MIRABAUD 1819
Asset Management

GLOBAL THEMES 2018

GLOBAL THEMES 2018

As we have done in previous years, we would like to outline some of the key themes that we believe will dominate in 2018. We have also provided updates for a couple of themes we highlighted last year, which continue to be important for global investors. In most cases, our original thesis has not changed dramatically. This is as it should be; these are multi-year themes.

We are, however, introducing two new themes this year, "Automation" and "Millennial Consumer". Automation is a long standing theme, which jumps back into the top 10 this year, boosted by Artificial Intelligence.

"The Millennial Consumer" has evolved from our previous "Consumer Brands" theme. Millennials are now the largest of all the age groups, and to a large extent they now dictate to what level a consumer brand can succeed. How companies market and interact with millennials is very different from how they approach other age cohorts, and some former global leaders are struggling to cope with this change.

INVESTMENT THEMES 2018

AUTHORS:
ANU NARULA
PAUL MIDDLETON

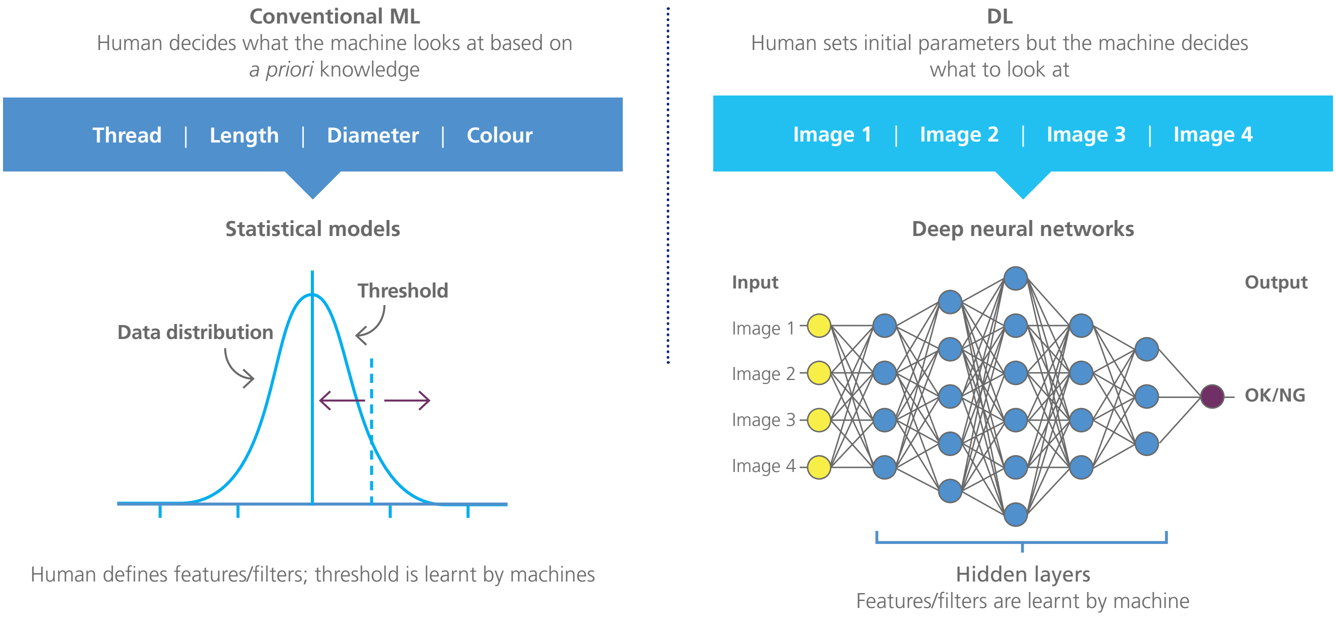
1. AUTOMATION

'WE BELIEVE WIDESPREAD ADOPTION OF AUTONOMOUS VEHICLES WILL START IN THE MIDDLE OF THE NEXT DECADE.'

We have had exposure to Automation across our global and US equity funds for a number of years. However, it has not always been in our top 10. What's changed is that AI (artificial intelligence) is now an additional driving force behind automation. Indeed, we expect this to accelerate existing Automation trends. However, there is a very important distinction to be made between what most companies currently refer to as AI, which is a very broad interpretation of the term, and AI in its purest sense. This second category consists of AI that remains at the cutting edge of technological progress, and is not being commercialised anywhere. Strong AI can perform intellectual tasks in the same way as a human.

In a broader sense, weak AI is really "just" another form of automation. The function performed is specific, and it is not intelligence in the strictest sense because it mainly consists of adaptive algorithms that enable optimisation. The "just" does not reflect a lack of power or impact, however, as this technology is truly transformational. This area of AI includes Machine Learning, and Deep Learning (ML and DL), where DL is a subset of ML.

CONVENTIONAL MACHINE LEARNING VS. DEEP LEARNING: DIFFERENCES ILLUSTRATED



Source: Wiki Commons: Bernstein Analysis

It is now DL which is pushing automation forward; ML is becoming more standard.

In Automation we own **Google**, which is arguably the front runner in Deep Learning. **Google** is using DL in many different areas. One of the most exciting areas is **Google's** self-driving car initiative (Waymo). It is not perhaps surprising that 94% of all crashes in the US involve human choice or error (2014).

The self-driving car may not eradicate crashes, but should reduce them significantly. To work, the self-driving car takes in real time data about the environment, which is converted into an understanding of the scene, and then the car reacts to this, all within milli-seconds. The company is currently trialling Waymo live in certain suburbs of Phoenix, Arizona, and is looking to extend these trials into more areas soon.

We believe widespread adoption of autonomous vehicles will start in the middle of the next decade. In 2017 we benefitted from this trend through our investment in **Mobileye**, the global leader in vision systems for cars. **Mobileye** was bought by Intel in March 2017.

U.S. FATALITIES ASSOCIATED WITH HUMAN CHOICE OR ERROR (2014)

9,262	SPEEDING
9,967	ALCOHOL
3,179	DISTRACTION
846	DROWSINESS

Source: www.waymo.com/tech/

Some areas of transport will migrate to autonomous technologies sooner. Regulators of US railroads have mandated full implementation of PTC (Positive Train Control, equivalent to Autonomous Emergency Braking (AEB) in autos) by 2020. This is a step in the direction of full automation on the rails. The stumbling block to more rapid adoption of automation here is a heavily unionised workforce. We own shares in **Union Pacific** in the US fund.

The jury remains out as to whether machine-based learning will enhance human input or replace it. At the more pessimistic end of the spectrum, the author and 'futurist' Martin Ford believes that robots and AI will eventually make a large part of the workforce redundant. He believes that advancements in 3D machine vision and increased robotic dexterity will have a major impact on manufacturing jobs. Against this backdrop, he thinks governments may eventually have to provide a Universal Basic Income – the so-called 'Robot tax'. Other commentators, however, are more sanguine.

Dr Sean Gourley of primer:ai, for example, a machine intelligence company based in San Francisco, argues that AI will not replace humans. Instead, it will enhance human intelligence, solving difficult problems that neither humans nor machines can solve on their own. Both Gourley and Ford agree, however, that machine learning is one of the main technological turning points. Indeed, high-performance computing and machine learning are already transforming quantitative finance and economics. More generally, machine-based learning and AI continue to uncover a wide array of practical applications in a host of other industries, including automobiles, healthcare and insurance.

Automation is supported by strong secular trends. Many believe that AI and machine learning will make automation solutions more flexible and efficient. This will likely open up new service offerings and revenue streams for leading automation companies. Subsequently, investor interest looks set to remain high this year.

We also have exposure to Automation via **Roper**, and **Accenture**. The latter is seeing accelerating revenues from companies moving to Robotic Process Automation.

AUTOMATION SPECTRUM

The automation spectrum is rapidly changing. The rise of new artificial intelligence technologies, including virtual agents, machine learning and natural language classification will further drive automation and augmentation of insurance industry processes.

01

INTEGRATED DESKTOP

Consolidating data from multiple sources into a single view to complete a process

02

ROBOTIC PROCESS AUTOMATION

Applying technology to manipulate existing application software to complete a process.

03

DIGITAL ASSISTANTS

Interactive characters with human-like traits and communication styles able to answer questions and perform business processes.

04

MACHINE LEARNING

Systems that gain knowledge from data as 'experience' and apply what is learnt in upcoming situations.

Source: CLSA Global Automation, Judgement Day

2. MILLENNIAL CONSUMERS

'IN 2018, BEAUTY COMPANIES WILL CONTINUE TO SHIFT THEIR MARKETING SPEND TOWARDS DIGITAL AND ONLINE INFLUENCERS'

The Millennial generation is already large, and growing ever larger. In the US, for example, they account for 92 million people, compared to 61 million in Generation X and 77 million in the baby boomer generation. This rapidly growing cohort will play a significant role in shaping the way companies develop new ways of connecting with this generation, given that traditional methods are proving ineffective.

Millennials have developed a unique set of expectations and needs. They have different requirements than previous generations, regarding how companies should interact with them and how they, in turn, interact with companies. Indeed, they are poised to reconfigure the way in which companies position themselves to capture this growing and important segment of the market.

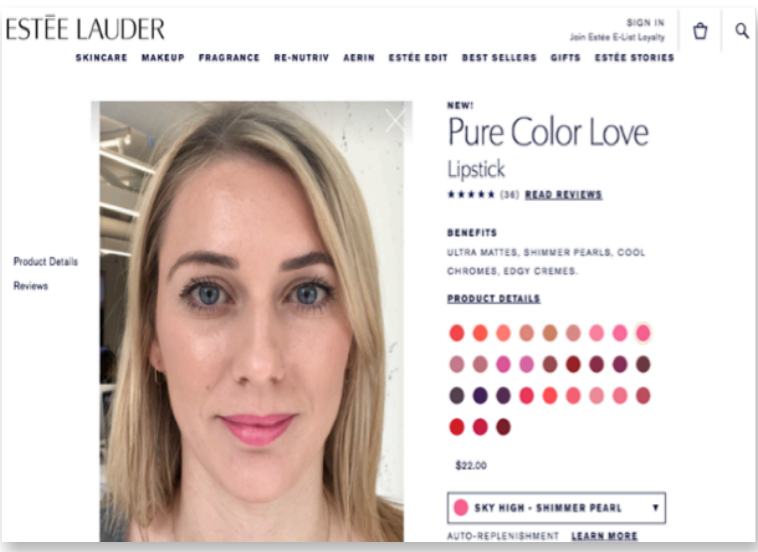
A MILLENNIALS: BEAUTY ENTERS NEW TECH-PHASE

In 2018, beauty companies will continue to shift their marketing spend towards digital and online influencers. This reflects the fact that Millennials will hit a tipping point in 2018 and are poised to account for over 50% of purchases across skincare and beauty products. Millennials' affinity with technology will lead to big beauty brands using 'influencer marketing' more strategically, especially given the influence of social media within this cohort.

In recognition of the increasing spending power amongst Millennials towards beauty related products, companies in this sector of the market are quickly developing 'a millennial mindset'. This will govern 80% of their commercial strategies, product development and brand investment.

Technology is also making shopping for beauty more customisable and personable – experiences that Millennials are coming to expect from retailers. Indeed, new apps can detect and analyse facial expressions, skin tones and eye movements, driving improved retail experiences for Millennials.

As a result of these and other developments, beauty technology revenues are expected to grow at a 50% CAGR over the next five years, as leading brands invest in technology such as augmented reality, colour matching and interactive mirrors. We own shares in **Estee Lauder**, which invested in augmented reality (AR) platforms in 2017. They subsequently launched augmented reality tutorials with over 17,000 bloggers and unveiled their Modiface colour matching technology, which is used on their apps:



Fabrizo Freda, chief executive of **Estee Lauder**, has given credit to the recent pick up in growth to the millennials. In the US, millennials have '6 more lipsticks than their mothers on average'. He also notes that 'the millennial wants to be engaged while baby boomers want to be sold to. They were willing to be pushed, the millenial wants to be pulled in.'

Estee Lauder has invested about $2 billion to acquire or invest in eight new brands over the past three years including indie names like Too Faced, and Becca Cosmetics. These brands, popular with millennials contributed 3.5% of sales growth as overall sales growth exceeded 10%.

Another leading beauty brand, L'Oreal, invested in five tech start-ups in 2017 covering areas such as fingernail design and printing, social media influencing platforms and beauty forums. Finally, Sephora has launched CAPSURE technology to meet the challenge that 40% of beauty purchasers aged 16-24 cite difficulties in matching products to their skin.

At the retail shop level, stores in the US, such as Wal-Mart, Target, CVS and Walgreens are planning to give their beauty departments a technology-lift – using new technology to improve their customer experience. This is the chasing pack- Ulta Cosmetics is a clear leader in the new world:

Source: WWD and Jefferies, LLC

Sources: Jefferies, Cosmetics & Personal Care – 2018 Beauty Market Outlook

B MILLENNIAL SPENDING HABITS

Millennials have been exposed to a different set of economic, global and lifestyle changes compared to their parents. This is influencing their spending habits. Part of this also reflects their reliance on technology, and a greater willingness to spend money on seeking experiences, which they can then share on Instagram or Snapchat. Not all of these experiences are authentic: a recent article highlighted that people are paying up to £145 to "stage" photos in private jets, which remain on the ground for the entirety of the photo shoot!

Experiences matter for millennials, and we believe that this will have a lasting impact on industries such as travel, leisure, food and beauty products – industries that are generally under-represented in market-cap benchmarks. Globally, Millennials are now seeking more memorable experiences in a more cost effective way and with more frequency. According to the 2017 Vacation Conference Index on how Americans travel, Millennials, on average, earn the least (US$72,400), get the least vacation time (12 days), and take the least vacation (8.4 days), and spend the least (US$1,373) on their vacation, when compared to their older counterparts. This will drive innovation in the travel and tourism sector as Millennials seek to maximise their ability to capture experiences and memories from smaller budgets.

It is trends like this that have also led to new entrants, or disruptors, in this sector of the market – such as Airbnb. Recreational Vehicles have also seen a resurgence in demand as millennials seek wide open spaces to photograph. Millennials are also driving further growth in industries such as food and beverages. Included here is the growing consumption in coffee. In a recent study, close to half the 1,900 Millennials surveyed 'spend more money at coffee shops than they put into their life savings'. We own shares in **Starbucks** across the funds.

Not all of the Millennials' behaviours are different from that of their parents- they are still very cost conscious. Millennials are the first generation of digital natives and the journey they take in selecting and buying products or services is different to previous generations. This has been driven in part by their use of cost comparison websites and online retailers that are in a position to provide strong levels of discount.

They also place a greater reliance on authenticity – they are more influenced by online reviews rather than advertising and they are more comfortable moving away from face-to-face contact when making purchase decisions, such as booking travel or interacting with their bank or other financial services providers.

Sources

http://www.nielsen.com/us/en/press-room/2017/nielsen-unveils-first-comprehensive-study-on-the-purchasing-power-of-multicultural-millennial.html

https://www.travelagentcentral.com/running-your-business/stats-millennials-spend-least-vacation

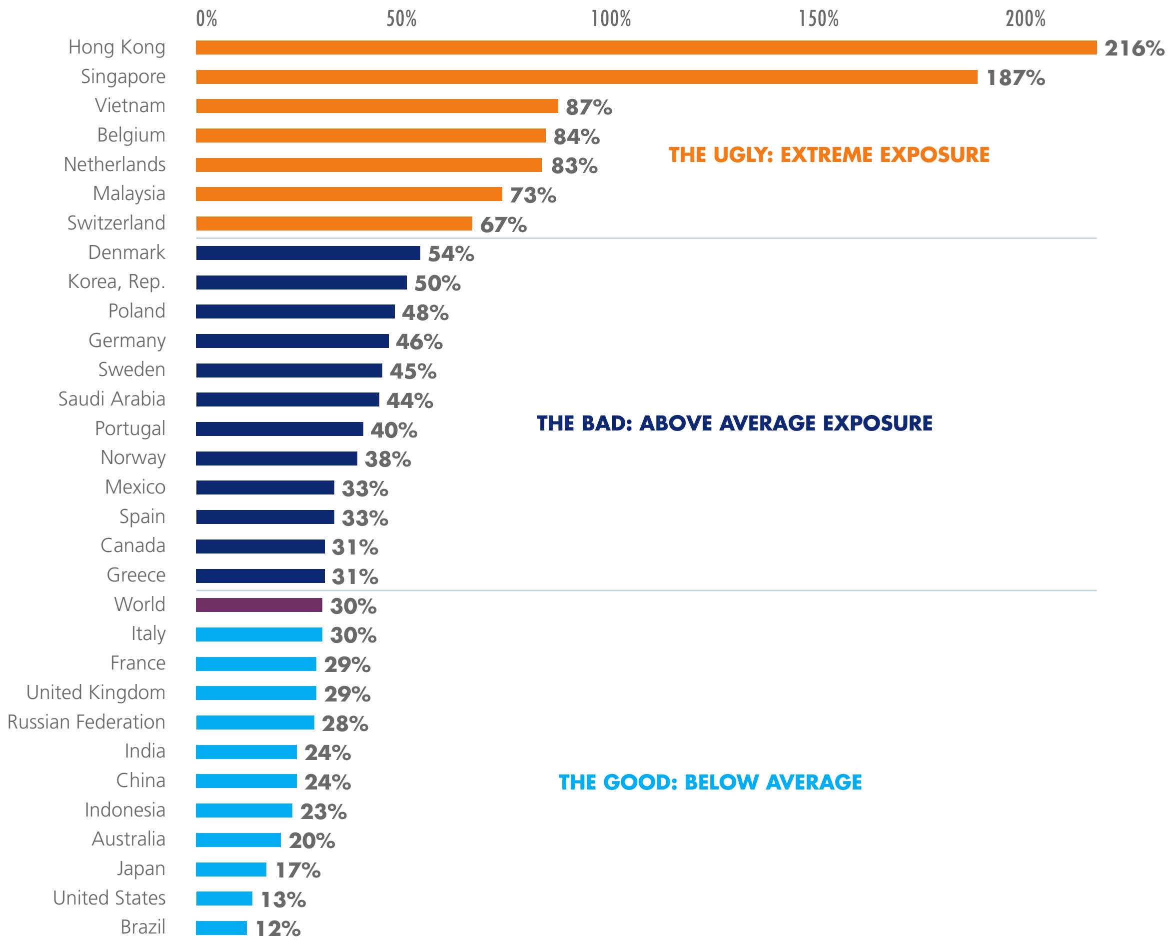
http://www.telegraph.co.uk/news/2017/10/20/grounded-private-jet-hire-helps-russians-fake-lavish-lifestyles/

https://www.elitedaily.com/social-news/millennials-blowing-savings-on-starbucks/1757442

3. THE END OF GLOBALISATION

Donald Trump has yet to succeed in building a wall between the US and Mexico, and Mexico has not yet felt incentivised to build one itself. Meanwhile, the outcome of Brexit remains uncertain, anti-globalisation sentiment in politics remains on the rise (as recently seen in the Catalan independence vote), and the US has just driven through a large tax reform bill that includes permanent tax reductions for US based companies. The latter development has a more protectionist slant through the way it encourages companies to do more business in the US and, at the margin, less elsewhere. Given that the US was previously one of the highest corporation tax regimes in the world, we expect those US-based companies with the highest domestic exposure to benefit most. We expect this to be true on a more general basis globally, but there will clearly be periods when currency fluctuations will interfere with this longer term trend.

THE GOOD, BAD AND UGLY AS GLOBALISATION RETREATS
EXPORTS AS A PERCENT OF GDP, 2013-2015 AVERAGE



Source: The World Bank, www.dentresearch.com

We therefore retain a preference for domestic names over multinationals. Examples include holdings in **Union Pacific**, **Healthcare Services**, **Daito Trust**, and **APA**, all of which are 100% domestic.

4. REFLATION

'AS THE YIELD CURVE STARTS TO STEEPEN, WE EXPECT CYCLICALS TO OUTPERFORM, AND DEFENSIVE SECTORS TO UNDERPERFORM'

We first identified signs of labour shortages in the US in Q3 2016, when it was highlighted by housing orientated names such as Home Depot and Mohawk Industries. We are now more than a year on, yet there are few signs that these labour shortages, or capacity constraints elsewhere, are feeding into inflationary pressures. The Atlanta Red Wage growth tracker is currently at 3.2%, down from highs of 3.9% in November 2016. The US economy is growing in line with its potential for the first time in 10 years and is at full employment. Yet inflation, and inflation expectations, remain stubbornly low, with only 2% inflation expected even in 2019.

96) Chart 97) Set as Default View Economic Forecasts
Country/Region/World Contributor Contributor Composite Yearly Quarterly
United States Browse Private Official
Actual / Forecasts Probability of Recession 15.0%

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Economic Activity										
Real GDP (YoY%)	2.5	1.6	2.2	1.7	2.6	2.9	1.5	2.3	2.6	2.2
Consumer Spending (...	1.9	2.3	1.5	1.5	2.9	3.6	2.7	2.7	2.5	2.2
Government Spending...	0.1	-3.0	-1.9	-2.9	-0.6	1.4	0.8	0.0	0.8	1.0
Private Investment (...	12.9	0.5	13.5	11.9	3.5	10.2	5.5	3.4	4.7	3.9
Exports (YoY%)	11.9	6.9	3.4	3.5	4.3	0.4	-0.3	3.1	3.2	3.3
Imports (YoY%)	12.7	5.5	2.2	1.1	4.5	5.0	1.3	3.3	3.4	3.5
Industrial Production (...	5.6	3.1	3.0	2.0	3.1	-0.7	-1.2	1.8	2.5	2.3
Price Indices										
CPI (YoY%)	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.1	2.2	2.2
PCE Price Index (YoY%)							1.1	1.7	1.8	2.0
Core PCE (yoy%)	1.3	1.5	1.9	1.5	1.6	1.3	1.8	1.5	1.7	2.0

Source: Bloomberg

At the time of writing this outlook last year, we noted that the 10-year bond yield was 2.6% in Q4 2016. A year further into the economic cycle, the yield is now 2.6% once more, having dipped in between to 2.01% in September 2017. At some point, inflationary pressures will have to kick in. This is both a risk to the cycle, and an opportunity for some stocks. As rates rise, we see continued support for Financials, supporting our investment in **Northern Trust**. For example, a 100bps increase in rates would feed into a 12% EPS improvement for Northern Trust.

It is also worth noting here that many companies have been passing significant amounts of their expected tax "windfall" on to employees, which we expect to have a significant short-term impact on wage growth. For example, in January Walmart raised its minimum wage to $11 from $9, and also offered one-off cash bonuses for staff. AT&T, Wells Fargo, and Apple have also announced cash bonuses.

As the yield curve starts to steepen, we expect cyclicals to outperform, and defensive sectors to underperform. Cyclical sectors have performed well since Q1 2016, when oil bottomed and Chinese PMI started to recover. This move has been further fuelled by President Trump's tax plan and continued talk of an infrastructure spending plan. Conceptually, an infrastructure bill has bipartisan support, and he said more on this in his recent state of the union address.

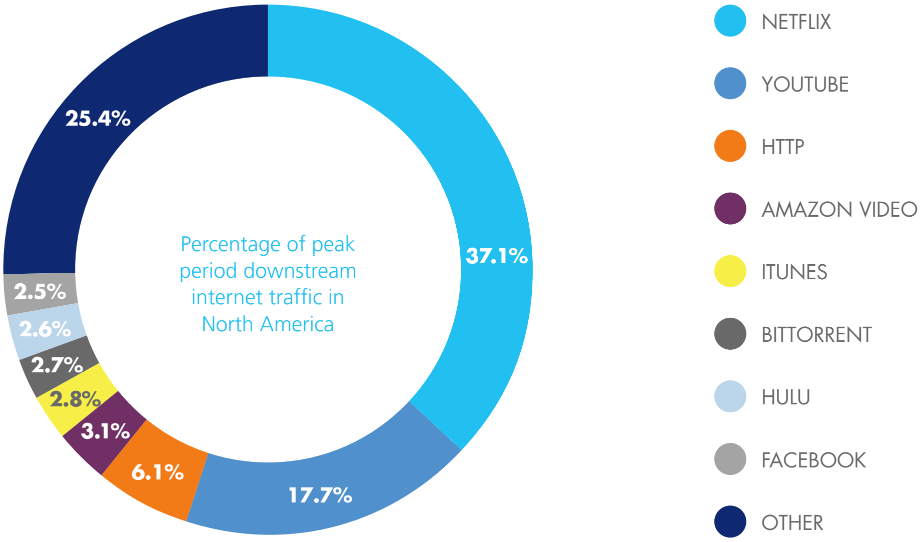
5. THE EXPLOSION OF DATA

According to Cisco, annual global IP traffic will grow 24% from 2016 to 2021. Notably this is an increase on last year's forecasts, which saw IP traffic growing 23% to 2019. Globally, Video accounts for 73% of all IP traffic, and this is forecast to go to 82% by 2021, which is equivalent to a 26% CAGR. Live internet video is growing 15x from 2016-2021.

We have exposure to this theme in two main ways. First, we have exposure to companies that are creating most of the traffic: **Alphabet**, **Facebook** and **Tencent**. All of these names are making big pushes into Video.

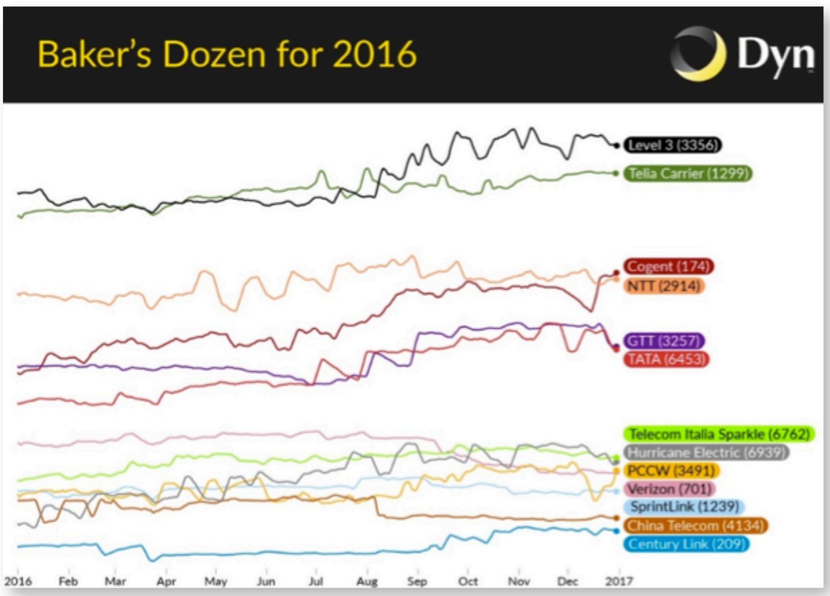
AMERICA'S BIGGEST BANDWIDTH HOGS

Data gathered in September and October 2015; fixed access only



Source: Sandvine

We also have direct exposure to IP growth through our investment in **Cogent Communications**. Their Netcentric side of the business is 40% revenues, and is directly correlated to global IP traffic. They own the "pipes" through which 21% of Global internet traffic flows. The following chart shows the quantity of transited IP space over time:



Sources:

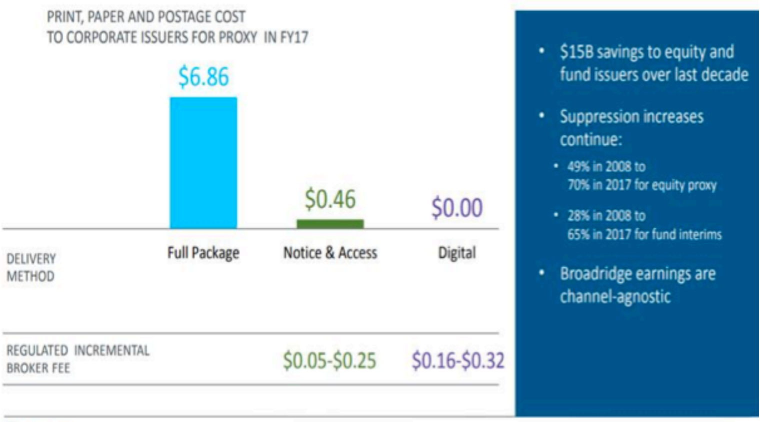
https://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/complete-white-paper-c11-481360.html

https://dyn.com/blog/a-bakers-dozen-2016-edition/

A THE SHIFT TO DIGITAL

The shift to digital is impacting businesses everywhere. In IT services, we have a position in **Broadridge Financial Solutions**, which provides outsourcing services to Financial Institutions in two main areas. Eighty percent of its business is Investor Communications, where it is the leading provider of proxy services, with 80% US market share and 75% internationally. Twenty percent of the business is Global Tech and Operations, where it processes 60% of fixed income trades in the US. In the Investor Communications part of the business, they are benefitting from the shift from physical mail to digital, with 70% proxies now delivered electronically. The margin in this side of the business (ex NACC acquisition) has consequently been increasing, going from 13.7% to 18.4% in 5 years. We expect this trend to continue, driving further multiple expansion and earnings growth. We hold the stock in all funds.

BROADRIDGE DRIVES SIGNIFICANT INDUSTRY SAVINGS



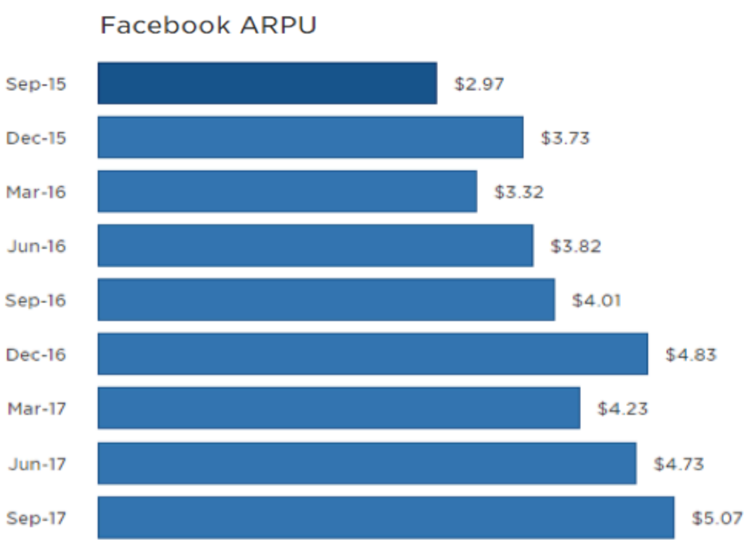
Source: Broadridge

B SCARCE DATA

The "Scarce data" theme reflects the growing value of data to businesses and their increasing ability to transform data into insights, using ever more sophisticated analytics. Companies with unique data sets, and whose data is critical to the end consumer, are seeing increased pricing power and stickier relationships. They are also seeing significant revenue upside from increasing the number of user cases for the data.

This is perhaps best demonstrated by the following chart from Facebook:

FACEBOOK REVENUE TOPPED US$5 A USER FOR THE FIRST TIME



Sources:
https://www.cnbc.com/2017/11/02/facebooks-revenue-topped-5-per-user-for-the-first-time.html

Given that you give your data to Facebook for free, this is a decent ROI!

6. AGEING POPULATION

As noted previously, the ageing population is a major challenge for the global economy, with the number of people in the world over 60 due to double by 2050. In England, the population over 60 has increased from 21.1% to 23.2% of the population in just 10 years:

PERCENTAGE OF ENGLAND POPULATION BY AGE GROUP 2006 AND 2016

YEAR	YOUNG POPULATION	19-59 POPULATION	60+ POPULATION
2006	23.1%	55.8%	21.1%
2016	22.5%	54.3%	23.2%

PERCENTAGE OF ITEMS DISPENSED BY AGE GROUP 2006 AND 2016

YEAR	YOUNG EXEMPT ITEMS	OTHER EXEMPT/ CHARGED ITEMS	60+ EXEMPT
2006	5.7%	35.7%	58.6%
2016	4.4%	34.6%	61.0%

'23% OF THE POPULATION ACCOUNT FOR 61% OF ALL PRESCRIPTIONS DISPENSED. HEALTHCARE AND FINANCIAL COMPANIES ARE SET TO BE THE BIG GAINERS FROM THIS TREND'

One statistic that leaps out in this table is that 23% of the population account for 61% of all prescriptions dispensed. Healthcare and Financial companies are set to be the big gainers from this trend. In Healthcare we are exposed to this theme via our holdings in **Medtronic**, **Edwards Lifesciences**, **Celgene**, **Amgen**, and **Roche**.

Medtronic and **Edwards** focus on Cardiovascular disease – **Edwards Lifesciences** is the leading player in the TAVR (Transcatheter Aortic Valve Replacement) market. It has pioneered minimally invasive valve replacement, which has significantly better results than open heart surgery, and shorter recovery times. **Celgene**, **Amgen** and **Roche** all have very high quality cancer franchises. **Celgene's** Revlimid blockbuster has a 66% share of first line Multiple Myeloma, and a 62% share second line.

In Financials, Insurers and Wealth Managers will continue to benefit from the demographic shifts. We hold **St James Place** and **Prudential** in our funds to benefit from these trends.

We also have exposure to the demographics theme via **Healthcare Services Group**, which provides outsourced cleaning, housekeeping and catering services to residential care homes in the US. It has a 95% share of the outsourced market, but only 20% of the market is currently outsourced, so it has plenty of room to grow further still.

Sources:

Copyright ©2017, Health and Social Care Information Centre

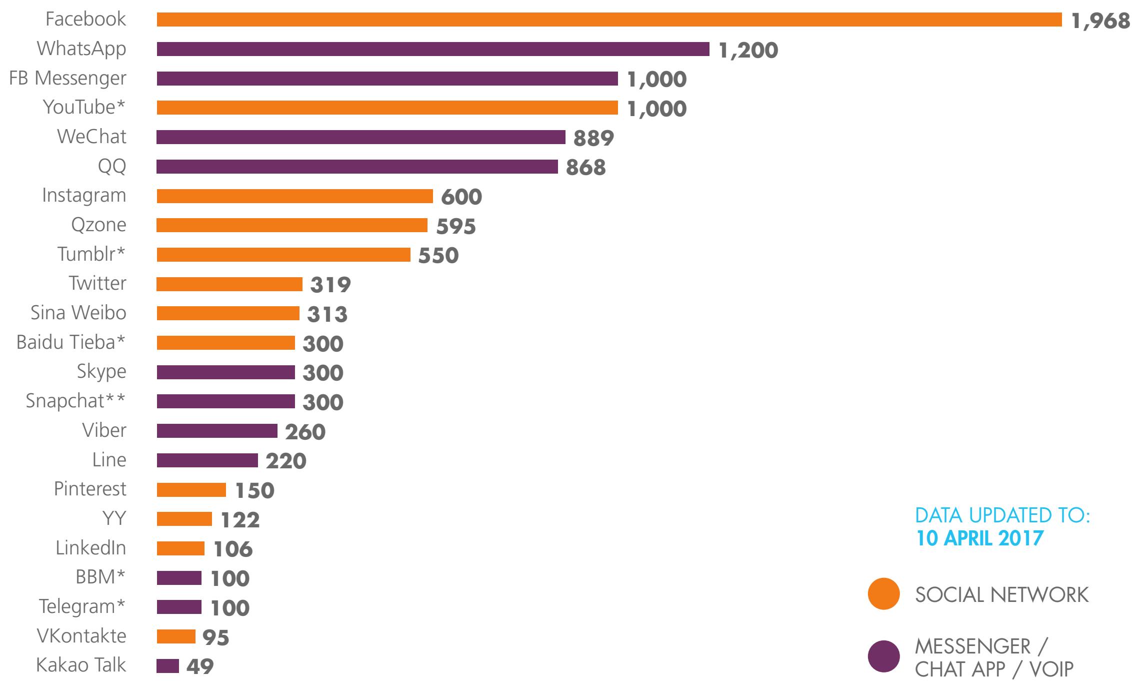
https://www.barrons.com/articles/revlimid-continues-dominating-multiple-myeloma-1462303258

7. PLATFORM COMPANIES

We are focused on platform companies that have reached a stage in their lifecycle where they can monetise their user base. Taking **Facebook** as an example, the chart below illustrates that they have 2 billion monthly average users (MAUs) on their core platform. Beyond this, they have 1.2 billion MAUs on Whatsapp, 1.2 billion on FB messenger and a further 600 million on Instragram.

Advertising now makes up around 95% of Facebook revenues. A key question going forward is how much more can they monetise this huge user base? We think there is significant potential. Interestingly, Facebook has not yet started to monetise FB Messenger and Whatsapp and we believe these are strong, blue sky, opportunities. Furthermore, Instagram only generates around 10% of revenues for **Facebook**, despite contributing up to a third of the total user base (MAUs) – it's therefore under monetised. Finally, there is scope for the core Facebook offering to increase its advertising load, an approach currently under implementation through video advertising content.

ACTIVE USERS OF KEY GLOBAL SOCIAL PLATFORMS
BASED ON THE MOST RECENTLY PUBLISHED MONTHLY ACTIVE USER ACCOUNTS FOR EACH PLATFORM, IN MILLIONS



Sources:

Hootsuite

We Are Social analyse the latest company earnings releases, press releases or media statements reports in reputable media. As of April 2007.

* *Platforms identified by an asterisk (*) have not published updated user figures in the past 12 months so figures may be out of date and less reliable*

** *Snapchat does not publish monthly active user data. The figure used here was reported by businesses involved in June 2016. Listed on daily active users.*

We have positions in **Facebook**, **Google** (see Youtube above), and **Tencent** (Wechat, QQ). All of these companies have massive, captive audiences that they can monetise in multiple ways. As people spend more time across these platforms, they will become more tied in, creating a virtuous circle as more services are offered, as highlighted by Tencent in the diagram over the next page:

"CONNECTION" STRATEGY

Sources:
https://www.tencent.com/attachments_en/InvestorPresentation.pdf

FOR MERCHANTS:

- Access to large user base
- Unified user log-in enables CRM and targeted advertising
- Online payment facilities transactions

FOR USERS:

- Always connected
- Access to rich mix of content, services and transactions
- Control multiple smart devices

FOR TENCENT:

- Deepen user stickiness via broadened product offering
- Increase traffic conversation through transactions and advertising
- Tap into new markets unlocked by mobile internet

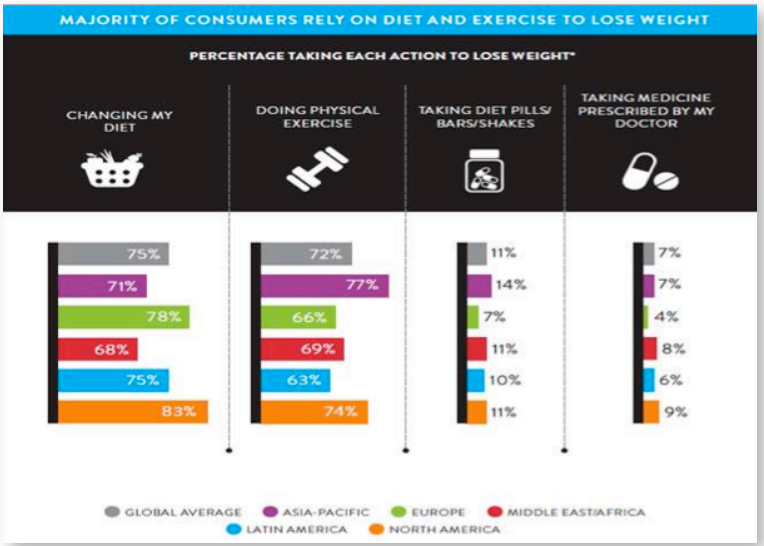
In terms of additional opportunities for companies represented by the Platform Theme, **Tencent** is now the number two online payment platform in China (as at the end of March 2016). We would not be surprised to see others follow their lead.

8. HEALTH
& WELLBEING

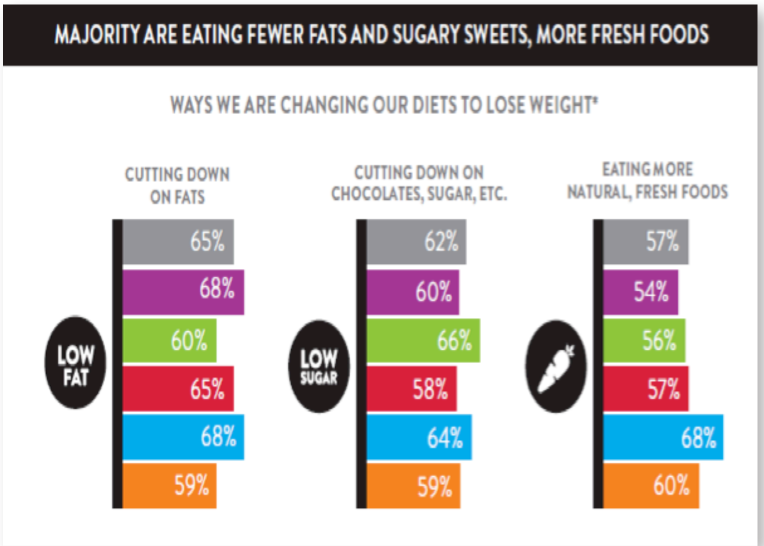
'WE CONTINUE TO VIEW HEALTH AND WELLBEING AS A STRONG GLOBAL THEME'

We continue to view Health and Wellbeing as a strong global theme. Over the past 30 years, the percentage of people worldwide considered overweight or obese has increased to 28% in adults and 47% in children. Thirty percent of the global population is now overweight or obese. But consumers are (slowly) changing their ways. According to Nielsen, 63% of Americans say they are trying to eat more healthily. We can be slightly cynical about this, but it's more than an intention as dietary concerns are pushing changing preferences. Indeed, sales of food items with "protein claims" increased by +4.8% in 2016. Manufacturers are also responding by reducing the amount of sugar, cholesterol, fats and sodium in foods. Governments are also taking action, encouraging better labelling, such as the traffic light system labelling food in the UK.

In the charts below, we see diet and exercise as the main beneficiaries of this trend. In terms of Exercise, we have previously had exposure to this theme through Nike, Adidas and Asics.



Source: Neilson Global Health & Wellness Survey, Q3 2014



Source: Neilson Global Health & Wellness Survey, Q3 2014

We have some exposure to improving dietary trends through holding **Danone** and **Mccormick**.

Mccormick is a new position in our portfolios. It is the global leader in spices through brands such as Schwartz. The company is reacting to changing consumer preferences by reducing salt content in seasoning, using natural ingredients and flavours, and making allergen free versions of items. A healthier diet generally means more cooking at home, and more cooking at home means more seasonings. This is a growing category, and the key sales point for **Mccormick** is that their seasonings cost 10% of the meal, but they account for 90% of the flavour.

ANTICIPATING CUSTOMER DEMANDS & REINFORCING TRANSPARENCY

Source: McCormick & Company, Inc

Sources:

http://www.nielsen.com/us/en/insights/news/2016/consumers-up-their-protein-with-quick-and-healthy-meat-alternatives.html

https://www.nielsen.com/content/dam/nielsenglobal/eu/nielseninsights/pdfs/Nielsen%20Global%20Health%20and%20Wellness%20Report%20-%20January%202015.pdf

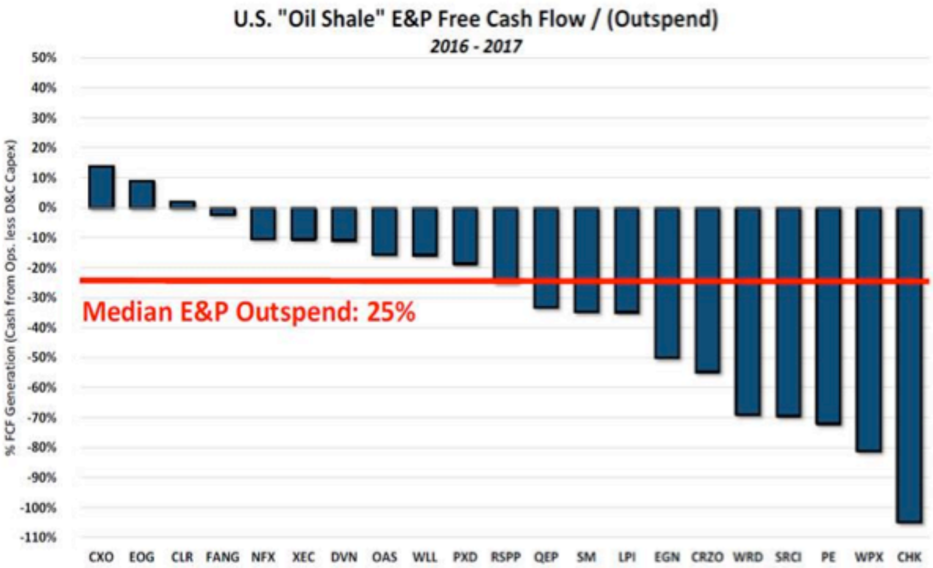
9. STABILISING OIL

'WE REMAIN MODESTLY OVERWEIGHT ENERGY IN GLOBAL PORTFOLIOS, WITH HOLDINGS FOCUSED ON THE LOWEST COST PRODUCERS'

Last year's Energy performance was clearly much more muted than 2016's recovery, with S&P Energy returning -1% for the year, against the broader S&P return of 21.8%. Interestingly, West Texas Intermediate (WTI – a grade of oil used as a benchmark in oil pricing) was up +12.5% for the year while Energy stocks underperformed WTI meaningfully.

Our initial bullish stance on Energy in 2016 was predicated on the idea that OPEC would put a floor under the market per barrel near US$50 (especially with the Saudi Aramco IPO approaching), and that there would be a ceiling on the market near US$60. Here, significant levels of US supply would start to come online, predominantly from the Permian. We expressed this bullish view in the funds with a small sector overweight, but we focused on investing in those names best able to survive in a world where oil remained below US$50. This last point is demonstrated in the chart below:

IF U.S. IS SO PROFITABLE, WHY NO CASH FLOW?



Source: Raymond James Research, Company Reports

The two Exploration and Production (E&P) names that we own in the US fund (**EOG** and **Concho**, CXO) are the only US producers that have generated positive cash flows in a period where WTI has averaged US$47 (31/12/15-31/12/17). This reinforces our view that US$47 is too low for US oil to ramp up significantly, and again suggests the idea of a floor to the market near US$50. At US$50 WTI, analysis by Raymond James indicates that the global market would end 2018 short 1.7million barrels of oil, having finished 2017 short 1m barrels. We believe an oil price of US$50 a barrel is not enough to generate sufficient oil to bring the market back into balance.

WHERE IS THE OIL CEILING?

From a global perspective, demand for oil is growing at around 1m barrels a year. To maintain equilibrium, oil supply needs to grow at an equivalent amount. However, at the end of 2017 there was a 1 million-barrel deficit. This implies that to get back to balance, the supply of oil needs to grow by around 2m barrels in 2018. The US is likely to determine how close we can get to this increase in supply. The chart below outlines forecasts showing that total supply in 2018 will grow at around 1.6m barrels (with the US contribution standing at 1.2m). Furthermore, this is based on an oil price of US$65.

Given that we are now at US$60 oil (not US$65), the supply risk currently lies to the downside in reaching 1.2m barrels in the US. At US$60 we will not get massively expansionary capex numbers from the E&Ps when they announce their Q4 results. One interesting feature of the market is that the long end of the futures curve remains stubbornly low (October 2019 futures are at US$56). If E&Ps are using strip prices to inform their Capex decisions, this further validates the suggestion that there are risks to the downside of adding 1.2m barrels in the US.

WE THINK $65 IS NEEDED TO REBALANCE

ASSUMES $65/BBL CRUDE AND NO ADDITIONAL INTERRUPTIONS

$65/BBL CASE

OIL SUPPLY-DEMAND: YEAR-OVER-YEAR CHANGES

Requires $65/Bbl

(MMbpd)

Source	2014A	2015A	2016A	2017E	2018E	2019E
Previous Year Build/Draw	-0.5	0.6	1.6	0.2	-1.0	0.6
U.S. Supply Growth	1.8	1.0	-0.4	0.6	1.2	1.4
Other Non-OPEC Non-U.S.	0.5	0.711	-0.5	0.1	0.3	0.3
OPEC Supply Growth	0.1	1.1	1.3	-0.2	0.2	0.8
Saudi Arabia	0.1	0.6	0.3	-0.5	0.0	0.3
Other OPEC	-0.1	0.5	1.0	0.2	0.1	0.5
Total Global Supply	**2.4**	**2.9**	**0.4**	**0.5**	**1.6**	**2.5**
RJ Demand (incl. "Missing Bbls")	**1.2**	**1.9**	**1.8**	**1.7**	**1.2**	**1.3**
IEA Demand Estimate	1.2	1.8	1.3	1.5	1.3	N/A
Inventory Build Est.	**0.6**	**1.6**	**0.2**	**-1.0**	**-0.6**	**0.6**

Inventory draws increase with cut extension

Inventory still below normal, despite build in 2019

Source: IEA, Raymond James Research

We believe the long end of the curve needs to increase before CAPEX starts to increase aggressively again. In the meantime, we are watching developments and feel there is a risk on the downside to supply and consequently, a risk to the upside in the oil price in 2018.

We therefore remain modestly overweight Energy in the portfolios, and our holdings remain focused on the lowest cost producers.

10. REAL ESTATE AND INFRASTRUCTURE

'THE THREE COUNTRIES WITH THE GREATEST INFRASTRUCTURE NEEDS ARE IN ASIA: CHINA, INDIA AND JAPAN'

The Real Estate and Infrastructure theme remains very much intact. The World Bank's latest 2017 study shows that by 2040 the global population will have grown by almost 2 billion people, a 25% increase. Rural to urban migration will continue, with the urban population growing by 46%. This represents a huge demand driver for Infrastructure.

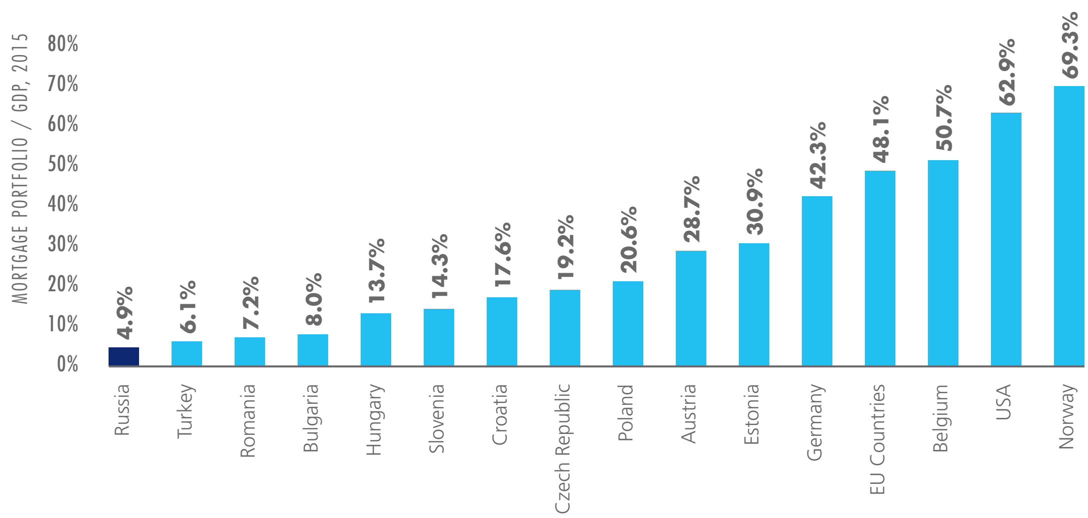
The three countries with the greatest infrastructure needs are in Asia: China, India and Japan. These three countries comprise 39% of global infrastructure needs. The largest investment gap – the difference between investment needs and current trends in investment – is in the US. At $3.8 trillion, this is double that of China.

RESIDENTIAL

Housing has moved up the priority list for governments and is now seen as a genuine part of the infrastructure mandate. Growing inequality globally has magnified this shortage as the ability to afford own one's own home has diminished.

Many of the areas we invested in last year, like UK homebuilders, remain and we currently own Taylor Wimpey. The irony for us is that the risk has now gone the other way. The property bottleneck, which we identified last year, remains acute. Property companies, meanwhile, continue to make healthy profits. However, if they have it too good, they may attract negative press attention and there is the potential for regulatory changes. This is something we are monitoring.

In developing markets, mortgage penetration remains low. In previous years we owned Housing Development Finance in India. We currently own **Sberbank** in Russia. **Sberbank** is the largest bank in Russia and Eastern Europe and Russia's largest mortgage provider. Russian mortgages as a percentage of GDP remain low by global standards at 5% and volume growth was 16% in 2017.



https://www.acra-ratings.com/research/233

As the country's largest player, with unrivalled scale, **Sberbank** is ideally positioned to benefit. Russia is fourth on the list of the largest investment gaps in infrastructure, behind the US, China and Brazil.

COMMERCIAL

The global economic recovery has reignited the commercial property sector in the last year and these fundamentals remain. Newer areas such as data centres have brought in more structural demand. In addition, the cycle itself is very encouraging for Europe, where supply remains below demand and areas including Spanish offices are seeing a recovery. Japan is seeing a similar story to Europe, where the stronger macro backdrop and continued monetary stimulus are providing favourable conditions for real estate developers. Leaders in co-location like Equinix are companies we like at the right price.

These developments create demand throughout the chain, both for materials and labour. We own **Technopro** across our Global funds in Japan. They are one of the country's largest technology focused staffing and services companies and provide specialist labour for the construction industry. Given years of underinvestment by corporates in skilled labour, they are ideally positioned to benefit from infrastructure demand.

Blackstone is another key holding within the funds. Blackstone with its private equity model has been acquiring real estate since 1992. It has nine fund vehicles, six focused on the US and three on international. **Blackstone** has raised $28 billion for these funds. It is the largest real estate private equity firm in the world today and now has $111 billion under management. Our reason for preferring this model is the company's ability to acquire high quality assets at discounts to replacement cost. In addition, it generates sizeable dividends for shareholders and remains at a discount to both asset managers and many REITs and listed commercial property players.

TRANSPORTATION

We have added other areas of Infrastructure this year and now own a position in **Globaltrans** in our Income fund. It is the leader in Russian rail freight transportation. Freight levels hit 1.2 billion tons by the end of 2017 and the entire logistic network is benefitting. International cargo is also significant for Russia. General rail freight and container traffic has grown 89% with China since 2015. By 2020, Russia and China want to see volumes double. There is also a shortage of rolling stock and this is leading to tariff increases benefitting **Globaltrans**. In summary, the attractive cash profile of the company is resulting in sizeable dividends.