

U.S. Small & Mid Cap Strategy

Catching the upswing in capex

Early signs of a shift toward capex, away from buybacks. Over the last year, we observed a shift in the capital allocation priorities of small caps away from buybacks toward capex in spite of the decline in the overall amount of capital allocated to buybacks, capex, and acquisitions. While still in the early stages, this shift toward capex is likely to be beneficial for small-cap returns given an improving domestic growth outlook. Higher capex levels coupled with higher GDP has historically been good for small-cap returns.

In our view, the shift toward capex is likely to continue in small caps. Over the last 6-9 months, there has been a divergence in trend with capex seeing an uptick even as buybacks have declined significantly (current quarter down 45% y/y). With multiple macro indicators pointing to an improved economic growth outlook, the recovery in capex will likely continue. The recent rebound in small-cap sales growth should also support higher capex levels as rising capex has historically followed improving sales growth. In addition, the current level of capex relative to sales (1.2%) is well below its five-year median level (2.7%), pointing to ample room for capex growth.

Capex is likely to aid returns; buybacks less so. Over the long term, the buyback effect in small caps has been stronger from a returns perspective versus capex. However, more recently small caps engaging in higher capex have been outperforming those focused on high buybacks (+24.4% vs +20.2% since the U.S. election). Our analysis has shown that small caps engaging in higher capex tend to outperform in up markets, as has been the case post-election. On the other hand, during down markets, high buybacks work significantly better. We do not foresee a sharp pick-up in buybacks over the next 12 months given extended valuations. In addition, buybacks in small caps have stopped aiding returns over the last year, catching up with a trend we have seen in large caps over the last few years.

We recommend combining high capex with high quality to achieve a balanced risk/reward. Improving economic growth coupled with improving fundamentals point to a good environment for small cap returns. However, extended valuations (small cap EV/EBITDA: 13.6x) and policy uncertainty have tempered returns expectations. In such an environment, a balanced risk/reward positioning continues to be our favored approach. Our analysis shows that combining high capex with high-quality characteristics allows investors to achieve a balanced risk/reward profile with outperformance in up markets (+1.1% annualized outperformance over R2000) and positive returns in down markets (+3.3% annualized outperformance over R2000). We highlight 15 small caps from our coverage universe that possess high capex/quality characteristics and where our analysts have high conviction with an Overweight rating.

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MACRO STRATEGY

U.S. Small & Mid Cap Strategy

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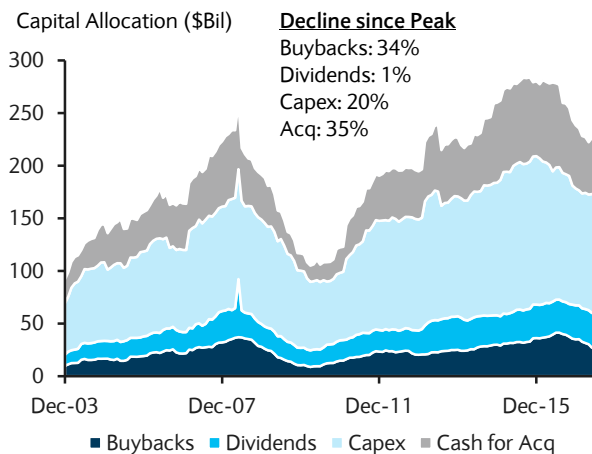
Catching the upswing in capex

Over the last few years there has been significant discussion regarding capital allocation decisions among small caps especially the relative importance of stock repurchases and the amount of capital they are reinvesting in their businesses. Interestingly, recent trends within small caps have shown signs of a shift in priorities away from stock repurchases and towards capital spending. In this note, we explore implications for small-cap returns of current capital allocation trends in context of current market environment.

Over the last year there has been a decline in all major categories of capital spending in small caps dividends, capital expenditures, buybacks, and cash use for acquisitions. Although spending has stalled in each category, the reduction has been sharpest in the use of cash for acquisitions (-35% since its peak), Buybacks (-34%), and Capital expenditures (-20%).

FIGURE 1

Over the last 18 months small caps, in aggregate, saw declines in capital allocated to buybacks, capex, and acquisitions

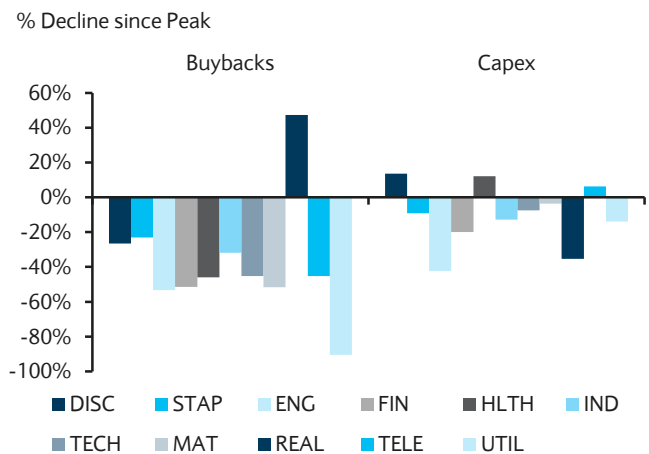


Source: Barclays Research, Thomson Reuters

Note: Data is as of 6/22/2017. Peaks are defined as the month within the last 3 yrs with the maximum aggregate value for each use of capital. Peaks are defined individually for Buybacks, Dividends, Capex, and Cash for Acquisitions.

FIGURE 2

Decline in buybacks has been broad based across sectors but less so in capex



Source: Barclays Research, Thomson Reuters

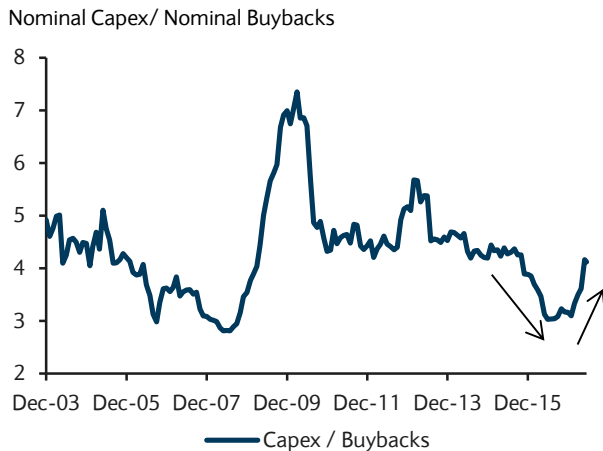
Note: Data is as of 6/22/2017. Peaks are defined as the month within the last 3 yrs with the maximum aggregate value for each use of capital. Peaks are defined individually for Buybacks and Capex

For buybacks, the declines have been somewhat uniform (Figure 2) across sectors although Real Estate has seen an uptick in buyback activity recently. In contrast, most of the reduction in small cap capital expenditures has been driven by two sectors, Energy and Real Estate.

Interestingly, even as the nominal amounts spent on stock repurchases and capex has declined, we find that there has been a shift in priorities towards capital spending and away from stock buybacks. This is reflected in the first uptick in years in the ratio of small cap capex to buybacks, which has risen 19% since September, 2016. While still in its early stages, this shift in priorities towards capex should be beneficial for small caps given an improving outlook for domestic economic growth. Our analysis has shown that historically small cap returns are strongest when high capital spending levels occur alongside improving economic growth (GDP > 2%).

FIGURE 3

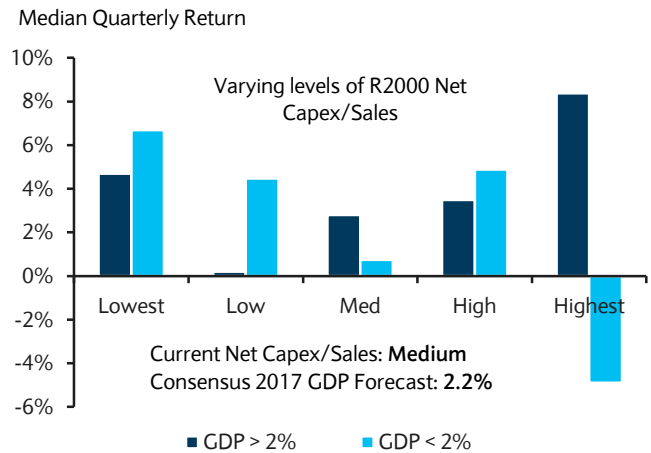
Over the last six months, there appears to be a shift in capital allocated away from buybacks to capex



Source: Barclays Research, Thomson Reuters
Note: Data is as of 6/22/2017

FIGURE 4

Historically, high capex during periods of strong economic growth has aided small cap returns



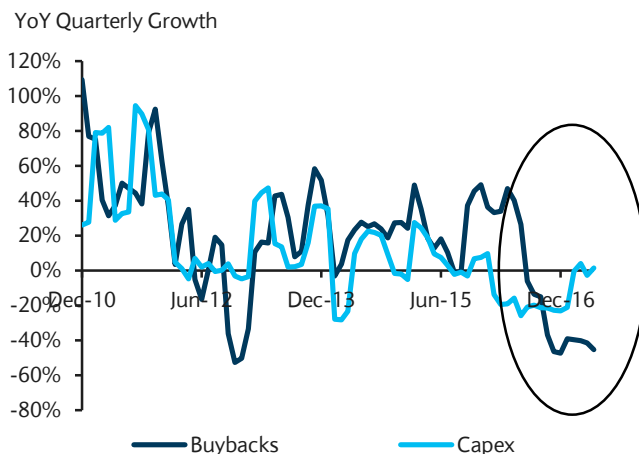
Source: Barclays Research, Thomson Reuters
Note: Quarterly Returns are from 12/31/1989 – 03/31/2017

In our view, this shift away from buybacks into capital expenditure is likely to continue in small caps for several reasons:

- **Capex rebound is in the early stages; Growth outlook seems better:** Over the last six months, there has been a modest uptick in small-cap capex levels even as buybacks have diverged significantly. Using quarterly numbers we find that capex growth is up slightly (+1.5%) while buybacks have continued to decline (-45%). With the outlook for economic growth having improved as evidenced by the improvement in a broad set of macro indicators, we believe capex is likely to continue to recover. On the other hand, stretched valuations (LTM EV/EBITDA: 13.6x) are likely to continue to temper buyback activity.

FIGURE 5

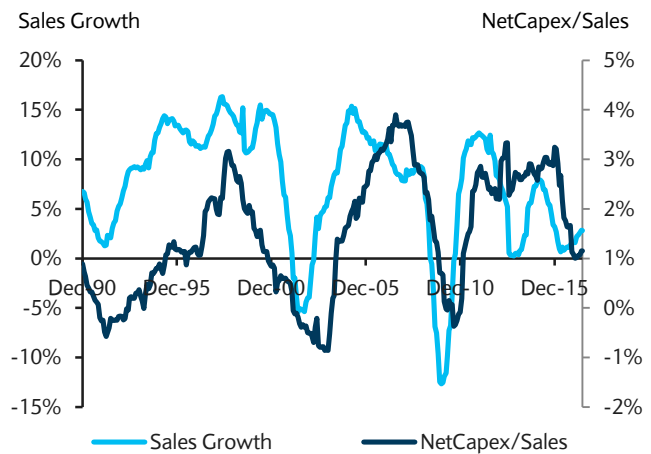
Quarterly y/y changes show a divergence in aggregate growth of small cap capex (up) vs. buybacks (down)



Source: Barclays Research, Thomson Reuters
Note: Data is as of 6/22/2017

FIGURE 6

Over the long term, capex has accompanied sales growth though we see a lagged relationship at peaks & troughs



Source: Barclays Research, Thomson Reuters
Note: Data is as of 6/22/2017

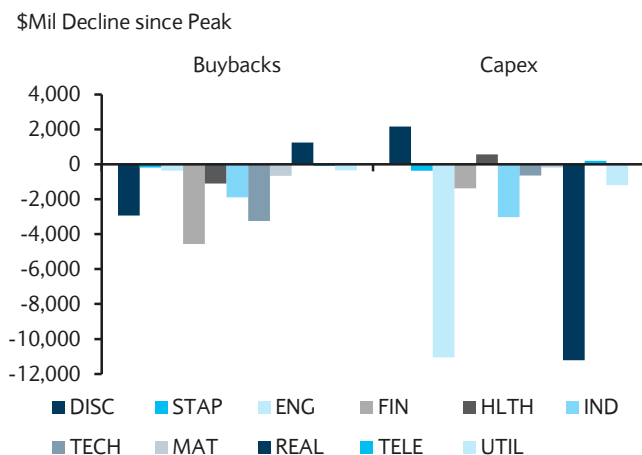
- **Small-cap sales growth is on the rebound which should support higher capex.** Historically, there has been a high contemporaneous correlation between capex and

sales among small caps. However, during the peak and trough periods of the cycle capex tends to lag sales growth by a few months. After hitting a multi-year low in June 2016, sales growth has seen a noticeable improvement (currently +2.9%). Given that capex tends to lag sales growth within small caps, we believe improving top-line should push capex higher.

- **Net Capex/Sales levels are low relative to history.** Small-cap net capex/sales is currently below its long-term median (1.2% vs 1.5%) and well below its 5yr median (2.7%). Given these subdued levels, we believe there is plenty of room for capex expansion within small caps.
- **The sharp drop in Energy capex appears to have stabilized at lower levels.** The decline in small cap capex in recent years was largely driven (85%) by sector concentration (Energy and Real Estate). The decline in Energy capex appears to have stabilized though it remains susceptible to oil price moves. In contrast, the decline in buybacks has been broad based across sectors leaving less scope for a pickup.

FIGURE 7

The decline in capex has been driven predominantly by Energy and Real Estate

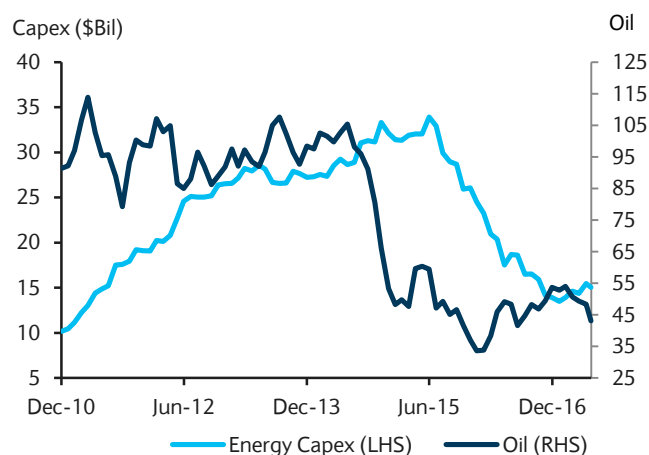


Source: Barclays Research, Thomson Reuters

Note: Data is as of 6/22/2017. Peaks are defined as the month within the last 3 with the maximum aggregate value for each use of capital. Peaks are defined individually for Buybacks and Capex

FIGURE 8

Energy capex has stabilized at lower levels though it remains susceptible to oil prices



Source: Barclays Research, Thomson Reuters, Bloomberg

Note: Data is as of 6/22/2017.

To position for an environment in which capital spending is likely to rebound, we focus on identifying stocks that are likely to benefit from this trend.

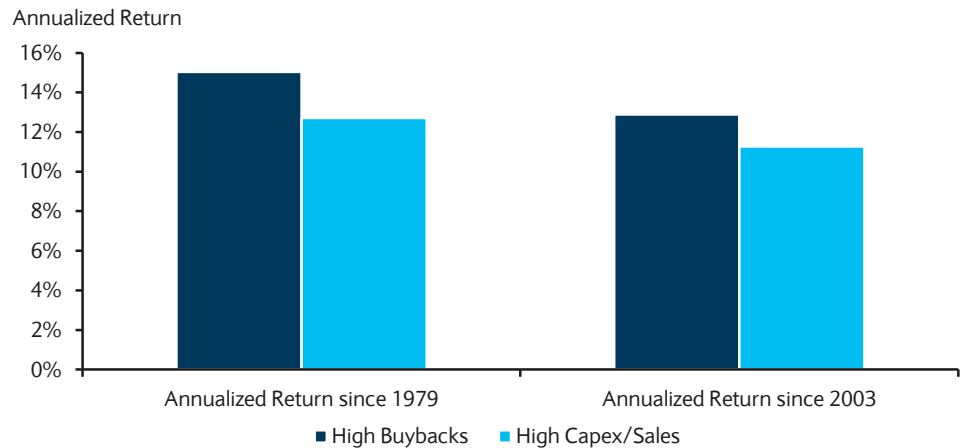
Recommend stocks with high capex that also score high on quality

In prior publications we have highlighted the long-term outperformance of small caps engaged in a high level of buybacks (see [Seeking Buybacks](#), 2/11/2014) as well as those with moderately high levels of capex/sales¹ (see [Capex: A double-edged sword?](#), 10/15/2015). In addition, over the long term we have found the impact of buybacks on returns to be stronger in small caps compared to higher levels of capex.

¹ We find that companies with moderate to high levels of capex tend to outperform those with the highest levels of net capex/sales. From here on "high capex" will refer to stocks in the 2nd highest (as opposed to highest) quintile of stocks on a net capex/sales basis.

FIGURE 9

Over the long term, the buyback effect has been stronger in small caps versus capex



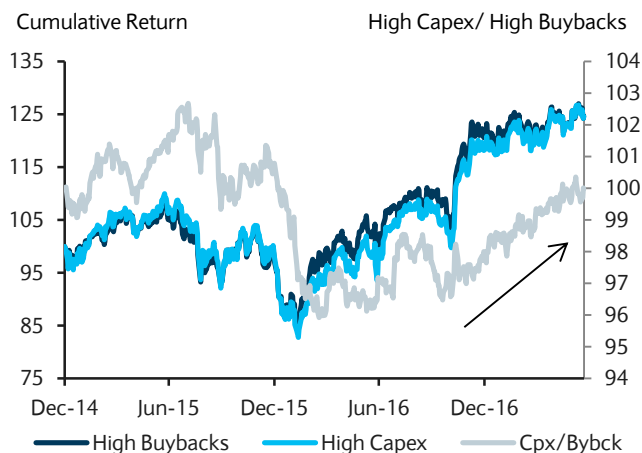
Source: Barclays Research, Thomson Reuters, Bloomberg

Note: Data is based on monthly returns from 12/31/1979 – 5/31/2017. Past performance is not a guarantee of future results.

More recently though, post the U.S. election, we have observed a reversal as small cap stocks with higher capex levels have been outperforming those engaged in higher levels of buybacks. This is most likely due to the fact that small caps with higher levels of capex tend to post stronger returns during up markets outperforming small caps with high buybacks by an average of 3.9% annualized. On the other hand, during down markets we find that small caps engaging in higher buybacks significantly outperform higher capex stocks.

FIGURE 10

Over the last 6-9 months, high capex small caps have outperformed high buyback stocks...

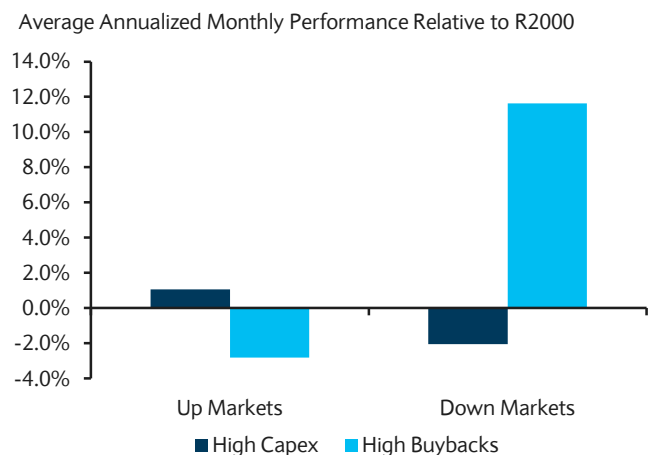


Source: Barclays Research, Thomson Reuters, Bloomberg

Note: Data is as of 6/22/2017. Past performance is not a guarantee of future results.

FIGURE 11

Which is consistent with their stronger performance in “up” market over the long term



Source: Barclays Research, Thomson Reuters, Bloomberg

Note: Data is based on monthly returns from 12/31/1979 – 5/31/2017. Past performance is not a guarantee of future results.

The current environment is characterized by an improving outlook for economic growth along with early signs of a recovery in small-cap fundamentals. Such a backdrop should typically bode well for small cap returns. Similarly, the recent uptick in small cap capex in the context of a broad based improvement in various macro indicators also bodes well for small-cap returns.

FIGURE 12

Macro indicators have broadly supported an improved outlook

| Macro Indicator | June 2016 | Current | Consensus 2017 numbers | Consensus 2018 numbers |
|----------------------------------|-----------|---------|------------------------|------------------------|
| GDP YoY | 1.3 | 2 | 2.2 | 2.3 |
| ISM | 52.8 | 54.9 | NA | NA |
| CPI | 1 | 1.9 | 2.3 | 2.2 |
| Small Business Optimism | 94.5 | 104.5 | NA | NA |
| R2000 EBITDA Growth ¹ | -4.4% | -0.6% | 9.0% | NA |

Source: Bloomberg, Barclays Research

Note: Data is as of 6/22/2017

1: Since consensus R2000 EBITDA growth is typically overoptimistic, we use our small-cap research projected EBITDA growth for ex-financials in 2017

From a positioning standpoint, in a positive return environment stocks with higher capital spending are likely to outperform those that are undertaking higher buybacks in our view. As we have noted, buybacks have not been aiding small cap returns in recent months consistent with the trend we have seen in large caps over the last few years. In addition, we don't expect a ramp up in overall level of small cap buybacks given extended valuations.

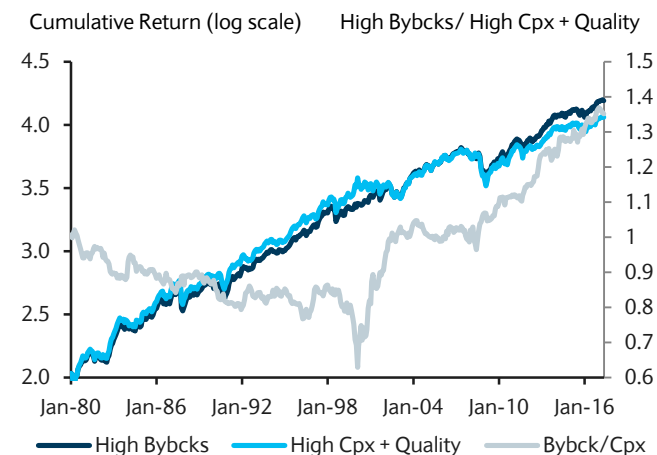
Despite improving economic outlook and the early signs of an improvement in small cap fundamentals and capex, extended small-cap valuations and significant uncertainty around policy initiatives of the new administration have tempered return expectations. In such an environment, it is worth exploring whether high-capex stocks can be paired with another low beta characteristic to provide a better risk/reward framework for returns.

Our analysis finds that combining higher capex small-cap stocks with those that have strong quality characteristics² provides the appropriate risk/reward framework for the current market environment. Not only does this combination have a similar long-term performance to higher buyback stocks (Figure 13), but unlike high-buyback stocks, it delivers positive returns in both up and down markets (Figure 14).

² Quality is defined as an equally weighted blended score of ROIC, 12-month change in ROIC, assets to debt, low Sloan accruals, 12-month change in shares outstanding, capital turnover, and Altman-Z Score. The following variables are ranked within sectors for all securities in the Russell 2000 on a scale of 0-100 (0 is the lowest and 100 is the highest). A quality variable is calculated by adding the scores of the above seven variables and then reranking within sectors. Capex + Quality is defined as the sum of the percentile rank of Net Capex/Sales within sectors and the Quality Score. Capex + Quality is then re-ranked within sectors.

FIGURE 13

Although high-buyback small caps tend to outperform those with high capex and quality ...



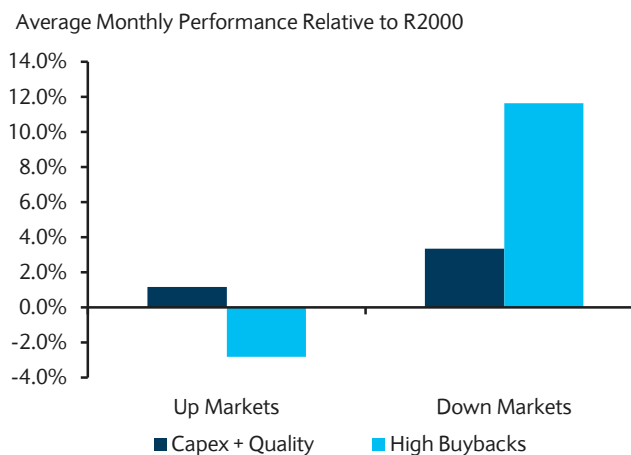
Source: Barclays Research, Thomson Reuters

Note Data is as of 6/22/2017 High buybacks are defined as the highest quintile of buybacks percentile ranked within each sector. High Capex + Quality is highest quintile of the sum of percentile ranked Net Capex/Sales and Quality within sectors. All rankings are done at end of month.

Past performance is not a guarantee of future results.

FIGURE 14

... small caps with high capex and quality provide a good risk/reward profile in both up and down markets



Source: : Barclays Research, Thomson Reuters

Note Data is based on monthly returns from 12/31/1979 – 5/31/2017. High Capex + Quality is highest quintile of the sum of percentile ranked Net Capex/Sales and Quality within sectors. All rankings are done at end of month. Past performance is not a guarantee of future results.

Based on our analysis, we recommend a list of 15 small caps stocks with high capex/sales and high-quality characteristics that should perform strongly over the next 6-12 months. This screen is comprised of stocks within the Russell 2000 that are in the top tercile of Capex + Quality, have a market capitalization over \$500 million, an average daily dollar volume traded above \$1 million, and also have an Overweight rating from a Barclays Equity Research Analyst.

FIGURE 15

Stocks with High Capex + Quality and Overweight rating from a Barclay Equity Research Analyst

| Ticker | Company | Analyst | Price | Net Capex/Sales Percentile | Quality Percentile | Capex + Quality Percentile |
|--------|-----------------------------|----------------------|-------|----------------------------|--------------------|----------------------------|
| DAN | Dana | Brian Johnson | 21.45 | 84 | 74 | 79 |
| EPAM | EPAM Systems | Darrin Peller | 82.81 | 75 | 89 | 82 |
| PCRX | Pacira Pharmaceuticals/DE | Douglas Tsao | 47.85 | 67 | 66 | 66 |
| PAYC | Paycom Software | Raimo Lenschow | 71.79 | 97 | 80 | 88 |
| RSPP | RSP Permian | Jeffrey Robertson | 31.03 | 97 | 69 | 83 |
| FIBK | First Interstate BancSystem | Matthew Keating | 36.40 | 71 | 65 | 68 |
| ESNT | Essent Group | Mark DeVries | 36.01 | 50 | 94 | 72 |
| NUVA | NuVasive | Matthew Taylor, CFA | 76.91 | 52 | 83 | 68 |
| CEVA | CEVA | Joseph Wolf | 46.70 | 81 | 64 | 73 |
| PDCE | PDC Energy | Jeffrey Robertson | 42.51 | 94 | 77 | 86 |
| PRTA | Prothena Corp | Geoff Meacham, Ph.D. | 56.99 | 90 | 44 | 67 |
| RDN | Radian Group | Mark DeVries | 16.30 | 50 | 88 | 69 |
| TEN | Tenneco | Brian Johnson | 53.85 | 79 | 83 | 81 |
| TPIC | TPI Composites | Jon Windham | 18.07 | 89 | 57 | 73 |
| TXRH | Texas Roadhouse | Jeffrey A. Bernstein | 49.96 | 88 | 77 | 82 |

Source: Barclays Research, Thomson Reuters

Note: Data is as of 6/22/2017. Net Capex/Sales Percentile is ranked within sectors. Quality Percentile is ranked within sectors. Capex + Quality is the sum of percentile ranked Net Capex/Sales and Quality, re-ranked within sectors.

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Materially Mentioned Stocks (Ticker, Date, Price)

CEVA, Inc. (CEVA, 23-Jun-2017, USD 46.80), Overweight/Neutral, CE/J

Dana Incorporated (DAN, 23-Jun-2017, USD 21.18), Overweight/Neutral, A/CD/CE/D/J/K/L/M

EPAM Systems Inc (EPAM, 23-Jun-2017, USD 84.63), Overweight/Neutral, CE/J

Essent Group (ESNT, 23-Jun-2017, USD 36.00), Overweight/Neutral, A/CE/D/J/K/L/M

First Interstate BancSystem Inc. (FIBK, 23-Jun-2017, USD 35.85), Overweight/Neutral, D/FA/J/L

NuVasive Inc. (NUVA, 23-Jun-2017, USD 76.78), Overweight/Neutral, CD/CE/J/K/N

Pacira Pharmaceuticals Inc. (PCRX, 23-Jun-2017, USD 47.45), Overweight/Positive, CD/CE/J

Paycom (PAYC, 23-Jun-2017, USD 73.03), Overweight/Positive, CE/J

PDC Energy (PDCE, 23-Jun-2017, USD 44.72), Overweight/Negative, CD/CE/J

Prothena Corp. PLC (PRTA, 23-Jun-2017, USD 58.73), Overweight/Positive, CE/J

Radian Group (RDN, 23-Jun-2017, USD 16.34), Overweight/Neutral, CD/CE/J

RSP Permian (RSPP, 23-Jun-2017, USD 32.03), Overweight/Negative, A/CD/CE/D/E/J/L

Tenneco Inc. (TEN, 23-Jun-2017, USD 54.64), Overweight/Neutral, CD/CE/D/J/K/L/M/N

Texas Roadhouse, Inc. (TXRH, 23-Jun-2017, USD 49.85), Overweight/Neutral, CE/J

TPI Composites, Inc. (TPIC, 23-Jun-2017, USD 18.60), Overweight/Neutral, CE/J

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| | | |
|-----------------------------------|---|---|
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| Canadian Solar Inc. (CSIQ) | Casella Waste Systems (CWST) | Clean Harbors (CLH) |
| Covanta Holding Corp. (CVA) | First Solar Inc. (FSLR) | Hannon Armstrong Sustainable Infrastructure Capital, Inc (HASI) |
| Ormat Technologies (ORA) | Republic Services (RSG) | SolarEdge Technologies Inc. (SEDG) |
| Stericycle Inc. (SRCL) | SunPower Corp. (SPWR) | Sunrun Inc. (RUN) |
| Terraform Global Inc. (GLBL) | TPI Composites, Inc. (TPIC) | US Ecology, Inc. (ECOL) |
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|----------------------------------|----------------------------|-------------------------|
| Adient PLC (ADNT) | American Axle & Mfg. (AXL) | Autoliv, Inc. (ALV) |
| Avis Budget Group Inc. (CAR) | BorgWarner Inc. (BWA) | Dana Incorporated (DAN) |
| Delphi Automotive (DLPH) | Ford Motor (F) | General Motors (GM) |
| Hertz Global Holdings Inc. (HTZ) | Lear Corporation (LEA) | Meritor, Inc. (MTOR) |
| Mobileye N.V. (MBLY) | Tenneco Inc. (TEN) | Tesla, Inc. (TSLA) |
| Visteon Corp. (VC) | | |

U.S. Biopharmaceuticals

| | | |
|--------------------------------|----------------------------------|--|
| AbbVie Inc. (ABBV) | Accelaron Pharma Inc (XLRN) | Achillion Pharmaceuticals (ACHN) |
| Advaxis Inc. (ADXS) | Alexion Pharmaceuticals (ALXN) | Alnylam Pharmaceuticals (ALNY) |
| Amgen Inc. (AMGN) | Biogen (BIIB) | Biohaven Pharmaceuticals, Inc. (BHAVN) |
| BioMarin Pharmaceutical (BMRN) | Bristol-Myers Squibb (BMY) | Celgene Corp. (CELG) |
| CRISPR Therapeutics AG (CRSP) | DBV Technologies S.A. (DBVT) | Eli Lilly & Co. (LLY) |
| Gilead Sciences (GILD) | Incyte Corp. (INCY) | Ironwood Pharmaceuticals (IRWD) |
| Johnson & Johnson (JNJ) | Merck & Co. (MRK) | Myovant Sciences Ltd. (MYOV) |
| Neurocrine Biosciences (NBIX) | Pfizer Inc. (PFE) | Prothena Corp. PLC (PRTA) |
| PTC Therapeutics (PTCT) | Regeneron Pharmaceuticals (REGN) | Seattle Genetics (SGEN) |
| United Therapeutics (UTHR) | Versartis, Inc (VSAR) | Vertex Pharmaceuticals (VRTX) |
| Zymeworks Inc. (ZYME) | | |

U.S. Consumer Finance

| | | |
|--|---|--|
| AGNC Investment Corp. (AGNC) | American Express (AXP) | Annaly Capital Management Inc. (NLY) |
| Apollo Investment Corp. (AINV) | Ares Capital Corp. (ARCC) | ARMOUR Residential REIT Inc. (ARR) |
| Black Knight Financial Services (BKFS) | Chimera Investment Corp. (CIM) | CIT Group, Inc. (CIT) |
| CYS Investments Inc. (CYS) | Discover Financial Services (DFS) | Essent Group (ESNT) |
| Fidelity National Financial (FNF) | Fifth Street Finance Corp. (FSC) | First American Financial (FAF) |
| FS Investment Corp. (FSIC) | Invesco Mortgage Capital Inc. (IVR) | Medley Capital Corp. (MCC) |
| MGIC Investment (MTG) | Nationstar Mortgage Holdings (NSM) | Navient Corp. (NAVI) |
| New Residential Investment Corp (NRZ) | New York Mortgage Trust, Inc. (NYMT) | Ocwen Financial Corp. (OCN) |
| OneMain Holdings, Inc (OMF) | PennyMac Financial Services Inc. (PFSI) | PennyMac Mortgage Investment Trust (PMT) |
| Prospect Capital Corp. (PSEC) | Radian Group (RDN) | Santander Consumer USA Holdings, Inc. (SC) |
| SLM Corp. (SLM) | Synchrony Financial (SYF) | TICC Capital Corp. (TICC) |
| TPG Specialty Lending (TSLX) | Two Harbors Investment Corp. (TWO) | Walter Investment Management Corp. (WAC) |

U.S. Emerging Technologies

IMPORTANT DISCLOSURES CONTINUED

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|--|--------------------------------------|---------------------------------------|
| Allot Communications, Ltd. (ALLT) | Arris International plc (ARRS) | CEVA, Inc. (CEVA) |
| Corning Inc. (GLW) | Electronics for Imaging, Inc. (EFII) | Finisar Corp. (FNSR) |
| GoPro Inc. (GPRO) | Kornit Digital Ltd. (KRNT) | Lumentum Holdings Inc. (LITE) |
| Mellanox Technologies (MLNX) | Orbotech (ORBK) | Radware Ltd. (RDWR) |
| U.S. Medical Supplies & Devices | | |
| Abbott Laboratories (ABT) | AngioDynamics (ANGO) | Baxter International (BAX) |
| Becton Dickinson & Co. (BDX) | Boston Scientific Corp. (BSX) | C.R. Bard Inc. (BCR) |
| Edwards Lifesciences Corp. (EW) | Globus Medical (GMED) | Hill-Rom Holdings, Inc. (HRC) |
| Integra LifeSciences Holdings (IART) | Intuitive Surgical (ISRG) | K2M Group Holdings Inc. (KTWO) |
| Mazor Robotics Ltd. (MZOR) | Medtronic PLC (MDT) | NuVasive Inc. (NUVA) |
| ResMed (RMD) | ReWalk Robotics Ltd. (RWLK) | Stryker Corp. (SYK) |
| Teleflex (TFX) | Wright Medical Group (WMGI) | Zimmer Biomet Holdings Inc. (ZBH) |
| U.S. Mid-Cap Banks | | |
| Associated Banc-Corp (ASB) | Astoria Financial (AF) | Bank of Hawaii Corp. (BOH) |
| BankUnited, Inc. (BKU) | Capital Bank Financial Corp. (CBF) | Commerce Bancshares, Inc. (CBSH) |
| Cullen/Frost Bankers, Inc. (CFR) | Dime Community Bancshares (DCOM) | East West Bancorp (EWBC) |
| First Financial Bancorp (FFBC) | First Hawaiian, Inc. (FHB) | First Horizon National (FHN) |
| First Interstate BancSystem Inc. (FIBK) | First Republic Bank (FRC) | Fulton Financial Corp. (FULT) |
| Investors Bancorp Inc. (ISBC) | New York Community Bancorp (NYCB) | People's United Financial (PBCT) |
| Popular, Inc. (BPOP) | Signature Bank (SBNY) | SVB Financial Group (SIVB) |
| Synovus Financial (SNV) | TCF Financial (TCF) | Texas Capital Bancshares (TCBI) |
| Umpqua Holdings Corp. (UMPQ) | Webster Financial (WBS) | Western Alliance Bancorporation (WAL) |
| Zions Bancorporation (ZION) | | |
| U.S. Oil & Gas: E&P (Mid-Cap) | | |
| Antero Resources (AR) | Bill Barrett Corp. (BBG) | Callon Petroleum (CPE) |
| Cimarex Energy Co. (XEC) | Comstock Resources (CRK) | Concho Resources Inc. (CXO) |
| CONSOL Energy Inc. (CNX) | Denbury Resources (DNR) | Diamondback Energy, Inc. (FANG) |
| Eclipse Resources (ECR) | Energen Corporation (EGN) | Exco Resources Inc. (XCO) |
| Extraction Oil & Gas (XOG) | Gulfport Energy (GPOR) | Halcon Resources Corp. (HK) |
| Jones Energy Inc. (JONE) | Laredo Petroleum (LPI) | Matador Resources (MTDR) |
| Parsley Energy Inc (PE) | PDC Energy (PDCE) | Resolute Energy Corp. (REN) |
| Rice Energy (RICE) | RSP Permian (RSPP) | SM Energy Co. (SM) |
| Stone Energy Corp. (SGY) | W&T Offshore (WTI) | Whiting Petroleum (WLL) |
| WildHorse Resource Development (WRD) | | |
| U.S. Payments, Processors & IT Services | | |
| Acacia Research Corp. (ACTG) | Accenture Plc (ACN) | Alliance Data Systems Corp. (ADS) |
| Automatic Data Processing (ADP) | Broadridge Financial Solutions (BR) | Cognizant Technology Solutions (CTSH) |
| CoreLogic, Inc. (CLGX) | DXC Technology (DXC) | EPAM Systems Inc (EPAM) |
| Fidelity National Information Services (FIS) | First Data Corp. (FDC) | Fiserv Inc. (FISV) |
| FleetCor Technologies, Inc. (FLT) | Global Payments Inc. (GPN) | InterDigital, Inc. (IDCC) |
| MasterCard Inc. (MA) | Paychex Inc. (PAYX) | PayPal (PYPL) |
| RPX Corporation (RPXC) | Square (SQ) | Total System Services Inc. (TSS) |
| Vantiv, Inc. (VNTV) | Verifone Systems Inc. (PAY) | Visa Inc. (V) |
| Western Union Co. (WU) | WEX Inc. (WEX) | |
| U.S. Restaurants | | |
| BJ's Restaurants Inc (BJRI) | Bloomin' Brands, Inc. (BLMN) | Bojangles' Inc. (BOJA) |
| Brinker International (EAT) | Buffalo Wild Wings Inc. (BWLD) | Chipotle Mexican Grill, Inc. (CMG) |

IMPORTANT DISCLOSURES CONTINUED

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|------------------------------|-------------------------------|-----------------------------|
| Darden Restaurants (DRI) | Domino's Pizza (DPZ) | Dunkin' Brands Group (DNKN) |
| Jack in the Box Inc. (JACK) | McDonald's Corp. (MCD) | Panera Bread (PNRA) |
| Shake Shack Inc. (SHAK) | Sonic Corporation (SONC) | Starbucks Corp. (SBUX) |
| Texas Roadhouse, Inc. (TXRH) | The Cheesecake Factory (CAKE) | The Wendy's Company (WEN) |
| Wingstop Inc. (WING) | Yum! Brands Inc. (YUM) | |

U.S. Software

| | | |
|----------------------------------|---|---------------------------|
| Adobe Systems Inc. (ADBE) | Amdocs Ltd. (DOX) | Ansys, Inc. (ANSS) |
| Appian Corporation (APPN) | Apptio, Inc. (APTI) | Autodesk Inc. (ADSK) |
| CA Technologies (CA) | Check Point Software Technologies Ltd. (CHKP) | Citrix Systems (CTXS) |
| Cornerstone OnDemand Inc. (CSOD) | Coupa Software Inc. (COUP) | CyberArk Software (CYBR) |
| Ellie Mae Inc. (ELLI) | FireEye (FEYE) | Five9, Inc. (FIVN) |
| Fortinet, Inc. (FTNT) | Hortonworks, Inc. (HDP) | Intuit Inc. (INTU) |
| LogMeIn, Inc. (LOGM) | Magic Software Enterprises Ltd. (MGIC) | Microsoft Corp. (MSFT) |
| Mimecast Ltd. (MIME) | MobileIron, Inc. (MOBL) | MuleSoft, Inc. (MULE) |
| Nice Ltd. (NICE) | Nuance Communications, Inc. (NUAN) | Oracle Corp. (ORCL) |
| Palo Alto Networks (PANW) | Paycom (PAYC) | PTC Inc. (PTC) |
| Rapid7 (RPD) | Red Hat Inc. (RHT) | Salesforce.com Inc. (CRM) |
| SAP SE (SAP) | Sapiens International Corp (SPNS) | SecureWorks (SCWX) |
| ServiceNow, Inc. (NOW) | Splunk Inc. (SPLK) | Symantec Corp. (SYMC) |
| Tableau Software, Inc. (DATA) | Talend S.A. (TLND) | Teradata Corp. (TDC) |
| Varonis Systems, Inc. (VRNS) | VMware Inc. (VMW) | Workday Inc. (WDAY) |

U.S. Specialty Pharmaceuticals

| | | |
|------------------------------------|--|---------------------------------------|
| Alcobra (ADHD) | Alkermes PLC (ALKS) | Allergan Plc. (AGN) |
| AMAG Pharmaceuticals (AMAG) | Aratana Therapeutics Inc. (PETX) | Chiasma Inc. (CHMA) |
| Coherus Biosciences Inc. (CHRS) | Endo International PLC (ENDP) | Foamix Pharmaceuticals Ltd. (FOMX) |
| Halozyne Therapeutics Inc. (HALO) | Jazz Pharmaceuticals PLC (JAZZ) | Mallinckrodt (MNK) |
| Momenta Pharmaceuticals (MNTA) | Mylan Inc. (MYL) | Oncobiologics, Inc. (ONS) |
| Pacira Pharmaceuticals Inc. (PCRX) | Perrigo Co., Plc. (PRGO) | Pfenex (PFNX) |
| Phibro Animal Health Corp. (PAHC) | Protagonist Therapeutics (PTGX) | Teva Pharmaceutical Industries (TEVA) |
| Trevena Inc. (TRVN) | Valeant Pharmaceuticals International Inc. (VRX) | Zoetis Inc. (ZTS) |

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IMPORTANT DISCLOSURES CONTINUED

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