

SELECT Strategy Investment Themes in 2017 and 2018

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Exencial's SELECT equity strategy focuses on corporations that meet our quality standards. Companies chosen include large, medium and small organizations with successful strategies that benefit key constituencies – customers, shareholders, employees and communities. They must demonstrate leadership and the ability to generate industry-leading profitability, market share and growth. Finally, we attempt to purchase shares at a reasonable price.

Key themes presented by our investment team during Exencial's semi-annual webcasts in January¹ and July² 2017 included the rapid development of cloud computing and the increasing dominance of large companies. We cited these factors as reasons for owning SELECT companies such as Alphabet (GOOGL)³, Apple (AAPL)⁴, Facebook (FB)⁵ and Microsoft (MSFT)⁶.

As we move forward into 2018, our initial focus for the SELECT portfolio is on industries and sectors that hold promise for increased product demand and profitability.

Artificial intelligence (AI)⁷ is the equivalent of what cloud computing was last year. The scope of AI⁸ expands across different industries including health care, transportation, manufacturing, customer service, retail and others. AI is expected to generate substantial social and economic value by transforming everyday life for the better. Alphabet (GOOGL) and Microsoft (MSFT) are key providers in this field, while forward-looking companies in various industries are utilizing it.

Consumer cyclical companies⁹ that generate a positive experience appear well-positioned to benefit from a strong economic backdrop. In the U.S., national net worth has reached record levels¹⁰, consumer confidence is near a multi-year high¹¹ and income tax rates are likely to decline¹². Combined, this has the potential to boost consumer spending. We believe SELECT companies in boating (Brunswick Corporation – BC¹³), off-road vehicles (Polaris Industries – PII¹⁴), blockbuster movie production and theme parks (Walt Disney – DIS¹⁵), quality/value dining and beverages (Texas Roadhouse – TXRH¹⁶ and Starbucks – SBUX¹⁷) and fitness apparel/footwear (Nike – NKE¹⁸) should thrive.

Although the energy sector has lagged the market for the past decade¹⁹, we are beginning to see some positive developments on the horizon. For instance, energy companies have reported solid operating improvements this year, supported by higher oil prices²⁰. Global gross domestic product (GDP)²¹ is surprising on the upside and crude inventory levels²² are steadily declining. Our investment team sees recovery potential in the energy sector next year and particularly favors EOG Resources (EOG)²³, Pioneer Natural Resources (PXD)²⁴ and Schlumberger (SLB)²⁵.

For more insights from our Chief Investment Officer, Tim Courtney, and our investment analysts, tune in to our upcoming client webcasts in 2018. We will follow up shortly with the date of the first one in January.



A complete list of portfolio holdings and specific securities transactions for the preceding 12 months is available upon request. Holdings are subject to change. Exencial Wealth Advisors or one or more of its officers, may have a position in the securities discussed herein and may purchase or sell such securities from time to time.

Sources:

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