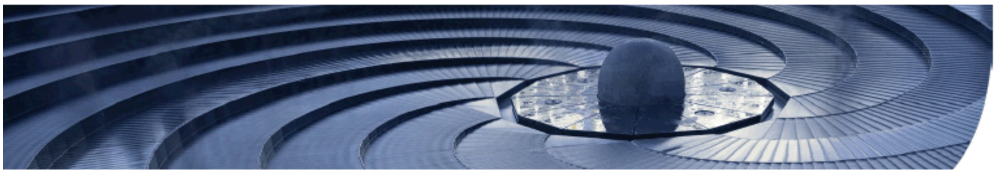

TRUMP LAND

US & CANADA AFTER ELECTIONS

Mirabaud Equities Global Focus I Mirabaud Global Equity High Income I Mirabaud Equities US

marketing-am@mirabaud.com I www.mirabaud-am.com

Kirill Pyshkin
26 November 2016

We spent the last 2 weeks meeting 27 companies across the US southern states of Georgia, Tennessee and Arkansas and in Canadian provinces of British Columbia and Alberta. The trip provided a refreshing insight into the US election results through the eyes of American steel workers in Arkansas and Canadian oil men in Alberta, which is really quite different from our liberal friends in London or in larger American cities like New York or Atlanta.

First, to put it in perspective, the so called low skilled workers on closer inspection appeared highly skilled. The experience and training required for mixing the right blend of alloy at a precise temperature is similar to that of a head chef at a Michelin-star restaurant. One small difference is that the cooking temperature is somewhat higher at 1800 degrees. Oh yes, and there are 4 days in a row of 12-hour shifts and sometimes you have to stand within a meter of a still melting pot. The worker in the picture, let's call him Kevin, has 14 years of experience out of which the last 2 he spent at this post. Every once in a while he gets out of his booth to take a manual sample of molten steel with a mass spectrometer also operated by him.

With 14 years at the factory Kevin is one of the newer employees. I met three others, two of them have worked for Nucor for 22 years and the third for 41 years. At 67 years of age he is not thinking of retiring and the company is more than happy to retain him with the incredible wealth of experience he has accumulated.

Not surprisingly there was consensus around the table in agreement with the President-elect's policies to prevent American jobs going to Mexico and China. In fact, the former CEO of Nucor is Trump's economic advisor. Another big cheer was for his infrastructure plans, they say they could do with better roads, schools and airports. Nucor is the largest maker of infrastructure steel in the US and they had real pride in telling me that it is their steel that supplies the new World Trade Centre in New York while being happy that Nucor has recently won a couple of trade disputes that will restrict imports of certain types of Chinese steel.

Nucor is also the largest recycler of scrap steel because it uses an electric arc furnace as opposed to blast furnaces using iron ore and coke as inputs. This type of steel manufacturer tends to be less cyclical because the margin self-adjusts with the movement in steel price. We hold Nucor shares in our Global Equity High Income and US Equities portfolios.

The other company that would benefit from infrastructure spending is Acuity Brands, the maker of light fixings which we hold in the Global Equity Focus Fund. We visited their lighting show room and the breadth of products is really impressive. The company has 12 mln SKUs, of which 2/3 LED that are 2-3x more expensive. The growth of LED is still in the early stages as penetration is only 20% outdoor and 10% indoor in North America.

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We met both parcel delivery companies FedEx and UPS who are unsure of the Trump anti-globalisation rhetoric as obviously the volume of international deliveries would suffer. However, there are currently other burning issues in the minds of these companies, most importantly how to accommodate the growing number of e-commerce deliveries which boosts the volume of actual deliveries 1.5-2 times over the holiday period. The system is stretched and if in the past the rapid growth in e-commerce could

be absorbed by under-utilised networks, now more and more investment is required. So UPS are buying planes again, while FedEx is running CAPEX above the long term range. A price increase is needed and it is likely this would be passed on to consumers; no more free deliveries! On the bright side,Trump's infrastructure spend would bring more volumes on B2B deliveries, which are higher margin. We hold UPS in the Global Equity High Income and US Equity portfolios.

The clear loser of Trump is commercial hospitals like HCA, the largest chain in the US. Obamacare brought additional coverage to 20 million people* and with it new patients though the system of insurance exchanges at a running rate of 15k per quarter for HCA. Even if Trump now doesn't repeal some of the more popular provisions of the reform such as kids coverage and pre-conditions, there is virtually no hope remaining of the HCA's biggest states of Florida and Texas electing for Medicaid expansion, as was hoped for with Clinton. Given this outcome the daily struggle to match growing

*According to HCA

healthcare costs with low patient growth get only get harder, we don't hold HCA in any of the funds.

Large multinationals like Coca-Cola are not particularly thrilled with anti-globalisation prospects either, given that normally emerging markets are driving growth. However, some have huge offshore cash balances, for example $18 billion for Coke representing 80-90% of total, and if there is a tax break to bring this back to the US, shareholders could see some of this as dividends or buybacks. Less regulation would be another benefit. It is not clear were Trump is standing on sugar taxes, but the feeling is that the level of taxes and regulation is likely to move down rather than up. Coke is busy re-franchising its US bottling operations, with 11ppt benefit to margins, $1.3 billion less CAPEX and hopefully accelerated volume growth. This may be an interesting opportunity, we don't currently hold shares of Coca-Cola.

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At the other end of the e-commerce push are traditional retailers that are struggling to adapt to the new online world dominated by Amazon. We met Carter's, the owners of a successful baby brand that is "confused" between retail channels. On the one hand they want to embrace e-commerce and are already the most popular baby brand on Amazon but on the other they see falling profitability and cannibalisation of their stores. The biggest hit comes from shopping malls where business is really bad. The question is what to do next - continue with store expansion and rationalisation or abandon the whole store strategy to focus online?

We met the leading provider of omni-channel solutions that is critical to retailers' e-commerce strategy, Manhattan Associates. They provide supply management and warehouse solutions with a unique product. The company has experienced rapid growth 10-15% but we feel it may be slowing. The current investment plans also mean that 2018 would probably be the better year to look at it again.

Another smaller company leader in its field is Rollins. A global force in pest-control with 55 franchises in 40 countries and a powerful Orkin brand started by a door to door salesman with the same name selling rat poison. And there is always a need for rat poison no matter who the President is! A slow growing business with 25% ROIC. We don't hold neither Carter's nor Rollins's shares in our funds.

Source of picture: Google

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Ok, we are clear about the red neck states in southern US, but why is Canada Trump land? It may not be the case in Vancouver but in Calgary, Alberta it certainly is. The Alberta economy is under real pressure since oil prices collapsed with unemployment running at 8.5% up from 4% in the past*. International oil super majors are leaving, closing offices and cutting budgets. Big projects like Kitimat LNG and Keystone XL pipeline were put on hold due to environmental concerns or “first-nations” impact. There is a real concern for the future of the gas industry which is seeing increased competition and availability of gas from the US Marcellus shale.

The immediate beneficiary would be the Keystone XL pipeline which Trump is supposedly planning to approve on his first day in office. This is a key project connecting Canadian oil sands to US Gulf refiners. Without it, options for oil sands developers are limited to existing pipelines running at maximum capacity. Oil sands follow a high fixed/low variable costs model which means production keeps growing regardless of the oil price. Suncor, for example, covers expenses at $32 and dividends at $40 oil, and with every $1 above this oil price generating $240 million additional cashflow**. Both Suncor and CNQ are expanding big projects in 2017. This oil will need to get somewhere. We don't have shares in either producer but instead own shares in Gibson which is building liquids terminals for Suncor.

We met many pipeline companies from the largest TransCanada and Enbridge, to the smaller ones active in different areas like Pembina, AltaGas and Keyra. Each represent pluses and minuses to the investment case, but commonality is a high level of fee and a recurring revenue base. We also met providers of hardware - like Enerflex, and software, like Computer Modelling Group. Commonality here is the shared view that orders have probably bottomed and we may be at an inflection point, with or without the OPEC agreement to limit production. Canada is also a home of exciting gas projects which can rival Marcellus in economics and size. A new area in north Alberta is attracting deserved attention, one excellent producer we met there is Peyto. The model is a simple focus on returns, not growth, shouldn't that be the case for every company? We don't own shares.

*Source: http://economicdashboard.alberta.ca/Unemployment
**Source: Suncor
Picture source: Google

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Trying to summarise the view of 27 companies in the US and Canada, Trump is good for their business because he wants:

- to build more infrastructure … boosting GDP
- to achieve US energy independence … boosting GDP
- to bring cash onshore … boosting spending and GDP
- lower taxes … boosting spending and GDP
- less regulation … boosting business activity and GDP
- to protect american jobs … boosting US GDP

The risks are with

- multinational businesses reducing international trade
- manufacturing jobs in Mexico, China and other outsourced centres
- Obamacare and Medicaid expansion
- over-regulated Canada (and Europe?) becoming uncompetitive vs US
- gas and renewables (if coal is coming back)
- global warming

Our meetings in US and Canada 14-23 November 2016.

Georgia: Acuity Brands, Coke, Manhattan Associates, UPS, Newell, Carter's, NP

Tennessee and Arkansas: Nucor, HCA, First Horizon, FedEx, International Paper

Vancouver, BC: Mercer, Ritchie Bros, Telus, Premium Brands

Calgary, Alberta: Shaw, Enbridge, Pembina, Transcanada, Suncor, Enerflex, Agrium, Keyera, AltaGas, Peyto, Computer Modelling Group

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marketing-am@mirabaud.com I www.mirabaud-am.com

Source of photos: Kirill Pyshkin