

about enforcement measures still needed by Mexico on labor rights. Mexico's new president, Andrés Manuel López Obrador, may be receptive to these concerns, given his own populist platform.

- ▶ Trump intends to proceed with withdrawing the U.S. from NAFTA before USMCA is ratified. We think he wants to coerce Congress to vote for USMCA out of fear of having no trade deal at all. This may very well work, but there's also a legal debate on whether Trump has the authority to withdraw the U.S. Even if he does not, those who oppose withdrawing the U.S. from NAFTA may not have time to fight a court battle because USMCA must be ratified within 90 days of its submission to Congress. We think the U.S. needs to ratify this deal because for autos it is better than no North American trade pact.
- ▶ USMCA raises minimum North American content, as summarized in Exhibit 1. We don't expect U.S. automakers to have a problem complying, and we think German automakers or Toyota's Lexus brand's higher-end sedans and SUVs may just be willing to pay the 2.5% tariff they already pay rather than reconfigure global production. However, that premise will not work if the U.S. imposes 25% tariffs on foreign vehicles under national security risks as enabled by Section 232 of the Trade Expansion Act.
- ▶ Side letters to USMCA give Canada and Mexico some protection should the U.S. impose Section 232 auto tariffs. Each country would be able to export 2.6 million vehicles annually to the U.S. without Section 232 tariffs. Canada, due to losing production in recent times, appears to have no risk of hitting 2.6 million, but we estimate Mexico would reach the cap in 2021. We hope the White House is only using Section 232 as a hard-line negotiating tactic, but if these tariffs do become law, we think they will be removed once Trump leaves office.
- ▶ Also new to USMCA is a labor value clause that over time requires a sizable portion of a vehicle's assembly and parts to be from facilities where workers are paid at least \$16 an hour, several multiples more than what Mexican auto workers are paid. U.S. automakers would have an advantage over other automakers in meeting this requirement because some engineering, research and development, and IT work is counted, which the Detroit Three do heavily in the U.S. and Canada.
- ▶ GM remains on our Best Ideas list, and we believe it is significantly undervalued. The company's November restructuring announcement is not a sign of distress, in our opinion; it's GM showing why it's not like Old GM and being proactive in downsizing unprofitable or unpopular vehicle programs before a recession. These vehicles' sales are declining at a far greater rate than GM's overall U.S. sales because they are car models. Americans continue to increase their demand for light-truck models, and the car side of the market therefore needs to shrink, in our view.
- ▶ GM's move also puts the UAW on the defensive before contract talks even begin this summer. The UAW now must prioritize just keeping at least the Lordstown, Ohio, plant open instead of seeking large pay increases. We think it may not be possible to keep any of these plants open past 2019, but if it is, we think it will require a large concession by the UAW somewhere else, such as healthcare costs.

## Best Ideas

Company and Industry	Morningstar Rating	Fair Value Estimate	Current Price	Uncertainty Rating	Moat Rating	Price / Fair Value	Market Cap (B)	Analyst
<b>Basic Materials</b>								
Cameco (CCJ)	★★★★★	\$19.5	\$12.28	High	Narrow	0.63	4.87	Inton
Compass Minerals International (CMP)	★★★★★	\$81	\$44.4	High	Wide	0.55	1.50	Goldstein
James Hardie Industries (JHX)	★★★★	AUD 21.2	AUD 15.33	Medium	Narrow	0.72	6.78	Slade
Martin Marietta Materials (MLM)	★★★★	\$240	\$179.53	High	Narrow	0.75	11.26	Inton
<b>Communication Services</b>								
BT Group (BT.A)	★★★★	GBX 360	GBX 233.55	High	Narrow	0.65	23.17	C. Nichols
China Mobile (941)	★★★★	HKD 97	HKD 80	Medium	Narrow	0.82	1638.04	Baker
Telefonica (TEF)	★★★★★	\$13	\$7.67	High	Narrow	0.59	39.82	C. Nichols
Telstra (TLS)	★★★★★	AUD 4.4	AUD 2.93	Medium	Narrow	0.67	34.85	Han
Vodafone Group (VOD)	★★★★	\$250	\$153.74	High	Narrow	0.61	41.08	C. Nichols
<b>Consumer Cyclical</b>								
Alibaba Group Holding (BABA)	★★★★	\$240	\$151.69	High	Wide	0.63	390.14	Hottovy
Anta Sports Products (2020)	★★★★★	HKD 55	HKD 35.15	Medium	Narrow	0.64	94.37	Su
Bayerische Motoren Werke (BMW)	★★★★	EUR 117	EUR 72.53	High	Narrow	0.62	47.19	Hilgert
Cie Financiere Richemont (CFR)	★★★★	CHF 90	CHF 67.64	High	Wide	0.75	38.19	Sokolova
Dufry (DUFN)	★★★★	CHF 144	CHF 99.76	High	Narrow	0.69	5.04	Sokolova
Expedia Group (EXPE)	★★★★	\$180	\$114.2	High	Narrow	0.63	17.01	Wasiolek
General Motors (GM)	★★★★	\$46	\$34.73	High	None	0.76	49.02	Whiston
Hanesbrands (HBI)	★★★★★	\$27	\$13.62	Medium	Narrow	0.50	4.91	Swartz
InvoCare (IVC)	★★★★★	AUD 16	AUD 10.63	Medium	Wide	0.66	1.17	Ragonese
Mattel (MAT)	★★★★★	\$21	\$11.9	High	Narrow	0.57	4.11	Katz
Norwegian Cruise Line Holdings (NCLH)	★★★★	\$69	\$46.17	High	Narrow	0.67	10.16	Katz
Walt Disney (DIS)	★★★★	\$130	\$112.8	Medium	Wide	0.87	167.92	Macker
WPP (WPP)	★★★★★	GBX 1450	GBX 880	Medium	Narrow	0.61	11.10	Mogharabi
<b>Consumer Defensive</b>								
Anheuser-Busch InBev (BUD)	★★★★★	\$118	\$70.76	Low	Wide	0.60	138.39	Gorham
G8 Education (GEM)	★★★★	AUD 3.5	AUD 2.77	High	None	0.79	1.26	James
General Mills (GIS)	★★★★★	\$57	\$41.42	Low	Wide	0.73	24.72	Vora
Imperial Brands (IMB)	★★★★★	GBX 3700	GBX 2419.5	Low	Wide	0.65	23.15	Gorham
Mondelez International (MDLZ)	★★★★	\$52	\$42.34	Medium	Wide	0.81	61.56	Lash
A2 Milk (ATM)	★★★★	AUD 13.7	AUD 11.35	High	Narrow	0.83	8.39	Fleck
<b>Energy</b>								
Cenovus Energy (CVE)	★★★★	\$19	\$10.85	Very High	None	0.57	13.33	Gemino
Diamondback Energy (FANG)	★★★	\$120	\$106.13	High	Narrow	0.88	17.41	Meats
Enbridge (ENB)	★★★★	\$62	\$45.9	Medium	Wide	0.74	92.80	Gemino
Enterprise Products Partners (EPD)	★★★★★	\$35.5	\$27.09	Low	Wide	0.76	59.13	Ellis
Royal Dutch Shell (RDS.B)	★★★★	\$83	\$62.78	Medium	Narrow	0.76	253.22	Good
Schlumberger (SLB)	★★★★	\$62	\$41.65	High	Narrow	0.67	57.68	Caldwell
Total (TOT)	★★★★★	\$77	\$54.96	Medium	None	0.71	143.33	Good
Woodside Petroleum (WPL)	★★★★	AUD 46.5	AUD 33.26	High	None	0.72	31.14	Taylor
<b>Financial Services</b>								
Agricultural Bank of China (601288)	★★★	CNY 4.2	CNY 3.53	High	Narrow	0.84	1220.25	Tan
Altaba (AABA)	★★★★	\$98	\$63.11	High	None	0.64	38.03	Mogharabi
American International Group (AIG)	★★★★★	\$76	\$41.42	Medium	None	0.55	36.64	Horn
BlackRock (BLK)	★★★★	\$500	\$399.5	Medium	Wide	0.80	63.39	Warren
Capital One Financial (COF)	★★★★★	\$127	\$79.95	Medium	Narrow	0.63	37.87	Plunkett

Source: Morningstar. As of Jan. 11, 2019

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<b>Financial Services, Continued</b>								
Credit Suisse Group (CSGN)	★★★★★	CHF 22	CHF 11.66	High	Narrow	0.53	29.77	Scholtz
Link Administration Holdings (LNK)	★★★★	AUD 8.5	AUD 7.01	Medium	Narrow	0.82	3.71	James
Macquarie Group (MQG)	★★★★	AUD 135	AUD 113.21	Medium	Narrow	0.84	38.86	Ellis
Oversea-Chinese Banking Corp (O39)	★★★★	SGD 13.6	SGD 11.65	High	Narrow	0.86	49.51	Wu
Pendal Group (PDL)	★★★★	AUD 11	AUD 7.58	Medium	Narrow	0.69	2.41	Likos
Sumitomo Mitsui Financial Group (8316)	★★★★★	JPY 5960	JPY 3818	Medium	None	0.64	5342.91	Makdad
T. Rowe Price Group (TROW)	★★★★	\$120	\$92.29	Medium	Wide	0.77	22.21	Warren
Wells Fargo (WFC)	★★★★★	\$67	\$47.75	Medium	Wide	0.71	224.77	Compton
Westpac Banking (WBC)	★★★★	AUD 33	AUD 25.61	Medium	Wide	0.78	87.81	Ellis
<b>Healthcare</b>								
Allergan (AGN)	★★★★★	\$240	\$146.3	Medium	Wide	0.61	49.34	Waterhouse
DaVita (DVA)	★★★★★	\$81	\$55.16	Medium	Narrow	0.68	9.16	Strole
Medtronic (MDT)	★★★★	\$110	\$84.84	Medium	Wide	0.77	113.94	Wang
Roche Holding (ROG)	★★★★★	CHF 333	CHF 256.05	Low	Wide	0.77	218.29	Andersen
<b>Industrials</b>								
Anixter International (AXE)	★★★★★	\$107	\$58.12	Medium	Narrow	0.54	1.95	Bernard
Beijing Enterprises Holdings (392)	★★★★	HKD 58	HKD 42.75	Medium	Narrow	0.74	53.95	Song
CK Hutchison Holdings (1)	★★★★★	HKD 118	HKD 77.85	Medium	None	0.66	300.21	Tan
G4S (GFS)	★★★★★	GBX 337	GBX 209.5	Medium	None	0.62	3.25	Field
GEA Group (G1A)	★★★★★	EUR 45	EUR 24.11	Medium	Wide	NA	4.35	Molina
General Dynamics (GD)	★★★★	\$216	\$162.43	Medium	Wide	0.75	48.10	Higgins
Grupo Aeroportuario del Pacifico (GAP B)	★★★★	MXN 210	MXN 176.18	High	Wide	0.84	98.84	Higgins
Guangshen Railway (525)	★★★★★	HKD 6.3	HKD 3.03	High	None	0.48	26.17	Song
Johnson Controls International (JCI)	★★★★	\$46	\$31.88	High	Narrow	0.69	29.46	Bernard
Kion Group (KGX)	★★★★★	EUR 90	EUR 46.69	Medium	Narrow	0.52	5.50	Molina
Sodexo (SW)	★★★★	EUR 110	EUR 93.74	Medium	Narrow	0.85	13.65	Field
Stericycle (SRCL)	★★★★★	\$83	\$39.45	High	Narrow	0.48	3.57	Young
<b>Real Estate</b>								
Aveo Group (AOG)	★★★★★	AUD 2.3	AUD 1.55	Medium	None	0.67	0.89	Sherlock
CK Asset Holdings (1113)	★★★★	HKD 81	HKD 64.1	Medium	Narrow	0.79	236.75	Zhong
Macerich (MAC)	★★★★	\$59	\$45.99	High	Narrow	0.78	6.49	Brown
Sun Hung Kai Properties (16)	★★★★	HKD 153	HKD 122	Medium	Narrow	0.80	353.43	Zhong
<b>Technology</b>								
Applied Materials (AMAT)	★★★★	\$49	\$34.76	High	Wide	0.71	33.32	Davuluri
Intel (INTC)	★★★★	\$65	\$48.56	Medium	Wide	0.75	221.63	Davuluri
KLA-Tencor (KLAC)	★★★★	\$128	\$93.71	High	Wide	0.73	14.34	Davuluri
Lam Research (LRCX)	★★★★	\$185	\$144.57	High	Narrow	0.78	22.43	Davuluri
Microchip Technology (MCHP)	★★★★★	\$112	\$76.62	Medium	Wide	0.68	18.12	Colello
Murata Manufacturing (6981)	★★★★★	JPY 24000	JPY 13375	High	Narrow	0.56	2852.31	Ito
Skyworks Solutions (SWKS)	★★★★	\$105	\$68.59	High	Narrow	0.65	12.18	Colello
Tencent Holdings (700)	★★★★	HKD 499	HKD 331.2	High	Wide	0.66	3153.10	Tam
<b>Utilities</b>								
Dominion Energy (D)	★★★★	\$84	\$71.9	Low	Wide	0.86	55.83	Fishman
Enel (ENEL)	★★★★	EUR 5.7	EUR 5.25	Medium	None	0.92	53.38	Fulop
ENN Energy Holdings (2688)	★★★★	HKD 83	HKD 71.1	Medium	Narrow	0.86	79.92	Lee
Entergy (ETR)	★★★★	\$96	\$86.63	Low	Narrow	0.90	16.28	Fishman
Orsted (ORSTED)	★★★	DKK 450	DKK 445.7	Low	Narrow	0.99	187.21	Fulop

Source: Morningstar. As of Jan. 11, 2019