COMMENTARY

August 18, 2017

Dear clients and colleagues,

Within the Consumer Discretionary sector, our main overexposure comes from the consumer services space where we focus on tourism. We believe that the outlook for global tourism is bright. Statistics always lag by a month or two, but the last data points we reviewed showed positive trends:

- Demand for European destinations remains strong, fuelled by intra-European tourism. Germany, France, Italy and the UK are the main drivers of this intra-regional demand. American trips to Europe are projected to grow 6% per year on average through 2021. Although travel trends softened after Brexit and the recent terrorist attacks in Europe, flight bookings are returning to their normal growth path.

- Trips to the Caribbean region should continue to grow this year and surpass the 29 million arrivals recorded in 2016. According to local officials, Cuba registered 2.66 million visitors during the first half of the year, up 23% compared to last year.

- US travel expenditures are expected to grow 3.1% this year. Total flight reservations increased 3.5% in Q1 2017 compared to Q1 2016.

Two companies in our portfolios that should continue to benefit from these positive tourism trends are Autogrill and Melia.

Autogrill is the world's leading operator of food and beverage services for travellers. It operates restaurants located in airports and service stations and by motorways. The company runs its businesses through concession contracts with landlords. It enjoys a very high market share in the food and beverage business within North American airports and along Italian motorways. More than half of its sales and more than 60% of its operating profit come from North America.

Autogrill's first-half results showed good like-for-like sales of +4.1% compare to last year. This growth was mainly attributable to its North America (+5.7%) and International (+16%) operations which benefited from increased air traffic.

With more than 300 hotels and 78,950 rooms, Melia is one of the leading hotel chains in the world, and it ranks third among its European peers. Melia is mainly present in the mid- and up-scale segments of the hotel market and is focused on leisure destinations. In terms of asset ownership, Melia owns 18% of its rooms while 27% are leased and 55% are under management contracts. Melia's exposure to Latin America is one of its key differentiators from other listed hotel groups. More than 60% of Melia's operating profit comes from its Latin American business, which is supported by strong demand and high profitability. Melia has a further 18,000 rooms in its development pipeline.

In its first-half results, Melia posted 7% sales growth compare to last year. While the total group revenue per available room (RevPar) increased by 7.5%, Spain showed significant RevPar acceleration at +15%. The company expects favourable market conditions for the remainder of the year.

Both of these stocks trade at undemanding valuations. We believe that the price of these stocks will be supported by further portfolio optimization, restructuring and M&A activity.

Have a good weekend.

The Global Alpha Team