

Evolution of Appeal



FUSE
MAGAZINE

In this edition:

**Infusive Intelligence
Correlates
Consumer Spending
to Investment
Performance**

**Triangl Bikinis: The
Birth of a Consumer
Alpha™ Brand**

FIFTEENTH EDITION | OCTOBER 2015 | FUSE by Infusive

infusive

Partners Letter

The Consumer Alpha™ universe is an ever-evolving space. While consumer desire for happiness remains constant, external influences, shifting personal tastes and even the introduction of completely new Consumer Alpha™ products create an environment where the “what” in the consumer goods equation changes on a regular basis.

We call it the *Evolution of Appeal*.

In the third installment of our **What Consumers Want** series, Infusive Intelligence expands their analysis to identify how purchasing behavior translates into tangible investment performance. Using data captured by investment researchers Eugene Fama and Kenneth French, the team looks at historical performance over the past 60 years under a variety of risk-adjusted performance metrics. The results of this analysis demonstrate that return ratios for specific Consumer Alpha™ categories exceed both general consumer goods and non-consumer goods in long-term performance. Of equal interest is how the passage of time impacts the performance of specific Consumer Alpha™ categories.

In keeping with our theme of change, we then turn our attention to what it takes to create the latest Consumer Alpha™ “It” brand. When Craig Ellis and Erin Deering met on an Australian beach, they didn’t realize their conversation in the sun would lead to one of the world’s fastest-growing consumer goods companies. In just three short years, Triangl – the duo’s swimwear business that offers only bikinis and sells only online – is set to eclipse \$50 million in annual sales, and boasts a fiercely loyal customer base with more than 2.5 million social media followers. Women from all corners of the world flock to www.triangl.com to buy a stylish version (or two) of the instantly recognizable color-blocked neoprene bikinis. This devotion has helped catapult Triangl to the top of the global swimwear industry.

There is no doubt that change, in one form or another, is the heart of the Consumer Alpha™ universe.

Steve Rubens, Stefan Jansen & Nic Poole

Infusive and Consumer Alpha™

Infusive believes in Consumer Alpha™, an investment philosophy based on human nature. Human nature drives us to find happiness. Investing in consumer products that make people happy generates returns that are as stable and enduring as human nature itself.

While we all seek a holistic sense of happiness, we also find passing moments or tinges of pleasure in everyday life. This may come from a bite of chocolate, whose sugar and cocoa send pleasure-inducing chemicals racing to the brain. It may come from buying a branded leather bag that affirms our aspirational self-image. It may come from applying cosmetics that make us feel youthful and beautiful.

Consumer products like coffee, chocolate, luxury goods, and cosmetics are appealing because of psychological and physiological impulses that are deeply rooted. While the brands of such products change, our impulse to buy them will never go out of style.

Infusive seeks above-average returns on investment over a horizon of 20 or more years. Infusive finds the potential for such long-term returns in companies whose products make consumers happy again and again. When these companies perform well, they owe their performance directly to the consumer. That is Consumer Alpha™.

FUSE magazine shares stories of companies, products, and economic trends that illustrate Consumer Alpha™. The concept comes alive through real-life examples, and FUSE shows where and how our foundational idea occurs in a vibrant marketplace.

Follow us on social media and receive the latest news, updates
and information on the Consumer Alpha™ universe.



News

Autumn is upon us in both London and New York, and we are busy finalizing details for our new UCITS product offering that will be launched in the coming weeks. Visit our website at www.infusiveassetmanagement.com for the latest information on this and other investment opportunities and to learn more about the Consumer Alpha™ universe.



About Us

Infusive Asset Management is our investment manager focused exclusively on publicly traded securities within the consumer sector. We harness our Consumer Alpha™ research and investment framework to locate the most rewarding investments in the space.

The companies we research sell products that provide happiness to consumers. These businesses have deep competitive moats in terms of brand equity, scale, and superior logistics and distribution. They tend to be characterised by stable revenue streams reflecting consumers' repeat purchase of their products, and they are typically highly cash generative.

We invest globally. Our dedicated team of industry analysts and data scientists employ a variety of “big data” and macroeconomic analysis techniques to detect the Consumer Alpha™ patterns and products of tomorrow.

The Opportunity

In the coming years billions of consumers will venture beyond basic needs for the first time, while higher income-bracket individuals will experience more economic freedom of choice than they ever thought possible. In this context companies that satisfy emerging and more sophisticated consumer demands will be ideally positioned to prosper. Infusive Asset Management is dedicated to investment themes that harness these multigenerational trends.

To learn more about Infusive Asset Management, please register in our Investor Room by visiting www.infusiveassetmanagement.com/investor-room.

For enquiries, please contact investor relations at ir@infusiveassetmanagement.com.

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CONSUMER ALPHA™

FUSE by Infusive

Consumer Alpha™ Facts of the Month

WORD OF THE MONTH:

reclaimism |ree-kleym-ism|
noun

The art of reselling, remaking and rediscovering used products.

A term coined by research firm BBMG, reclaimism is an emerging trend with aspirational consumers who want to combine status with social purpose.

The proliferation of websites like Craigslist, Gumtree, Gazelle and Tradesy combined with the renewed popularity of bricks and mortar resale and thrift shops everywhere from London to L.A. is proof that second-hand products are in vogue. Used is cool.

But what does reclaimism have to do with Consumer Alpha™? Millennials often cite the concept of future resale as a driving force in their purchasing decisions, especially when it comes to pricier luxury goods. They are persuaded to buy – again and again – because they believe they can recoup some of the initial expenditure later on. Reclaimism prompts them to make more of those repeat happiness purchases that lead to a company's long-term success – which is the foundation of the Consumer Alpha™ philosophy.



IMAGE OF THE MONTH:

Consumer Alpha™ products provide happiness and satisfaction, but they also deliver an equally valuable - yet intangible - benefit. Whether it is a luxury handbag, the latest “must-have” accessory, or a premium brand of an everyday item, consumers channel their disposable income to those products that help elevate their perceived image among friends, acquaintances and society in general.

No place is this more evident than on social media. At any given moment, Instagram, Facebook and Twitter are overflowing with photographs of consumers wearing, holding or displaying their valued Consumer Alpha™ products. While the consumer derives personal happiness from their purchase, they share the news with the world in order to obtain public affirmation when others see (and hopefully like, comment on or share) these photographs of valued acquisitions.



TRIANGEL

THE BIRTH OF A BRAND:

A Q&A WITH CRAIG ELLIS, CO-FOUNDER OF TRIANGEL BIKINIS

BIRTH OF A BRAND

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People buy products that provide an intrinsic sense of satisfaction and happiness. These purchases lead to the long-term, above-average success of the companies behind the products. That is the basis of the Consumer Alpha™ philosophy.

Yet, beyond the popular and well-established Consumer Alpha™ brands that provide consumers with delicious coffee, decadent chocolates or designer clutches, are countless other, less conspicuous products that satisfy myriad psychological and physiological impulses deeply rooted in human nature. From flip-flops and hair products to pet food and craft beers, consumers invariably select those goods that affirm an aspirational self-image. As consumer tastes evolve, so do the products in the Consumer Alpha™ universe.

ROOTED IN HISTORY

Bikinis are not a modern invention.

Fourth century Greek murals depict girls wearing two-piece outfits, seeming to indicate that even our earliest ancestors were interested in a wardrobe that showed more than just a hint of skin. While the ensuing centuries saw swimsuit styles changed dramatically in step with cultural expectations, consumer desire to sport swimwear that boosts confidence, brings happiness and affirms an aspirational self-image has always been present.

From modest, full-coverage styles popular in the 1800s to “less is more” designs that emerged in the 1920s, consumers from all walks of life (after all, nearly everyone goes swimming) have helped catapult swimwear to a multi-billion dollar global industry. Bikinis, in particular, have played a significant role.

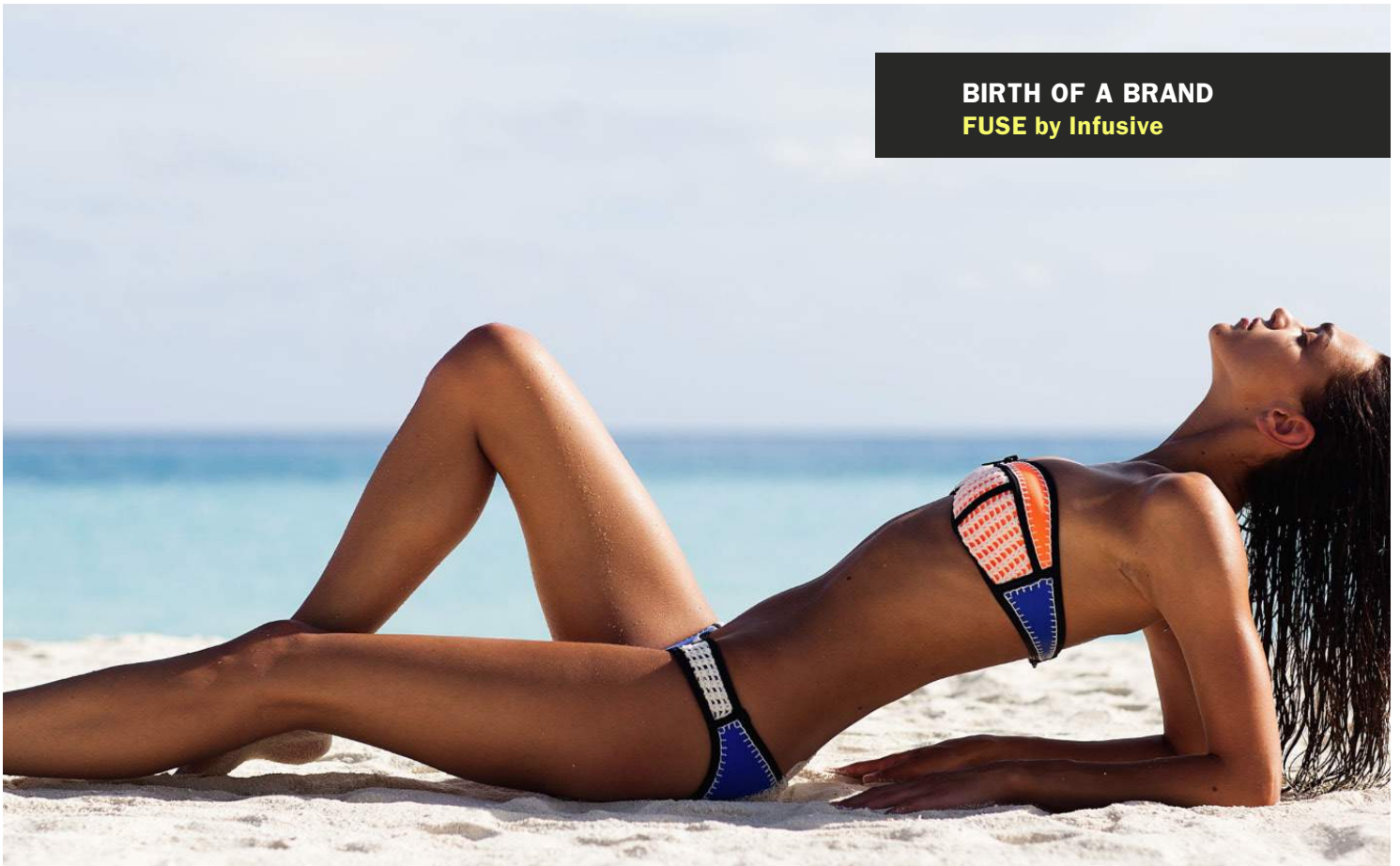
According to a recent industry report from Global Industry Analysts, Inc., worldwide annual swimwear industry revenue is projected to reach \$17.6 billion USD in 2015 and exceed \$20 billion by 2020. Women’s bathing suits make up 70% of overall swimwear market share. In the United States alone the annual spend on women’s two-piece bathing suits exceeds \$8 billion, and the average American woman owns at least four suits.

The statistics are no surprise, especially when it comes to bikinis. In recent years, women have adopted healthier lifestyles, from more aggressive exercise regimens to cleaner eating, and a two-piece swimsuit is a way to showcase the results of those efforts. Also, as with other items of apparel, consumers stay up-to-date on the latest swimwear trends and update their suits every season. Likewise, the continued mobility of society means that swimsuits are no longer a strictly seasonal



SPEED READ

- ☞ Global annual swimwear revenue is projected to reach \$20 billion USD by 2020.
- ☞ Women’s bathing suits make up 70% of overall swimwear market share.
- ☞ Each year more than \$8 billion is spent in the U.S. alone on women’s two-piece bathing suits.



to courtesy of Triangl

product. People travel often and need swimsuits well beyond summer in their own geographic location. Online retailers successfully offer swimwear year-round and readily find consumers searching for the latest styles.

All of these factors combine to keep the swimwear industry on an upward growth trajectory. Manufacturers took notice and have responded, with everyone from luxury designers to sporting good brands offering swimsuits in all shapes, styles and sizes. With all this competition, one may think the market couldn't sustain another entrant.

One would be wrong.

In 2012, a small Australian start-up looked to shake up the swimwear industry by offering a swimsuit that filled a perceived gap between high-end designer bikinis (with luxury price tags to match) and the less fashion-conscious yet affordable offerings of traditional swim brands. Their target audience? Women and girls looking for fashion and quality at an affordable price. Their product? A revolutionary bikini made from neoprene that was both stylish and priced under \$100.

But how do you create a new swimsuit brand in this day and age, grow it from just an idea to \$50 million in annual sales in three years, and along the way acquire a loyal fan base of more than 2.5 million social media followers? FUSE had a chance to speak with Triangl co-founder Craig Ellis recently to find out how he and his partner Erin Deering grew their brand from a concept to a coveted aspirational product.

THE TRIANGL STORY

In 2011 on a first date at Melbourne's Black Rock beach, the concept for what would become, just three short years later, one of the world's most in-demand consumer products was born.

Like most successful companies, Triangl – which sells only one type of product, a two-piece bikini in varying styles—developed in response to an unmet need. Despite a frenetic search throughout Melbourne for a new bikini to wear to that fateful first date, Erin Deering could not find a reasonably priced, high-quality and stylish bikini that fit her budget. Her choices were either high-end, designer swimsuits with price tags well out of reach or inexpensive, lower-quality options that weren't particularly fashionable.

BIRTH OF A BRAND

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Upon arriving at the beach, she told her date about her fruitless and frustrating search. Her date happened to be Craig Ellis, an entrepreneur with a background in clothing design and manufacturing, who immediately recognized an unfilled niche in the swimwear market. Together, Ellis and Deering focused on the idea of designing a high-quality, stylish bikini that could retail for less than \$100.

Since that first date, Ellis and Deering, who has a background in e-commerce and product development, have turned a beachside conversation into a multi-million dollar company that sells their exclusive brand of neoprene bikinis to devoted consumers around the world.

FUSE: You decided to move from your native Australia to Hong Kong to start Triangl. What was the impetus behind that decision?

Ellis: In my past life as a designer for a t-shirt company, I spent a lot of time in China managing all aspects of the manufacturing process. I quickly learned that it is difficult to effectively keep things on track from a remote location. You really need to be hands-on to deal with inevitable issues that arise on a daily basis. So it just made sense to be on the factory floor each day and to be available 24/7 to keep things going smoothly, especially with a start-up.

Being in Hong Kong also allowed me to build solid relationships with our suppliers. An important factor that sets Triangl apart from the competition, and the garment industry as a whole, is our super-efficient supply chain. The typical turnaround time in the industry from design to distribution is 45-60 days, but we've managed to trim that turnaround time to seven days. That means if we come up with a new design, we can have it ready to ship within weeks rather than months. This allows us to maximize on trends and keep our customer base satisfied with the latest and most innovative designs throughout the year.

FUSE: Triangl bikinis are sold exclusively via your company website – www.triangl.com. Tell us about your decision to adopt this distribution model.

Ellis: When Erin and I first started Triangl, we tried the traditional wholesale approach. We quickly ran into the same issues I faced in a previous clothing business venture – retailers who were slow to pay or whose buyers overbought and wanted to return excess product at the end of the season. We found ourselves focusing too much of our limited resources on chasing small invoices of \$100 or \$200 and dealing with issues that we knew wouldn't be present if we sold directly to our customers.

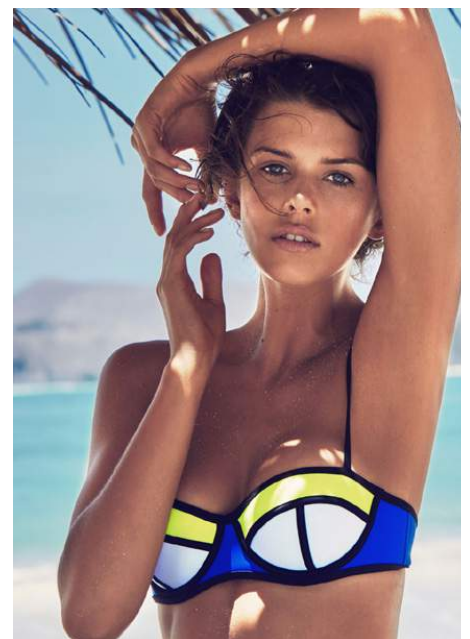


Photo courtesy of Triangl



Photo courtesy of Triangl

After a few months of struggling and growing more frustrated, we sat down to come up with a different approach. We determined if we changed our strategy and just sold one bikini a day we could cover our overhead and modest living expenses. Erin's expertise in e-commerce marketing was quite valuable when it came to determining the most effective way to promote our brand and pursue our modest "one bikini a day" goal.

Another reason for developing an exclusive e-commerce distribution model is that we didn't want to lose control of any aspect of our unique product. As a small start-up with limited resources, we knew that once retailers were introduced into the mix we would lose the ability to actively manage how our bikinis were marketed or sold.

We always wanted our bikinis to be perceived as an affordable luxury brand. By tightly controlling all points of the distribution process, we could best ensure Triangl would continue to be seen as an aspirational product. This is also why we never discount our product or offer sales.

FUSE: Tell us about the decision to pursue a marketing strategy that focuses heavily on social media?

Ellis: To be honest, when we first started out we simply didn't have a budget to hire a public relations agent or marketing professional. However, we knew we had a product that had great visual appeal and a target audience of younger women who were savvy social media users. We quickly decided, for pragmatic reasons, to rely exclusively on social media.

We realized that of all the social media options, Instagram offered the most immediately measurable metrics. It also offered the best platform for showcasing photos of the aspirational lifestyle our product suggests. So we went to work trying to figure out the best way to maximize our presence on Instagram.

We knew that any relationships we built on Instagram would have to be mutually beneficial. While our end goal was to get a super-Instagram user to post a photo wearing one of our bikinis, and hopefully influence her followers to want one too, we knew that wasn't going to happen if we simply sent our product to someone like Beyoncé or Miley Cyrus from the start.

Instead we took a more strategic approach. We focused on Instagram bloggers who fit our target demographic and who had more modest but successful follower numbers, similar to our own at the time. Our plan was to work our way up to gaining the attention of more influential Instagram users, and build our brand awareness incrementally. We hoped that once we attracted the attention of a celebrity with millions of Instagram followers, we could break through to the lucrative U.S. market. Kylie Jenner was one of the most significant Instagram users at the time, so we made her our goal.

We carefully researched her circle of friends on Instagram, the people she was following and the people who appeared in photos with her. We developed a core list of approximately 20 girls, and sent each of them a bikini in the hopes that Kylie would notice them wearing our brand and it would generate

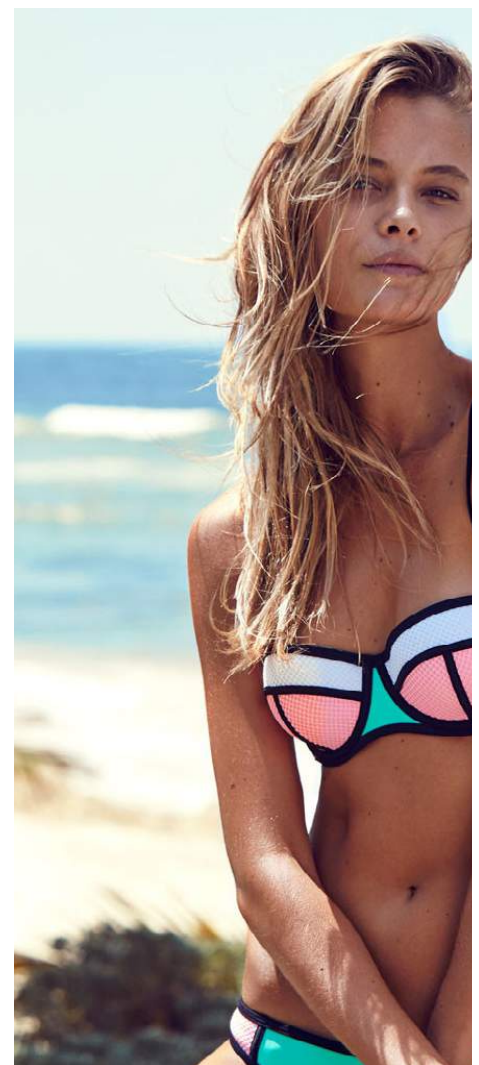


Photo courtesy of Triangl

BIRTH OF A BRAND
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Photo courtesy of Triangl

some interest. We started seeing Instagram pictures of our bikinis on these girls, and realized we were gaining traction. A few weeks later, Erin woke up one morning and had an email from Kylie herself, requesting a bikini. After Kylie posted an Instagram photo wearing one of our styles, U.S. sales went through the roof and other celebrities – from Miley Cyrus to Beyoncé to Ellie Goulding– also wore our designs in public, which just added to the momentum.

FUSE: Describe the Triangl customer experience.

Ellis: It is really about the feeling that a customer has from start to finish. Our primary goal is to make sure that every customer has a positive and rewarding experience when she purchases one of our bikinis. We know that we are selling an aspirational product, and we realize it is more than just an article of clothing to the customer.

We let that understanding guide us in all our decisions, from the photographs we put on social media and our website to how we package our bikinis for shipment to the 24/7 live customer support we offer. We want the customer to feel transformed by their Triangl experience.

FUSE: What are the biggest challenges facing Triangl today?

Ellis: One of the pitfalls of success for anyone who develops an iconic item in the garment or accessory industry, I think, is intellectual property theft. Almost immediately after our brand hit the mainstream, we started to see many copycat swimsuits on the market, all trying to capitalize on our distinctive designs.

We responded rapidly and built up a strong IP team of lawyers and professional advisors whose primary job is to ensure the integrity of the Triangl brand. They have done a great job of tidying things up and curbing these imitators. It is a never ending battle and one that requires continued vigilance, but one that I think we are winning at the moment.



Photo courtesy of Triangl

BIRTH OF A BRAND FUSE by Infusive

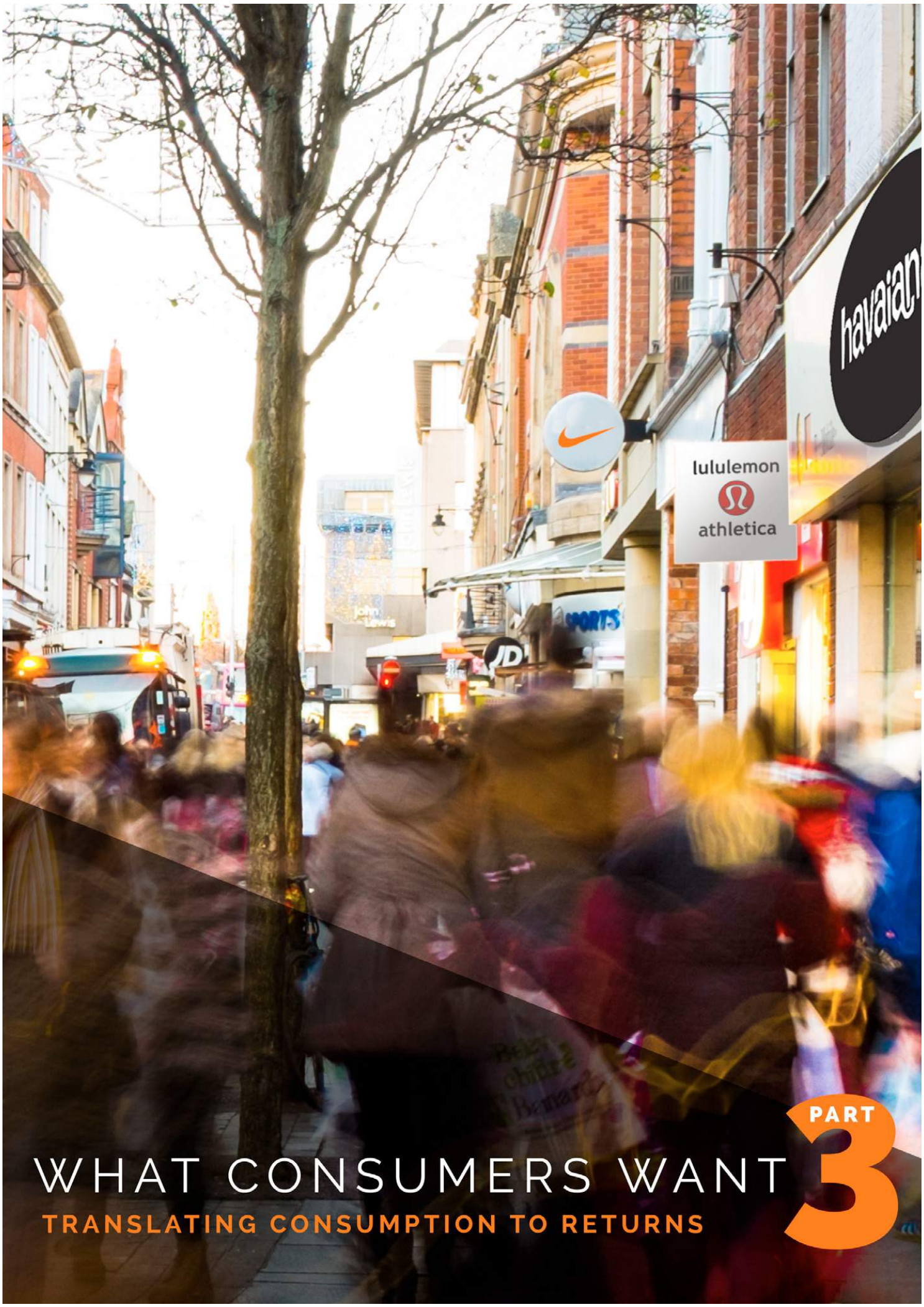
Another thing we focus on is staying relevant in an ever-changing industry. Our core bikini is a bold, geometric design and has become the signature Triangl look. It is exciting and challenging for me as a designer to experiment with different textures, fabrics and details to keep our iconic style fresh and appealing to both existing and new customers.

As an example, this season we took a cue from the 70's influence prevalent on the fashion runways and incorporated crochet detailing on some of our styles. We understand that our customers don't buy just one bikini. They come back again and again and are looking for variations on the original design they fell in love with. We want to exceed expectations of these repeat customers and also attract new customers who identify with our ever-evolving brand. Our goal is to re-interpret our original design into new and exciting variations, much like Fendi has successfully done with its baguette.

FUSE: What does the future look like for Triangl?

Ellis: We want to keep building our social community and connecting with our customers, whether it is through Instagram or the Triangl Girls initiative or some other way that we haven't come up with yet. Maintaining a relationship with our customers, where they really feel like part of the Triangl story, is key to our continued success.

Breaking into the Brazilian market is also on our radar. It is a huge, untapped resource for us, but one where we believe our unique product will resonate. Right now the U.S. is our biggest market with the UK coming in second. We realize the incredible potential of the South American market, and are looking forward to introducing Triangl to those consumers. ■



WHAT CONSUMERS WANT

TRANSLATING CONSUMPTION TO RETURNS

PART
3

WHAT CONSUMERS WANT

FUSE by Infusive

In the previous installments of our **What Consumers Want** series, Infusive Intelligence closely analyzed consumer consumption from both a **micro** and **macro** view. Yet consumption is only part of the Consumer Alpha™ philosophy. Equally important is identifying how consumer purchases impact a company’s long-term financial performance and, ultimately, returns to investors.

To understand the “why” behind Consumer Alpha™, we study and analyze the equity returns of the industries that make up the Consumer Alpha™ universe. As long-term investors, we ultimately care about how consumption translates to investment performance. To best predict the future, we must first understand how different consumer goods industries have performed historically, through varying economic cycles and in comparison to non-consumer goods industries.

To build a framework for our analysis, we relied on industry portfolios constructed by well-respected investment researchers Eugene Fama and Kenneth French. Fama and French compiled every stock in the NYSE, AMEX and NASDAQ indices and grouped them into industry categories of increasing detail, resulting in 49 discreet industry portfolios. For our analysis, we further segmented the Fama and French portfolios into a group of six portfolios that contain the most tangible Consumer Alpha™ characteristics.

These portfolios, identified in *Exhibit One*, include **Candy and Soda** (candy and other confectionary, bottled and canned soft drinks and potato chips); **Beer and Liquor** (beverages, malt beverages, wine and distilled liquor); **Tobacco Products**, **Entertainment** (motion picture production and distribution, motion picture theaters, amusement and recreation, and professional sports); **Consumer Goods** (perfumes, cosmetics, luggage and jewelry); and **Apparel**.

EXHIBIT 1

Consumer Alpha™	Consumer	Non-Consumer
Candy and Soda	Food Products	Agriculture
Beer and Liquor	Recreation	Medical Equipment
Tobacco Products	Printing and Publishing	Chemicals
Entertainment	Healthcare	Rubber and Plastic Products
Consumer Goods	Pharmaceutical Products	Construction Materials
Apparel	Textiles	Construction
	Automobiles and Trucks	Steel Works Etc
	Communication	Fabricated Products
	Personal Services	Machinery
	Computers	Electrical Equipment
	Computer Software	Aircraft
	Transportation	Shipbuilding, Railroad Equipment
	Retail	Defense
	Restaurants, Hotels, Motels	Precious Metals
		Non-Metallic and Industrial Metal Mining
		Coal
		Petroleum and Natural Gas
		Utilities
		Business Services
		Electronic Equipment
		Measuring and Control Equipment
		Business Supplies
		Shipping Containers
		Wholesale
		Banking
		Insurance
		Real Estate
		Financial Services

Source: Fama and French

SPEED READ:

- ☞ Consumer Alpha™ product categories demonstrate the highest long-term growth.
- ☞ Return ratios for Consumer Alpha™ products exceed other consumer goods and non-consumer goods in long-term performance.

HISTORICAL INDUSTRY PERFORMANCE

So what has performance been over different timeframes for these portfolios? To find out, we utilized two well-known risk-adjusted performance metrics – the Sharpe Ratio and the Sortino Ratio.

Sharpe Ratio

This ratio computes risk-adjusted returns by taking the portfolio's excess returns over the risk-free rate for a given timeframe and divides the excess return's standard deviation over the same timeframe.

Sortino Ratio

This ratio is a modified version of the Sharpe Ratio. While the Sharpe Ratio penalizes upside volatility and downside volatility in its denominator, the Sortino Ratio only does so for downside volatility.

We then applied both the Sharpe and Sortino Ratios over three different timeframes – 1960 through 2014 (54 years), 1985 through 2014 (29 years) and 2004 through 2014 (10 years).

Exhibit Two identifies the performance of 46 Fama and French portfolios across the three different timeframes and against both ratios. Initial rankings are by the Sharpe Ratio in the 1960-2014 timeframe.

Every one of the six Consumer Alpha™ portfolios (noted in orange text) scored within the top 20 in the longest timeframe – 1960 through 2014 – for each ratio. When the timeframe was narrowed to 1985-2014, three of the portfolios – **Beer**

EXHIBIT 2

	Sharpe Ratio			Sortino Ratio		
	Dec 1960 - Dec 2014	Dec 1985 - Dec 2014	Dec 2004 - Dec 2014	Dec 1960 - Dec 2014	Dec 1985 - Dec 2014	Dec 2004 - Dec 2014
Tobacco Products	0.59	0.61	0.79	1.18	1.18	1.51
Food Products	0.56	0.71	0.53	1.14	1.40	1.03
Beer and Liquor	0.49	0.71	0.40	1.03	1.45	0.81
Pharmaceutical Products	0.46	0.59	0.18	0.92	1.16	0.45
Medical Equipment	0.44	0.47	0.28	0.86	0.85	0.56
Financial Services	0.41	0.50	0.08	0.80	0.98	0.19
Petroleum and Natural Gas	0.41	0.46	0.52	0.81	0.91	1.05
Consumer Goods	0.40	0.52	0.38	0.77	0.99	0.73
Retail	0.40	0.47	0.26	0.78	0.90	0.50
Business Services	0.39	0.44	0.18	0.79	0.90	0.37
Electrical Equipment	0.39	0.54	0.30	0.82	1.13	0.58
Entertainment	0.38	0.39	0.21	0.72	0.71	0.44
Restaurants, Hotels, Motels	0.38	0.48	0.69	0.75	0.89	1.31
Candy and Soda	0.37	0.44	0.47	0.76	0.89	0.92
Defense	0.35	0.39	0.45	0.72	0.80	0.85
Communication	0.35	0.46	0.12	0.76	0.89	0.34
Wholesale	0.35	0.35	0.33	0.68	0.67	0.63
Apparel	0.34	0.35	0.53	0.68	0.69	1.07
Aircraft	0.34	0.47	0.45	0.73	0.94	0.88
Insurance	0.33	0.47	0.12	0.65	0.94	0.35
Rubber and Plastic	0.31	0.41	0.24	0.61	0.77	0.46
Printing and Publishing	0.31	0.28	-0.36	0.70	0.67	-0.44
Shipping Containers	0.30	0.46	0.58	0.59	0.87	1.08
Banking	0.30	0.41	-0.09	0.61	0.82	-0.04
Lab Equipment	0.29	0.25	0.23	0.59	0.52	0.45
Business Supplies	0.28	0.37	0.21	0.54	0.72	0.43
Construction Materials	0.27	0.40	0.33	0.53	0.78	0.63
Transportation	0.27	0.35	0.38	0.53	0.66	0.73
Healthcare	0.27	0.11	0.15	0.59	0.24	0.31
Metal Mining	0.26	0.27	0.57	0.54	0.51	1.09
Textiles	0.25	0.17	0.17	0.52	0.37	0.38
Chemicals	0.23	0.43	0.44	0.43	0.80	0.83
Machinery	0.22	0.27	0.37	0.42	0.51	0.73
Computers	0.22	0.18	0.20	0.56	0.48	0.42
Personal Services	0.21	0.17	0.12	0.46	0.39	0.32
Agriculture	0.21	0.35	0.49	0.44	0.77	1.14
Ship Building	0.17	0.17	0.54	0.39	0.46	1.04
Electronic Equipment	0.16	0.25	-0.06	0.39	0.59	-0.03
Coal	0.16	-0.01	0.30	0.44	0.11	0.68
Automobiles and Trucks	0.15	0.19	-0.07	0.34	0.41	-0.04
Construction	0.12	0.15	0.16	0.28	0.30	0.37
Recreation	0.08	0.13	0.12	0.26	0.29	0.27
Real Estate	0.05	-0.18	0.33	0.21	-0.12	0.74
Precious Metals	0.00	-0.12	0.12	0.01	-0.22	0.25
Steel Works Etc	-0.02	0.05	0.11	0.01	0.16	0.35
Fabricated Products	-0.06	-0.01	0.18	-0.03	0.06	0.39

Source: Fama and French, Infusive Intelligence

WHAT CONSUMERS WANT

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EXHIBIT 3

	CAGR			Standard Deviation		
	Dec 1960 - Dec 2014	Dec 1985 - Dec 2014	Dec 2004 - Dec 2014	Dec 1960 - Dec 2014	Dec 1985 - Dec 2014	Dec 2004 - Dec 2014
	Tobacco Products	15.9	17.7	17.3	19.8	22.1
Pharmaceutical Products	14.5	15.8	8.3	17.0	16.0	13.4
Medical Equipment	13.5	12.9	9.2	18.7	17.7	15.6
Candy and Soda	13.3	14.8	11.6	20.5	22.2	20.9
Food Products	13.3	16.0	10.4	14.6	14.8	11.7
Beer and Liquor	13.2	16.7	8.3	16.7	16.5	12.9
Entertainment	13.0	12.9	10.1	25.4	25.2	28.9
Defense	12.7	13.3	16.6	22.3	21.3	19.2
Electrical Equipment	12.3	13.9	7.8	21.1	21.9	22.5
Restaurants, Hotels, Motels	12.2	13.4	12.6	20.1	17.4	15.4
Computers	12.2	10.7	4.4	23.2	25.1	26.8
Aircraft	12.1	12.8	9.7	22.4	20.8	21.2
Financial Services	12.0	13.6	6.2	20.2	21.6	24.3
Retail	12.0	15.0	9.9	17.7	18.4	15.9
Printing and Publishing	12.0	11.6	4.3	19.9	18.9	19.7
Business Services	11.9	12.6	6.0	20.5	21.7	20.2
Lab Equipment	11.8	9.8	7.2	23.6	23.8	23.8
Wholesale	11.6	11.2	8.7	18.5	17.2	16.3
Petroleum and Natural Gas	11.5	10.0	9.4	18.0	18.8	20.0
Consumer Goods	11.5	12.4	8.9	16.0	15.2	12.7
Rubber and Plastic	11.3	12.7	12.1	20.2	20.2	21.4
Apparel	11.3	13.3	14.6	21.1	22.1	21.2
Textiles	11.2	12.6	14.0	22.4	24.6	30.0
Communication	10.9	12.7	5.5	15.1	16.8	17.5
Insurance	10.8	13.2	6.6	19.4	18.0	18.0
Banking	10.8	13.1	4.8	19.4	20.5	20.0
Shipping Containers	10.7	13.3	16.2	18.7	20.1	20.1
Ship Building	10.7	11.1	18.9	23.5	25.8	27.9
Coal	10.5	6.1	7.0	31.0	34.8	44.3
Transportation	10.5	12.1	11.9	19.2	18.5	17.5
Business Supplies	10.5	12.0	9.9	19.3	18.4	17.5
Construction Materials	10.4	11.6	10.5	20.2	21.2	23.1
Machinery	10.1	9.3	10.4	20.5	22.3	25.2
Electronic Equipment	10.1	10.4	1.7	24.4	25.4	26.0
Recreation	10.0	8.5	8.0	24.9	23.1	21.7
Agriculture	9.8	11.4	13.8	22.4	21.1	22.4
Chemicals	9.8	11.8	11.5	18.4	19.5	20.8
Metal Mining	9.7	7.5	11.3	24.0	26.8	31.2
Construction	9.6	7.5	9.3	24.5	24.4	25.5
Personal Services	8.7	9.4	9.7	22.8	20.9	20.9
Automobiles and Trucks	8.4	9.5	4.5	22.1	25.2	29.8
Real Estate	7.5	5.4	10.5	24.8	22.3	26.4
Healthcare	7.5	10.0	8.9	29.6	23.2	19.7
Fabricated Products	7.4	4.7	4.7	24.2	24.0	27.1
Precious Metals	5.8	-1.1	3.7	33.8	37.4	33.8
Steel Works Etc	5.7	5.2	1.4	24.0	26.8	31.2

Source: Fama and French, Infusive Intelligence

and **Liquor, Tobacco Products, and Consumer Goods** – made the top ten. Restricting the timeframe even further (2004-2014) saw **Tobacco Products, Apparel, and Candy and Soda** make the top ten.

To gain a better sense of the drivers behind these findings, it is also important to look at the individual components of the Sharpe Ratio – growth and volatility. We plotted both the compound annual growth rate (CAGR) and annual standard deviation of all the portfolios over the same three timeframes. *Exhibit Three* identifies the results of this further analysis.

Four of the Consumer Alpha™ portfolios – **Tobacco Products, Candy and Soda, Beer and Liquor, and Entertainment** – round out the top seven growth portfolios over the 1960-2014 period. In the 1985-2014 timeframe, **Entertainment** drops out, and in the 2004-2014 period, only **Tobacco Products** remains and is joined by newcomer **Apparel**.

Standard Deviation

When it comes to volatility, two Consumer Alpha™ portfolios stand out as consistently scoring in the five least volatile portfolios over all timeframes – **Consumer Goods and Beer and Liquor**. The remaining Consumer Alpha™-related portfolios have less noteworthy performance in terms of annual standard deviation, particularly **Entertainment**.

INDUSTRY RETURNS THROUGH THE CYCLE

It is important to also understand how different economic environments affect returns. To do this, we rearranged the entire 1960-2014 timeframe into High/Medium/Low growth categories based on growth rates. We then re-calculated our risk-adjusted return metrics (Sharpe and Sortino Ratios) for a subset of 38 Fama and French portfolios, including select Consumer Alpha™ portfolios.

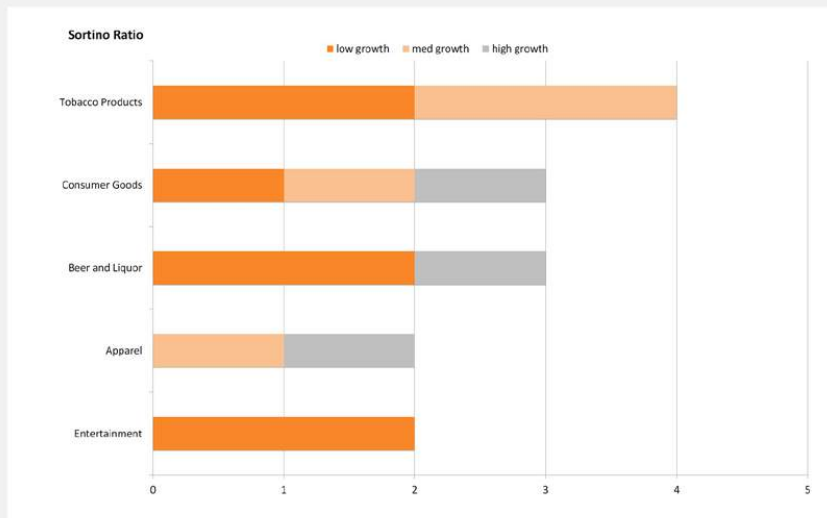
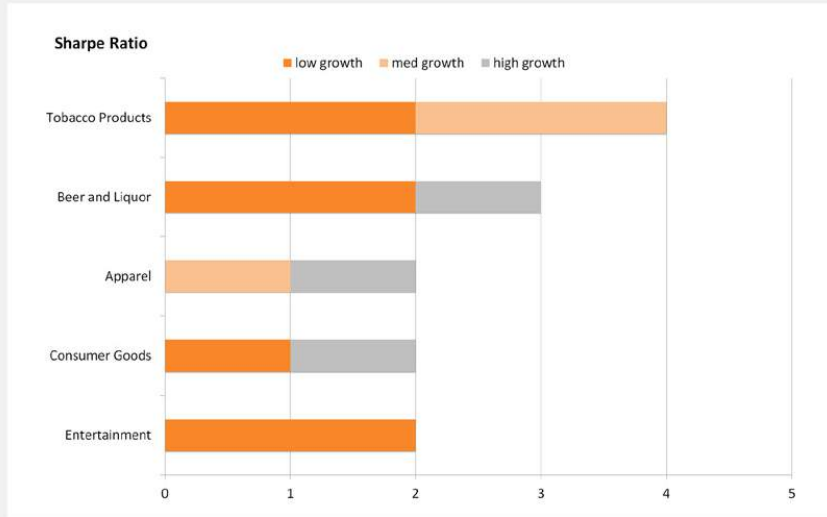
EXHIBIT 4	Sharpe Ratio			Sortino Ratio		
	low growth	med growth	high growth	low growth	med growth	high growth
Tobacco Products	0.73	0.36	0.53	-0.05	0.56	1.27
Food Products	0.42	0.27	0.99	0.04	0.44	1.30
Beer and Liquor	0.41	0.07	0.81	0.64	0.10	1.03
Insurance	0.37	0.23	1.01	-0.17	0.36	1.30
Banking	0.24	0.25	0.85	-0.27	0.41	0.89
Medical Equipment	0.21	0.18	0.82	-0.26	0.27	1.18
Pharmaceutical Products	0.20	0.32	0.78	0.32	0.47	0.98
Shipping Containers	0.20	0.15	0.88	0.34	0.25	1.22
Financial Services	0.17	0.44	0.84	0.28	0.71	1.15
Printing and Publishing	0.17	0.05	0.99	0.24	0.08	1.41
Wholesale	0.14	0.07	0.81	0.23	0.12	1.11
Entertainment	0.14	-0.02	0.70	0.22	-0.03	0.95
Aircraft	0.10	0.39	0.90	0.17	0.57	1.19
Restaurants, Hotels, Motels	0.08	0.02	0.63	0.13	0.04	0.90
Construction Materials	0.07	0.14	0.92	-0.08	0.20	1.06
Textiles	0.07	-0.11	0.64	0.10	-0.17	0.89
Transportation	0.05	0.16	0.85	-0.12	0.26	0.92
Communication	0.04	0.35	0.78	0.93	0.50	0.73
Measuring and Control Equipment	0.02	0.28	0.96	0.67	0.46	1.36
Consumer Goods	0.01	0.11	0.80	-0.22	0.16	0.92
Retail	0.00	0.21	0.88	0.00	0.33	1.24
Chemicals	-0.01	0.28	1.13	-0.01	0.46	1.53
Shipbuilding, Railroad Equipment	-0.01	0.14	0.68	-0.01	0.21	0.98
Machinery	-0.03	0.35	0.91	0.08	0.49	1.08
Non-Metallic and Industrial Metal Mining	-0.05	0.15	0.79	-0.20	0.23	1.12
Real Estate	-0.07	-0.31	0.67	-0.11	-0.51	0.87
Automobiles and Trucks	-0.07	0.09	0.80	-0.12	0.15	1.10
Business Services	-0.09	0.24	0.95	0.61	0.39	1.41
Apparel	-0.13	0.15	0.84	0.12	0.22	1.22
Computers	-0.13	0.11	0.69	0.02	0.19	1.11
Construction	-0.14	-0.10	0.68	-0.22	-0.16	0.88
Recreation	-0.14	-0.20	0.74	-0.24	-0.30	1.03
Electronic Equipment	-0.15	0.19	0.89	0.34	0.28	1.12
Agriculture	-0.15	-0.01	0.43	-0.25	-0.01	0.57
Steel Works Etc	-0.16	0.26	0.65	0.39	0.42	1.11
Electrical Equipment	-0.21	0.12	0.98	-0.36	0.20	1.32
Coal	-0.22	0.02	0.68	-0.36	0.03	0.92
Petroleum and Natural Gas	-0.29	0.50	0.84	-0.50	0.75	1.18

Source: Fama and French, Infusive Intelligence

Exhibit Four contains the Sharpe and Sortino Ratios for this subset, with our Consumer Alpha™ portfolios noted in orange text. The Sharpe Ratio initially ranks the portfolios in the Low Growth period.

Of the most importance to us as long-term investors is how these industry portfolios stack up in the different economic environments. To accurately gauge performance, we assigned a value of 0 (zero) to portfolios that scored in the bottom third percentile for a given economic environment. Portfolios that scored in the middle third percentile received a value of 1, and portfolios in the top third received a 2.

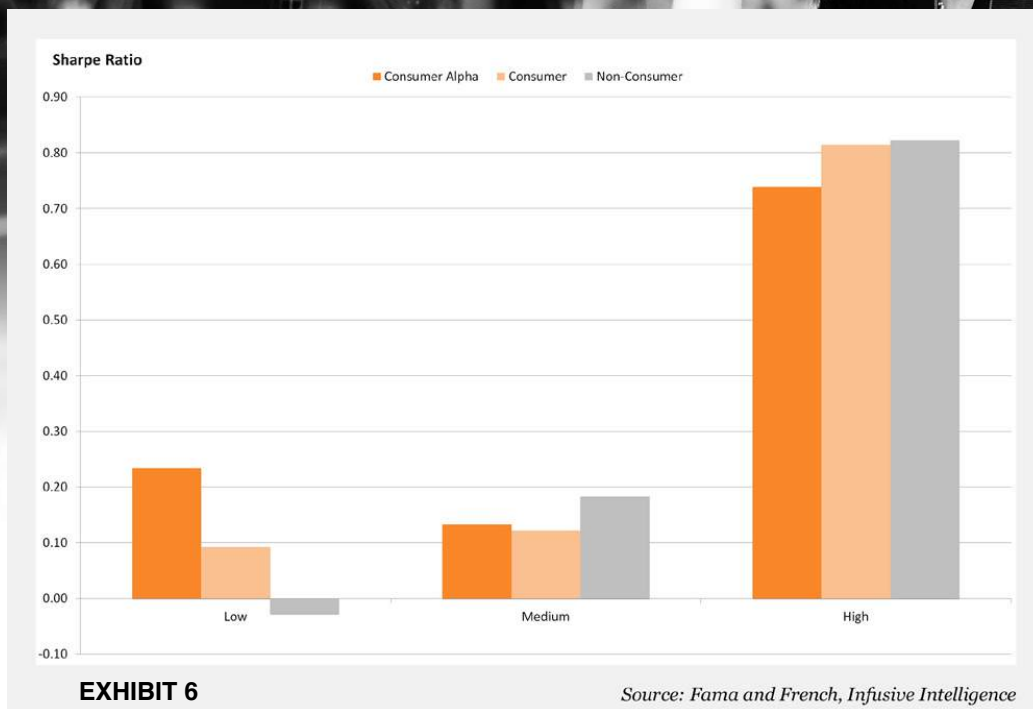
EXHIBIT 5



Source: Fama and French, Infusive Intelligence

The results of this ranking are demonstrated in *Exhibit Five*. You can see that, on the whole, Consumer Alpha™-related portfolios tend to perform better in lower growth environments. Three specific portfolios – **Tobacco Products**, **Beer and Liquor**, and **Entertainment** – score in the top third percentile in low-growth environments. When high-growth is present, **Tobacco Products** and **Entertainment** fall to the bottom third percentile.





But how do our Consumer Alpha™ portfolios compare to the other consumer and non-consumer portfolios? To find out, we averaged the return ratios for all portfolios in each category over each growth regime. Those results are shown in *Exhibit Six*. One notable discovery, which is consistent with the individual Consumer Alpha™ portfolio results previously noted, is that while the three groups tend to share similar performance characteristics in times of medium- and high-growth, only the Consumer Alpha™ portfolio demonstrates superior performance in low-growth phases.

INDUSTRY RETURNS VS. REAL GROWTH

Beyond testing the relationship between industry portfolio returns and the overall economic cycle, we can also do so with respect to each portfolio’s consumption spending data. To do this, we look to select consumption categories from the Bureau of Economic Analysis. While the Fama and French portfolios may contain differences in consumption categories from those in the BEA data, the categories are similar enough to draw legitimate and insightful conclusions. *Exhibit Seven* on the following page shows the results of this comparison.

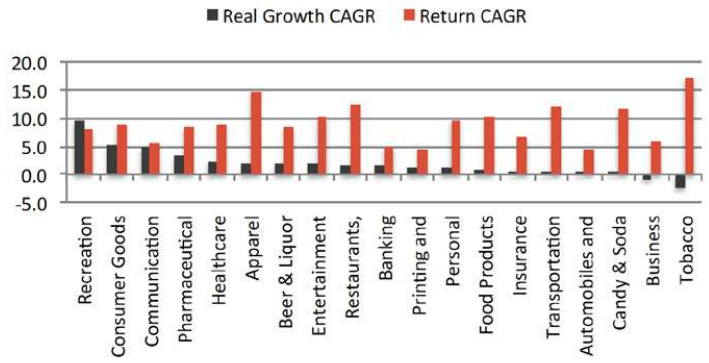
Plotting the real consumption growth rates of the BEA categories over the three timeframes (1960-2014; 1985-2014; and 2004-2014) versus the associated industry returns growth rates show little, if any, relationship between the two. This suggests that while growth may drive some part of returns, other elements such as high returns on capital may have more influence. This appears to be particularly true for **Tobacco Products**.

WHAT CONSUMERS WANT
FUSE by Infusive

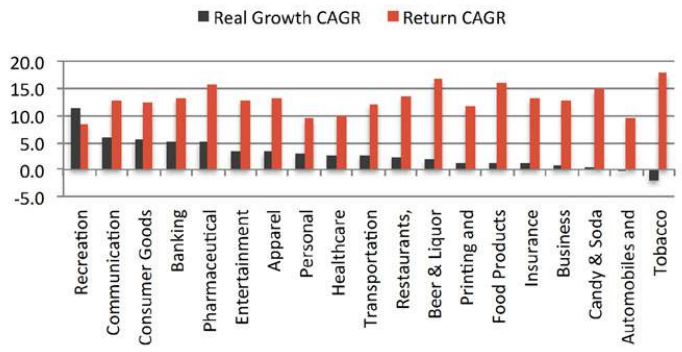


EXHIBIT 7

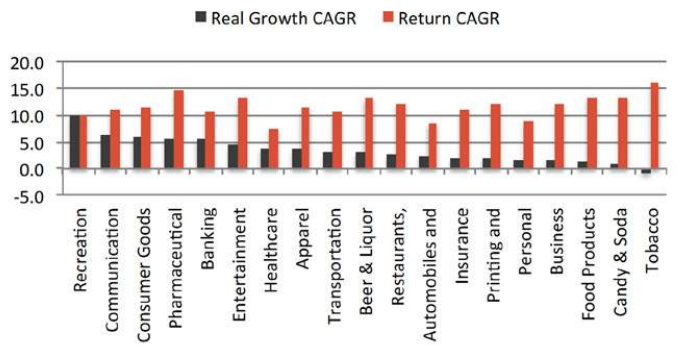
2004-2014



1985-2014



1960-2014



Source: Fama and French, Infusive Intelligence

From Our Desk to Yours

TO WATCH



Long Life Depends on This

Chocolate and coffee are two champion Consumer Alpha™ products – each providing satisfaction and happiness while encouraging repeat consumption. But do these products provide more than just positive emotive connections? Yes, says Gary Wenk, Professor of Psychology, Neuroscience & Molecular Virology, Immunology and Medical Genetics at the Ohio State University.

In this TEDx Columbus presentation, Prof. Wenk explores the physiological effects of what we consume. His research demonstrates how coffee, chocolate and other products interact with our body's chemical makeup to keep us healthy and improve brain function well into old age.

TO READ



What People Buy Where

Conspicuous consumption is everywhere, but it's not the same everywhere. So posits Professor Elizabeth Currid-Halkett of the University of Southern California's Price School of Public Policy. Studying five years of data from the US Bureau of Labor Statistics' Consumer Expenditure Survey, she identifies how a person's geographic location influences what they choose to acquire with their disposable income.

Which city's residents spend the most on designer clothes? Coffee? High-end makeup? Pet products? In this op-ed piece for the *New York Times*, Prof. Currid-Halkett answers these questions and offers conclusions that shed light on how geography not only influences our consumption of Consumer Alpha™ products, but also helps us identify who we are and who we will become.

TO DO



Explore the World of Craft Beers

Beer has always been an integral part of the human experience. Besides satisfying consumer desires for pleasure and happiness, beer has ended plagues, sustained troops during wars, and traveled into outer space. With this rich history, it is no surprise that consumer demand for beer has rarely ebbed, maintaining its status as a prominent Consumer Alpha™ product. With Oktoberfest celebrations in full swing, there has never been a better time to experience Consumer Alpha™ first-hand.

A few of our favorites:

Oct. 23-24 – [NYC Craft Beer Festival Autumn Harvest](#) ~ New York, United States

Oct. 26-31 – [Norwich Beer Festival](#) ~ Norwich, England

Oct. 31 – [Huddle Park Beer Fest III](#) ~ Johannesburg, South Africa

Spun Candy...a sweet treat!

Infusive discovered London-based Spun Candy in 2013 at a pop-up stand in the Virgin Atlantic Club House at Heathrow. Spun is a quintessential Consumer Alpha™ company, offering consumers a sweet, simple treat that brings instant pleasure. Spun offers a retail shop in London's Covent Garden and a large production facility in trendy East London where guests can take a masterclass and create their own bespoke candy creations. It is also sold at John Lewis, Selfridges and Hamleys, the oldest and one of the best known toy shops in the world. Infusive's partnership with Spun helped the brand expand internationally, and now you can find Spun in some of the world's most popular destinations, including Abu Dhabi and Dubai.

Infusive's direct investments arm invests in small, promising, cash-flow-positive consumer companies whose products and services are exclusively associated with Consumer Alpha™. Spun is one of these companies, and they will soon open their capital to others to fund future expansion plans. Infusive is always on the lookout for investment opportunities in other Consumer Alpha™ companies. To learn more about investing in Spun or tell us your story, please get in touch at contact@infusive.com.

What's new at Spun

- Christmas season is getting close and nothing says celebration like a Christmas candy party at our Spitalfields workshop or the location of your choice. Treat your guests and clients with some great corporate candy gifts and hampers.
- Rugby World Cup 2015 is here and Spun is the official licensed confectioner for the tournament.
- The new Spun website is live! Check out the enhanced features, images and an online booking system to schedule your candy cookery classes.
- Spun is now available in John Lewis across the UK. Our most popular range of candy products are offered in most major stores.



Contact Spun today:

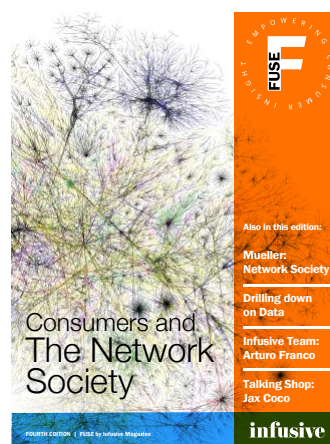
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