

June 13, 2014

Dear clients and colleagues,

The world's most important video games show, the Electronic Entertainment Expo (E3), ended yesterday in Los Angeles on a positive tone. Hardware manufacturers and software developers made plenty of announcements which should strengthen the gaming industry for the 2nd half of 2014. Some of the updates coming out of E3 were of particular interest to us:

- Microsoft is reducing the selling price on its next-generation console to match Sony PS4
- Sony introduced a new set-top box allowing gamers to stream a game to a second TV
- Software developers are intensifying their game development to unleash to full potential of next-generation consoles

Ubisoft, a company we own in our portfolios, presented a positive overview of its strategy. The company expects to release 3 to 5 big brand titles every year while increasing the contribution of its digital content, which ultimately drives margins. Thanks to reworked key franchises (Assassin's Creed, Far Cry) and the successful launch of Watch Dogs, Ubisoft's product lineup looks promising. The company also plans to leverage its blockbuster brands to develop feature films and television content.

Gaming and entertainment has been a theme in our portfolios for quite some time. Let us remind you of the importance of gaming in our economy.

With total sales of \$ 79 billion in 2012, the gaming market size has constantly exceeded previous expert's prediction. Gartner forecasts that the gaming market will reach \$111 billion by the end of 2015. The category of video games makes no exception to that trend, with an expected 10.6% growth per annum during this period. There are several reasons why we believe in the long term fundamentals of the gaming industry.

The next-generation console cycle that started in November 2013 has already outperformed the previous one. PS4 & XBOX ONE have sold a combined 12 million units, which is 100% more than the previous generation for the same period. With a new generation console comes important software releases during the early years.

Amongst drivers that explain the rapid growth of this industry, changing gamer demographics is certainly a major one. Core audience is getting much broader, with more females joining the ranks. The average age of gamers has also extended in the past 15 years. Now, the age group of 35 and over represents half of the total audience. The gaming audience is diversifying and game developers are adjusting rapidly to this more demanding customer base.

With the introduction of new platforms and technologies, games have become more portable and flexible while offering a better gaming experience.

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Finally, there are still new market opportunities to be seized. With the news that China has lifted its 13 year ban on all foreign built game consoles, we believe that there is a huge opportunity for gaming companies.

The Global Alpha Team

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