

# THE THEMATIC INDEX

## TEMATICA RESEARCH

### August 2016 Performance Report

### Proving That Even We Are Human

A few months ago, like it was Christmas morning, we took the wrapping paper off the Thematic Index. The Index, as one might suspect reflects our 17 investment themes (Brilliant creativity right there when it came to naming the index wasn't it?) Anyway, the themes in the Thematic Index range from the **Connected Society** to **Scarce Resources** and a number of ones in between, like **Rise & Fall of the Middle Class** to **Disruptive Technologies** and **Asset-Lite Business Models**.

While many tend to examine the market in the context of the sector-based view of the S&P 500, we have several issues with that vantage point, predominantly the S&P's limited and strictly vertical perspective, which tends to ignore outside catalysts that might be literally hitting us in the face. For example — and this is real-world from our experience — it's like being an analyst in the telecom sector at the start of the Millennium, totally ignoring the exploding connected devices and mobile-driven content that would literally transform not only the telecom sector, but also consumer discretionary, information technology, financials, health care . . . heck, all 10 sectors (soon the be 11).

From our perspective — and perspective is really everything — we find the horizontal sector-based approach to the markets to be outdated at best. Instead, we take an approach that totally eschews the sector view, in favor of identifying demonstrative thematic tailwinds ahead of stock selection, to be a far more powerful investing strategy. This framework is the backbone of our 17 investment themes, and when we “walk the walk” through our Thematic Index one can see the powerful result.

Through the first 8 months of 2016, the S&P 500 rose 6.2%. By comparison, our Thematic Index closed August up 11.1% — that's down a bit from the end of July when the index closed up 12.2% for the year, but not too bad since the S&P 500 gave away some ground in August as well, sliding back from the 6.34% it had gained through the end of July.

Overall, year to date, 13 of our 17 themes are beating out the S&P 500 due to strong stock price performance from names such as **Physicians Realty Trust (DOC; Aging of the Population)**, **Dolby (DLB; Asset Lite Business Models)**, **McCormick & Co. (MKC; Cash-strapped Consumer)**, **USA Technologies (USAT; Cashless Consumption)** and **Dupont Fabros Technology (DFT; Connected Society)** to name a few.

**That's not to say there haven't been some hiccups this year — it can never be rosy across the board.**

So far, some of the positions that had reared their head in August — **Universal Display (OLED; Disruptive Technology)**, **Corrections Corp.**

### DETAILS ON THE THEMATIC INDEX AND THE THEMATIC INDEX REPORT

For more details on the **Thematic Index Report** and plans for both institutional and individual investors to utilize our proprietary thematic index via model portfolios and exchange traded funds (ETFs), please contact Tematica Research at:

**(571) 293-1977**

**insights@tematicagroup.com**



## of America (CXW; **Safety & Security**) and Hain Celestial Group (HAIN; **Food with Integrity**).

Because of the diversified representation of each investment theme within the index, even though there were a bad apple or two in the bunch, a theme's overall August 2016 performance could still have performed inline with or beaten the S&P's return for the month. For example, while **Affordable Luxury** company **Coach Inc. (COH)** saw its shares drop 11% in August, solid performance across the other Affordable Luxury companies in the index resulted in that theme falling 0.1 percent for the month — in line with the S&P 500's August move.

Even after taking the performance of those bad apples and a few others, year to date the Thematic Index continues to out perform all three major US stock market indices - the Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite Index - by several hundred basis points.

To us, this continued absolute and relative outperformance serves as a proof point of the powerful and differentiated framework that is thematic investing.

### Looking ahead to September:

As both Wall Street and Main Street begin to put the summer behind them, we are moving deeper into what has historically been one of the weakest months for the stock market — September. According to the "Stock Trader's Almanac", on average, September is the month when the stock market's three leading indexes usually perform the poorest. There are a variety of reasons put forth for this, which range from investors being back in the saddle, to mutual fund managers putting "window dressing" in place ahead of their September fiscal yearend.

Over the coming weeks we'll be preparing to not only rebalance the Thematic Index as needed, but also down selecting a handful of companies to take up the thematic reigns in a few of index's underlying investment themes.

Themes	Positions (#)	Theme Weight
<b>AFFORDABLE LUXURY</b>	10	4%
<b>AGING OF THE POPULATION</b>	10	8%
<b>ASSET-LITE BUSINESS MODELS</b>	10	5%
<b>CASH-STRAPPED CONSUMER</b>	8	7%
<b>CASHLESS CONSUMPTION</b>	10	7%
<b>CONNECTED SOCIETY</b>	9	9%
<b>CONTENT IS KING</b>	11	7%
<b>DISPUTIVE TECHNOLOGIES</b>	10	5%
<b>ECONOMIC ACCEL/DECEL</b>	10	4%
<b>FATTENING OF POPULATION</b>	10	5%
<b>FOODS WITH INTEGRITY</b>	10	5%
<b>FOUNTAIN OF YOUTH</b>	10	5%
<b>GUILTY PLEASURES</b>	10	6%
<b>RISE &amp; FALL OF MIDDLE CLASS</b>	12	7%
<b>SAFETY &amp; SECURITY</b>	10	6%
<b>SCARCE RESOURCES</b>	10	5%
<b>TOOLING &amp; RETOOLING</b>	10	5%

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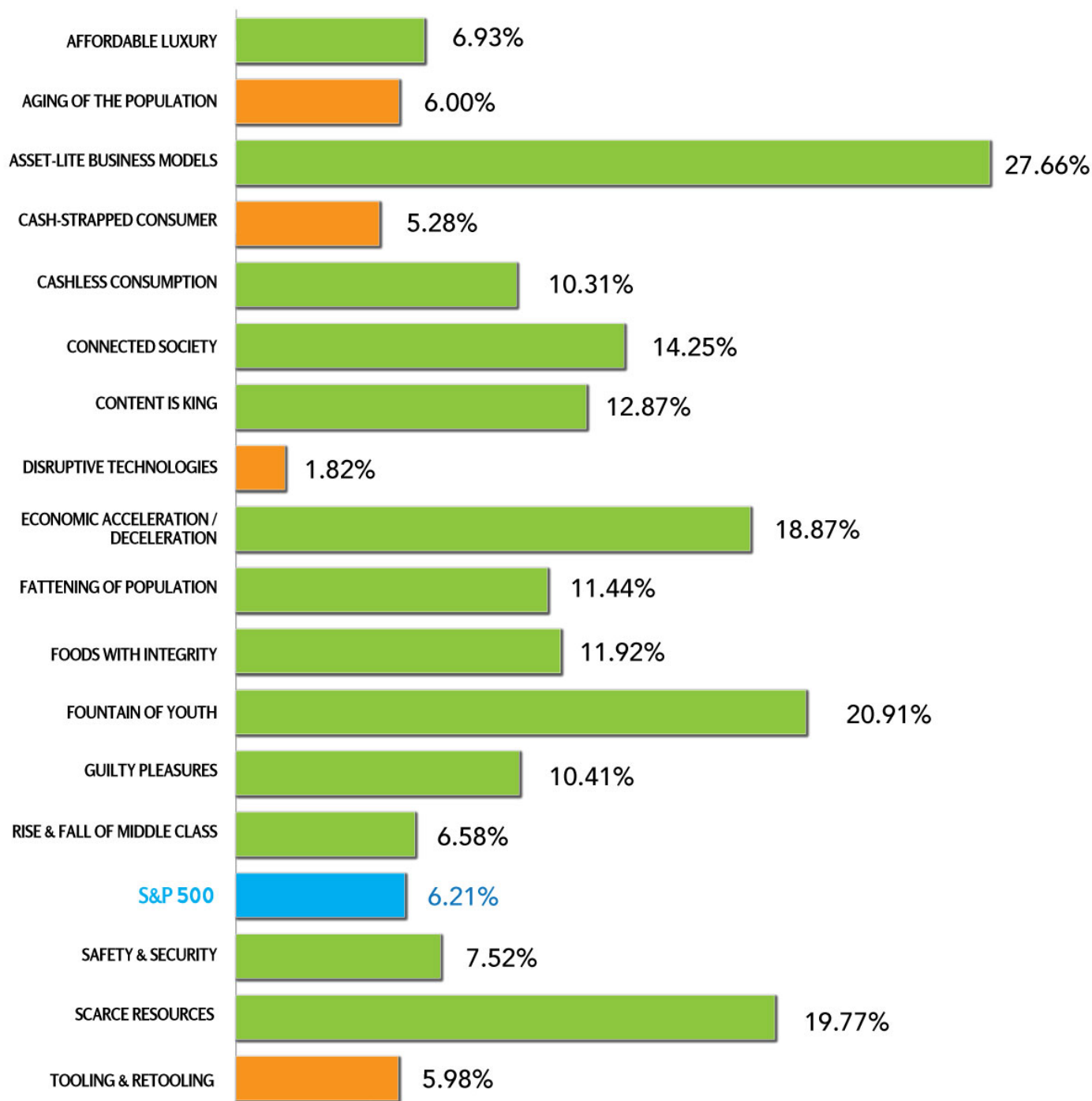
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YTD RETURNS	YTD RETURNS JULY	YTD RETURNS AUG	Dif.
AFFORDABLE LUXURY	7.06%	6.93%	-0.13%
AGING OF THE POPULATION	9.24%	6.00%	-3.24%
ASSET-LITE BUSINESS MODELS	22.99%	27.66%	4.67%
CASH-STRAPPED CONSUMER	8.59%	5.28%	-3.31%
CASHLESS CONSUMPTION	6.36%	10.31%	3.95%
CONNECTED SOCIETY	14.50%	14.25%	-0.25%
CONTENT IS KING	12.15%	12.87%	0.72%
DISPUTIVE TECHNOLOGIES	3.20%	1.82%	-1.38%
ECONOMIC ACCEL/DECEL	16.29%	18.87%	2.58%
FATTENING OF POPULATION	13.78%	11.44%	-2.34%
FOODS WITH INTEGRITY	14.87%	11.92%	-2.95%
FOUNTAIN OF YOUTH	18.97%	20.91%	1.94%
GUILTY PLEASURES	13.36%	10.41%	-2.95%
RISE & FALL OF MIDDLE CLASS	7.93%	6.58%	-1.35%
S&P 500	6.34%	6.21%	-0.13%
SAFETY & SECURITY	16.30%	7.52%	-8.78%
SCARCE RESOURCES	19.25%	19.77%	0.52%
TOOLING & RETOOLING	8.75%	5.98%	-2.78%

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## 2016 YEAR TO DATE PERFORMANCE BY THEME



### Analyst Positions

At the time of publication, Mr. Versace, Chief Investment Officer of Tematica Research had no positions in the shares of companies mentioned in this issue.

### Important Disclosures and Certifications

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