



## Navigating the E-Commerce Ecosystem for Growth Opportunities

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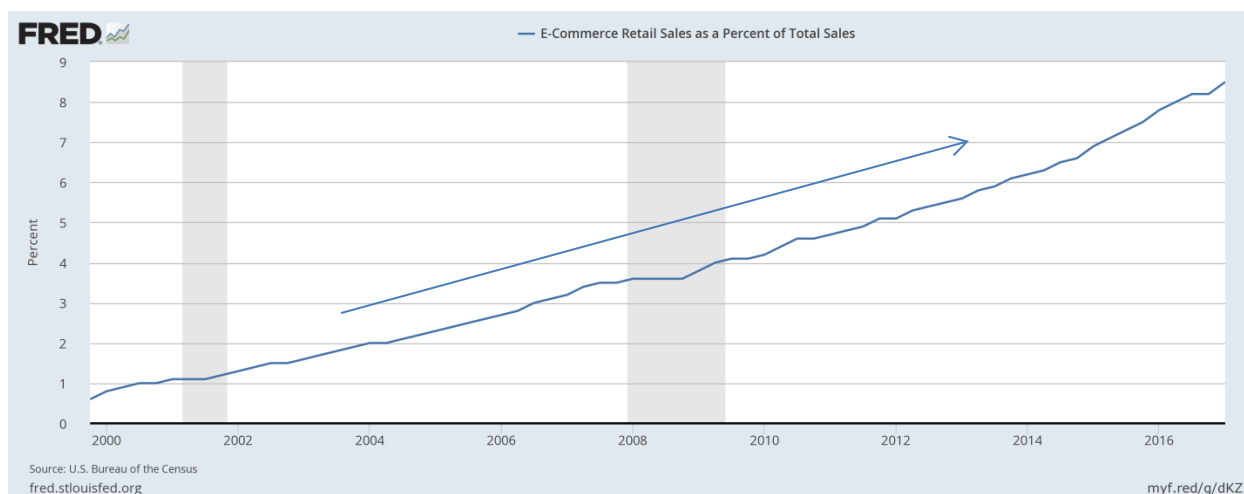
At SmartTrust®, we look to provide for diversified income and total return opportunities through innovative investment strategies. We use a bottoms-up approach to develop our Unit Investment Trust (UIT) products, based in large part on the input received from the many advisors we work with across the country. In so doing, we look to only bring products to market when the strategy has value in the market and demand from the marketplace. The majority of SmartTrust® UITs offer diversified income opportunities, as well as the potential for total return, and have incorporated such underlying investment product types as individual taxable and tax-free bonds, individual stocks, preferred securities, business development companies (BDCs), closed-end funds (CEFs), real estate investment trusts (REITs), American depository receipts (ADRs), master limited partnerships (MLPs) and exchange-traded funds (ETFs). This particular report will focus on the growth opportunities that we see in the stocks of companies involved in some aspect of the ever-expanding “E-Commerce Ecosystem”.



Photo Credit: [Fueled.com](http://Fueled.com)

E-Commerce can broadly be defined as the buying and selling of goods and services electronically. By extension, the E-Commerce Ecosystem can thus be defined as a network of interconnected functions that comprise the full cycle of the buying and selling of goods and services electronically. To gain a better understanding of the Ecosystem, just think of the lifecycle of an online purchase. This lifecycle can include the consumer accessing the internet, searching for an online retailer, selecting the item they want to purchase, entering information related to how they intend to purchase the item and then submitting the order. From here, the lifecycle continues from the viewpoint of the merchant who receives the order, locates the product, obtains the product from their inventory (in places such as a warehouse or distribution center), ships the order to the consumer and ultimately collects payment. With this lifecycle visual in mind, one can see how many different types of industries, and companies within those industries, can potentially benefit from activity in the E-commerce Ecosystem.

E-commerce continues to grow and many have suggested that online retailing is contributing to the slow demise of traditional “brick and mortar” retailing. Yet, according to Census.gov and the Office of National Statistics, E-commerce sales currently account for just 8% of total retail sales in the United States. While this represents significant growth from 1999, when E-commerce retail sales made up less than 1% of total sales, there is clearly still room for significant E-commerce sales growth ahead.




Source: FRED Economic Data, St. Louis Fed. Observation: Q1 2017, Updated: May 16, 2017.

Looking ahead, a report from *eMarketer* has forecasted a total of \$4 trillion in E-commerce sales by 2020, which would then account for approximately 15% of all consumer retail spending. Amazon.com, Inc., which currently accounts for approximately 34% of online sales in the U.S., is expected to account for roughly half of all E-commerce sales by 2021 by itself according to the *Fortune* article, “*Amazon Will Make Up 50% of All U.S. E-Commerce by 2021.*”

While an argument could be made that Amazon is currently the hub of the E-Commerce Ecosystem, this status may not last forever and many other companies stand to benefit from both Amazon’s existing dominance and the overall growth of online shopping in the United States, and across the globe, in general as previously discussed.

We would categorize the potential benefactors into one of the following Global Industry Classification Standard (GICS) Sub-Industries at present:

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**Internet & Direct Marketing Retail** – within the Internet & Direct Marketing Retail Industry and the Consumer Discretionary Sector, this Sub-Industry includes companies providing retail services primarily on the Internet, through mail order, and TV home shopping retailers.



- **Technology Hardware, Storage & Peripherals** - within the Technology, Hardware, Storage & Peripherals Industry and the Information Technology Sector, this Sub-Industry includes manufacturers of cellular phones, personal computers, servers, electronic computer components and peripherals. It includes data storage components, motherboards, audio and video cards, monitors, keyboards, printers, and other peripherals. This Sub-Industry excludes semiconductors classified in the Semiconductors Sub-Industry.



- **Internet Software & Services** - within the Internet Software & Services Industry and the Information Technology Sector, this Sub-Industry includes companies developing and marketing internet software and/or providing internet services including online databases and interactive services, as well as companies deriving a majority of their revenues from online advertising. This Sub-Industry excludes companies classified in the Internet Retail Sub-Industry.



- **Data Processing & Outsourced Services** - within the IT Services Industry and the Information Technology Sector, this Sub-Industry includes providers of commercial electronic data processing and/or business process outsourcing services as well as companies that provide services for back-office automation.



- **Air Freight & Logistics** - within the Air Freight & Logistics Industry and the Industrials Sector, this Sub-Industry includes Companies providing air freight transportation, courier and logistics services, including package and mail delivery and customs agents. This Sub-Industry excludes those companies classified in the Airlines, Marine or Trucking Sub-Industries.



- **Industrial REITs** - within the Equity Real Estate Investment Trusts (REITs) Industry and the Real Estate Sector, this Sub-Industry includes companies or Trusts engaged in the acquisition, development, ownership, leasing, management and operation of industrial properties. This Sub-Industry also includes companies operating industrial warehouses and distribution properties - the latter of which we particularly view as being a key component of the existing E-Commerce Ecosystem.

As a point of clarification, at this time, companies that may have a percentage of their sales derived from online purchases (*whether large or small*) but not belonging to one of these Sub-Industries would not be part of the E-Commerce Ecosystem as described within this whitepaper.

Together, each one of these sub-industries can form what we believe to be the E-Commerce Ecosystem as visually displayed below.



SmartTrust® has a unit investment trust (UIT) strategy focused on E-Commerce called the **E-Commerce Ecosystem Trust**. The trust seeks to provide investors with total return potential through capital appreciation and dividend income by investing in equity securities (i.e. stocks) of companies that trade on a U.S. exchange. As described in the Trust's Prospectus, when selecting the securities for each series of the Trust strategy, factors that are considered include, but are not limited to, the following:

- GICS Sector, Industry and Sub-Industry
- Market capitalization
- Average trading volume
- Current dividend yield
- Trailing twelve-month free cash flow balances
- Analyst ratings

The resulting portfolio is not equally weighted but is weighted based on our view of the E-Commerce Ecosystem at the time of portfolio selection.

An example of one company within each of the six Sub-industries described earlier, as found in Series 1 of this Trust strategy at its inception on August 8, 2017, can be found below:

#### **Internet & Direct Marketing Retail**

**Amazon.com, Inc.** (Ticker: AMZN) - Amazon.com, Inc. is an online retailer that offers a wide range of products. The Company products include books, music, videotapes, computers, electronics, home and garden, and numerous other products. Amazon offers personalized shopping services, Web-based credit card payment, and direct shipping to customers.

#### **Technology Hardware, Storage & Peripherals**

**Apple Inc.** (Ticker: AAPL) - Apple Inc. designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions. The Company sells its products worldwide through its online stores, its retail stores, its direct sales force, third-party wholesalers, and resellers.

#### **Internet Software & Services**

**Alibaba Group Holding Limited** (Ticker: BABA) - Alibaba Group Holding Limited operates as a holding company. The Company provides internet infrastructure, e-commerce, online financial, and internet content services through its subsidiaries. Alibaba Group Holding offers its products and services worldwide.

#### **Data Processing & Outsourced Services**

**Visa Inc.** (Ticker: V) - Visa Inc. operates a retail electronic payments network and manages global financial services. The Company also offers global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities.

#### **Air Freight & Logistics**

**United Parcel Service** (Ticker: UPS) - United Parcel Service, Inc. (UPS) delivers packages and documents throughout the United States and in other countries and territories. The Company also provides global supply chain services and less-than-truckload transportation, primarily in the US UPS's business consists of integrated air and ground pick-up and delivery network

#### **Industrial REITs**

**Prologis Inc.** (Ticker: PLD) - Prologis, Inc. is an owner, operator, and developer of industrial real estate, focused on global and regional markets across the Americas, Europe, and Asia. The Company also leases modern distribution facilities to customers, including manufacturers, retailers, transportation companies, third-party logistics providers, and other enterprises.

The remaining companies selected for Series 1 of this Trust strategy include the following:

**Alphabet Inc.** (Ticker: GOOG)

**Ebay Inc.** (Ticker: EBAY)

**Jd.Com Inc.** (Ticker: JD)

**Vipshop Holdings Ltd** (Ticker: VIPS)

**Wayfair Inc.** (Ticker: W)  
**1-800-Flowers.Com Inc.** (Ticker: FLWS)  
**The Priceline Group Inc.** (Ticker: PCLN)  
**Petmed Express Inc.** (Ticker: PETS)  
**Etsy Inc.** (Ticker: ETSY)  
**Us Auto Parts Network Inc.** (Ticker: PRTS)  
**Nutrisystem Inc.** (Ticker: NTRI)  
**Duke Realty Corp** (Ticker: DRE)  
**Stag Industrial Inc.** (Ticker: STAG)  
**Rexford Industrial Realty** (Ticker: REXR)  
**Terreno Realty Corp** (Ticker: TRNO)  
**Paypal Holdings Inc.** (Ticker: PYPL)  
**Mastercard Inc.** (Ticker: MA)

While no screening criteria can guarantee a positive total return, nor can future growth of E-Commerce sales be guaranteed, we believe that the security selection approach employed at SmartTrust®, as described throughout this whitepaper, can be helpful in creating a portfolio strategy that seeks to provide total return potential during the life of the Trust by investing areas within the E-Commerce Ecosystem.

If you are interested in learning more about this particular Trust strategy, or any of our other innovative UIT portfolio strategies, please contact your Financial Advisor or visit [www.smarttrustuit.com](http://www.smarttrustuit.com).

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