TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

A Thematic Approach Beats Sector-Based Investing — Hands Down.

Thematic investing is exactly what it sounds like: making investment decisions based on emerging themes — themes that are identified by looking at the intersection of shifting economics, demographics, psychographics, technologies, mixed with regulatory mandates and other forces.

Now, an investment theme is not a trend, which may be here today and probably gone tomorrow. An investment theme is a sustainable market shift that shapes and impacts consumer behavior and, in turn, forces companies to make fundamental changes to their businesses in order to succeed. Some businesses will adapt and survive, while a few will embrace the change and leap frog ahead of the pack riding these thematic tailwinds to profits and significant share price movements. And, of course, sadly there will be those left floundering too.

For every Apple, there is a Palm.

For every Facebook, a MySpace or Friendster.

For every Tesla, a Hummer.

For every Netflix, a Blockbuster.

And now, for every Amazon, a Sears.

As with all investment strategies, success with a thematic approach ultimately comes down to the underlying principle of investing: identifying which securities within an emerging theme are mispriced or undervalued relative to the business opportunities ahead as a result of the sea change presenting itself through a theme. The thematic approach, however, makes this process clearer because a theme, at its core, identifies the underlying drivers of future value (or risk), and thus provides a forward-looking, longer-term lens to making investment decisions, rather than focusing solely on what's happening right now.

It's Time to Start Investing Differently. It's Time to Start Investing Thematically

When you become a member to Tematica Research, you are plugged into the world of thematic investing. Led by Chief Investment Officer Chris Versace, who developed this thematic approach during his 25 years as a Wall St. equity analyst, the team at Tematica Research each week delivers a stream of insights, strategies, and actions you can take to break free from the herd and its out-dated sector approach to investing and truly begin to outperform the market. Check out our membership options by visiting TematicaResearch.com, or by clicking here.

With that, let's dig into the 18 different themes Tematica Research analysts are currently tracking and analyzing . . .

TEMATICA RESEARCH

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.

www.tematicaresearch.com

TEMATICA RESEARCH

Current Investment Themes

As of May, 2017

AFFORDABLE LUXURY	Those items and services that bridge the gap between want and ability.
AGING OF THE POPULATION	Identifies companies positioned to address the needs and demands of the expanding, older population. From healthcare and investing, to beauty products and nutrition, to assisted living and other services.
ASSET-LITE BUSINESS MODELS	Businesses that leverage intellectual property, patent portfolios and both licensing in and out models, outsourcing and similar business models.
CASH-STRAPPED CONSUMER	Low labor force participation and payroll to population figures, increased savings rates, lack of available credit, stagnant income growth and inflation concerns for food has led to consumers saving where they can, trade down when possible and seek value for each dollar that is actually spent.
CASHLESS CONSUMPTION	The ability to pay with your smartphone, combined with the continued growth of online and mobile shopping, means more and more people are scanning and swiping instead of writing checks or paying with cash.
CONNECTED SOCIETY	The way in which we interact with family, friends, co-workers, clients, data is changing alongside the evolving consumer device market.
CONTENT IS KING	As eyeballs are pulled in more and more directions, it's the content producers that are winning.
DISRUPTIVE TECHNOLOGIES	Developers of the products, services and business models that are transforming everything we do, including how we shop, commute, travel, work, play, relax and even purchase energy.
ECONOMIC ACCEL/DECEL	Exploits companies whose business is poised to rebound as economic conditions heat up.
FATTENING OF POPULATION	Capitalize on companies positioned to address the expanding waistline of the population.
FOODS WITH INTEGRITY	Consumer demand for healthy foods and their willingness to pay more for products that claim to boost health and weight loss or are all natural.
GUILTY PLEASURES	Those little treats and would-be harmless vices that we like or need to have from time to time.
RISE & FALL OF MIDDLE CLASS	The worldwide expanding new middle class spurs demand for goods and services that previously had not been available.
SAFETY & SECURITY	Personal, Corporate and Homeland Security, this theme revolves around increasingly on guard behaviors and need to shift from reactionary defense to always prepared and secure.
SCARCE RESOURCES	Companies positioned to benefit from a scarce resource or those that could see their margins and earnings come under pressure as key input prices escalate.
TOOLING & RETOOLING	The cross hairs of high under-employment and hiring managers that can't find qualified workers.
ULTRA WEALTHY	Those products and service that appeal to the expanding number of super wealthy throughout the world.

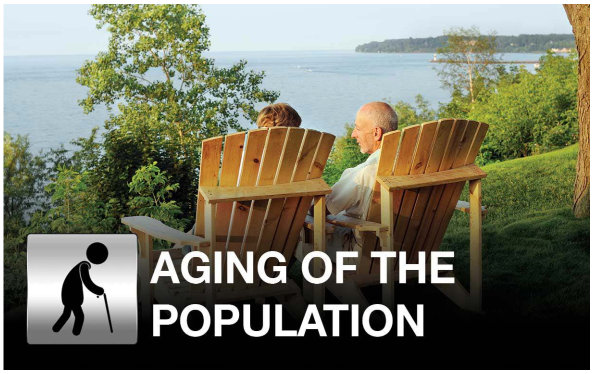
AFFORDABLE LUXURIES

Those items and services that bridge the gap between want and ability.

Affordable Luxuries are goods that can be considered luxury or premium goods according to the marketed image, but which cost less than proper luxury goods. They are "life's little indulgences" and they come in many forms, but at the heart of it, they are the elegant items that simply give pleasure to the buyer to own or have experienced.

In several cases, the purchase of these goods and service, which in part reflect one's personality, signal the buyer "has arrived" be it the newest handbag from **Coach (COH)** or a bottle of bubbly from **LVMH Moet Hennessy Louis Vuitton SE (LVMUY)**.

AGING POPULATION



Identifies companies positioned to address the needs and demands of the expanding, older population. From healthcare and investing, to beauty products and nutrition, to assisted living and other services.

Approximately 75 million baby boomers began turning 70 in 2016. The 70- to 79-year-old age group will increase by more than 50% during the next 10 years and by more than 80% by 2035. And just as this cohort was the group that brought racial diversity to the country, as well as women's empowerment, they will also change what it means to be "old" in America.

That means asking questions like, "As the population ages, what are the effects on their lives and the lives of the people around them? How do their needs change, and what does this mean for industries and companies that serve them? Is this an opportunity or will the business slowly disappear as the number of people over 65 years old accounts for more and more of the population?" That's a lot of information, but the short of it is that money that was once dedicated to supporting a young and growing family is increasingly shifting toward aging lifestyle changes that can include dietary adjustments, physical constraints, medical considerations, and travel, housing and monetary challenges.

Pain points can offer profound investing opportunities when a company or companies develop solutions and other means to thwart a pain point. As people age, their vanity can kick in and that means fighting back Father Time for as long as they can. As comedian Billy Crystal joked through his Fernando character on SNL, there is no shortage of people that think it is better to look good than to feel good. That has given rise to a certain aspect of our ***Aging of the Population*** theme that identifies companies that fight back the effects of aging through solutions ranging from supplements and vitamins to plastic surgery and other procedures as well as the companies that enable them.

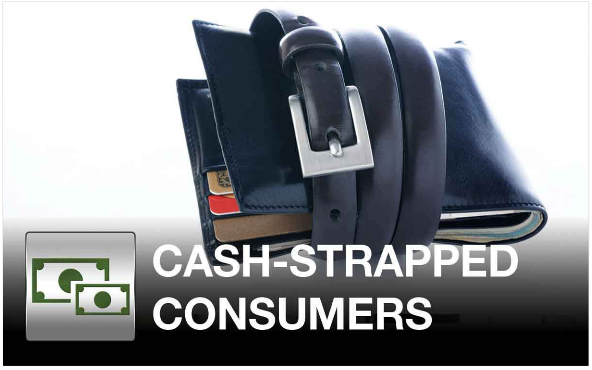
ASSET-LITE BUSINESS MODELS

Businesses that leverage intellectual property, patent portfolios and both licensing in and out models, outsourcing and similar business models.

Most companies are what you would call capital intensive — requiring significant resources to generate income whether it's employees, raw materials, manufacturing and distribution equipment or real-estate holdings.

In today's economy, there is a great deal of money to made in just the opposite — businesses that leverage intellectual property, patent portfolios and both licensing in and out models, outsourcing and similar business models. Theses type of companies are what we call Asset-lite.

CASH-STRAPPED CONSUMER



Low labor force participation and payroll to population figures, increased savings rates, lack of available credit, stagnant income growth and inflation concerns for food has led to consumers saving where they can, trade down when possible and seek value for each dollar that is actually spent.

The Cash-Strapped Consumer was born out of the economic backdrop in the United States and much of Europe since the 2008 financial crisis, which is looking more and more like the new normal. Lower levels of employment, increased savings rates, lack of available credit, and weak income growth have led to consumers saving where they can, trading down when possible, and seeking more value for each dollar that is actually spent.

The Cash-Strapped Consumer affects not only what and when consumers will buy, but also where and how they buy:

- **Will they shop at higher-end specialty stores or will they instead shop at discount stores and warehouse clubs?**
- **Are they buying private label and store brands or premium branded products?**
- **Will they dine out or eat in?**
- **Do they take a vacation or remain home for a "stay-cation?"**
- **Do they pay with cash, or with debit or credit cards?**

CASHLESS CONSUMPTION

The ability to pay with your smartphone, combined with the continued growth of online and mobile shopping, means more and more people are scanning and swiping instead of writing checks or paying with cash.

Over the last several decades, there has been a shift away from hard cash transactions by consumers to other forms of payment, principally checks, credit cards, debit cards, and, more recently, online payments.

With a new set of technologies, including near-field communication (NFC), and some older ones, including bar code scanning, we have entered the next phase in that shift away from cash consumption. From apps that allow you to pay at the register to others that allow you to book online reservations and get the check when you're done—all on your smartphone—to services like **PayPal (PYPL)** and **Apple Pay (AAPL)**, the "Swiss-Army" smartphone has made cash nearly obsolete, while encroaching into credit, and debit payments in a significant way.

CONNECTED SOCIETY

The way in which we interact with family, friends, co-workers, clients, data is changing alongside the evolving consumer device market.

The Connected Society is a result of a sea change in how people communicate, get news, shop, transact, invest, share pictures and videos, and consume digital content in one form or another. This dramatic change in consumer behavior has rippled across a number of industries — music, television, movies, news and publishing, and mail — with more to be affected (transportation and logistics, healthcare, groceries, and education to name a few). Looking back just a few years, a key example would be the shift from desktop computing to laptop computers, which was then disrupted by the iPad and tablet computing.

It's through this lens that we look to which companies are leading this disruption — which companies are enabling these shifts because of their disruptive technology or business models? Which ones are benefitting from pain points associated with this increasingly digital lifestyle?

CONTENT IS KING

As eyeballs are pulled in more and more directions, it's the content producers that are winning.

It's not a closely guarded secret at all that consumers will migrate to venues that offer content they find compelling be it at the theater, on the radio, TV or increasingly through streaming and mobile services. The notion of "must see" programming dates back decades, with the companies creating the content as well as those making it available benefitting along the way. Branded content that has been the backbone of movies, TV, music, games and even sports have become tent poles that drive cross-selling opportunities across various businesses.

With the adoption of streaming services, we are seeing new players enter content creation, disrupting the playing field as they do so. Some are winning awards and accolades at the expense of the entrenched players, while they and others are ramping their investment in content to appeal to consumers in various age groups and across the globe. In short, we are now seeing the creative destruction unleashed by the internet of newspapers, magazines, books and other publishers reach how, where and when people consume all forms of content on screens of all shapes and sizes in a variety of locations.

DISRUPTIVE TECHNOLOGIES

Developers of the products, services and business models that are transforming everthing we do, including how we shop, commute, travel, work, play, relax and even purchase energy.

Disruptive Technologies look for growth applications fueled by a combination of new products, materials and services to fill replacement demand that had been addressed by new products, services, or technologies.

Examples we all know include how CDs and DVDs replaced audio and video cassettes, LCD TVs and monitors replaced cathode-ray tube models, Bluetooth and wifi technologies replaced a number of wires and cords in homes, offices, and other locations. A similar transformation is underway in the lighting market as filament bulbs are being replaced by energy-saving emissive semiconductors called light-emitting diodes, or LEDs.

ECONOMIC ACCELERATION / DECELERATION

Exploits companies whose business is poised to rebound as economic conditions heat up, or are first to cool-down towards the end of a business cycle.

Examines the industries and companies that are positioned to benefit or be hurt, depending on where the global economy is or is heading in terms of the economic cycle. Are the domestic, foreign, or world economies strengthening and expanding or slowing and contracting? Are we in the early or late stage of that expansion or contraction? The answers determine the industries and companies that warrant our focus.

FATTENING OF THE POPULATION

Capitalize on companies positioned to address the expanding waistline of the population.

While many have expressed concern over the consumer mentality in the U.S., there is another fattening going on – this one in terms of the waistline of the domestic population. The World Health Organization estimates two-thirds of the U.S. adult population is overweight, with one-third of the population obese.

The U.S. Department of Health and Human Services estimates Americans spend $117 billion annually in costs associated with overweight and obesity, including direct medical and healthcare costs of $93 billion.

The high cost of obesity is due to its correlation to excess mortality, increased risk of heart disease, stroke, diabetes, cancer, hypertension, osteoarthritis, gallbladder disease, and disability. My Fattening of the Population theme seeks to capitalize on companies positioned to address this growing dilemma. While the initial focus is on the domestic market, it is a global issue - The World Health Organization projects the number of overweight adults to increase 44% from 2005 to 2015 to 2.3 billion, while the number of obese adults increases 75% over the same period to 700 million.

The Fattening of the Population theme seeks to capitalize on companies positioned to address this growing dilemma.

FOODS WITH INTEGRITY

Consumer demand for healthy foods and their willingness to pay more for products that claim to boost health and weight loss or are all natural.

Focused on the shift in consumer mindset about healthy foods and their willingness to pay more for products that claim to boost health and weight loss, including those that are GMO-free, have no artificial coloring/flavors and are deemed all natural. It's not just a shift in the way we eat at home, but also at restaurants.

Those companies that best respond to the ever-growing desire for more health-conscious eating options are more likely to thrive, while those that continue to only offer only the unhealthy options, which are increasingly considered inferior products, are unlikely to maintain their share of the market. Investors need to pay attention to these shifts in preferences and look for companies that are responding to them, while avoiding those that maintain the status quo.

GUILTY PLEASURES

Those little treats and would-be harmless vices that we like or need to have from time to time.

This investment theme refers to those little treats and would be harmless vices that we as consumers like or need to have from time to time even though there may be a form of guilt associated with indulging. Chocolate, beer, wine, spirits, cigarettes, junk and fast food, gambling and more are typical products from these companies, which tend to have inelastic demand for their products, good cash flow generation and meaningful dividend income on average.

The inelastic demand associated with these need-to-have products, coupled with this historical performance, has resulted in lower betas for ***Guilty Pleasure*** companies in general. Looking a tad deeper, however, we find that not all ***Guilty Pleasure*** companies are the same. True enough, the industries they serve and the products offered can differ, but what I am getting at here is their beta varies as well. Those companies, such as Altria Group (MO), Reynolds America (RAI) and British Tobacco (BTI) that serve the tobacco industry have a much lower beta than gambling companies such as MGM Resorts (MGM), Las Vegas Sands (LVS), and Wynn Resorts (WYNN).

RISE & FALL OF THE NEW MIDDLE-CLASS

The worldwide expanding new middle class spurs demand for goods and services that previously had not been available.

The Rise of the New Middle-Class refers to the improving socioeconomic landscape and better lifestyles in a number of countries, like China, India and other emerging market economies. As disposable incomes improve and quality of life rises, this new middle class spurs demand for goods and services that previously had not been there. Clothing and other textiles, cosmetics and other sundries, food and energy, electronics, and so on.

The World Bank estimates that the global middle class is likely to grow from 430 million in 2000 to 1.2 billion in 2030. China and India are slated to account for two-thirds of that expansion. On the positive side, this middle class upswell will drive incremental demand for goods and services; on the downside, it will raise the competitive landscape for limited or scarce resources.

SAFETY & SECURITY

Personal, Corporate and Homeland Security, this theme revolves around increasingly on guard behaviors and need to shift from reactionary defense to always prepared and secure.

The right to defend oneself and his or her property applies today just as it did more than 200 years ago. While the Second Amendment protects the right of the people to keep and bear arms, the threats that we are facing are changing, much like the way we interact with people, data and content are changing.

As people, companies and institutions must be increasingly on guard, behaviors need to shift from one of reactionary defense to always prepared and secure.

SCARCE RESOURCES

Companies positioned to benefit from a scarce resource or those that could see their margins and earnings come under pressure as key input prices escalate.

This investment theme looks at goods and resources whose available quantity is less than its desired use. Driving the demand for these limited resources is the rising global population and the awakening of third world economies, which will drive incremental demand for resources such as oil, gas, water, rare earth elements and more over time.

That's the demand side of the equation, but we could also see disruptions on the supply side.

Everyone but vegans experienced an example of such supply-side disruptions from 2013–2015 with the sharp rise in animal and seafood proteins such as beef, pork, chicken, and shrimp. That protein cost explosion reflected several factors including herd supply constraints due in part to drought conditions (there's that water thing again), rising demand from the emerging economies (***The Rise of the New Middle-Class***), and the shift in other parts of the globe towards carb, higher protein diets.

TOOLING & RETOOLING

The cross hairs of high under-employment and hiring managers that can't find qualified workers and an educational system that is stagnating at a time when federal, state and local budgets are being cut.

It used to be the view that a higher education was extremely important because for most people a college education becomes the necessary admission ticket to good jobs and a middle-class lifestyle. Notice we said, "used to be the view" for that ideal seems to have vanished with the notion of lifetime employment at a particular company or in a particular industry.

Most if not all advice from career counselors, headhunters and the like to people looking to switch careers and industries is to evaluate your existing skill set and determine what skills are transferable and what skills you will need to develop. Consider that in the fall of 2010, nearly 49.4 million U.S. students attended public elementary and secondary schools and those institutions spend roughly $540 billion during the 2010-11 school year. Based on some simple math, we find the national average current expenditure per student was $10,931, which to more than a few is a sizable dollar amount.

The question to ask when we put on our investor hat is whether or not we are getting a good return on that expenditure? It would appear the answer is no. In order to remain competitive on the global stage, workers will need to shore up their skills and for some, that means finishing the education they started, while for others it means going further.

ULTRA WEALTHY

Those products and service that appeal to the expanding number of super wealthy throughout the world.

One of the key factors we focus on is changing demographic data, including shifts outside of the United States. Inside the U.S. the mainstream media tends to focus on the “1 percent,” but according to data from Capgemini, there are more than 5.1 million people in the Asia-Pacific region who own more than a million US dollars each. That means greater Asia is the now the continent with the most super-rich people globally, not North America.

Data from the China Private Wealth Report by Bain Consulting and China, Merchants Bank reveals the number of high net worth individuals (HNWIs) in China has risen nearly 9 times in the last decade. The number of super-wealthy Indians grew the sixth-fastest in the world between 2015 and 2016 and the pace of ultra high net worth individuals (UHNWIs)—people with net worth of over $30 million—is expected to move up to the third spot in the next decade.

Our Ultra Wealthy investing theme looks to capture the benefits of where these new millionaires spend the bulk of their discretionary spending, including on travel (including travel experiences, hotels, airline tickets, and cruises), and fashion (including designer clothing, watches, jewelry, and accessories).

The Proof, As They Say, Is in the Pudding

WE’RE WILLING TO PUT OUR MONEY WHERE OUR MOUTH IS WITH A 14-DAY FREE TRIAL*

When you become a member to Tematica Research, you are plugged into the world of thematic investing. Led by Chief Investment Officer Chris Versace, who developed this thematic approacThe Tematica Individual Membership provides thematic investing strategies, trading ideas, and analysis of the most pressing economic and market developments that drive both our thematic perspectives and investing strategies.

Experienced Individual Investors and Financial Professionals that become members receive The Monday Morning Kickoff, Tematica Investing, and Thematic Signals for 14 days. You pay nothing today.* If at the end of your 14-day free trial*, you like what you’re getting, you’ll pay just $200 for a 1-year subscription. On the other hand, if you find that you can’t stand it, hate it, or otherwise find us utterly distasteful, then just login and cancel your subscription BEFORE the end of your trial period and you won’t be charged anything. Not a dime.

What do you have to lose?h during his 25 years as a Wall St equity analyst, the team at Tematica Research each week delivers a stream of insights, strategies, and actions you can take to break free from the herd and its out-dated sector approach to investing and truly begin to outperform the market.

Start Your Free Trial Now