Investment Ideas

February 2023

Introduction
Market Update

The market witnessed a great start to the year on the back of weaker inflation figures and rhetoric that translated into a potential Fed pivot. However, over the past few weeks those views have diminished as inflation accelerated. The Fed's preferred measure of inflation known as the PCE Index disappointed, this followed both CPI and PPI that also came in higher than estimates. A solid economy twinned with elevated inflation has provided the Fed with enough ammunition to continue their aggressive trajectory.

Fed Chair Powell recently released some unconvincing comments and failed to give the market enough conviction that the Central Bank will slow down or pause. Powell initially highlighted that the disinflationary process had begun but more evidence was needed to see inflation on a downtrend and increased rates would be needed. The US economy is in a good place, the labour market remains robust after witnessing a strong job report that took unemployment to a record low. Retail sales also blew past estimates giving signals that the consumer remains strong. These factors will play into the Central Bank's minds and tilt to a more hawkish stance. The US Yield Curve inversion hit the highest level since 1980s as fears grew that the Fed would need to push the economy into a recession to tame inflation.

In Europe, economic activity has been much better than expected with manufacturing and services showing good expansion. The energy crisis has cooled on a milder winter and expectations on the overall economy has improved significantly. Underlying inflation in the Eurozone hit a record in January as headline inflation hit 8.6% cementing ECB plans for more aggressive rate hikes to help reach targets. ECB policymakers reasserted their hawkish stance and pointed to a 50bp hike in next meeting.

Technology has been a good performer in the past few months as the risk on mode allowed high beta names to recover some of the lost ground we saw last year. The more defensive sectors such as utilities and staples have been the poorer performing sectors as investors rotated out.

The war in Ukraine marked its one-year anniversary. The recent shooting of the Chinese surveillance balloon in the US has once again brought geopolitical tensions to the forefront. US-China tensions are now fragile and President's XI visit to Russia is likely to add fuel to the fire. The US warned China against providing Russia with arms to avoid serious consequences.

The market has been pretty volatile and strong economic data would amplify the recent downside pressure. Several indicators point to further restrictive policy and this could well have a lag effect that tips the global economy into a recession. The market could well test previous lows, as expectations move the terminal rate to be closer to 5.5% or higher in the US. It can't be ruled out that inflation could remain sticky despite the attempt from Central Banks as the reopening of China is the inflation wildcard. It is therefore important to maintain a conservative approach to the equity markets although be opportunistic as there will be an opportunity to pick up strong underlying companies for a good discount.

(Prices as at 22/02/2023 – Source: Bloomberg)

Past Performance
Direct Equities

We previously suggested a list of direct equity investments that exhibit such criteria:

1) Growth at a Reasonable Price (GARP)
2) Stable Cashflow Producers
3) Less Cyclical

Please see below the performance since the list was provided:

Company	Current Price	Price Q4	% return since recommendation
United Health	497.50	515.31	-4%
Palo Alto Networks	185	167.48	+10%
Abbvie	152	154.98	-2%
Dexcom	116.15	113.72	+2%

We wish to stress that the investments suggested are complementary to an already diversified equity allocation that has exposure to the broad equity market in order to avoid large volatility.

Past Performance
Equity Themes

We also mentioned themes that were likely to do well in the current circumstances. These included the following:

1) Strong Financial Health - Passive
2) High Free Cash Flow - Passive
3) Flight to safety in Recession – Passive
4) ESG – Active

See below the suggested investments and their performance since our recommendation:

Company	Current Price	Price Q4	% return since Recommendation
First Trust Capital Strength ETF	73.53	72.90	+1%
Pacer Global Cash Cows Dividend ETF	33.43	29.07	+15%
iShares 20+ Year Treasury Bond ETF	100.40	94.22	+7%
Accenture	269.15	286.50	-6%
Waste Management	153.50	161.18	-4%

Past Performance
Equity Call Options

Previously, we suggested a list of call options to buy in order to take advantage of the market sell off on strong underlying stocks. If we remind ourselves, buying a call option meant that we paid at the time of purchase and at worst case lose the option premium should the market price of the stock not be above the strike price by maturity. The below list indicates that a majority of call options are valued less now than they were when previously suggested:

Stock	Strike Price	Maturity	Option Premium as at 11/22*	Breakeven Price	Current Price	Current Option Premium**	P&L**
Accenture	300	Jun-23	25.7	325.70	279.22	14	-46%
Abbvie	175	Jun-23	5.50	180.50	152.15	2.15	-61%
Alphabet ‘C’	110	Jun-23	6.44	116.44	94.78	2.77	-57%
Amazon	110	Jul-23	7.60	117.60	97.24	5.46	-28%
Palo Alto	190	Jun-23	15.70	205.70	185.25	25	59%
United Health	540	Jun-23	39.70	579.70	501.15	21.75	-45%
Waste Management	180	Jul-23	5.70	185.70	155.57	3.25	-43%

*Option contract size = 100 shares
*Options and Derivatives are complex securities and should only be traded by clients with relevant knowledge and experience.
**Profit based per share. (1 contract = 100 shares x Initial Option Premium - Current Option Premium)

Investment Ideas
Direct Equities

Company	Current Price	ROE (%)	Net Profit Margin (%)	P/S	P/E	Debt/Equity Ratio	Dividend (%)	Analyst 12m		Rationale
								Price Target	Upside	
Crowdstrike	117.63	20	-16	14	65	0.74	-	160	36%	Crowdstrike is a leading provider of cybersecurity software. Their main Falcon platform uses artificial intelligence to help identify and counter threats. The AI embedded in the platform continues to evolve and learns from every threat that it comes into contact with. It applies AI to crowdsourced data to identify and guard networks against threats. Additionally, it can manage all the cybersecurity needs of its clients, meaning companies do not need additional online security software packages. The recent revolution in AI could be a strong tailwind for the company as investors will focus attention on those companies that have a solid presence in the space. Crowdstrike managed to add close to 1500 net subscriptions in the last quarter which was about 45% growth YoY and lead to a total subscription count of just under 22,000. The company has benefitted from its unique modules model where a new customer tends to purchase additional software modules to complement is security. Existing clients have increased their spending by over 20% in the last reported quarter. Crowdstrikes revenue went up by 50% YoY to hit $580mn. McKinsey and Co suggest that the Cybersecurity industry could be a 3 trillion dollar industry by the end of the decade, Crowdstrike therefore could continue to witness exponential growth. The stock trades at over 70% below its all time high, whilst the stock does still trade a high multiple, it merits more credit due to the AI catalyst and the importance of cybersecurity in the modern world.
EOG Resources	117.57	323	30	2.5	8.2	0.26	2.86	152	29%	EOG Resources has an impressive dividend track record. The oil company has never suspended or reduced its dividend payment. While it hasn't increased it every year, EOG has grown it at a more than 20% compound annual rate over the last two decades. The company most recently boosted its dividend by 82% and has doubled it over the past year. It currently offers investors an attractive dividend yield of more than 2.5%, one of the highest in the oil patch and well above the 1.6% yield of an S&P 500 index fund. EOG's low-cost oil business generates lots of free cash flow, especially since oil prices have been much higher over the past year. The company's priorities are to use that cash to deliver sustainable dividend growth, maintain a pristine balance sheet, make additional cash returns to achieve its capital return target, and capitalize on opportunities to make low-cost bolt-on acquisitions. This year, the company set a strategy to return at least 60% of its annual free cash flow to shareholders. With its rapidly rising regular dividend falling short of that mark as free cash flow increases, EOG has started paying special dividends to reach that target. It has already declared $4.30 per share in special dividends this year to complement its $3.00 per share of regular dividend payments. While those additional payments will rise and fall with oil prices, they provide investors with more income on top of the steadily growing base payment.

Investment Ideas
Direct Equities (cont'd)

Company	Current Price	ROE (%)	Net Profit Margin (%)	P/S	P/E	Debt/Equity Ratio	Dividend (%)	Analyst 12m		Rationale
								Price Target	Upside	
Disney	101.68	3.5	3.8	2.2	39	0.48	-	127	25%	Disney has showed some signs of recovery with their recent results. The new leadership under CEO Bob Iger has the potential to re-generate shareholder returns. Results are in the right direction in terms of shareholder returns. Finances are being placed in profitable areas to help generate growth and take advantage of the lucrative business model. The goodwill of Disney continues to grow and this can sometimes be forgotten. The business owns some of the most valuable entertainment franchises in the world but the value remains heavily discounted on the back of the losses generated in their streaming businesses. The re-appointment of Bob Iger has positive implications for the business, as the intention has shifted to cutting costs and investing in areas that are likely to create long term value and returns for shareholders. Disney has witnessed solid increase in revenues across the entertainment franchises. Theme parks as well have seen double digit growth which is a positive signal and helped to compensate for the drop in revenue in their media networks such as ESPN. This highlights its well diversified business model. The company's focus is on cost savings and has targeted $5.5bn in savings, primarily in the form of marketing and staff. This will help them stop bleeding cash and provide them with more efficient free cash flow, to be used for future profitable projects. Disney is already showing progress, with the direct-to-consumer segment narrowing its operating loss from over $1.4 billion in the previous quarter down to $1 billion in the most recent quarter. The stock still remains over 50% below its all-time highs, but signs of a turnaround story is starting to take shape.
Enphase Energy	203.57	30	17	12.3	76	159	-	293	44%	Enphase Energy reported solid results in Q4 2022 which highlighted its dominance in renewable energy and its plans to produce microinverters on a large scale. The company has generated a valuable ecosystem with strong competitive advantages in the renewable energy space. They recently set a record on revenue with over 70% YoY to close to $730 million. Expenses didn't grow so aggressively as with other companies in this space, this allowed them to report a net income which topped $154 million. Enphase continues to grow internationally, most recently it has rolled out its latest IQ8 microinverters in Europe such as France and Netherlands. This drove sales growth above 20% over the previous quarter. US in comparison witnessed 15% growth in revenue during the same period. Enphase has been able to diversify its business with the introduction of the IQ battery system, a value added to the current business model that is focused on the production of these microinverters. The introduction of the inflation reduction act has provided favourable legislation that supports renewable energy incentives which provides strong tailwinds to Enphase's business. Guidance remains robust with expected revenue of between $700mn to $740mn for Q1 2023.

Investment Ideas
Equities - Passive

During elevated inflation periods, high income strategies outperform the broader market. Since most of the high income stocks are tilted towards value, the sensitivity of a rise in interest rates is less than that of growth stocks. The aggressive rate hikes over the last year has seen money market investments such as treasury bills pay 5% in the US. As a result, equities and corporate debt funds have raised their returns to attract investors. Below is a list of high income investments that pay consistent income and can help outperform inflation.

JP Morgan Equity Premium Income – (Ticker - JEPI):

The ETF is actively managed with a strategy focusing on stocks that lean towards more defensive and higher dividend paying names. At the same time, call options are sold on a monthly basis on the S&P 500. The ETF has a yield of 11% p.a. It's important to highlight that whilst selling the call options give the fund additional income, the strategy means that a strong month for the broader market can end up hurting the performance of JEPI. The good start to the year for markets may mean that upside is likely to be limited and hence this ETF deserves a mention as it benefits from the sale of calls.

ETF	Current Price	1mnth Return	YTD	Sharpe Ratio
JPM Equity Premium Income	54.31	0.48%	0.47%	0.13

Top 5 Holdings	% holding	Current Price	Target Price	Upside
Progressive Corp/The	1.68	142.58	**140**	**-1%**
JP Morgan US Govt MM Fund	1.56	1.00	**N/A**	**N/A**
Abbvie	1.53	152	**162**	**6.5%**
Mastercard	1.41	355.96	**422**	**18.5%**
Hershey Co	1.39	240.90	**247**	**2.5%**

WisdomTree Alternative Income Fund (Ticker – HYIN):

WisdomTree has made alternative investments like private equity, private credit and hedge funds more accessible to investors through its Alternative Income Fund ETF. These historically exclusive assets used to be solely accessible to institutional investors and ultra-high-net-worth individuals due to eligibility requirements, high investment minimums, fees, and liquidity issues. The ETF tracks the Gapstow Liquid Alternative Credit Index and has a 30-day SEC yield of 11.33%. The ETF share price has also appreciated by nearly 10% this year.

ETF	Current Price	1mnth Return	YTD	Sharpe Ratio
WisdomTree Alternative Income	18.95	-1.47%	9.23%	-0.28

Top 5 Holdings	% holding	Current Price	Target Price	Upside
Angel Oak Mortgage	3.77	6.57	**7.67**	**16.7%**
Hercules Capital	3.20	15.59	**16.22**	**4%**
Arbor Realty Trust	3.05	15.30	**16.70**	**9%**
Redwood Trust Inc	3.00	7.72	**9.11**	**18%**
Oxford Lane Capital Corp	2.99	5.61	**7.50**	**34%**

Investment Ideas
Bonds – Passive

BondBloxx CCC Rated USD High Yield Corporate Bond ETF (Ticker: XCCC)

For those investors that would like to get exposure to junk bonds that are paying yields above double digits, can do so via the diversified ETF that only invests in bonds that are CCC rated. Investors willing to accept higher risk might find BondBloxx's XCCC attractive. The ETF tracks the ICE BofA CCC and Lower U.S. High Yield Constrained Index and currently pays a yield of 13.26%.

The junk bonds have a relatively high probability of default but the fund tries to mitigate the risk by capping exposure to a single issuer of just 2% of the overall fund.

ETF	Current Price	1mnth Return	YTD	Sharpe Ratio
BondBloxx CCC Rated USD High Yield	37.41	-1.30%	4.12%	N/A

Top 5 Holdings	% holding	Current Price	Target Price	Upside
Athena Health 2030	1.54	79.30	**N/A**	**N/A**
Clarios Global 2027	1.49	99.70	**N/A**	**N/A**
NFP Corp 2028	1.47	84.85	**N/A**	**N/A**
McAfee Corp 2030	1.34	79.82	**N/A**	**N/A**
HUB International 2026	1.27	98.45	**N/A**	**N/A**

Investment Ideas

Alternatives / Structured Products – Basket of Equities

The recent up-tick in volatility as a result of the market sell off has provided a good opportunity to consider structured products that have integrated short put options. For investors that are not so keen on entering the market directly and are more income oriented, structured products on equities & equity indices with conservative European capital protection barriers (50 - 60%) are appealing in the current economic environment. The European barrier allows the worst performing underlying stock to drop up to 40 – 50% by maturity and the capital is still redeemed at 100%. With yields on the rise, products are paying a nice premium to bonds for a shorter duration.

The below list highlights a combination of products that are focused on sectors that are likely to weather volatility, such as healthcare, mega cap technology, staples & financials.

#	Underlying 1	Underlying 2	Underlying 3	Option type	Term	Callable	Barrier	CHF	EUR	GBP	USD
1	United Health	Abbvie	Pfizer	European	12 Months	NO	60%	**7.8%**	**8.5%**	**9.5%**	**10.2%**
2	Amazon	Alphabet	Microsoft	European	12 Months	NO	50%	**10.8%**	**11.25%**	**11.85%**	**12.15%**
3	Boeing	Starbucks	Disney	European	12 Months	NO	55%	**7.9%**	**8.3%**	**8.7%**	**8.85%**
4	Morgan Stanley	JP Morgan	Bank of America	European	12 Months	NO	60%	**8.5%**	**9%**	**9.45%**	**9.7%**
5	Intel	AMD	ASML	European	12 Months	NO	50%	**12%**	**12.6%**	**12.95%**	**13.2%**
6	Eurostoxx 50	S&P 500	Nasdaq 100	European	12 Months	NO	50%	**9.95%**	**10.25%**	**10.45%**	**10.6%**
7	Coca-cola	Unilever	Procter & Gamble	European	12 Months	NO	55%	**7.8%**	**8.2%**	**8.4%**	**8.7%**
8	FTSE 100	SMI	CAC 40	European	24 Months	YES	60%	**10%**	**10.3%**	**10.5%**	**10.8%**

Investment Ideas
Fixed Income – Direct Bonds

The recent inflation data has reignited yields and recalibrated the terminal rate as the market starts to price in a higher for longer rate environment. We think it's time to consider higher duration as a recession is still a probable outcome and it may be wise to lock in some good yields for the years to come. Conservative clients that would like to keep the volatility of their portfolio low can consider these bonds. See below a list of interesting fixed rate bonds that we like in EUR, GBP and USD:

Issuer Name	Coupon	Maturity	Ask Price	Yield To Worst (Ask)	S&P Rating	BBG Rating	Min Piece	Country of Risk	Currency	ISIN
FORD MOTOR CREDIT CO LLC	4.867	03/08/2027	98.13	5.30	BB+	BB+	100,000	US	EUR	XS2586123965
FRESENIUS MEDICAL CARE A	3.875	20/09/2027	95.90	4.82	BBB-	BBB-	1,000	DE	EUR	XS2530444624
RCI BANQUE SA	4.625	13/07/2026	100.13	4.55	BBB-	BBB-	1,000	FR	EUR	FR001400F0U6
EASYJET FINCO BV	1.875	03/03/2028	86.29	4.96	BBB	BBB-	100,000	GB	EUR	XS2306601746
VOLVO CAR AB	4.250	31/05/2028	93.91	5.52	BB+	BB+	100,000	SE	EUR	XS2486825669
VALEO SA	5.375	28/05/2027	99.86	5.36	BB+	BB+	100,000	FR	EUR	FR001400EA16
ILIAD SA	5.375	14/06/2027	98.26	5.75	BB	BB	100,000	FR	EUR	FR001400EJI5

Issuer Name	Coupon	Maturity	Ask Price	Yield To Worst (Ask)	S&P Rating	BBG Rating	Min Piece	Country of Risk	Currency	ISIN
BARCLAYS PLC	3.250	12/02/2027	91.19	5.75	BBB	BBB+	100,000	GB	GBP	XS1472663670
VOLKSWAGEN FIN SERV NV	2.250	12/04/2025	94.04	5.22	BBB+	BBB+	1,000	DE	GBP	XS1596735701
GOLDMAN SACHS GROUP INC	1.500	07/12/2027	84.47	5.20	BBB+	A-	1,000	US	GBP	XS2322254322
ROLLS-ROYCE PLC	5.750	15/10/2027	95.67	6.74	BB-	BB-	100,000	GB	GBP	XS2244321787
BAT INTL FINANCE PLC	2.250	26/06/2028	81.39	6.43	BBB+	BBB	100,000	GB	GBP	XS2197683894
PETROBRAS GLOBAL FINANCE	6.250	14/12/2026	98.30	6.64	BB-	BB-	100,000	BR	GBP	XS0718502007
FORD MOTOR CREDIT CO LLC	4.535	06/03/2025	96.41	6.25	BB+	BB	100,000	US	GBP	XS1959498244
COMMERZBANK AG	1.750	22/01/2025	92.31	6.10	BBB-	BBB-	100,000	DE	GBP	XS2106542165
BRITISH TELECOMMUNICATIO	5.750	07/12/2028	101.96	5.28	BBB	BBB	1,000	GB	GBP	XS0097283096

Issuer Name	Coupon	Maturity	Ask Price	Yield To Worst (Ask)	S&P Rating	BBG Rating	Min Piece	Country of Risk	Currency	ISIN
ECOPETROL SA	5.375	26/06/2026	95.08	7.00	BB+	BB+	1,000	CO	USD	US279158AL39
TEVA PHARMACEUTICALS NE	3.150	01/10/2026	87.62	7.06	BB-	BB-	2,000	IL	USD	US88167AAE10
NISSAN MOTOR CO	3.522	17/09/2025	94.40	5.92	BBB-	BBB-	200,000	JP	USD	USJ57160DX83
BLACKSTONE PRIVATE CRE	7.050	29/09/2025	101.38	6.46	BBB-	BBB-	2,000	US	USD	USU0926HAQ30
FORD MOTOR CREDIT CO LLC	7.350	04/11/2027	101.36	6.92	BB+	BB	200,000	US	USD	US345397C353
TEVA PHARMACEUTICALS NE	3.150	01/10/2026	87.62	7.06	BB-	BB-	2,000	IL	USD	US88167AAE10
ALLY FINANCIAL INC	7.100	15/11/2027	103.89	6.12	BBB-	BBB-	2,000	US	USD	US02005NBR08
DELTA AIR LINES INC	7.375	15/01/2026	102.67	6.22	BB	BB+	2,000	US	USD	US247361ZZ42
MERCADOLIBRE INC	2.375	14/01/2026	89.36	6.42	BB+	BB+	200,000	BR	USD	US58733RAE27

Investment Ideas

Alternatives / Structured Products – 100% CPU on Multi Indices

Due to a large increase in rates, 100% capital protected products are now much more accessible and in certain cases make a lot of sense. There may be some clients who are extremely risk averse and like the idea of the worst case being that they get their money back. So rather than enter markets and be levered to the downward movements, they can subscribe to a 100% capital protected product (unless issuer defaults) that gives participation to an index of interest. This product is based on multiple indices and takes the equally weighted performance of the basket. The product contains a cap level which limits upside potential.

100% Capital Protected Note on EW Basket of Indices	
Issuer Rating	A-
Underlying	S&P 500, Nasdaq 100 & FTSE 100
Basket Type	Equally Weighted
Currency	GBP
Maturity	24 Months
Capital Protection	100% (unless issuer defaults)
Cap Level	125%
Participation	100%
Price	100%

Payoff example:

- If the performance of the equally weighted basked comes in at 23% (S&P 500 +28%, Nasdaq 100 +35%, FTSE 100 +6%), the product will redeem at 123%, paying the performance of the basket.
- If the performance of the equally weighted basket comes in at 35% (S&P 500 +40%, Nasdaq 100 +45%, FTSE 100 +20%), the product will redeem at cap level of 125% as this is the maximum upside to the product.
- If the performance of the equally weighted basked comes in negative at maturity, the product will redeem at 100% since due to the capital protection.

Investment Ideas

Alternatives / Structured Products – The Shark Note

China has suffered significantly as COVID led to its worst years of economic growth in history. However, the most recent data is promising and suggest that the worst may be over as the countries reopening starts to show strength in activity. Those investors that would like to play the China reopening but are cautious of the political instability can do so indirectly via a structured product that is 100% capital protected (unless issuer defaults). The product contains a knock out level that is observed continuously until maturity, should the underlying hit that level, a rebate in the form of a coupon is paid at maturity.

100% Capital Protected Note on iShares China Large Cap ETF	
Issuer Rating	A-
Underlying	iShares China Large Cap ETF (Ticker: FXI)
Maturity	24 Months
Currency	USD
Strike Level	100%
Knock out Barrier (Observed Continuously)	135%
Participation	100%
Rebate	12.20%
Price	100%

Payoff example:

- If iShares China Large Cap ETF rallies up by 40% during the life of the product, the knock-out barrier is breached and at maturity (24 months), the product would be redeemed at 100% + 12.20% (rebate) = 112.20%.
- If iShares China Large Cap ETF rallies by 30% at maturity and the knock-out barrier was never breached, the performance is paid and the product redeems at 100% + 30% (performance) = 130%
- If iShares China Large Cap ETF falls by 15% by maturity, the product will be redeemed at 100% as its 100% capital protected.

Investment Ideas
Equity Call Options

Buying call options allows the option buyer to potentially lock in upside of a stock above a specific price but requires an upfront payment to the value of an option premium.

If you believe a stock should be trading at a higher price within a specific date, it may be worth considering a long call option. Earnings results have been mixed and we have seen several companies downgrade their forward guidance on the concern of the economy, this has led to large sell offs. These projections may have been too conservative as the current health of the economy is still reasonably good as witnessed by a solid jobs report. Nonetheless, these sell offs have led to some pockets of opportunities for quality companies that have solid financial health and good growth prospects. If you feel a stock has bottomed out, then considering a call option for a future date could hold value. The value in call options is that it can give you exposure to a stock for a percentage of the total exposure. This leverage can be seen as cost savings as you can obtain a stock position for a margin of the cost. The potential loss is limited to the value of the option.

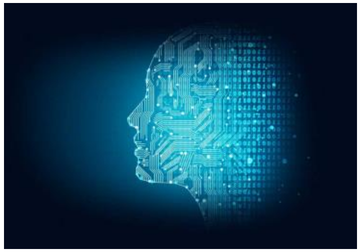
Stock	Strike Price	Maturity	Option Premium*	Breakeven Price	Current Price	Upside Required to Profit	Premium as % of Total Exposure (Margin)
Disney	120	Sep-23	3.3	123.3	100.3	23%	**2.75%**
Cisco	55	Jan-24	2.18	57.18	48.48	18%	**3.96%**
Alphabet	105	Sep-23	4.02	109.02	89.35	22%	**3.83%**
Starbucks	115	Sep-23	3.5	118.5	101.6	17%	**3.04%**
Crowdstrike	145	Jan-24	15.7	160.7	117.28	37%	**10.83%**
Enphase Energy	240	Sep-23	22	262	198.96	32%	**9.17%**
Engie	14	Dec-23	0.75	14.75	14.08	5%	**5.36%**
Southwest	40	Sep-23	1	41	33.57	22%	**2.50%**
Danaher Corp.	270	Jan-24	20.6	290.6	249.12	17%	**7.63%**

*Option contract size = 100 shares (1 contract = 100 x Option Premium)

**Options and Derivatives are complex securities and should only be traded by clients with relevant knowledge and experience.

Investment Ideas

Equities – Artificial Intelligence



The launch of Microsoft's backed chatbot ChatGPT has triggered an AI revolution. Even though AI has been around for over a decade, the recent introduction of the chatbot has demonstrated its practical potential. The CEO of Microsoft recently stated that AI is the biggest thing to happen to the company and that he's never felt so liberated in terms of opportunity for the future. The launch of this chatbot has been framed as a game changer on how work is done. The use of AI is endless, it can better analyze data, cut costs, improve efficiency and increase profitability. AI is used in stock analysis by extracting data from financials, calculating risk scores leading to an investment decision within seconds. If you train deep language learning models, the level of sophistication and solutions you find has deep implications. Companies in healthcare have integrated AI applications to helping clinicians improve efficiencies and proactively detect trends, helping millions of patients worldwide. In banking, Wells Fargo launched a virtual assistant called Fargo that is currently used by employees and likely to be given to customers. They also mentioned a tool that is able to provide client tailored recommendations. Executives have highlighted that there are a lot of parallels to the industrial revolution and those companies that don't embrace AI will become irrelevant in the not to distant future. Below are two companies that are embracing this trend and likely to be in the forefront of this revolution.

GUARDANT

1) Guardant Health (Ticker - GH):

Guardant Health is a leading precision oncology company with a primary focus on helping patients detect and fight cancer. They carry out blood tests that detects tiny amounts of DNA that have broken away from tumour cells. The liquid biopsy has the ability to unlock insights about the cancer in the blood and help patients treat it to the greatest efficiency.

Guardant Health is an early mover in AI integrating it into their diagnosis platform. The power of AI is likely to have a profound effect on helping to diagnose cancer at the earliest and most treatable stage, which is the ultimate objective. Guardant Health has a large market opportunity of almost $100 billion annually for early-stage cancer detection.

The Guardant Galaxy is a suite of advanced analytical technologies developed internally and through outside partnerships to enhance their portfolio of cancer tests. This has enabled them to enhance the capabilities of their tests providing oncologists and researchers with precise information which will accelerate the development of new biomarkers and drug discoveries. The technology could provide patients with a diagnosis that has higher accuracy than other symptom checkers. It could also help with medical-administrative work by automatically formulating write-ups and improve medical education through assisting health-care professionals work through symptoms to determine treatments and next steps.

The liquid biopsy is a noninvasive treatment and is likely to be the future in terms of detection and treatment of cancers. The upside value will come when the company starts to attain some FDA approvals for its liquid biopsies that are currently being tested. The liquid biopsy space is one of the largest market opportunities across the entire healthcare sector and with the integration of AI we feel Guardant Health will dominate this market. The stock has an average analyst price target of $64.71, this represents an upside of 135% from the current share price of $27.30.

Investment Ideas
Equities – Artificial Intelligence

2) Snowflake (Ticker - SNOW):

Snowflake is cloud computing company focused on data. Data is a fundamental part of this AI revolution. The founders of the company are experienced individuals that were instrumental to Oracle's previous success. They saw the limitations of a legacy database and therefore created a database that is in the cloud which allows for scalability.

Those who collect and process it effectively will come out on top. Snowflake has become the data cloud software of choice for many enterprises. Their software stores and secures data and allows for large scale analytics and interactive applications all in one platform. Its key advantage is having data centeralised in one place, helping to protect the integrity of data. The platform supports machine learning and AI driven data science applications.

Snowflake allows their clients to gain valuable insights from a variety of generally unattainable data sources. Demand for cloud technology remains robust.

Snowflake is likely to become an effective tool for AI projects. The technology has been a strong source of revenue growth. Snowflake's revenue increased by close to 70% in the most recent quarter to approx. $560mn. Their customer base grew by 35% YoY to almost 7,300 clients with a net revenue retention rate of over 150%.

Management continues to highlight that its total addressable market remains at $250bn. This includes high demand areas such as data storage and analytics, machine learning and cybersecurity.

The stock still trades at very high multiple, with 18x sales and continues to be loss making due to large amount of capex. Should the buzz around AI continue, we could expect snowflake to be a large beneficiary as companies look to integrate more with AI and likely to resort to their services.

Company	Current Price	ROE (%)	Net Profit Margin (%)	P/S	P/E	Debt/Equity Ratio	Dividend (%)	Analyst 12M Consensus	
								Price Target	Upside
Guardant Health	USD 25.38	-138.33	-145	4.8	N/A	2.12	-	USD 59	132%
Snowflake	USD 153	-13.8	-55	18	382	0.04	-	USD 188	23%

Investment Ideas
Equities – Clean Hydrogen

When it comes to renewable energy, everyone thinks solar, electric and wind. However, green hydrogen shouldn't be neglected. When hydrogen burns, it generates energy in the form of heat, with water as a by-product. Hydrogen is widely recognized as a promising option for storing large quantities of renewable electricity over longer periods. Of recent we have seen an increase in clean hydrogen which is produced via renewable energy. There are several drivers that will help the production of clean hydrogen. The recent introduction of the Inflation Reduction Act in the US has provided investment tax credits for hydrogen under the scope of energy storage technologies. European funding worth $5bn will give the industry a lift after the European Commission has stated it wants 40 Gigawatts of renewable hydrogen electrolyzers installed in the EU by 2030. Current low natural gas prices is also another factor to consider as it makes it cheaper to produce hydrogen. Clean hydrogen can play a fundamental role in helping the world reach net zero emissions. It has the potential to decarbonize industries such as steel, petrochemicals, fertilizers, shipping and aviation. The capacity of the fuel as an alternative to fossil fuels is on the rise. According to Mckinsey, demand for clean hydrogen could grow to approximately 660 million metric tons annually by 2050 and production costs are expected to rapidly decline over the next decade. At a production cost of approximately $2 per kilogram, clean hydrogen could become cost competitive in many applications.

1) Ceres Power (Ticker - CWR):

Ceres Power is a leading developer of clean energy technology assisting companies in delivering clean energy solutions at scale and speed via the use of fuel cell technology. The company generates and distributes energy to business, homes and vehicles. It operates through solid oxide fuell cell (SOFC) technology segment. Ceres Power makes electrolyzers for clean hydrogen, this gives the business a unique licensing model that gives it the potential for the lowest unit costs and lower execution risks as Ceres Power uses the biggest manufactures that have mass capabilities.

According to a report by Fortune Business Insights, the global solid oxide fuel cell market was 900mn in 2020 and is due to grow to USD 1.09bn in 2021 to USD 5.3bn by 2028 at a growth rate of 25% per year.

Recent partnerships will allow Ceres to unlock royalty revenue streams as it collaborates with Bosch and Doosan Fuel Cell which will help scale up the hydrogen and clean technology space.

Ceres strategic partner Weichai recently launched a stationary powered solid oxide fuel cell which uses Ceres technology. The system had passed EU certification and has been under test for more than 30k hours. This was a positive sign of Weichai's commitment to the partnership.
The stock remains 70% below its all time highs set back in February 2021.

There are strong tailwinds that should help the company recover some of those gains. The average analyst 12mnth price target is £8.25 which represents almost 90% upside from current price of £4.41.

Investment Ideas
Equities – Clean Hydrogen

2) Industrie de Nora (Ticker - DNR):

Industrie De Nora is an Italian based company that specializes in electrode and water treatment technologies. The company IPO'd during the heat of the Ukraine War back in June 2022 at EUR 13.50 per share for a valuation of EUR 2.70bn. The company has seen a lot of growth since and is now trading above EUR 18 which represents a strong 30% share price growth in a short space of time.

De Nora makes electrodes for electronic devices as well as electrolyzes for production of hydrogen from renewable energy. The company is making a mark in the hydrogen sector, focusing on technologies related to the production of clean hydrogen.

Hydrogen can be produced via electrolysis, with an electric current splitting water into oxygen and hydrogen. However, Industrie De Nora has focused on hydrogen that is produced via renewable sources such as wind or solar which makes it green hydrogen.

De Nora is emerging as a critical provider to the clean hydrogen economy and has become a fundamental plan of their growth strategy. De Nora creates components that produce green hydrogen and they are likely to benefit from the tax incentives that have come from the Inflation Reduction Act.

The company continues to see strong growth for their components due to their superior technology advantage. It's proven intellectual property and differentiated position within the supply chain provides significant competitive advantages within the clean hydrogen space that should allow the company to see consistent growth. The balance sheet remains strong allowing them to continue to innovate and remain a leader of components. They hold close to EUR 300mn in cash.

The stock has seen a strong gain since IPO as investors have acknowledged its differentiated position in the clean hydrogen space. This could continue as the push for clean energy grows. This stock warrants an investment for those investors who have the view that clean hydrogen can be fundamental to the future of renewable energy.

Company	Current Price	ROE (%)	Net Profit Margin (%)	P/S	P/E	Debt/Equity Ratio	Dividend (%)	Analyst 12M Consensus	
								Price Target	Upside
Ceres Power	GBP 4.41	-13.75	-69.54	36	-	0.01	-	GBP 8.25	87%
Industrie de Nora	EUR 18.19	14	10.83	-	-	0.57	-	EUR 20.63	13%

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Turicum Private Bank Limited
Turicum House
315 Main Street
Gibraltar

Tel: +350 200 44144

Turicum Private Bank Limited
Representative Office Zurich
Freigutstrasse 2
8002 Zurich
Switzerland

Tel: +41 43 817 65 70

info@turicum.com
www.turicum.com

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