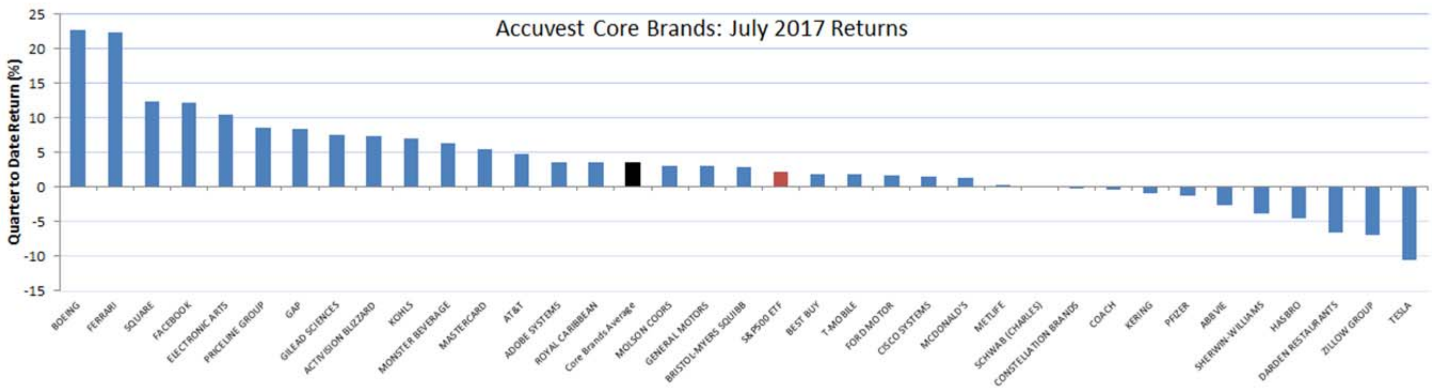
Accuvest Core Brands

Portfolio Highlights – July 2017

The Accuvest Core Brands Strategy outperformed the S&P500 in July. While an overweight allocation to Telecom and an underweight allocation to Industrials benefited the portfolio, the primary driver of outperformance was security selection, or “stock picking”. To that point, the Top 10 Accuvest Core Brands of July 2017 are detailed below.



#1 Boeing + 22.61% in July

Commercial aircraft are Boeing's largest opportunity and risk to profit growth as it aims to monetize large backlogs for the 737 and 787. Build rates for the 737 narrow-body will climb to 47 a month in 3Q as production of the re-engined MAX begins, boosting revenue and profit. The rate will rise to 57 by 2019. Boeing's affordable and capable though older military portfolio should gain from higher defense spending. The F- 18 lacks full stealth, but could substitute for some carrier-based F-35s. The new KC-46 aerial tanker has suffered cost overruns, but will likely replace the aging fleet of 457 tankers.

#2 Ferrari +22.29% in July

Revenue in 2Q surged 14% to 920 million euros, about 3x the growth in vehicles shipped. Investors are focused on a potential Ferrari SUV to help double unit sales and Ebit. A utility vehicle makes sense, as competitors have or are developing SUV/crossovers. They include Bentley, Aston Martin, Lamborghini and Rolls-Royce. Cars and spare parts account for 72% of Ferrari's revenue. Sponsorship, commercial and brands make up 15%, including Formula 1 (F1). Engines contribute about 12%, with higher 2Q sales to Maserati more than offsetting the F1 Toro Rosso racing team's switch to a Renault powertrain.

#3 Square +12.32% in July

Larger merchants are contributing an increasing share of Square Inc.'s payments volume, suggesting it continues to attract them with its integrated technology, customer-data analytics and other innovative services. Square's revenue growth may slow to 31% in 2017 vs. 52% in 2016, based on consensus, as rapid volume gains ease. The company is profitable, based on adjusted Ebitda. Square expects its Ebitda margin to widen in 2017, even as it invests to sustain swift revenue growth. Square processed $50 billion of 2016 payments for merchants, while the top four U.S. companies handled a combined 66 billion transactions.

#4 Facebook +12.10% in July

Facebook's U.S. market share in mobile ads is expected to top 23% in 2017, according to eMarketer, while mobile ad spending is projected to surpass $57 billion. Instagram has over 600 million monthly users. Facebook.com has 1.86 billion monthly users and 1.23 billion daily. The social media giant expects its ability to push more ads to Facebook users, which boosted growth, to wane by 2H17, while the sales baton gets passed to Instagram and video ads.

#5 Electronic Arts +10.42% in July

Electronic Arts is capitalizing on a shift to digital sales from physical to increase revenue and boost gross margin by about 100 bps a year. Leveraging its core franchises, EA is expanding sales from full-game digital downloads, subscriptions, mobile and downloadable extra content to create a steadier, more predictable revenue stream. Core sports franchises, including FIFA and Madden NFL, and first-person games, such as Star Wars Battlefront and Battlefield 1, provide a solid base for growth.

#6 Priceline +8.45% in July

Priceline Group Inc. is executing well on the plan to increase its online travel agent market share, even amid growing competition from TripAdvisor and Google, direct discounts on hotel websites and upstarts such as Airbnb. Priceline has expanded geographically and built scale by boosting the number of bookable properties on its platform and has used paid marketing effectively to boost its customer base in new markets. Priceline has higher Ebitda margins than Expedia and dominates in Europe. Acquisitions including Booking.com and Kayak have been key to Priceline's success. The company's announced purchase of Momondo Group is aimed at expanding Kayak's metasearch business in Europe.

#7 The Gap +8.37% in July

Gap Inc.'s turnaround hinges on continued improvement in speed, merchandise and conversion. The company has reversed late 2015 missteps at Old Navy, but still needs to improve sales at its namesake and Banana Republic units. Slowing store traffic remains a risk to sales as consumers shop online more.

#8 Gilead +7.50% in July

Known for a leading position in hepatitis C and HIV, Gilead's innovations are proving to be a double-edged sword, as new, less-severe hepatitis C patients start treatment at slower rates than forecast. A new line of drug launches is rejuvenating its HIV business, but Gilead's pipeline isn't at the stage where it can offset sales growth or generate sufficient excitement.

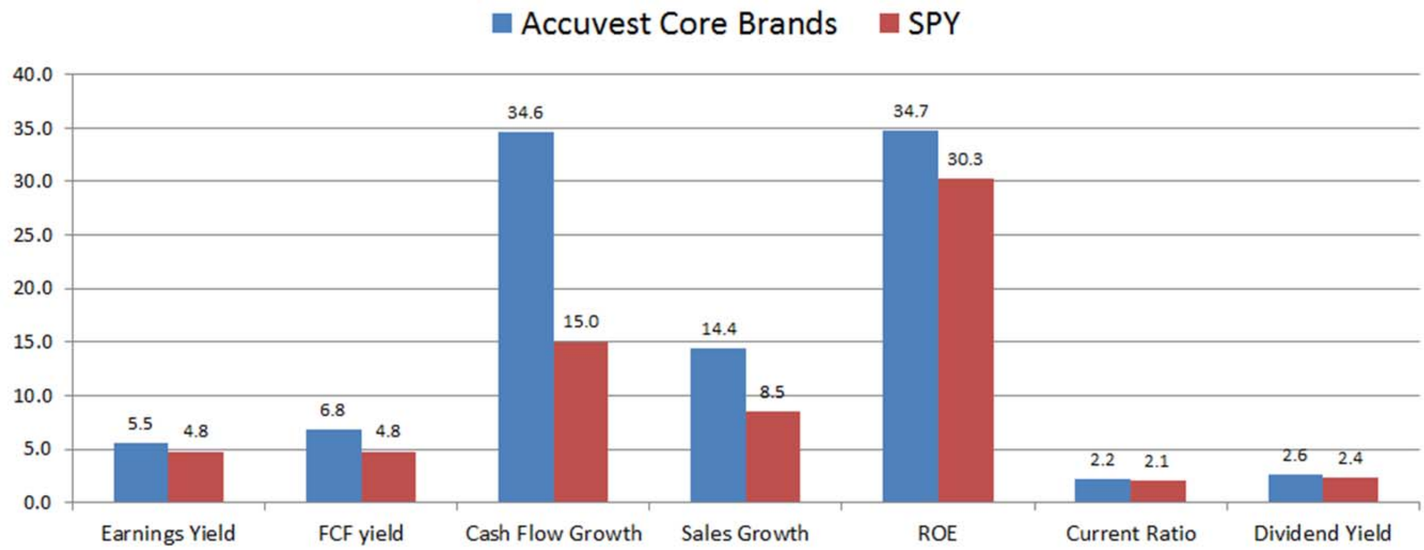
#9 Activision Blizzard +7.31% in July

Activision's revenue is being driven by growth in digital sales, as the industry transitions from physical distribution. Activision Blizzard is capitalizing on the shift to digital revenue to boost margins, while leveraging M&A to enter new markets and increase sales. The Blizzard segment's 41.7% operating margin was the company's highest in 2016, driven by strong digital sales of Overwatch and World of Warcraft: Legion.

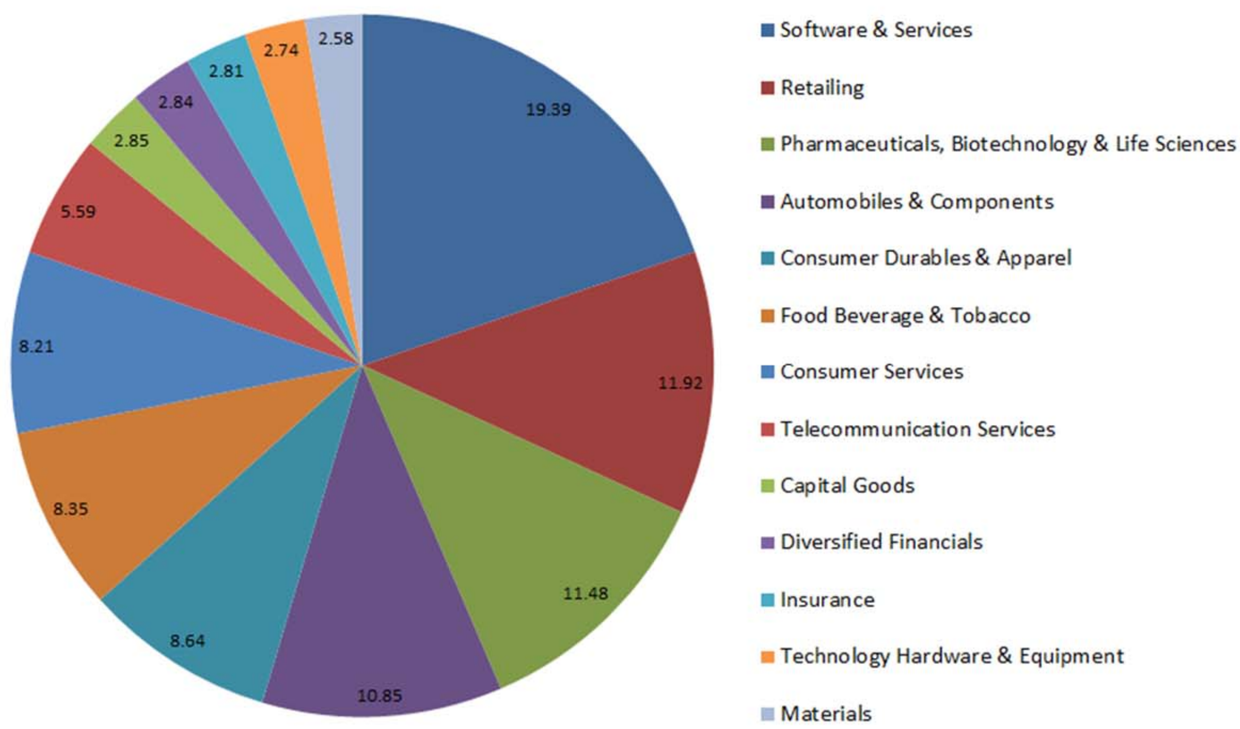
#10 Kohls +6.93% in July

Better inventory control and rationalizing store space to a more efficient size are opportunities for Kohl's, yet declining store traffic presents a persistent threat. Kohl's continues to assess stores, even those neutral-to-positive in cash flow. Intensifying competition and digital shopping is curbing sales. Focus on inventory, loyalty, localization and new brands, such as Under Armour, is critical for reviving traffic. Off-Aisle (clearance), beauty and the "Greatness Agenda" initiatives may also help.

Portfolio Characteristics:



Industry Allocations:



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