TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

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Economics & Expectations

A hearty welcome back!

We hope you enjoyed the long holiday weekend and time off at the end of the June quarter much like we did. It's always smart to recharge the batteries as we gear up into the second half of 2016. In yesterday's special Tuesday edition of the Monday Morning Kickoff we recapped where the major market indices closed the June quarter and where they stood for the first half of 2016. If you missed that recap, you can find it here.

As you recall, we did come in from the beach last week long enough to share our view on the Brexit vote and what was looking to be, and in fact turned out to be a quick snap back in the market last week. ***The Tematica Select List*** more than participated in that move higher with **Alphabet (GOOGL), Starbucks (SBUX), Amazon (AMZN), AT&T (T)** and **Physicians Realty Trust (DOC)** all making gains. In fact, the only shares that didn't climb higher last week were the **ProShares Short S&P 500 ETF (SH)** shares, but they served us well amid the breaking Brexit vote news.

As we cautioned last week — and yes we still feel this way — there have been very few answers delivered since the Brexit votes were tallied and uncertainty has returned this week. Helping churn those waters was the Bank of England, which warned of risks to commercial property and capital inflows following the country's Brexit vote.

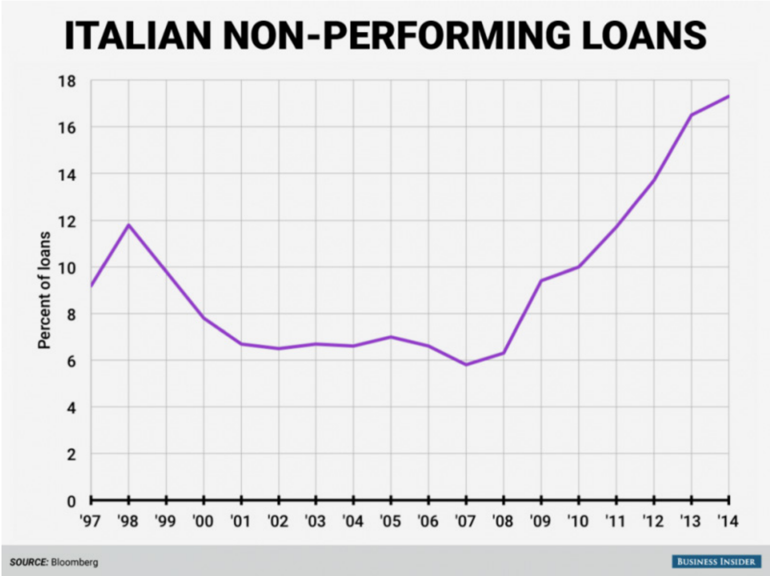
We still have a number of other uncertainties: slowing global growth; business spending that will be sidelined for next several months; and a renewed pinch in consumer spending. Those lingering issues don't bode well for a near-term rebound in growth.

Now we can add another concern to that list — the Italian banks.

The European Central Bank notified Banca Monte dei Paschi di Siena that it needs to reduce its non-performing loan load. Moreover, The Wall Street Journal ran a report on Monday that 17 percent of bank loans in Italy are

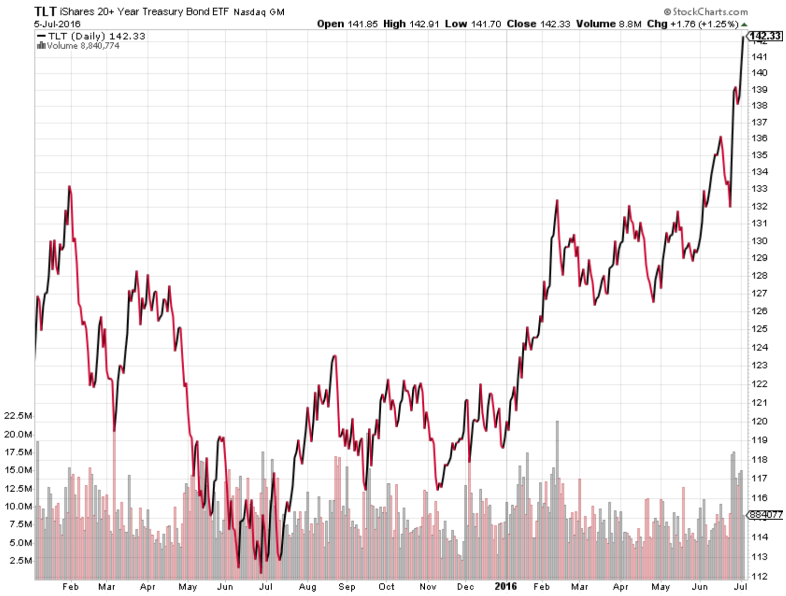
Tematica Investing, a weekly publication by Chief Investment Officer Chris Versace, is designed for the experienced or professional investor, providing in-depth information on real-time developing thematic strategies, economic outlook, investment trading ideas, and analysis of the most pressing developments for the market, as well as forces that drive both our thematic perspectives and thematic recommendations.

bad, which equates to $401 billion in bad debt, roughly three times the bank loans that were bad in the U.S. on a percentage basis at the height of the financial crisis. That news once again made the US dollar a favored currency, which of course means currency related headwinds will persist for multinational companies.



And if all of that wasn't enough to kick off the start to 3Q 2016, San Francisco Fed President John Williams stated in an interview that GDP growth for 2016 is looking to come in under 2 percent. If you seem to recall the Fed cutting its 2016 GDP forecast to 2 percent just a few weeks ago, you would be correct. Much the way the value of a new car drops when it's driven off the lot, it seems the Fed's official forecast is stale soon after it hits the presses.

What this means is the near-term will continue to be challenging as growth expectations continue to be resized for the economy and corporate earnings. As such, we will continue to keep not only the more defensive positions on the ***Tematica Select List*** as well as ProShares Short S&P 500 ETF shares.



At times like these, we would usually look to add one of our favorite ports in the uncertainty storm

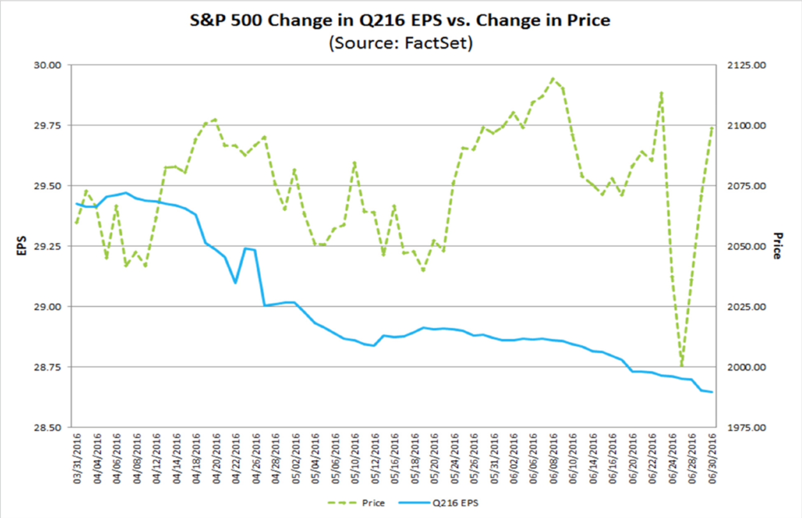
iShares Barclays 20+ Yr Treasury Bond ETF (TLT) shares are typically our go-to option when uncertainly prevails. No matter how down we may be on the domestic economy, or less than thrilled with the ongoing of the current administration, US Treasuries remain one of the safest securities around. At current levels, however, TLT shares may move a bit higher from current levels, but they have also entered over bought territory. This has happened twice in recent times — June 2015 and again in February 2016. In both instances, before too long, TLT shares pulled back.

If the current air of uncertainty holds, and we think it will, we would look to revisit TLT shares closer to $134-$135. This has us placing TLT shares on the Tematica Contender List.

A Preview of Q2 Earnings Reports

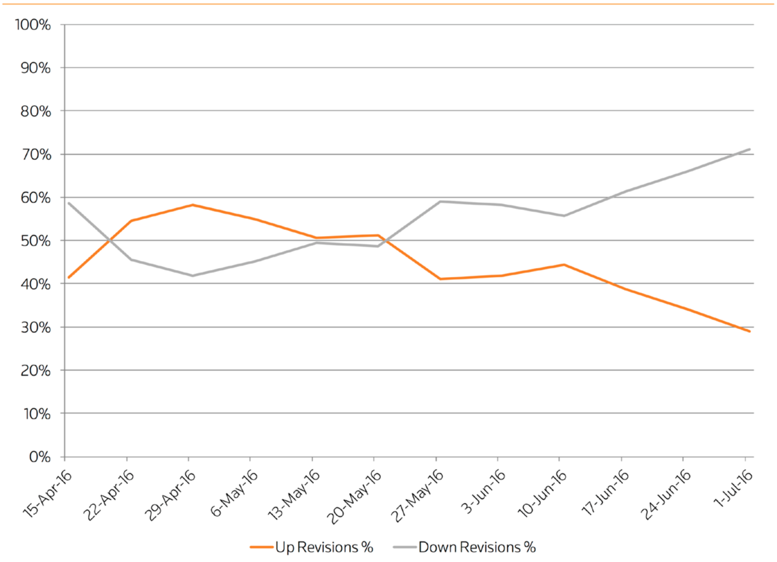
Following up on the commentary in this week's **Monday Morning Kickoff** about the renewed pain restaurants are staring to feel, **Darden (DRI)**, better known as the home of Olive Garden, Long Horn Steakhouse, Bahama Breeze, Seasons 52, The Capital Grille and several other restaurant brands, issued weaker than expected guidance for its coming twelve month period. More specifically, Darden sees earnings of $3.80-3.90 per share vs. the consensus of $3.99 per share per Capital IQ. Earnings aside, the company is also calling for slower than expected same store comparisons with +1-2 percent vs. the expected +2.4 percent, again per Capital IQ.

Outside of restaurant stocks, **International Speedway (ISCA)** not only missed June quarter results, but also lowered expectations for revenue and earnings for the balance of 2016. **Delta Air Lines (DAL)** reported that passenger unit revenue fell 5.0 percent year-over-year in June, and the airline also cut its second-quarter operating margins and unit revenue guidance. Keep in mind, this follows a reduced outlook from memory technology company **Micron (MU)** last week.



The bottom line is we are only just scratching the surface of the frenetic earnings reports that will begin this coming Monday and span the next few weeks. Odds are we have not see the last of disappointing results and downwardly revised expectations, which will lead investors back into safer haven stocks like our **AT&T (T), Physicians Realty Trust (DOC)**, and **PetMeds Express (PETS)** as well as others on the ***Tematica Select List***.

EXHIBIT 7A. S&P 500: EARNINGS ESTIMATE REVISION TREND



Source: Thomson Reuters I/B/E/S

We will continue to keep those stocks on the ***Tematica Select List*** as well as **Alphabet (GOOGL), Starbucks (SBUX), Nike (NKE)** and **Disney (DIS)** shares, given the thematic tailwinds at the back of their businesses. For newer subscribers, those would be our ***Asset-Lite, Guilty Pleasure, Rise & Fall of the Middle Class*** and ***Content is King*** investing themes. Aside from the push of those thematic tailwinds, we also see sufficient upside to warrant keeping those shares on the Tematica Select List.

Tematica Select List House Keeping Items

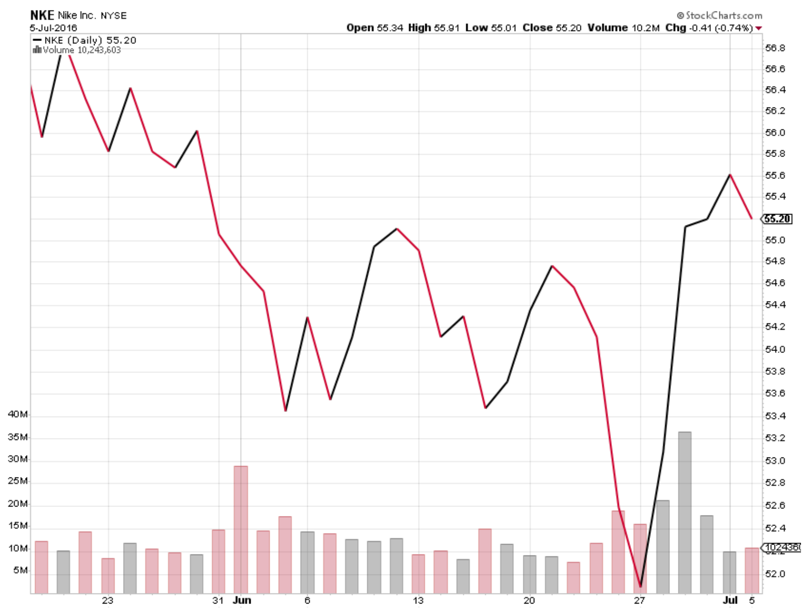
Nike (NKE) *Rise & Fall of the Middle Class*

Last week the world's largest footwear brand reported quarterly earnings of $0.49 per share. While those earnings were $0.01 better than the consensus expectation for the quarter, Nike missed revenue estimates by 0.5% (roughly $40 million).

In parsing Nike's quarterly performance and management commentary, we did see the expected margin disruption from the much-discussed Sports Authority and Sports Chalet bankruptcy/liquidation events, and some due to the impact of foreign exchange (i.e., currency exchange rates).

Nike commented that it expects excess inventory through its factory stores and also through select "third-party value channels" — think TJ Maxx and Marshalls, both owned by the **TJX Companies (TJX)**, and **Ross Stores (ROST)** — to be worked through during the current quarter.

Outside of those two channels, Nike management said several times on its earnings call that its "full-price, in-line channels" inventories are "clean." We take this to mean there is no meaningful inventory building in stores such as **Dick's Sporting Goods (DKS), Foot Locker (FL)** and similar athletic apparel and footwear retailers.



On a positive note, Nike was very bullish on the key sportswear category, which was mentioned 34 times during the earnings conference call. That category led growth in both the recently completed quarter and for the trailing 12 months, both domestically and internationally. Nike also calmed some nerves by pointing to a rebound in basketball footwear.

The bottom line is Nike's results confirmed what we already knew and have accounted for — some inventory and margin disruption will be a short-term event for the company. Even amid that modest disruption, we continue to see market-share gains ahead for Nike as investments in its women's, footwear and sportswear initiatives bear fruit both domestically and internationally as part of our ***Rise & Fall of the Middle Class*** investing theme.

Our price target remains $66 for NKE shares and we continue to have a Buy rating on the shares.

Content remains King with Dory, Disney, the Box Office and Regal Entertainment

Coming out of the holiday weekend, **Disney's (DIS)** *Finding Dory* once again topped the charts, making it a threepeat for the latest Pixar film. That continued box office leadership brought the film's domestic total to $380.5 million. That's just a hair below *Finding Nemo* and puts Dory in fifth place on the all-time highest grossing animated features list . . . for now. Dory is expected to not only surpasses Nemo, but top the $415 million brought in by *Toy Story 3* to become Pixar's highest grossing Pixar feature ever. Internationally, Dory added an estimated $34.4 million this weekend bringing its global box office receipts to just over $538 million.

Much like the Toy Story franchise did for Pixar, we expect follow-on Dory merchandise to drive solid results at Disney in the coming quarters, proving that once again Content is indeed King.

We continue to have a Buy rating DIS shares, and our price target remains $125.

Dory's exceptional box office performance led the domestic box office to close up 1.4 percent year over year for the first half of 2016. While it may not sound like much, that's the best year over year performance for the domestic box office during the first half of the year in since 2011. Leading the pack is Disney with four of the top five films thus far in 2016 — *Captain America: Civil War, Finding Dory, The Jungle Book* and *Zootopia*.

With content that consumers want to see, and bodies in seats that are more than likely noshing on snacks and drinks that have very attractive margins, we continue to see upside in **Regal Entertainment Group (RGC)** shares. **Our price target for RGC remains $24**, and when paired with the current 4.0 percent dividend yield, the shares have roughly 14 percent upside from current levels. Despite the more than attractive dividend yield, we'd hold off building one's position at current levels, recommending instead subscribers wait and use any drift lower in the stock to the $21 level to scale into their RGC position.

AT&T (T) *Connected Society*

AT&T shares have been a strong performer, climbing nearly 29% since we added the shares to the ***Tematica Select List*** nearly a year ago.

We are raising our price target on AT&T (T) shares to $45 from $42, and boosting our protective stop loss to $39 from $36.

We would not be committing new capital to the position at current levels

Physicians Realty Trust (DOC) *Aging of the Population*

We are boosting our price target on **Physicians Realty Trust (DOC)** shares to $25 from $18. Candidly, DOC shares have been above that prior $18 target for some time, but over the last several weeks expected 2017 earnings have climbed to $1.24 per share, up from $1.18 per share. That compares to $1.05 per share the company is slated to earn this year. In other words, Physicians Realty Trust continues to benefit from the ***Aging of the Population***, and we will continue to keep the shares on the Tematica Select List.

As with AT&T shares, we would not recommend committing fresh capital at current levels for DOC shares.

We are also boosting our protective stop loss for DOC shares to $18 from $16.

Licking our lips in anticipation of Hostess Brands becoming public

As you have probably come to expect, we are always on the look out for new companies, especially ones that are benefitting from one of our thematic tailwinds. Sometimes the companies are already publicly traded, and sometimes we have to wait for them to become public. In this case, Hostess Brands is expected to become a public company during the current quarter.

Many on team Tematica have more than sampled the company's baked delights, and as the transaction comes closer we will be rolling up our sleeves on the financials and determine if Hostess is a ***Fattening of the Population*** company or a ***Guilty Pleasure*** one.

More on this as details become available.

Tematica Contenders

As we roll up our sleeves each week we add companies and discard others to our list of ***Tematica Select Contenders***. These are companies that we're doing more work on and in some cases we're waiting for the risk to reward tradeoff to reach more appetizing levels.

AHS	AMN Healthcare Services	*Aging Population / Scarce Resources*
AWK	American Water Works	*Scarce Resources*
WTR	Aqua America	*Scare Resources*
CHGG	Chegg Inc.	*Tooling & Retooling*
CMG	Chipotle Mexican Grill	*Foods with Integrity*
SCOR	Comscore	*Connected Society*
GLW	Corning Inc.	*Disruptive Technologies*
EPR	EPR Properties	*Content is King*
IMMR	Immersion Corp.	*Disruptive Technologies*
KIM	Kimco Realty	*Rise & Fall of the Middle Class*
LOCK	Lifelock	*Safety & Security*
MKC	McCormick & Co.	*Cashstrapped Consumer / Middle Class*
MRK	Merk & Co.	*Aging of the Population*
NLSN	Nielson NV	*Connected Society*
PANW	Palo Alto Networks	*Safety & Security*
SYNA	Synaptics Inc.	*Disruptive Technologies*
UNFI	United Natural Foods	*Foods with Integrity*
VZ	Verizon Communications	*Content is King / Connected Society*
XYL	Xylem, Inc	*Scare Resources*

TEMATICA SELECT LIST PERFORMANCE

as of market close July 5, 2017

(AMZN) AMAZON.COM — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/24/16	$709.53	$728.10	--	--	2.62%	$880.00	(BUY)

(GOOGL) ALPHABET, INC. — *Asset Lite*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/15/16	$733.94	$704.89	--	--	-3.96%	$880.00	(BUY)

(XLY) CONSUMER DISCRETIONARY SPDR (ETF) — *Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/20/16	$79.57	$78.63	--	--	-1.68%	--	(HOLD)

(DIS) THE WALT DISNEY CO. — *Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/20/16	$102.16	$97.66	--	$87.00	-4.40%	$125.00	(BUY)
5/11/16	$101.78	$97.66	--	$87.00	-4.05%	$125.00	(BUY)

(DOC) PHYSICIANS REALTY TRUST — *Aging of the Population*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/27/14	$14.33	$21.28	$1.80	$18.00	61.06%	$25.00	(HOLD)

(NKE) NIKE INC — *Rise & Fall of the Middle Class*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/18/2016	$56.10	$55.20	--	--	-1.60%	$66	(BUY)

(PETS) PETMEDS EXPRESS — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/4/14	$17.80	$18.90	$0.19	--	7.25%	$20.00	(BUY)

(SH) PROSHARES SHORT S&P 500 (ETF)

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
1/14/16	$41.12	$39.85	--	--	-11.64%	$24.00	(BUY)
3/23/16	$45.10	$39.85	--	--	-3.09%	$24.00	(BUY)

(RGC) REGAL ENTERTAINMENT GROUP — *Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
11/23/15	$18.51	$21.84	$0.66	$19.00	21.56%	$24.00	(HOLD)

(SBUX) STARBUCKS CORPORATION — *Guilty Pleasure*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/1/16	$54.90	$56.77	--	--	3.42%	$74.00	(BUY)

(T) AT&T, INC. — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/21/15	$34.67	$43.35	$1.43	$39.00	29.16%	$45.00	(HOLD)

STOCKS / FUNDS MENTIONED

Alphabet (GOOGL)

Amazon (AMZN)

AT&T (T)

Darden (DRI)

Delta Air Lines (DAL)

Dick's Sporting Goods (DKS)

Disney (DIS)

Foot Locker (FL)

International Speedway (ISCA)

iShares Barclays 20+ Yr Treasury Bond ETF (TLT)

Micron (MU)

Nike (NKE)

PetMeds Express (PETS)

Physicians Realty Trust (DOC)

ProShares Short S&P 500 ETF (SH)

Regal Entertainment Group (RGC)

Ross Stores (ROST)

Starbucks (SBUX)

TJX Companies (TJX)

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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Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however our analysts will discuss fair value and/ or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views.

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