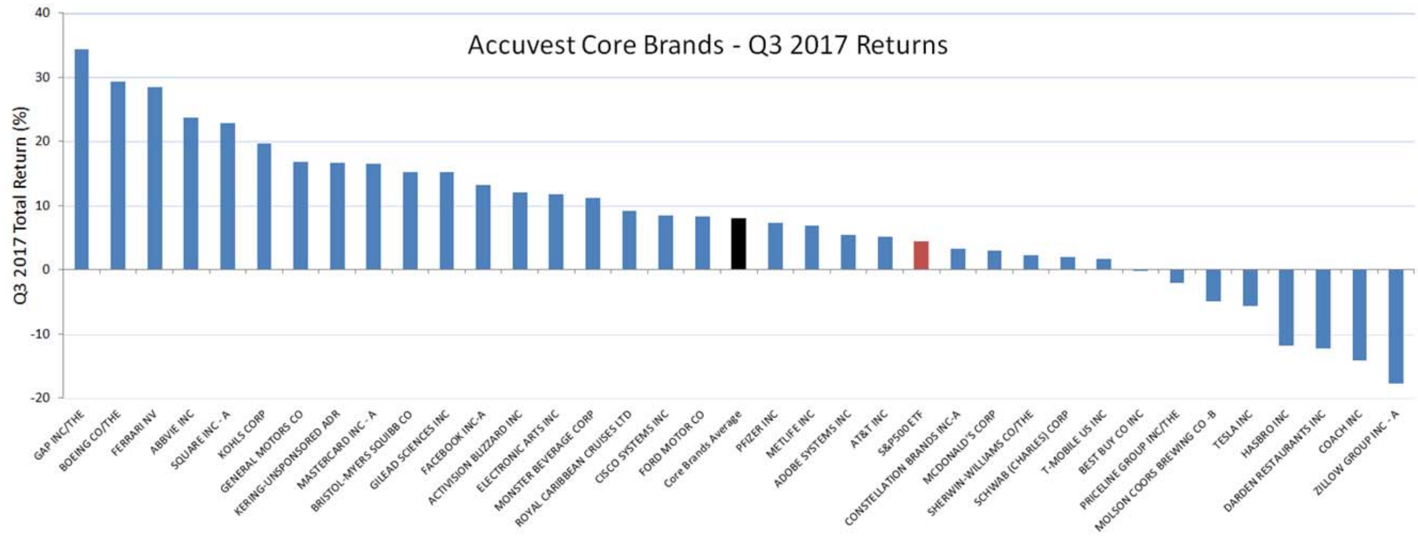
Accuvest Core Brands

Portfolio Highlights – Q3 2017

The Accuvest Core Brands Strategy returned 7.66% during Q3 2017, outperforming the S&P500 by 3.18%. Year-to-Date through the end of September, the Accuvest Core Brands Strategy has returned 22.23%, outperforming the S&P500 by 7.99%. The primary driver of outperformance during Q3 was security selection, or "stock picking", within the Consumer Discretionary, Healthcare, and Industrial Sectors. To that point, the Top 10 Accuvest Core Brands of Q3 2017 are detailed below.



#1 GAP +34.3% in Q3

A turnaround in Gap Inc. sales is underway, following a third consecutive quarter of comparable-sales growth. Shorter product and design cycles are key to helping Gap improve merchandise traction and vie for market share amid competition from fast-fashion retailers. Traffic headwinds persist, which may prompt Gap to explore online marketplaces and bolster its products in loyalty categories. Management has said Athleta, its athletic banner, outpaces industry growth and shows potential.

#2 Boeing +29.3% in Q3

Boeing's confirmation to build 14 787s a month into the 2020s will fuel market interest as rising production rates of both narrow- and wide-body aircraft drive higher profit, margins and cash flow. Boeing gets 70% of revenue from commercial airplanes. Defense accounts for 30%, most from military aircraft at 13%.

#3 Ferrari +28.4% in Q3

To lift lackluster Chinese demand and drive output closer to its technical capacity of 16,000 units, Ferrari will likely launch a utility vehicle in 2019, providing a consensus-busting 35% boost to Ebit. This will coincide with the hybridization of the product range, and a pure electric Ferrari can't be ruled out. Limited and special-series cars bolster earnings and should make up 33% of 2017 Ebitda on just 7% of volume. Ferrari is unique, being the only separately listed super-luxury auto brand.

#4 Abbvie +23.6% in Q3

The patent litigation settlement with Amgen is a watershed for Abbvie, and assures the company's ability to protect Humira from heavy U.S. competition until 2023. AbbVie's sales, all of which come from branded drugs, may rise 6% over 2016-21, the highest among pharma peers.

#5 Square +22.8% in Q3

Larger merchants are contributing an increasing share of Square's payments volume, suggesting the company continues to attract them with integrated technology, customer-data analytics and other innovative services. Square competes against a range of payment processors including the largest, First Data, which also sells payment terminals and software to small merchants. Square processed $50 billion of 2016 payments for merchants, while the top four U.S. companies handled a combined 66 billion transactions.

#6 Kohls +19.67% in Q3

Even with recent improvement in transactions, secular store traffic declines remain a persistent threat evident by unchanged full-year guidance at Kohl's. Kohl's addition of Under Armour this year may continue to help sales. Lean inventory and the testing of the "Smart Cart" initiative could help offset gross-margin pressure once rolled out. E-commerce continues to be a strength, rising 19% in 2Q. The increasing availability of branded merchandise at Amazon.com is a top threat.

#7 General Motors +16.8% in Q3

General Motors has strung together consecutive quarters of estimate-topping adjusted EPS, maneuvering through a rough patch in U.S. auto sales. General Motors' decision to exit the Indian auto market by year-end, days after announcing it will likely sell its South African business, is another step in the company's retrenchment to profitable markets. Though sales volume for GM North America may have reached a cyclical peak in 2016, the region remains a crucial profit generator due to its high proportion of light-truck sales.

#8 Kering +16.6% in Q3

Kering is becoming increasingly successful at refining its portfolio to boost sales growth, including changing creative directors and CEOs at several of its brands. Sales and profit gains are accelerating at the largest brands - Gucci, Puma and Yves Saint Laurent - while smaller ones are regaining popularity. Kering's fourth-largest brand, Bottega Veneta, is in recovery mode, helped by favorable designs and market conditions. Smaller luxury brands Gucci is 39% of Kering's sales and YSL is 10%. Puma's 16% sales-growth rebound (27% of sales) is also significant.

#9 Mastercard +16.5% in Q3

MasterCard's revenue growth should continue to benefit from the global shift to electronic payments, offset partly by growth in incentives paid to new and renewing partners. MasterCard aims for mid-teens EPS growth over the long term, driven by increased electronic payments and by targeting businesses, governments and consumers outside of card networks. MasterCard processed 17% of global card-payment volume in 2016 vs. 41% for China UnionPay and 35% for Visa including Visa Europe.

#10 Bristol-Myers Squibb +15.2% in Q3

Bristol remains one of the fastest-growing companies among its peers. Bristol-Myers Squibb still expects Opdivo's U.S. sales to rise in 2017, despite stiff competition. Opdivo's international sales should remain strong, given its first-mover advantage. Bristol should be able to grow above the peer average of 4.2% over 2016-21. Bristol derives 100% of sales from branded drugs. Key growth franchises are oncology (35% of 2016 sales) and heart disease (17.2%).

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