

# WEM Investment Opportunities

## Actively Managed Portfolios

Wealth Effect Management o.c.p., a.s.



WEALTH EFFECT

MANAGEMENT

o.c.p.



# WEALTH EFFECT MANAGEMENT





# WEM is a dynamic and **innovative company**

Our clients have trusted us with care for their financial life for over 10 years. International experience combined with the long-term familiarity with the Slovak financial market enables us to bring our clients the same standard and quality of care that is common on mature Western markets. We build on traditional values such as honesty and trust. We believe that only a high moral credit of our team can secure our clients sufficient protection of their property in any life situation.

To reach the highest level of professionalism and transparency we have founded the company WEM o.c.p., which is part of the WEM Group. The investment firm enables us to create products and services of unique character.



# WEM Investment Opportunities

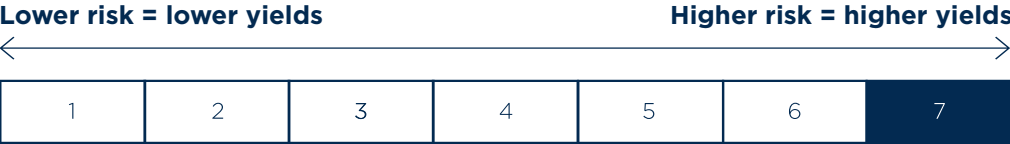
## Basic Investment Characteristics

<b>Investment Style</b> Trendy / topical	<b>Reference Currency</b> EUR	<b>Risk Rate</b> „7“ Higher risk
<b>Target Gross Return</b> 5% p.q. - 15% p.a.	<b>Investment Horizon</b> Quarter / Year	<b>Minimum deposit</b> 10.000,- EUR

# Investment Goal

The goal of WEM Investment Opportunities is a steady search for investment opportunities which have potential of relatively high appreciation. The investment risk will be on the highest level; however, in relation to the expected yield, the risk will be balanced.

Investment will be recommended mainly into shares or indexes via the so-called ETF. For each type of opportunity an effective, diversified portfolio will be created, as a rule, in the interests of optimising risks. Liquidity of the selected assets will always be subjected to analysis in the interests of elimination of risks that result for the investor from the limited liquidity.



So-called topical, trendy portfolios will be created, as well as portfolios making use of various market “shocks” or temporary undercutting of companies or sectors due to their financial, political, macroeconomic, reputational, or other issues.



# WEM Opportunities: Payments Ecosystem

“Trendy” Portfolio Created in 09/2018

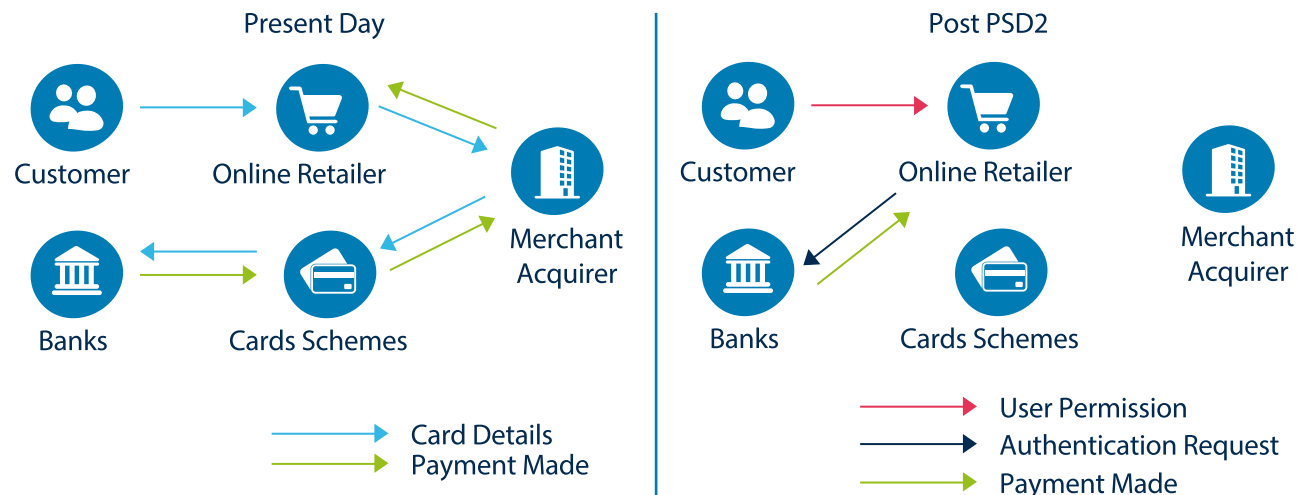
Current global bank system stands on technologies and historical foundations created in distant financial past. However, recent technological changes are significantly disrupting the “status quo” in this sector.

New ways of payments using slackened regulation (e.g. the European regulation Payments Services Directive; PSD2 enables third parties access to information on bank accounts) and significant technological changes represent a higher-quality and fully-fledged „experience“ for the user and a new space for offering complex services by the so-called FinTech companies (a so-called Payments Ecosystem will be formed) based on maximal utilisation of the huge amount of data which banks and other subjects use at the present, however, often in a very ineffective way.

Regional bank institutions will try to hinder this trend, but the scope available to global technological companies and young FinTech companies is so vast (including their technological

superiority especially as regards Artificial Intelligence - AI) that it is basically impossible and thus the classical banks will turn “merely” to suppliers of the unnecessary infrastructure.

An example of how PSD2 can alter or streamline the data and permission flow in Europe.



Source: Top 10 Trends in Payments 2018, Capgemini Financial Services Analysis

# Approach to **Stock Selection**

The companies selected for the “Payments Ecosystem” portfolio were chosen primarily based on their ETF Prime Mobile Payments ranking which copies the Prime Mobile Payments index comprising the total of 37 companies.

## Further key parameters for selection:

- Market Capitalization > 5 bn. EUR
- P/S (Price to Sales) < 20
- Current Ratio > 1
- P/E (Price to Earnings) < 100
- Operating Margin > 10%
- Common Equity to Total Assets > 20%

## Financial characteristics of companies selected for the portfolio:

No.	Ticker	Name	Operating Margin (%)	P/E	P/S	Common Equity / Tot. Assets (%)	Current Ratio	Market Cap (mil. EUR)
1	ADYEN NA Equity	ADYEN NV	-	-	-	34,53	1,38	20 081
2	BABA US Equity	ALIBABA GROUP HOLDING-SP ADR	21,29	50,27	9,89	49,34	1,44	352 307
3	3AXP US Equity	AMERICAN EXPRESS CO	19,81	15,67	2,37	11,30	-	80 497
4	FISV US Equity	FISERV INC	30,49	31,45	5,83	27,89	1,09	28 237
5	FLT US Equity	FLEETCOR TECHNOLOGIES INC	42,30	30,90	8,27	29,94	0,88	16 571
6	GPN US Equity	GLOBAL PAYMENTS INC	17,98	45,23	5,38	31,14	1,09	17 314
7	MA US Equity	MAST ERCARD INC - A	51,77	37,89	16,11	23,39	1,51	191 323
8	PYPL US Equity	PAYPAL HOLDINGS INC	16,33	43,52	7,53	36,04	1,38	93 412
9	SQ US Equity	SQUARE INC - A	-1,92	-	13,55	30,43	2,18	32 691
10	TSS US Equity	TOTAL SYSTEM SERVICES INC	17,06	34,58	4,03	33,51	2,55	15 622
11	V US Equity	VISA INC-CLASS A SHARES	63,70	34,12	14,97	40,85	1,69	255 460
12	WU US Equity	WESTERN UNION CO	10,06	10,40	1,56	-4,95	0,86	7 396
13	WDI GR Equity	WIRECARD AG	21,28	75,55	13,11	35,02	1,63	23 236
14	WLN FP Equity	WORLDLINE SA	11,94	60,32	4,12	51,05	1,25	6 780
15	GBTC US Equity	BITCOIN INVESTMENT TRUST	-	-	-	-	-	-
16	GLD US Equity	SPDR GOLD SHARES	-	-	-	-	-	131 200
			19,81	36,23	7,53	32,32	1,38	28 327

Source: Bloomberg Professional Terminal

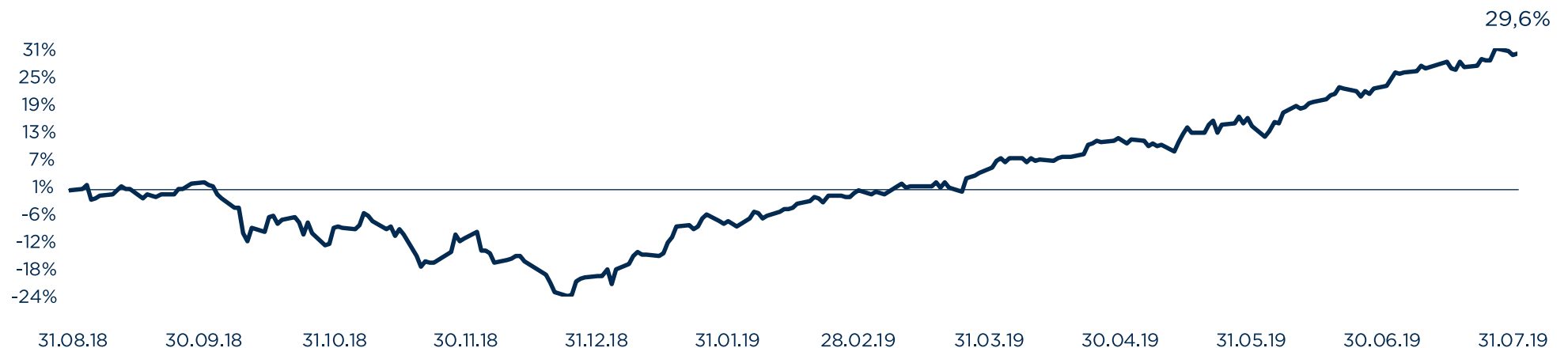
# WEM Opportunities: **Payments Ecosystem**

## Investment Evaluation

**Expected appreciation:** 10 % p.s. (on a half-year basis)

**Portfolio risk:** The Monte Carlo VaR95 portfolio (10 000 simulations) with probability of 95 % as calculated on a monthly basis achieves 6.86 %. The similar Monte Carlo VaR95 for S&P 500 index on a monthly basis reaches 5.43 %.

**Portfolio effectiveness:** Sharpe Ratio portfolio calculated on historical one-year period amounts to 3.42 and 1.71 for the S&P index (at the date of the portfolio draw-up)



Development of historically cumulated percentage performance of the Payments Ecosystem portfolio from September 01, 2018 to July 31, 2019. All yields are calculated in EUR and stated before deduction of fees, commissions, and before taxation. Source: Bloomberg Professional Terminal. The presented data relate to the past. Past performance is not a reliable indicator of future results.



# WEM Opportunities: **Gaming**

“Topical” Portfolio Created in 01/2018

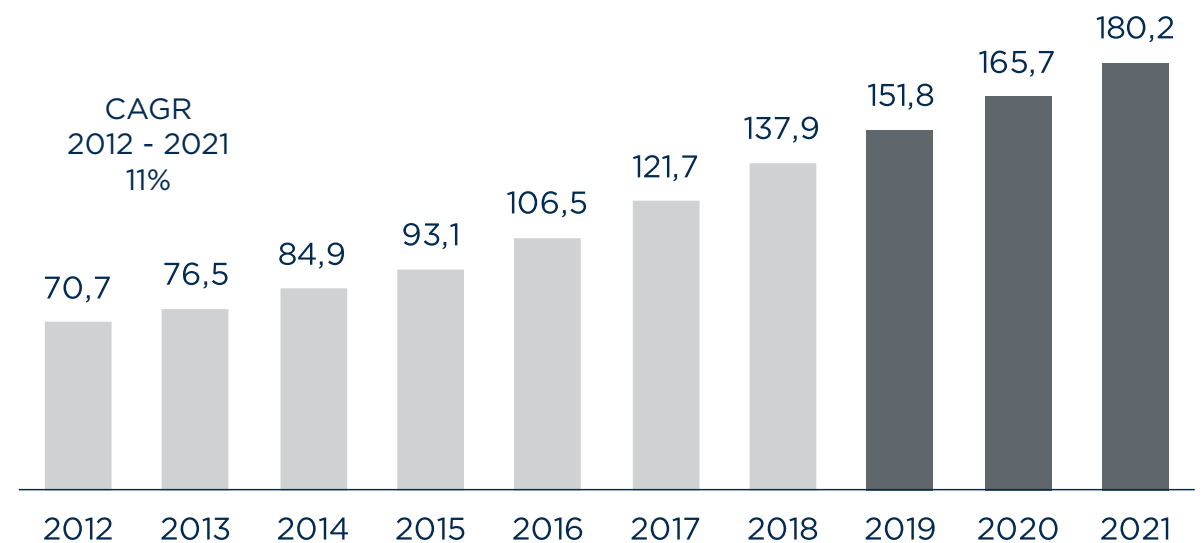
Formation of an entirely new sector - the so-called Entertainment Software, which brings together companies dedicated to development and sales of PC games, was determined by development of mobile communication and the Internet.

A great role in this have played new monetization models, by means of which the companies gain regular payments from players. Immense boom of the so-called App-store-ov. payment gates and electronic payments in general, including the current rising popularity of cryptocurrencies (Bitcoin etc.) caused that monetizing of especially younger clients in this area has become very effective.

Continuing growth of the global economics after the 2007 - 2009 recession and gradual raising of the standard of living/improving of living standards and wealth in the Western countries and countries like China, India, Mexico, or Thailand creates ideal conditions for development of world-wide players communities.

Development of virtual and augmented reality, jumps in graphic card performances, extremely fast development in the field of mobile phones, offers the development houses unlimited possibilities at creation of both classical and so-called online games, which is increasingly attractive for their customers.

Expected growth of revenues in the gaming sector for the years 2019-2021 (data in bn. USD)



Source: Global Games Market Report, Newzoo

# Approach to **Stock Selection**

The choice of companies has been limited to those which are capable of launching world-wide attractive games on regular basis, and which have already gone through their ups and downs, falls and failures, but today are big enough to set trends in this area.

## Other key parameters:

- Minimal market capitalisation > 1 bn. EUR
- Gaming share turnover > 40 %

The selected companies manifest significantly better parameters than the index (in average by 73 %) as for growth of revenues, profitability, and effectiveness of utilisation of their own assets and activities. Their indebtedness is lower (- 50 %) than in case of the index (+ 40 %). On the other hand, the selected companies achieve by 53 % higher overvaluing than the S&P 500 index.

## Financial characteristics of selected companies:

Ticker	Median	Delta to SPX	Average	M. Cap W. Avg	SPX Index
Sales 1 Yr Growth	10,21	75,80%	17,68	40,15	5,81
PM:Y	16,11	83,94%	16,16	22,89	8,76
Operating Margin	22,08	68,80%	18,75	28,86	13,08
Operating Margin 3 Yr Avg	24,28	90,90%	17,6	29,38	12,72
EBITDA	31,14	61,50%	31,01	36,64	19,28
EBITDA Margin 3 Yr Avg	29,19	57,63%	28,33	36,6	18,52
ROE:Y	12,23	10,31%	14,53	22,99	13,17
ROA:Y	6,51	135,97%	7,43	10,03	2,76
EV/EBITDA T12M	24,94	-42,94%	25,56	31,15	14,23
EV/SALES T12M	6,45	-57,52%	6,83	11,06	2,74
P/E	48,18	-50,67%	50,61	56,19	23,77
P/S	7,06	-66,14%	8,18	14,48	2,39
P/B	6,88	-48,86%	7,45	13,3	3,52
Debt/Assets:Y	12,83	-49,12%	16,09	24,33	25,22
Curr Ratio:Q	1,97	39,88%	2,16	1,61	1,41

Ticker Name	ATVIUS Equity ACTIVISION B.	TTWO US Equity TAKE-TWO INTERACT.	700 HK Equity TENCENT	EA US Equity ELECTRONIC A.	3635 JP Equity KOEI TECMO	UBI FP Equity UBISOFT ENT	7974 JP Equity NINTENDO
Sales 1 Yr Growth	41,68	25,89	47,71	10,21	-3,39	4,73	3,05
PM:Y	16,11	4,54	25,5	20,62	25,13	9,01	12,18
Operating Margin	22,08	6,37	32,99	26,27	12,71	13,79	6
Operating Margin 3 Yr Avg	25,8	-4,32	33,74	24,28	26,04	11,99	5,68
EBITDA	39,36	20,47	39,72	31,14	27,34	47,42	11,59
EBITDA Margin 3 Yr Avg	37,74	9,16	40,79	28,58	29,19	45,53	7,4
ROE:Y	12,34	10,03	26,3	26,79	9,07	12,23	4,94
ROA:Y	6,51	2,81	11,03	13,53	8,08	5,72	4,31
EV/EBITDA T12M	18,02	26,59	31,7	20,85	24,94	8,79	48,03
EV/SALES T12M	7,09	5,44	12,59	6,49	6,45	4,17	5,57
P/E	45,67	103,18	58,7	30,15	18,72	48,18	49,69
P/S	7,75	6,35	16,7	7,01	7,06	4,5	7,92
P/B	5,48	9,29	15,58	8,14	2,27	6,88	4,52
Debt/Assets:Y	28	8	27,66	12,83	0	36,14	0
Curr Ratio:Q	2,25	1,33	1,27	2,38	1,69	2,03	4,02

Source: Bloomberg Professional Terminal

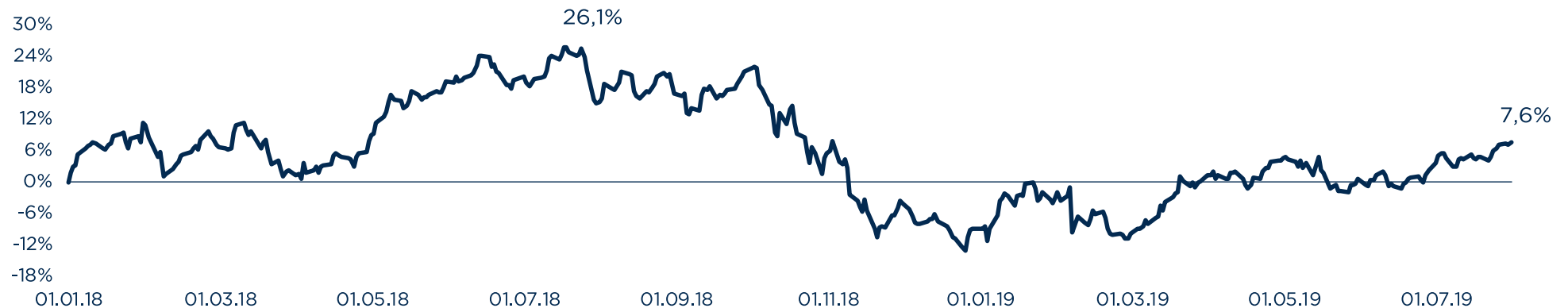
# WEM Opportunities: **Gaming**

## Investment Evaluation

**Expected appreciation:** 15 % p.s. (on a half-year basis)

**Portfolio risk:** The Monte Carlo VaR95 portfolio (10 000 simulations) with probability of 95 % as calculated on a monthly basis achieves 7.17 %. Monte Carlo VaR95 for S&P 500 index on a monthly basis reaches 3.90 %.

**Portfolio effectiveness:** Sharpe Ratio portfolio calculated on historical one-year period amounts to 3.37 and 0.73 for the S&P index (at the date of the portfolio draw-up)



Development of historically cumulated percentage performance of the Gaming portfolio from January 01, 2018 to July 31, 2019. All yields are calculated in EUR and stated before deduction of fees, commissions, and before taxation. Source: Bloomberg Professional Terminal. The presented data relate to the past. Past performance is not a reliable indicator of future results.

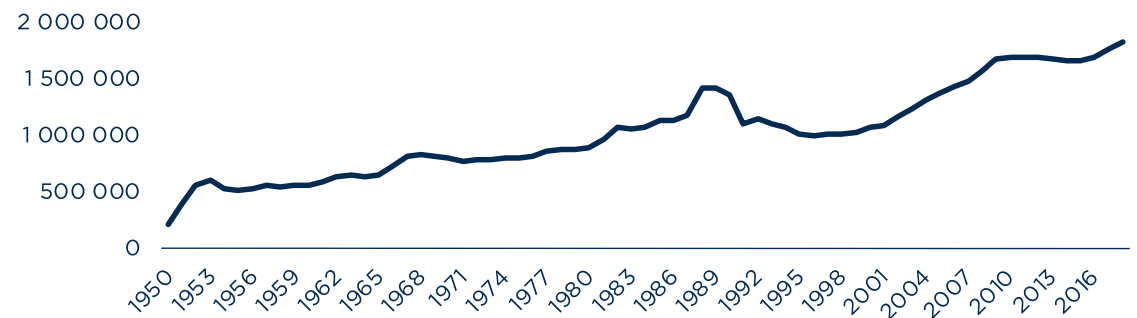
# WEM Opportunities: **Defense & Aerospace**

“Trendy” Portfolio Created in 04/2018

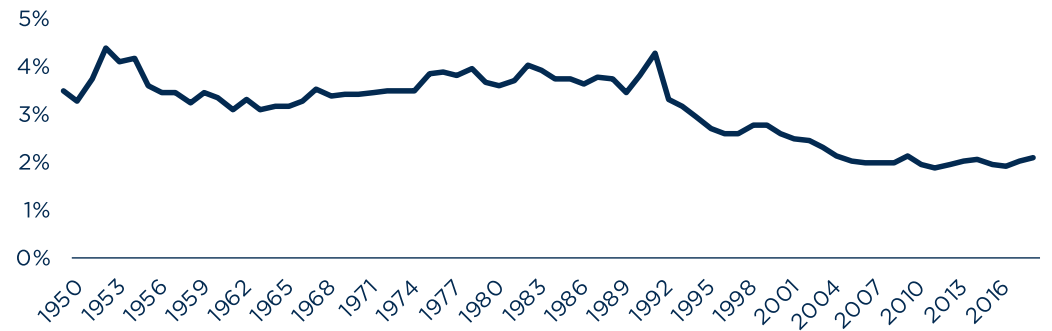
Security situation in the world has slowly been evolving into a phase where the need to raise the costs for protection (besides “classical” also for cybernetics security) will no longer be a possibility, but a necessity for the particular countries. The defense budgets have been increasing worldwide with states thus trying to show they care about protection of their own interests. The worldwide expenses for defense in 2018 compared to 2017 have risen by 2.6 %. The highest expenses in relation to GDP achieved the USA (3.5 %), Greece (2.36 %), and the Great Britain (2.12 %).

The aim of defense costs in the amount of 2 % of GDP has not been reached by most of the NATO countries. However, basically all of them have committed to do so between the years 2020 - 2025. The worldwide rise in defense and security costs since 1954 reaches the average of 5.58 %. During the Republican governments in the USA regularly raise the costs. During the tenure of George W. Bush, they were increased by 8.8 % annually, whereas during Barack Obama’s tenure only by 0.91 % p.a. in average.

Trend of worldwide armament spending in constant prices in 2017, in bn. USD, 1949-2018



Trend of total military spending as % of the world wide GDP, 1949-2018



Source: Stockholm International Peace Research Institute

# Approach to **Stock Selection**

Companies selected to the Defense & Aerospace portfolio have been chosen based on their capability to compete in military and security fields regularly and globally and they have already gone through their ups and downs, falls and failures, but today are big enough to set strategic trends in this area.

## Other key parameters for selection:

- Minimum market capitalisation at 5 bn. EUR (or equivalent in other currency)
- The company should generate min. of 25 % of the so-called “military” industry
- The company should pay dividends

## Financial characteristics of companies selected for the portfolio:

No.	Ticker	Name	Market Capitalization	P/E	Dvd 12M Yld	Military as % from all revenues
1	BA US	BOEING CO/THE	199 745 USD	20,43	21,18	>30%
2	AIR FP	AIRBUS SE	103 958 EUR	33,15	1,38%	>25%
3	HON US	HONEYWELL INTERNATIONAL	199 745 USD	18,55	2,00%	>50%
4	LDO IM	LEONARDO SPA	6 388 EUR	12,73	1,41%	>50%
5	SAF FP	SAFRAN SA	56 585 EUR	42,50	1,40%	>60%
6	DSY FP	DASSAULT SYSTEMES SA	34 899 EUR	57,12	0,49%	100%
7	TDY US	TELEDYNE TECHNOLOGIES INC	8 721 USD	27,65	0,00%	>25%
8	NOC US	NORTHROP GRUMMAN CORP	52 076 USD	13,72	1,57%	100%
9	HO FP	THALES SA	24 096 EUR	21,94	1,78%	>80%
10	BA/LN	BAE SYSTEMS PLC	18 848 GBP	14,72	4,81%	100%
		Median	45 232 USD	21,18	1,49%	>60%

Zdroj: Bloomberg Professional Terminal

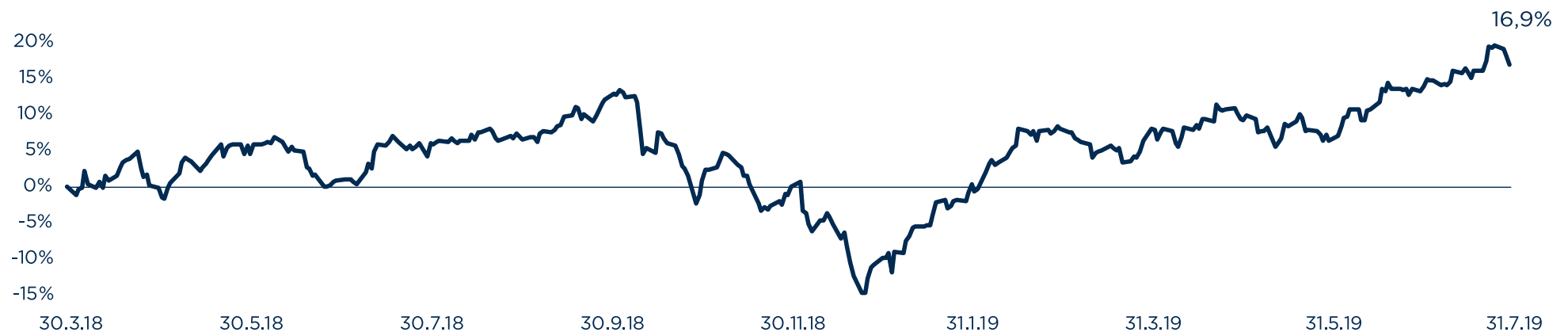
# WEM Opportunities: **Defense & Aerospace**

## Investment Evaluation

**Expected appreciation:** 10 % p.s. (on a half-year basis)

**Portfolio risk:** The Monte Carlo VaR95 portfolio (10 000 simulations) with probability of 95 % as calculated on a monthly basis achieves 6.80 %. Monte Carlo VaR95 for S&P 500 index on a monthly basis reaches 6.13 %.

**Portfolio effectiveness:** Sharpe Ratio portfolio calculated on historical one-year period amounts to 1.46 and 0.02 for the S&P index (at the date of the portfolio draw-up)



Development of historically cumulated percentage performance of the Defence & Aerospace portfolio from April 01, 2018 to July 31, 2019. All yields are calculated in EUR and stated before deduction of fees, commissions, and before taxation. Source: Bloomberg Professional Terminal. The presented data relate to the past. Past performance is not a reliable indicator of future results.

# WEM Opportunities: „Artificial Intelligence“ Powered Portfolio

“Topical” Portfolio Created in 01/2019

Companies for the “AI” Powered Portfolio are selected based on quantitative model developed by co. EquBot LLC, which has been using the “AI” platforms Watson by IBM and Deep Mind by Google.



Investment tools fully managed by “AI” are a relatively new concept and basically all of them started to be used in the past 5 years. Comparison of revenues between the hedge fund Eureka hedge AI Hedge Fund Index (the most commonly used broad-spectrum index for monitoring of performance of hedge funds managed by AI or the so-called theory of machine learning ) and the S&P 500 index is illustrated in the table below.

	Eureka hedge AI	S&P 500
2014 Return	10,06%	12,48%
2015 Return	16,73%	-0,43,%
2016 Return	6,65%	11,24%
2017 Return	6,46%	18,41%
2018 Return	-6,01%	-6,71%
Average Return	6,77%	6,99%
Standard Deviation	8,26%	10,26%
Average Sharpe Ratio	0,82	0,68

Data stated in the table do not show one investment style to dominate another. Although the S&P index has recorded higher total revenues so far, the Eureka hedge index has reached better results as for the ratio of revenues to the risk taken (Sharpe Ratio), thus has been ultimately more effective.

Source: Bloomberg Professional Terminal

# Detailed Characteristics

## „Artificial Intelligence“ Powered Portfolio

One of the significant general characteristics of investments fully managed by AI is that they are design to gradually improve in trading. Through the process of “deep learning”, the AI analyses millions of various data point on a daily basis, trades based on these data, and retrospectively reviews the results of each trading.

AI uses the results of the so-called feedback loop to understand which investment has created positive revenue, and thus to learn what was working and what was not, while having at its disposal the reasons used at each of the investments. Based on this analysis, the AI makes future decisions. This is how the machines (artificial intelligence –AI) learn from their own experience and we can say they become more intelligent step by step.

### **Description of Quantitative Model Used at Portfolio Management**

Through a multistage process, an AI-based model is able to autonomously identify incorrectly valued actives on the market, optimise their exposition in portfolio, and at the same time make use of suitable timing of particular trades. The model thus combines both fundamental and quantitative analysis, simulating a team of 1000 financial analysts. It works continuously, analysing millions of data on a daily basis.

The system evaluates investment possibilities pursuant to probability of their profit with regard to the current economic circumstances, economic and political trends, and various other events. It identifies approximately 30 to125 companies with the highest potential of profitability within the following 12 months which at the same time dispose of suitable mutual correlation. Consequently, it assigns each company an optimal importance.



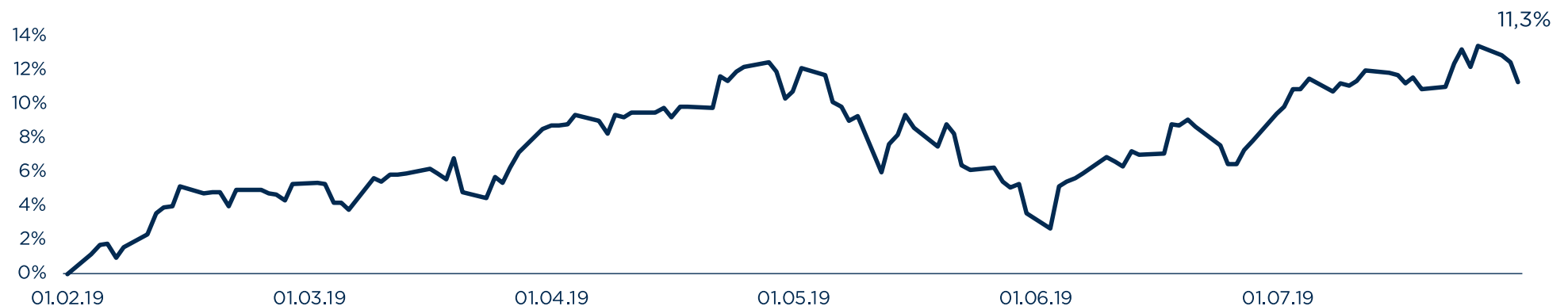
# WEM Opportunities: „Artificial Intelligence“ Powered Portfolio

## Investment Evaluation

**Expected appreciation:** 7 % p.s. (on a half-year basis)

**Portfolio risk:** The Monte Carlo VaR95 portfolio (10 000 simulations) with probability of 95 % as calculated on a monthly basis achieves 8.06 %. Monte Carlo VaR95 for S&P 500 index on a monthly basis reaches 7.69 %.

**Portfolio effectiveness:** Sharpe Ratio portfolio calculated on historical one-year period amounts to 0.50 and 0.46 for the S&P index (at the date of the portfolio draw-up)



Development of historically cumulated percentage performance of the Defence & Aerospace portfolio from January 01, 2019 to July 31, 2019. All yields are calculated in EUR and stated before deduction of fees, commissions, and before taxation. Source: Bloomberg Professional Terminal. The presented data relate to the past. Past performance is not a reliable indicator of future results.

# Our **Team**



Peter Štadler  
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### **Type of Document**

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The investment strategy presented in this investment survey does not have to be suitable or appropriate for each client or a potential client, depending on their familiarity with and experience in the field of investment concerning the particular investment strategy, their financial situation, including ability to bear losses, and on their risk tolerance, and investment objective.

### **Risk Warnings**

Investment in financial tools included in the investment strategy presented in this investment survey is connected with risk. The investment value and the revenue from it can fall as well as rise and there is no guarantee of return of the originally invested sum. Profitability in the past is not a reliable indicator of future profitability. This document cannot be taken as an explanation of all risks connected with investment in the particular investment strategy and the related financial tools or with use of an investment service. All risks presented in this document can combine, which can result in a higher total risk connected with the particular investment. Due to the fact that the investor's property is invested in shares according to a particular investment strategy, the investment is subject to risks concerning share investment. This document is property of the company Wealth Effect Management o.c.p., a.s. Any further use, reproduction, publishing, copying of this document or any of its part is subject to prior approval of the company.



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