

# Private Investment Management (Discretionary)



Wealth Management  
Dominion Securities

Volume 4, June 2018



Dear client

## Actual situation on financial markets



The trend of the market so far this year has been that of a neutral consolidation and trading range that followed two previously strong years, and we believe it should not be a surprise if this same range continues for another several months.

We believe stock market are still more likely to generate higher returns than bonds though investors are advised to invest according to one's investment profile.

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Purchasing managers' indices (PMIs) remain at levels consistent with decent economic growth and, while the business cycle is in its later stages, signs of the next recession are scarce. Growth is impressive by post-crisis standards and the forces of secular stagnation may be fading nearly 10 years following the Great Recession. Measures of confidence among businesses and consumers have climbed to levels not seen since the early 2000s, investors' risk appetite has risen meaningfully, and productivity is picking up. Moreover, the IMF expects the output gap for developed countries to close completely this year and for growth to run slightly above its long-run potential.

The threat from North Korea is fluid, but progress towards denuclearization and improved relationship with the U.S. is evident. In China, a shift in the government's focus to quality of growth rather than quantity may result in a slowing of the economy, but the odds of an eventual hard landing are now lower as a result. The important fiscal stimulus package in the United States is expected to stimulate the global economy in the near term.

With economies approaching full capacity, the risk of inflation is closer to the surface. Our view, however, is that the world is transitioning to a more normal inflation environment and away from a persistent threat of deflation. Higher commodity prices and reduced economic slack are helping to drive this regime shift, and increasingly tight labour markets will put upward pressure on wages and consumer prices. While inflation could firm in the near term, structural influences from demographics and technological advancements should limit how fast prices can ultimately rise on a sustained basis.

Still, a variety of challenges to the long cycle exist. Rising interest rates and tighter financial conditions present headwinds to economic growth. U.S. protectionist measures have escalated in recent weeks and are more likely to have a measurable impact on international trade. European populism is again in the headlines, particularly with respect to Italy.

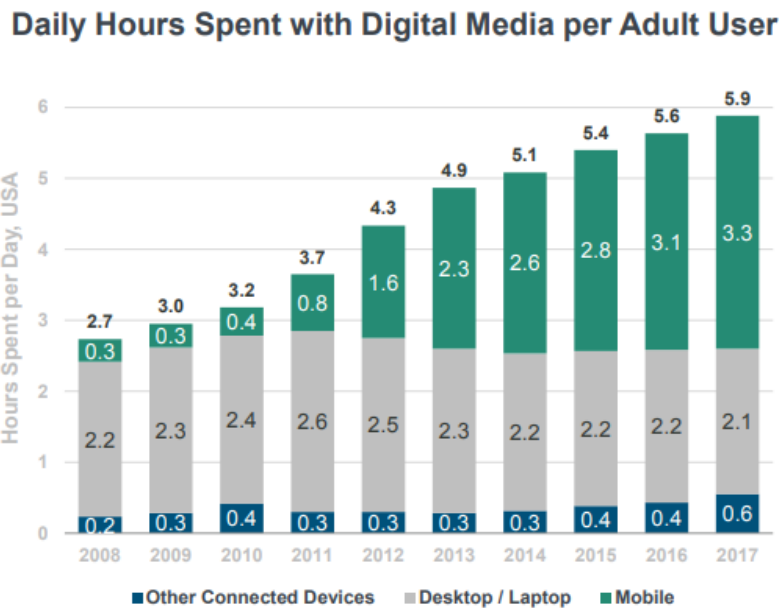
Should the economy unfold as we expect, steady growth and firming inflation will encourage central banks to continue dialing back monetary accommodation. Over the longer term, our models continue to suggest the direction for yields is higher, but also that increases are likely to be gradual and could span many years.

**Internet Trends 2018**

We just went through the Annual Report from Mary Meeker regarding the Internet Usage. You will find below some graphics from this report. Sometimes, we comment them.

**Digital Media Usage**

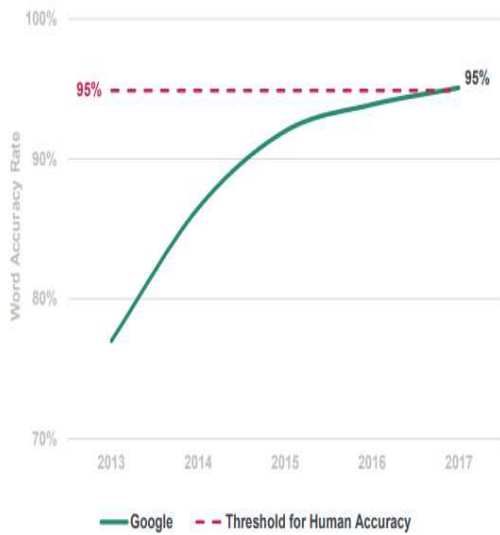
Nearly six hours of our day spent consuming digital media (aka staring at “glowing rectangles”) with over half of that time spent on a mobile device. Recent research estimates that Millennial’s are checking their phones as much as 150 times a day (are we sure they are making our lives better?).



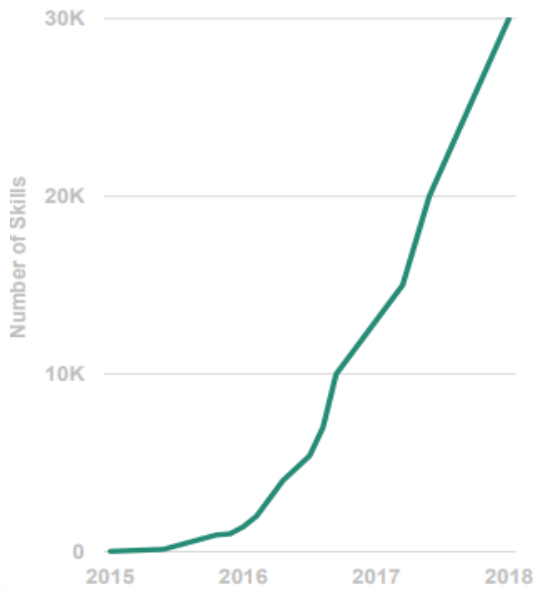
**Voice recognition software now on par with my humans**

Voice activated devices like Echo are still in their infancy. We have talked about how voice activated internet could be a potential headwind for brands. Something tells me we are in the first inning of this phenomena.

**Google Machine Learning Word Accuracy**



**Amazon Echo Skills**

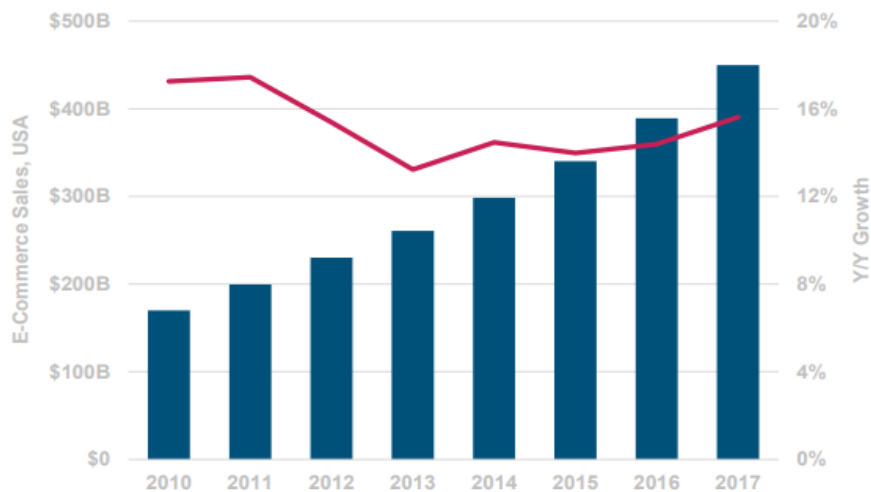


Source: Google (2/17). Note: Data as of 9/1/17 & refers to recognition accuracy for

**E-Commerce & Amazon**

E-commerce continues to grow at a healthy clip. The 800lb gorilla, Amazon, is not only benefitting from the secular share from brick-and-mortar, they are also winning share from other E-commerce players as well.

**E-Commerce Sales + Y/Y Growth**



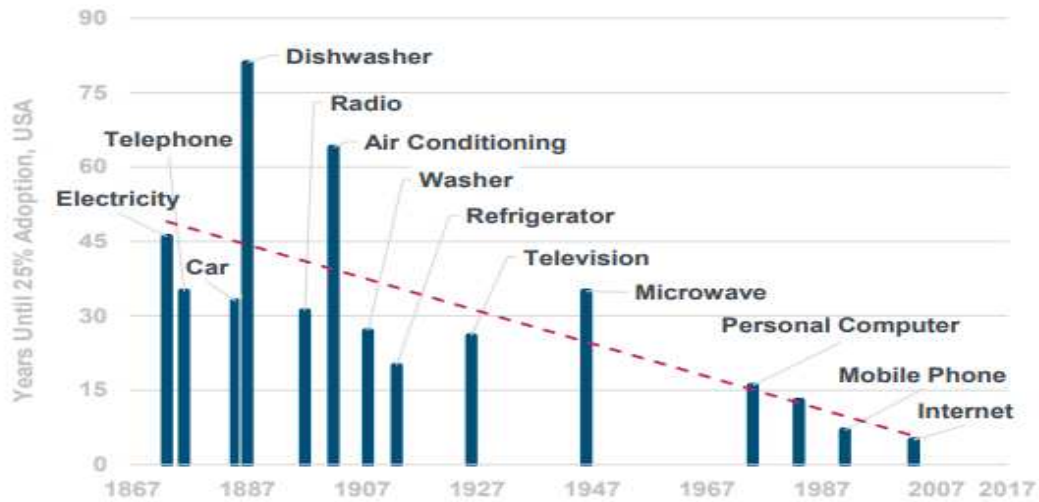
## E-Commerce Gross Merchandise Value (GMV) – Amazon vs. Other



### Well that escalated quickly

The initial stages of adoption look basically the same for all technologies. The difference is that today you hit critical mass much much quicker.

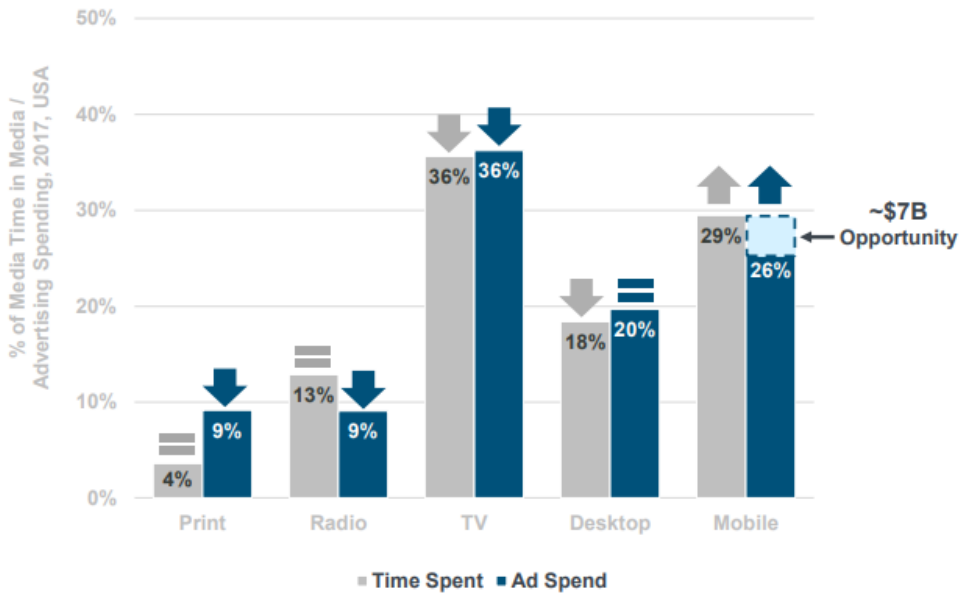
## New Technology Adoption Curves



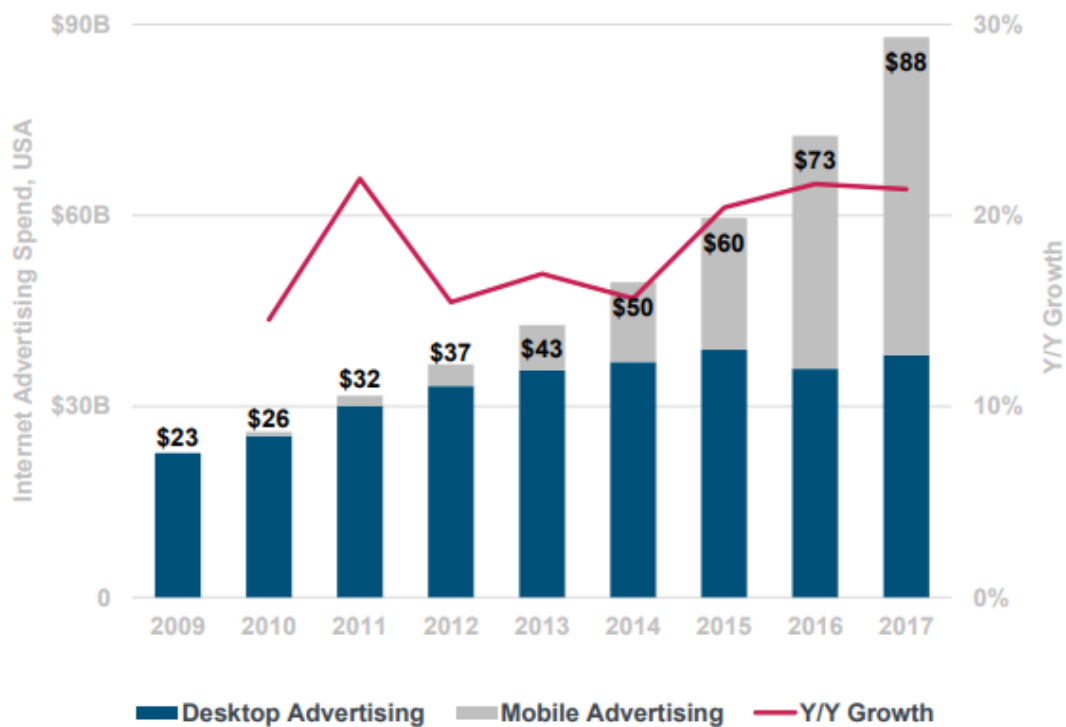
**Allocation of Global Ad Budgets**

A favorite slide of mine. The time spent vs. ad spend summarized in a picture our bullish thesis on Google five years ago. Today the same thesis holds true and applies to Facebook as well. Recall TV used to capture over 36% of ad budgets, suggesting there is probably still a lot of room for mobile to grow.

**% of Time Spent in Media vs. % of Advertising Spending**



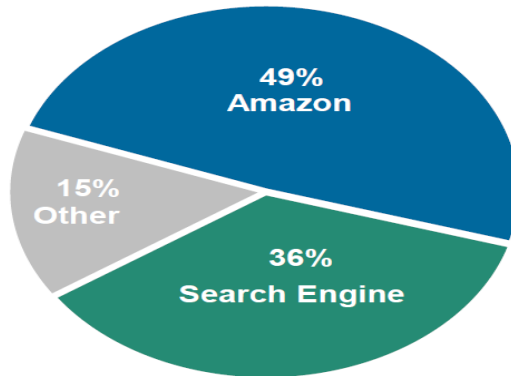
**Internet Advertising Spend**



**Where are online product research conducted? First and foremost, through Google and Amazon**

**Product Finding = Often Starts @ Search (Amazon + Google...)**

*Where Do You Begin Your Product Search?*



Before buying a product, people surf on websites like YouTube (owned by Google) or Taobao (owned by Alibaba).

**Product + Price Discovery = Often Video-Enabled...**

**YouTube**

*Many USA Consumers View YouTube Before Purchasing Products*



**Taobao**

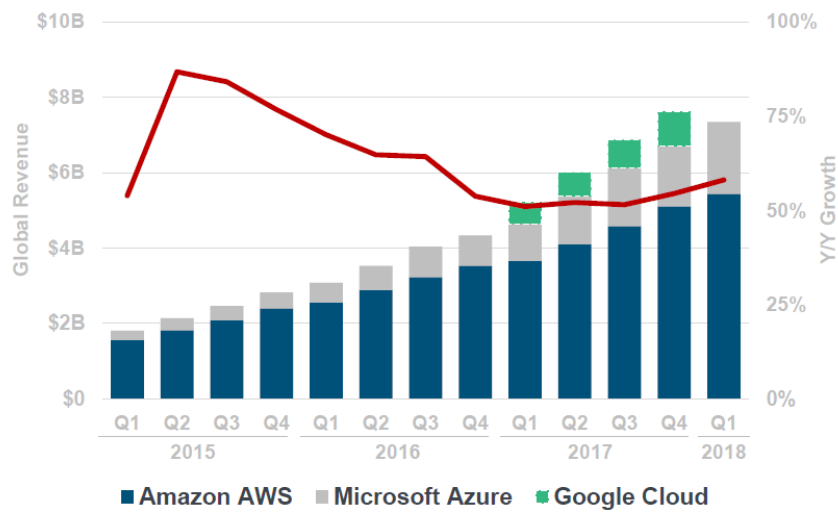
*1.5MM+ Active Content Creators*



**Digital data storage is undergoing a fast growth. Amazon, Google and Microsoft share a large share of the global market.**

**...Computing Big Bangs Volume Effects = Cloud Revenue Re-Accelerating +58% vs. +54% Q/Q**

**Cloud Service Revenue – Amazon + Microsoft + Google**



**Disturbance in the economy and our life due to technology is nothing new but technology disruption is gaining a momentum. A comparative example.**

The following graph presents an interesting data comparison between Amazon and Alibaba. Amazon (AMZN) has generated revenues of 178 billion, in 2017, a 31% increase over a 1-year period. It has also achieved a 37% profit margin and cash flows of 4 billion over the same period; 31% of its revenues were generated outside the US.

For its part, Alibaba (BABA) has generated revenues of 34 billion, in 2017, with an equal 31% increase over a 1-year period. However, Alibaba has generated a 60% profit margin and cash flows of 14 billion over the period. Finally, only 8% of its revenues were situated outside China.

## Alibaba & Amazon = Similar Focus Areas... Alibaba = Higher GMV...Amazon = Higher Revenue (2017)

<b>Alibaba</b>		<b>Amazon</b>
\$509B = Market Capitalization \$701B = GMV(E) +29% Y/Y \$34B = Revenue +31% Y/Y 60% = Gross Margin \$14B = Free Cash Flow 8% = Non-China Revenue as % of Total**		\$783B = Market Capitalization \$225B = GMV(E) +25% Y/Y \$178B = Revenue +31% Y/Y 37% = Gross Margin \$4B = Free Cash Flow 31% = Non-USA Revenue as % of Total**
Tmall / Taobao / AliExpress / Lazada / Alibaba.com / 1688.com / Juhuasuan / Daraz	<b>Online Marketplace</b>	Amazon.com
Intime / Suning* / Hema	<b>Physical Retail</b>	Whole Foods / Amazon Go / Amazonbooks
Ant Financial* / Paytm*	<b>Payments</b>	Amazon Payments
Youku / UCWeb / Alisports / Alibaba Music / Damai / Alibaba Pictures*	<b>Digital Entertainment</b>	Amazon Video / Amazon Music / Twitch / Amazon Game Studios / Audible
Ele.Me (Local) / Koubei (Local) / Alimama / (Marketing) / Cainiao (Logistics) / Autonavi (Mapping) / Tmall Genie (IoT)	<b>Other</b>	Alexa (IoT) / Ring (IoT) / Kindle + Fire Devices (Hardware)
Alibaba Cloud	<b>Cloud Platform</b>	Amazon Web Services (AWS)

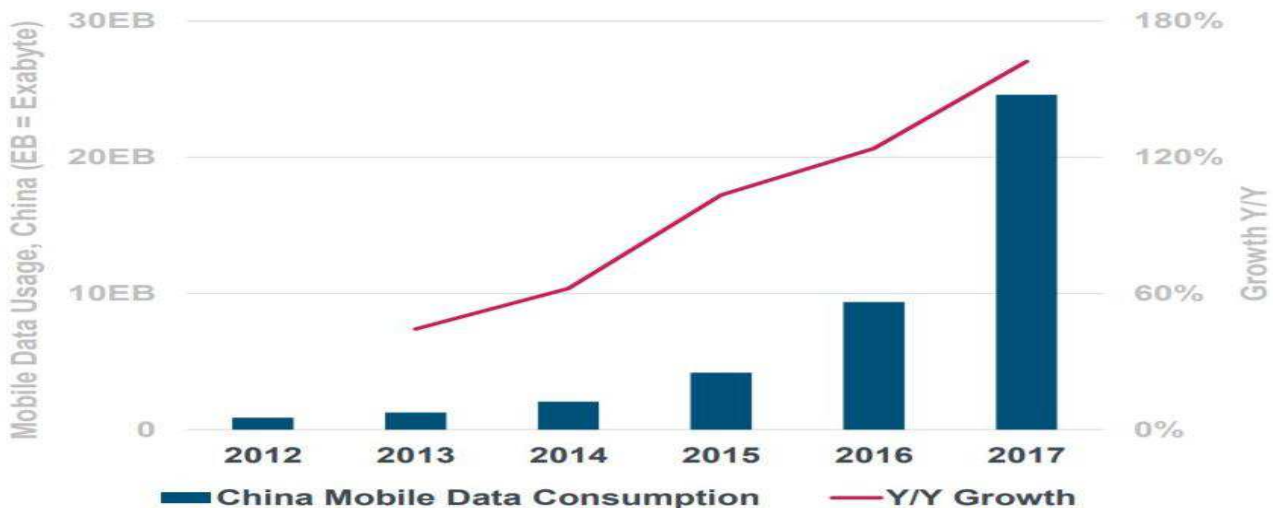
KLEINER PERKINS 2018 INTERNET TRENDS 91

Source: Grace Chen (Alibaba) + Brian Nowak (Amazon) @ Morgan Stanley. \*Alibaba has invested but does not have a majority ownership. \*\*Alibaba Non-China revenue = Alibaba International Commerce revenue (AliExpress, Lazada, & Alibaba.com). Amazon Non-USA revenue = Retail sales of consumer products & subscriptions through internationally-focused websites outside of North America. Note: All figures reflect calendar year 2017. Alibaba GMV includes Non-China GMV estimates. Y/Y Growth is FX adjusted using 5.75 RMB / USD average exchange rate for 2017. All figures refer to calendar year. Market cap as of 5/29/18. Amazon GMV includes in-store GMV. FCF = Cash flow from operations - stock-based compensation - capital expenditures.

### Trends in China

Remember with China there is a VERY long structural growth story that exists within the many cyclical ups and downs that China is sure to experience in the coming decades. Internet data use in China is accelerating at 162% Y/Y. Five years ago China had two of the top 20 Worldwide internet companies by market cap, today they have nine of the top 20. Finally, almost all the users of the platforms like WeChat or Alibaba are Chinese, a very different dynamic compared to Facebook.

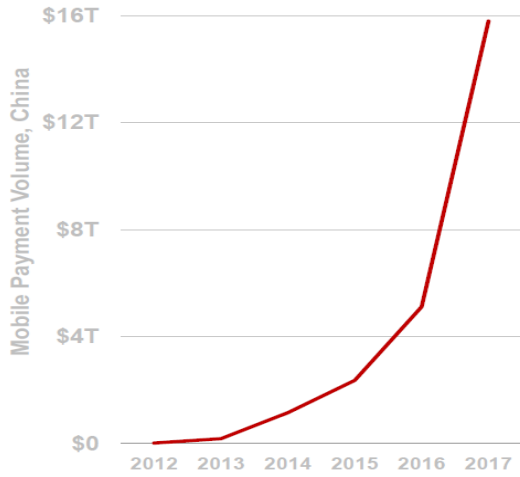
### China Cellular Internet Data Usage & Growth Y/Y



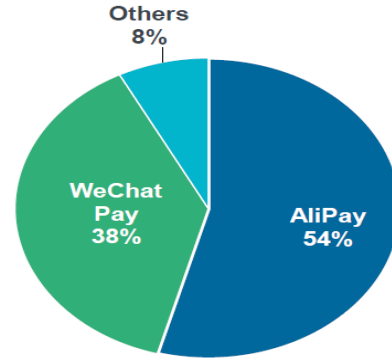


**China Mobile Payment Volume = +209% vs. +116% Y/Y Led by Alipay + WeChat Pay**

**China Mobile Payment Volume**



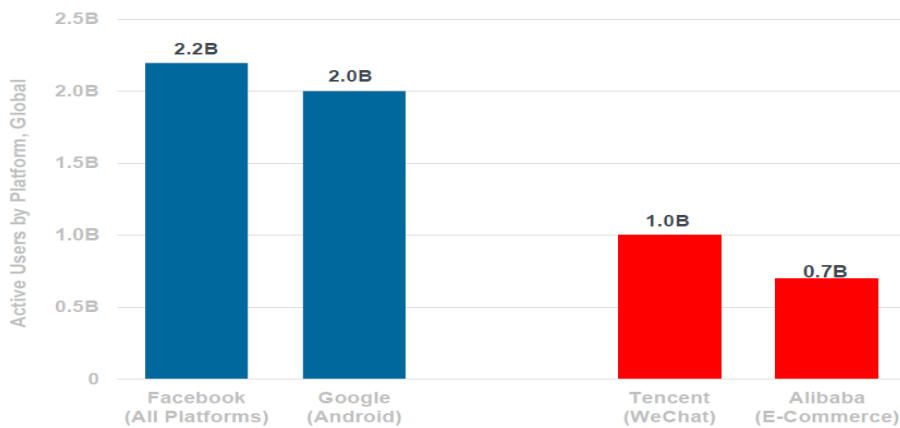
**China Mobile Payment Share\***



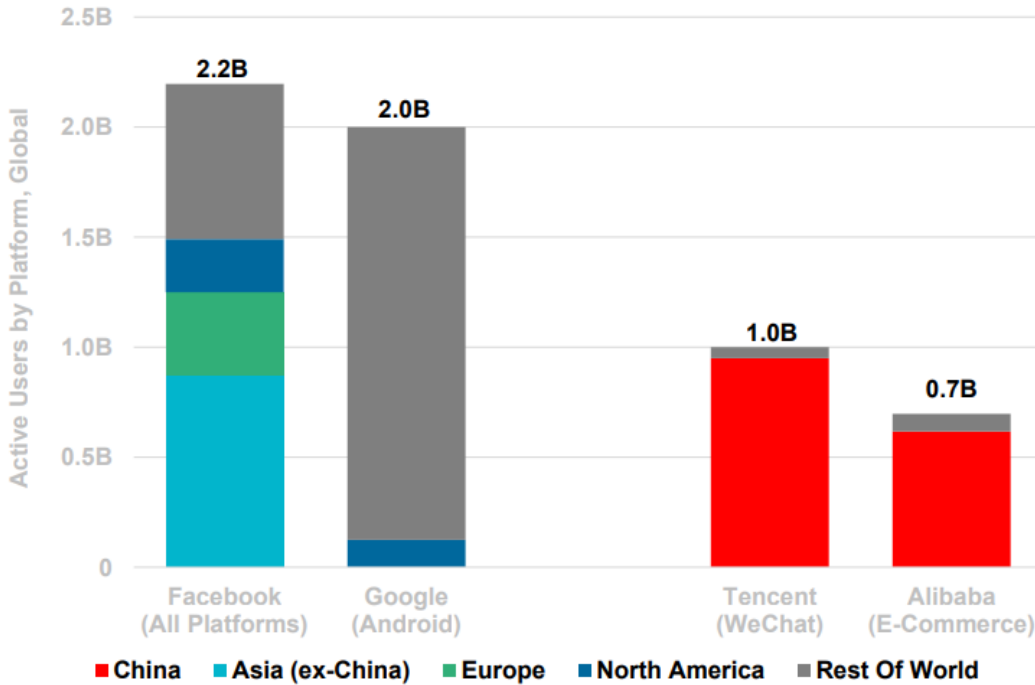
**Alipay is a subsidiary of Alibaba while We Chat is owned by the Chinese giant Tencent Holdings.**

**Internet Globally = USA Platforms = Lead User Numbers...**

**Active Users By Platform**



## Active Users By Platform



The graph above suggest that Chinese giants Alibaba and Tencent Holdings are omnipresent in China at the consumer-level.

The various graphs presented in previous pages revolved around current Internet trends. You were able to understand that it is very desirable to invest a portion of the overall portfolio in some of the companies described above. You have been mainly holding shares, for some time now, of Google (Alphabet), Amazon, Alibaba, Facebook, Visa and Accenture.

### Transactions since April 12, 2018

Date	Position (CAD\$)	Type	Price	Purchased Price	Variation
25-Apr	WSP Global	Sell	63.04	43.97	30.3%
25-Apr	Alimentation Couche-Tard	Buy	53.50		
29-May	BMO Equal Weight Banks ETF	Reduction	28.77	27.00	6.2%
29-May	iShares S&P TSX Global Base Metals ETF	Buy	14.32		
Date	Position (US\$)	Type	Price	Purchased Price	Variation
19-Apr	Wells Fargo	Sell	50.65	53.17	5%
20-Apr	USB Bancorp	Buy	50.95		

We sold at a profit (30% profit) WSP Global, an engineering company, formerly known as Génivar. Considering the inflation of raw material prices, we have taken a small position in a basket (iShares S&P TSX Global Base Metals) of companies involved in the production and the processing of metals. Lastly, we have replaced Wells Fargo for US Bancorp as an American bank since Wells Fargo's reputation has recently been tainted, which could prevent the company to perform well on the stock market.

As always, if you have any questions whatsoever, about your portfolios or anything else, do not hesitate to contact us.



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