

during our five-year forecast period, even with all of the negative headwinds for the industry.

During the past five years, Invesco generated an average annual organic growth rate of 1.8% with one of the lowest standard deviations (1.6%) relative to peers. That said, we've struggled of late to find a catalyst that would get investors back into the shares in a meaningful way, with organic growth expected to be weak in the near term, the firm suffering from fee compression and rising costs (both of which are in our near- and long-term forecasts in levels greater than Invesco has been forecasting), and the firm holding back on share repurchases while it pays down the more than \$850 million outstanding on its credit facility related to its purchase of Source (a European specialist exchange-traded fund provider) at the end of last year and Guggenheim's ETF operations during the second quarter of 2018. With rumors now circulating that Invesco may be purchasing OppenheimerFunds for \$5 billion (which we view as a rich price to pay for what looks to be no more than a scale-driven deal), we believe it is more prudent right now to step back from the name until we have greater clarity on the firm's near-term movements, despite the fact that it is trading at historically low multiples (not seen since the third quarter of 2011 and the third and fourth quarters of 2008) with a dividend yield of 5.2% (based on a quarterly dividend of \$0.30 per share).

We replaced Invesco on the Best Ideas list with BlackRock. While that firm is currently trading at a premium to the group of 12 U.S.-based asset managers we cover, the shares are undervalued relative to our \$580 per share fair value estimate (and are trading at a greater discount to our fair value estimate than T. Rowe Price is right now). The market tends to reward both organic growth and operating profits in the U.S.-based asset managers, which explains why BlackRock (generating a 3.3% CAGR for organic growth, with a 3.3% standard deviation, during 2008-17 with operating margins averaging 36.2% annually and reaching 38.6% during 2017) and wide-moat-rated T. Rowe Price (with a 2.6% CAGR for organic growth, with a 3.3% standard deviation, over the past 10 years and annual operating margins of 43.6% on average, with the firm closing out 2017 with margins at 44.2%) have tended to trade at premiums to the group. As a reference point, the group of 12 U.S.-based asset managers we cover had an average annual organic growth rate of 0.7% during 2008-17, with a standard deviation of 6.2% and operating margins of 27.4% on average the past 10 years).

We expect BlackRock to continue generating above-average organic growth of 3%-5% on average annually during 2018-22, with a standard deviation of 1.9%, with operating margins hovering between 39% and 40% over our five-year forecast (a period that includes a 20% decline in equity market values midway through our projection timeline). Our fair value estimate implies a price/earnings multiple of 20.6 times our 2018 earnings estimate and 18.5 times our 2019 earnings estimate. For some perspective, during the past five (10) calendar years, the company's shares have traded at an average of 20.0 (20.8) times trailing earnings.

BlackRock is at its core a passive investor. Through its iShares exchange-traded fund platform and institutional index fund offerings, the wide-moat firm sources two thirds of its managed assets (and half its annual revenue) from passive products. In an environment where investors and the advisors that serve them are expected to seek out providers of passive products, as well as active asset managers that

Best Ideas

Company and Industry	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)	Analyst
Basic Materials								
Cameco (CCJ)	★★★★★	\$19.5	\$11.6	High	Narrow	0.59	4.67	Inton
Compass Minerals International (CMP)	★★★★	\$83	\$64.5	High	Wide	0.78	2.18	Goldstein
Martin Marietta Materials (MLM)	★★★★	\$260	\$168.86	High	Narrow	0.65	10.64	Inton
Communication Services								
BT Group (BT.A)	★★★★	GBX 360	GBX 237	High	Narrow	0.66	23.51	C. Nichols
China Mobile (941)	★★★★	HKD 100	HKD 78	Medium	Narrow	0.78	1597.09	Baker
Comcast (CMCSA)	★★★★	\$42	\$33.68	Medium	Wide	0.80	157.07	Macker
Telefonica (TEF)	★★★★★	\$13	\$6.95	High	Narrow	0.53	36.09	C. Nichols
Telstra (TLS)	★★★★	AUD 4.4	AUD 3.08	Medium	Narrow	0.70	36.63	Han
Consumer Cyclical								
Alibaba Group Holding (BABA)	★★★★	\$240	\$141.9	High	Wide	0.59	355.67	Hottovy
Bayerische Motoren Werke (BMW)	★★★★	EUR 117	EUR 74.3	High	Narrow	0.64	49.02	Hilgert
Expedia Group (EXPE)	★★★★	\$185	\$115.69	High	Narrow	0.63	17.45	Wasiolek
General Motors (GM)	★★★★	\$45	\$32.31	High	None	0.72	45.99	Whiston
Hanesbrands (HBI)	★★★★★	\$27	\$16.17	Medium	Narrow	0.60	5.83	Hottovy
InvoCare (IVC)	★★★★	AUD 16	AUD 11.6	Medium	Wide	0.73	1.28	Ragonese
Mattel (MAT)	★★★★	\$21.5	\$13.99	High	Narrow	0.65	4.79	Katz
Norwegian Cruise Line Holdings (NCLH)	★★★★	\$69	\$50.62	High	Narrow	0.73	11.21	Katz
Walt Disney (DIS)	★★★★	\$130	\$111.15	Medium	Wide	0.86	167.85	Macker
WPP (WPP)	★★★★	GBX 1500	GBX 1065	Medium	Narrow	0.71	13.44	Mogharabi
Consumer Defensive								
A2 Milk (ATM)	★★★★	AUD 14.6	AUD 9.89	High	Narrow	0.68	7.27	Fleck
G8 Education (GEM)	★★★★★	AUD 3.5	AUD 2.06	High	None	0.59	0.93	James
General Mills (GIS)	★★★★★	\$58	\$42.85	Low	Wide	0.74	26.20	Vora
Imperial Brands (IMB)	★★★★★	GBX 3700	GBX 2678	Low	Wide	0.72	25.57	Gorham
Kao (4452)	★★★★	JPY 8800	JPY 8529	Low	Wide	0.97	4157.21	Wei
Mondelez International (MDLZ)	★★★★	\$52	\$41.19	Medium	Wide	0.79	61.99	Lash
PepsiCo (PEP)	★★★★	\$122	\$105.06	Low	Wide	0.86	151.52	Vora
Procter & Gamble (PG)	★★★★	\$97	\$78.87	Low	Wide	0.81	202.72	Lash
Reckitt Benckiser Group (RB.)	★★★★	GBX 7300	GBX 6449	Low	Wide	0.88	46.60	Gorham
Energy								
Cenovus Energy (CVE)	★★★★	\$21	\$11.69	Very High	None	0.56	14.88	Gemino
Enbridge (ENB)	★★★★★	\$64	\$41.49	Medium	Wide	0.65	73.47	Gemino
Enterprise Products Partners (EPD)	★★★★	\$35.5	\$28.48	Low	Wide	0.80	61.97	Ellis
Royal Dutch Shell (RDS.B)	★★★★	\$83	\$67.43	Medium	Narrow	0.81	281.47	Good
Total (TOT)	★★★★	\$77	\$61.57	Medium	None	0.80	165.95	Good
Woodside Petroleum (WPL)	★★★★	AUD 46.5	AUD 36	High	None	0.77	33.70	Taylor

Best Ideas

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Financial Services								
Agricultural Bank of China (601288)	★★★★	CNY 4.2	CNY 3.74	High	Narrow	0.89	1289.72	Tan
American International Group (AIG)	★★★★★	\$76	\$50.14	Medium	None	0.66	46.55	Horn
BlackRock (BLK)	★★★★	\$580	\$417.68	Medium	Wide	0.72	68.52	Warren
Capital One Financial (COF)	★★★★	\$127	\$90.94	Medium	Narrow	0.72	43.51	Plunkett
Credit Suisse Group (CSGN)	★★★★	CHF 22	CHF 13.41	High	Narrow	0.61	34.21	Scholtz
Mitsubishi UFJ Financial Group (8306)	★★★★	JPY 880	JPY 685.6	Medium	None	0.78	9077.92	Wu
Pendal Group (PDL)	★★★★	AUD 11	AUD 8.22	Medium	Narrow	0.75	2.31	Likos
Westpac Banking (WBC)	★★★★	AUD 35	AUD 26.45	Medium	Wide	0.76	89.56	Ellis
Healthcare								
Allergan (AGN)	★★★★	\$263	\$182.22	Medium	Wide	0.69	61.85	Waterhouse
McKesson (MCK)	★★★★★	\$210	\$129.24	Medium	Wide	0.62	25.82	Lekraj
Medtronic (MDT)	★★★	\$105	\$93.11	Medium	Wide	0.89	128.64	Wang
Ramsay Health Care (RHC)	★★★★	AUD 76	AUD 52.92	Medium	Narrow	0.70	10.69	Kallos
Roche Holding (ROG)	★★★★★	CHF 337	CHF 235.55	Low	Wide	0.70	201.27	Andersen
Industrials								
Anixter International (AXE)	★★★★★	\$107	\$63.41	Medium	Narrow	0.59	2.12	Bernard
Beijing Enterprises Holdings (392)	★★★★	HKD 58	HKD 42.6	Medium	Narrow	0.73	53.76	Song
CK Hutchison Holdings (1)	★★★★	HKD 118	HKD 81.3	Medium	None	0.69	313.51	Tan
G4S (GFS)	★★★★★	GBX 337	GBX 217	Medium	None	0.64	3.45	Field
GEA Group (G1A)	★★★★★	EUR 45	EUR 26.17	Medium	Wide	0.58	4.89	Molina
General Dynamics (GD)	★★★	\$220	\$192.94	Medium	Wide	0.88	57.16	Higgins
Grupo Aeroportuario del Pacifico (GAP B)	★★★	MXN 221	MXN 191.54	High	Wide	0.87	107.45	Higgins
Guangshen Railway (525)	★★★★★	HKD 6.5	HKD 3.09	High	None	0.48	21.89	Song
Johnson Controls International (JCI)	★★★★	\$53	\$33.73	High	Narrow	0.64	31.20	Bernard
Kion Group (KGX)	★★★★★	EUR 90	EUR 45.45	Medium	Narrow	0.51	5.52	Molina
Royal Philips (PHIA)	★★★★	EUR 42	EUR 35.11	Medium	Narrow	0.84	33.33	Vonk
Sodexo (SW)	★★★★	EUR 110	EUR 87.04	Medium	Narrow	0.79	12.65	Field
Stericycle (SRCL)	★★★★	\$86	\$52.95	High	Narrow	NA	4.55	Young
Real Estate								
AVEO Group (AOG)	★★★★	AUD 2.8	AUD 1.98	Medium	None	0.71	1.15	Sherlock
Sun Hung Kai Properties (16)	★★★★	HKD 153	HKD 104.7	Medium	Narrow	0.68	303.32	Zhong
Welltower (WELL)	★★★★	\$72	\$61.73	Medium	None	0.86	22.97	Brown
Technology								
Intel (INTC)	★★★★	\$65	\$44.23	Medium	Wide	0.68	206.57	Davuluri
Microchip Technology (MCHP)	★★★★★	\$112	\$67.71	Medium	Wide	0.60	15.65	Colello
Murata Manufacturing (6981)	★★★★	JPY 24000	JPY 16495	High	Narrow	0.69	3517.58	Ito
MYOB Group (MYO)	★★★	AUD 3.82	AUD 3.52	Medium	Narrow	0.92	2.11	James
Synaptics (SYNA)	★★★★	\$64	\$36.59	Very High	None	0.57	1.28	Davuluri
Tencent Holdings (700)	★★★★★	HKD 590	HKD 288.4	High	Wide	0.49	2745.68	Tam
Utilities								
Dominion Energy (D)	★★★★	\$84	\$71.78	Low	Wide	0.85	46.93	Fishman
Enel (ENEL)	★★★★	EUR 5.7	EUR 4.34	Medium	None	0.76	44.49	Fulop
FirstEnergy (FE)	★★★★	\$41	\$37.21	Low	Narrow	0.91	18.08	Fishman
Scana (SCG)	★★★★★	\$56	\$39.77	Medium	Narrow	0.71	5.67	Miller