continue to underperform while investors chase growth;
 - Companies with weak balance sheets are underperforming amid rising US rates and widening credit spreads;
 - China exposure has become a drag. Too much reliance on this market is now seen as a negative factor;

Investment Themes



Global Leader



Next-Gen Leader

❑ B2B Software and Services.

- Corporate IT spending is driven by new Technologies (Cloud Computing, Data Analytics, Artificial Intelligence etc.) while margins are improving thanks to the transition to SaaS (Software as a Service).
- Adobe** has managed to supplement its leading position in creative software by developing high growth marketing, analytics and advertising activities. **Microsoft** is also benefiting from its leading position in productivity application and is now catching with Amazon on Cloud Infrastructure. **SAP** remains the leader in ERP and will see improved margins as it moves products to the cloud.

				2018	Recommendation	Risk Level
B2B Software & Services	Leaders		Adobe Inc	29.1%	Hold	Medium
B2B Software & Services	Leaders		Microsoft Corp	20.8%	Hold	Medium
B2B Software & Services	Leaders		SAP SE	-5.6%	Accumulate	Medium

- The trend toward **Software as a Service** has served disruptors **Salesforce.com**, **Workday**, and **ServiceNow** especially well, pushing market share gains and large client acquisitions.

				2018	Recommendation	Risk Level
B2B Software & Services	SaaS		Workday Inc	56.9%	Hold	Medium
B2B Software & Services	SaaS		ServiceNow Inc	36.6%	Hold	Medium
B2B Software & Services	SaaS		salesforce.com Inc	34.0%	Hold	Medium

- Engineering Software** exhibit some cyclicity but should to deliver strong growth as they move to a SaaS model, expand through different industries and continue to add new features. Take profit on **Shopify** on increased competition and high valuation.

				2018	Recommendation	Risk Level
B2B Software & Services	Engineering Software		Autodesk Inc	22.7%	Hold	Medium
B2B Software & Services	Engineering Software		Dassault Systemes SE	17.6%	Hold	Medium
B2B Software & Services	Engineering Software		ANSYS Inc	-3.2%	Hold	Medium
B2B Software & Services	Internet Services		Shopify Inc	37.1%	Take Profit	Speculative

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❑ B2B Software and Services.

- Data Analytics tools have performed strongly already and may pause in 2019 after a strong 2018 performance. Take some profit. Cut positions on Zillow as they have changed their business model.
- Smaller companies in Information and Analytics continue to offer an interesting diversification profile.

				2018	Recommendation	Risk Level
B2B Software & Services	Data Analytics		Tableau Software Inc	73.4%	Reduce	Speculative
B2B Software & Services	Data Analytics		Splunk Inc	26.6%	Reduce	Speculative
B2B Software & Services	Information Services		CoStar Group Inc	13.6%	Hold	Medium
B2B Software & Services	Information Services		IHS Markit Ltd	6.2%	Hold	Medium
B2B Software & Services	Information Services		Zillow Group Inc	-22.8%	Cut Position	Speculative
B2B Software & Services	Research & Analytics		Gartner Inc	3.8%	Hold	Medium
B2B Software & Services	Research & Analytics		Forrester Research Inc	3.0%	Hold	Medium

- IT Services tend to be more pro-cycle and have suffered more in Q3. Innovation Leaders have continued to out-perform restructuring companies.

				2018	Recommendation	Risk Level
B2B Software & Services	Consulting Leaders		Accenture PLC	-6.2%	Accumulate	Medium
B2B Software & Services	Consulting Leaders		Capgemini SE	-10.9%	Accumulate	Medium
B2B Software & Services	Consulting Restructuring		Cognizant Technology Solutions	-9.7%	Hold	Speculative
B2B Software & Services	Consulting Restructuring		International Business Machine	-22.5%	Hold	Speculative
B2B Software & Services	Consulting Restructuring		DXC Technology Co	-34.6%	Hold	Speculative

Investment Themes



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❑ B2B Software and Services.

- In Cybersecurity, Fortinet and Palo Alto continue to gain market share at the expense of Check Point, Cisco, and Symantec. Leaders have already performed strongly, Symantec should progressively regain some ground as they recover from their internal audit issue.

			2018	Recommendation	Risk Level
B2B Software & Services	Cybersecurity	Fortinet Inc	61.2%	Hold	Speculative
B2B Software & Services	Cybersecurity	Palo Alto Networks Inc	30.0%	Hold	Speculative
B2B Software & Services	Cybersecurity	Check Point Software Technolog	-0.9%	Hold	Speculative
B2B Software & Services	Cybersecurity	Symantec Corp	-31.8%	Hold	Speculative

❑ Payment Technologies

- Stocks have been very strong over the year but some have overshot expectations, (Square, Wirecard, etc.) which led to a technical correction in Q4. Prospects for the industry remain very bright on increased consumer adoption and large-scale B2B opportunities. Keep **Mastercard** and **Visa** as core positions and accumulate on speculative **Square** and **Wirecard** on weakness.

			2018	Recommendation	Risk Level
Payment Technology	Payment Technology	 Square Inc	61.8%	Accumulate	Speculative
Payment Technology	Payment Technology	 Wirecard AG	42.9%	Accumulate	Speculative
Payment Technology	Payment Technology	 Mastercard Inc	25.3%	Hold	Low
Payment Technology	Payment Technology	 Visa Inc	16.5%	Hold	Low
Payment Technology	Payment Technology	 PayPal Holdings Inc	14.2%	Hold	Medium

Investment Themes



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❑ Consumer Technology

- **Apple** is faced with some pressure on iPhone sales following years of huge growth. The Chinese market is already weak and some other core markets may stall as well as high selling prices weigh on sales. Longer term growth and income stability will be derived from services. In the meantime, valuation is already very low (12x 1Y Fwd PE) and **Apple** holds 35% of its market value in cash that can be used to reward investors. Hold Positions.
- **Amazon** remains the world leader in both e-commerce and cloud infrastructure with a potential for margin improvement. Keep it as a core position.

				2018	Recommendation	Risk Level
Consumer Technology	Consumer Hardware		Apple Inc	-5.4%	Hold	Medium
Consumer Technology	e-commerce		Amazon.com Inc	28.4%	Hold	Medium

- After a strong multi-year run, investors seem to have thrown in the towel on **Video Game** publishers, fearing increased rivalry and rising development costs. On a fundamental basis, the industry continues to exhibit a mix of top line growth and margin improvement with a reasonable valuation.

					Recommendation	Risk Level
Consumer Technology	Video Games		Ubisoft Entertainment SA	9.9%	Accumulate	Speculative
Consumer Technology	Video Games		Logitech International SA	-4.6%	Accumulate	Speculative
Consumer Technology	Video Games		Take-Two Interactive Software	-6.2%	Accumulate	Speculative
Consumer Technology	Video Games		Electronic Arts Inc	-24.9%	Accumulate	Speculative
Consumer Technology	Video Games		Activision Blizzard Inc	-26.1%	Accumulate	Speculative

Investment Themes



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Media & Communication

- Cord-cutting has been largely priced-in and the **Media** industry is well into the digital platform age. Consolidation will continue (CBS is still rumored to merge with Viacom and Take Two) and the sector will continue to re-rate progressively.

					Recommendation	Risk Level
Communication Services	Global Media		Walt Disney Co/The	3.6%	Hold	Medium
Communication Services	Global Media		Vivendi SA	-3.1%	Accumulate	Medium
Communication Services	Global Media		Comcast Corp	-12.7%	Hold	Medium
Communication Services	Global Media		CBS Corp	-24.9%	Hold	Speculative

- **Internet Media** has been marred by privacy issues and management issues at Facebook. Though growth and margins will normalize, **Google** and **Facebook** remain huge cash machines and now trade at a very reasonable valuations.

				2018	Recommendation	Risk Level
Communication Services	Internet Media		Alphabet Inc	-0.8%	Hold	Medium
Communication Services	Internet Media		Facebook Inc	-25.7%	Accumulate	Medium

- **Telecom** companies should continue to outperform as investors seek earnings stability and as 5G progressively ramps up. AT&T profile has changed with the acquisition of Time Warner and the stock should progressively re-rate as synergies help to improve financial trends.

				2018	Recommendation	Risk Level
Communications	Big Telcos		Verizon Communications Inc	11.3%	Accumulate	Medium
Communications	Big Telcos		AT&T Inc	-22.2%	Accumulate	Speculative



Healthcare

- The best performing stocks within the sector are **Immuno-Oncology** leaders such as Merck or AstraZeneca which have benefited from a ramp up of ground-breaking therapies. Other large Pharms underperformed on idiosyncratic factors: J&J plunged at the end of the year on reports they attempted to cover-up the presence of asbestos in their baby products.

				2018	Recommendation	Risk Level
HealthCare	Immuno Oncology		Merck & Co Inc	40.0%	Hold	Medium
HealthCare	Immuno Oncology		AstraZeneca PLC	19.3%	Hold	Medium
HealthCare	Immuno Oncology		Roche Holding AG	2.5%	Hold	Medium
HealthCare	Immuno Oncology		Bristol-Myers Squibb Co	-12.9%	Hold	Medium
HealthCare	Big Pharma		Novartis AG	5.7%	Hold	Medium
HealthCare	Big Pharma		Johnson & Johnson	-5.1%	Hold	Medium
HealthCare	Big Pharma		Novo Nordisk A/S	-8.6%	Hold	Medium

- Medical Equipment stocks have benefited from innovation and higher procedure volumes in surgical robots, while still managing to fuel top-line growth in heart valves, insulin pumps, spinal cords stimulators etc.

				2018	Recommendation	Risk Level
HealthCare	Medical Equipment		Illumina Inc	37.3%	Hold	Speculative
HealthCare	Medical Equipment		Intuitive Surgical Inc	31.2%	Hold	Speculative
HealthCare	Medical Equipment		IQVIA Holdings Inc	18.7%	Hold	Speculative
HealthCare	Medical Equipment		ICON PLC	15.2%	Hold	Speculative
HealthCare	Medical Equipment		Medtronic PLC	15.2%	Hold	Medium
HealthCare	Medical Equipment		Charles River Laboratories Int	3.4%	Hold	Speculative
HealthCare	Medical Equipment		Stryker Corp	2.4%	Hold	Speculative
HealthCare	Medical Equipment		Align Technology Inc	-5.7%	Hold	Speculative

- European Healthcare stocks were relatively resilient, with the notable exception of Fresenius which shocked investors with two profit warnings.

				2018	Recommendation	Risk Level
HealthCare	European HC		Koninklijke Philips NV	0.3%	Hold	Medium
HealthCare	European HC		EssilorLuxottica SA	-2.6%	Hold	Medium
HealthCare	European HC		Fresenius SE & Co KGaA	-34.2%	Accumulate	Medium

Investment Themes



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Consumer Stocks

- US consumer discretionary stocks** were buoyed by the favorable domestic environment and the strong performance of companies with a unique business model such as Nike, Costco, or Match. Stay long as employment conditions in the US remain strong.

				2018	Recommendation	Risk Level
US Consumer	Apparel		NIKE Inc	19.9%	Hold	Medium
US Consumer	Dating		Match Group Inc	43.7%	Hold	Speculative
US Consumer	Online Services		Costco Wholesale Corp	10.6%	Hold	Medium
US Consumer	Online Services		GrubHub Inc	7.0%	Hold	Speculative
US Consumer	Restaurant		Starbucks Corp	14.8%	Hold	Medium

- Staples** did not perform well over the year due to fears of margin compression but have been resilient in the last quarter. Stay long as a core position amid volatile market environment and macro uncertainties.
- We cut our endorsement of **AB Inbev** on debt worries and recommend that investors diligently avoid companies with potential credit issues;

					Recommendation	Risk Level
Consumer Defensive	Brewers		Heineken NV	-9.6%	Accumulate	Medium
Consumer Defensive	Brewers		Anheuser-Busch InBev SA/NV	-35.8%	Cut Position	Speculative
Consumer Defensive	Food & HPC		McDonald's Corp	5.8%	Hold	Low
Consumer Defensive	Food & HPC		Unilever NV	4.3%	Hold	Medium
Consumer Defensive	Food & HPC		Nestle SA	-1.8%	Hold	Low
Consumer Defensive	Food & HPC		PepsiCo Inc	-4.8%	Hold	Low
Consumer Defensive	Food & HPC		Reckitt Benckiser Group PLC	-10.8%	Hold	Medium
Consumer Defensive	Spirits		Pernod Ricard SA	10.5%	Accumulate	Medium
Consumer Defensive	Spirits		Diageo PLC	5.1%	Accumulate	Medium

Investment Themes



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Consumer Stocks

- European Consumer stocks on the other hand have been affected by the weakness of domestic growth, their exposure to China, and competition from e-commerce.
 - Auto makers** have suffered from a weak growth environment and from a change in European Diesel regulations. Longer term they need to adapt to structural changes such as electric vehicles, autonomous driving, and e-mobility. Stay long as depressed valuation will lead to a significant rebound when cycle improves.

				2018	Recommendation	Risk Level
European Consumer	Autos		Volkswagen AG	-14.6%	Hold	Speculative
European Consumer	Autos		Bayerische Motoren Werke AG	-14.9%	Hold	Speculative
European Consumer	Autos		Daimler AG	-31.5%	Hold	Speculative

- Luxury goods stocks** have performed well but surrendered some performance in Q4 amid worries over declining Chinese consumption. Stay long as the growth story is still developing.

				2018	Recommendation	Risk Level
European Consumer	Luxury Goods		Kering SA	14.2%	Hold	Medium
European Consumer	Luxury Goods		L'Oreal SA	10.8%	Hold	Medium
European Consumer	Luxury Goods		LVMH Moet Hennessy Louis Vuitton	7.3%	Hold	Medium
European Consumer	Luxury Goods		Ferrari NV	-0.1%	Accumulate	Speculative

- Internet retailers** have been very weak due to the competitive pressure of Amazon on price and costs. Use the rebound to sell positions as challenges remain.

				2018	Recommendation	Risk Level
European Consumer	Online Retail		Zalando SE	-49.1%	Sell on a rebound	Speculative
European Consumer	Online Retail		ASOS PLC	-66.1%	Sell on a rebound	Speculative

Investment Themes



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☐ Industrials

- **US Defense** stocks sold-off with the rest of the market, including our favorites Raytheon and Northrop Grumman. Especially in the last few months, however, these stocks have proven more resilient than the broader market due to their relative independence from late-cycle concerns (US gov. spending isn't as dependent economic cycle). Current projections place the DoD budget at an optimistic \$750bn which would guarantee material upside for these names through 2019-2020.

			2018	Recommendation	Risk Level
Industrials	Defense		-16.5%	Hold	Medium
Industrials	Defense		-19.0%	Hold	Medium
Industrials	Defense		-21.4%	Cut Position	Speculative

- **Thales** has outperformed over the last year on what have proven to be extremely strong idiosyncratic factors. We expect this to continue once the Gemalto acquisition is complete. **Airbus** has sharply re-rated since the summer due to exposure of its civilian business to GDP growth.
- Broader **Industrials** have been among the worst hit by global growth fears and US-China trade spats, although we recognize this is classic late-cycle behavior for the sector.

			2018	Recommendation	Risk Level
Industrials	Aerospace		2.8%	Hold	Medium
Industrials	Conglomerates		-8.2%	Hold	Medium
Industrials	Conglomerates		-16.9%	Hold	Medium
Industrials	Defense		15.4%	Hold	Medium

Investment Themes



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❑ Semi Conductors

- We cut position on SemiFabs as the US-China Trade war has removed some visibility on the industry CAPEX. We maintain a reduced position on ASML as they currently are the only maker of EUV lithography machines needed in next generation AI or 5G chips.

				2018	Recommendation	Risk Level
B2B Software & Services	Semis		ASML Holding NV	-4.7%	Reduce	Speculative
B2B Software & Services	Semis		Lam Research Corp	-24.4%	Cut Position	Speculative
B2B Software & Services	Semis		Applied Materials Inc	-34.9%	Cut Position	Speculative

❑ Energy

- **Crude Oil** prices remains very volatile amid conflicting supply signals and fears of a macro slowdown.
- We put our focus on large integrated oil companies with diversified portfolios and showing CAPEX discipline.
- Those stocks are also high dividend payers and we believe will return hoards of capital to investors in the coming years

				2018	Recommendation	Risk Level
Energy	Big Oils		TOTAL SA	5.4%	Accumulate	Medium
Energy	Big Oils		Royal Dutch Shell PLC	-2.2%	Accumulate	Medium
Energy	Big Oils		Chevron Corp	-9.8%	Accumulate	Medium
Energy	Big Oils		Exxon Mobil Corp	-15.1%	Accumulate	Medium

Investment Themes



Financials

- European banks are faced with a profitability problem. The weak macro environment, rising funding costs and falling markets is putting pressure on revenues and margins.
- That said, NPL and legal issues have been cleaned up, CET1 ratio are strong and most bank will be highly leverage to a pick up in growth. Valuation is dirt cheap, most of the potential bad news seem to have already been discounted, and banks could benefit from a technical rebound in 2019.

				2018	Recommendation	Risk Level
Financials	European Banks		HSBC Holdings PLC	-11.0%	Accumulate	Speculative
Financials	European Banks		BNP Paribas SA	-33.1%	Accumulate	Speculative
Financials	European Insurers		Allianz SE	-4.7%	Hold	Speculative
Financials	European Insurers		AXA SA	-19.5%	Hold	Speculative

- Large US banks have underperformed the market on global growth worries and as the US curve flattened in 2018. They continue to benefit from solid operating leverage and a benign credit environment in the US. Like European banks, they have no capital risk in case of a recession. Hold position as valuation seems to already price a growth slowdown. Stay hold on Goldman Sachs until more clarity emerges on the 1MDB scandal.

				2018	Recommendation	Risk Level
Financials	US Banks		JPMorgan Chase & Co	-6.6%	Hold	Medium
Financials	US Banks		Bank of America Corp	-15.0%	Hold	Medium
Financials	US Banks		Regional Banks	-19.0%	Hold	Medium
Financials	US Banks		Citigroup Inc	-28.5%	Hold	Medium
Financials	US Banks		Goldman Sachs Group Inc/The	-33.5%	Hold	Speculative

- Specialized REITs **American Tower** and **Crow Castle** should continue to benefit from their defensive profile and the ramp up of 5G in the US.

				2018	Recommendation	Risk Level
Financials	Investment Holding		Berkshire Hathaway Inc	3.0%	Hold	Medium
Financials	Specialized REITs		American Tower Corp	13.3%	Hold	Low
Financials	Specialized REITs		Crown Castle International Cor	1.7%	Hold	Low

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