



Julius Bär

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BI-WEEKLY PRODUCT IN FOCUS INVEST IN THE FUTURE: AUTOCALLS ON THREE 'AI' WINNERS

Two letters are currently changing the world: AI, or Artificial Intelligence, a term first coined by computer scientist John McCarthy at a conference in the summer of 1956. The imitation of human intelligence might once have been the stuff of science fiction, but in recent years it has mushroomed into a business worth billions. Analysts at Julius Baer point to cloud providers as the most likely winners from this future trend. On this basis, a new Autocallable Multi Barrier Reverse Convertible has been created on the smart choice of tech trio Alphabet, Microsoft and SAP. Available for subscription until 24 May, it offers both a strong underlying foundation and a promising risk-reward profile.

At a glance:

- Julius Baer Autocallable Multi Barrier Reverse Convertible on tech trio
- Sights set on the future: Alphabet, Microsoft, SAP
- Up close and personal: Trigger level enables early call
- Guaranteed coupon: 7.75% p.a.
- Ample buffer: Barrier set at 70%
- Maturity: 12 months

Summary

Julius Baer Autocallable Multi Reverse Convertible linked to Alphabet, Microsoft and SAP (USD)

(product type: SSPA 1230)

Issuer	Bank Julius Baer & Co. AG, Guernsey	Subscription deadline	24 May 2017, 12:00 CET
Lead Manager	Bank Julius Baer & Co. AG, Zurich	Initial fixing date	24 May 2017
Underlyings	Alphabet, Microsoft, SAP	Issue date	1 May 2017
Currency	USD (Quanto)	Final fixing date	24 May 2018
Issue price	100%	Expiry date	24 May 2018
Denomination	USD 1'000.00	Final redemption date	1 June 2018
Knock-in barrier	70.00%	Security no.	36464938
Coupon	7.75% p.a.	ISIN	CH0364649381
Trigger level	100%	Ticker	MASPB

AI – a growing market worth billions

While scholars continue to debate whether AI is a blessing or a curse for humanity, the market development leaves the success of this nascent technology in no doubt. The development of intuitive machines has materialised at a whirlwind rate. In 2015, spending on AI amounted to USD 2 billion worldwide and this is expected to climb to USD 127 billion in 2025. A decisive factor in this growth

trajectory is data, or 'big data' to use the buzzword. The information flow is growing steadily due to the increasing number of networked devices and appliances (Internet of Things), as well as the effects of smartphones and social media. But reams of data are not enough; the information also has to be analysed quickly and this becomes easier the more structured the data is. As a result, the artificial neural networks that mimic the human brain become increasingly

effective. According to market researcher IDC, about 10% of total data generated in 2015 can be classified as 'structured', but it expects this percentage to rise to 21% by 2020. By then, the total volume of «big data» is expected to have increased five-fold to 36 zettabytes. In order to process the information efficiently, tremendous computing power is required as well as access to open-source platforms, such as Microsoft's Cognitive Kit or Alphabet's TensorFlow. Thanks to these platforms, it has become easier to study complex issues such as natural language processing and neural technology. Analysts at Julius Baer see cloud computing as a key catalyst in the three drivers behind AI – big data, computing power and open-source platforms. Cloud computing has already given rise to two AI enablers: low-cost computing power and massive data volumes. According to experts, running AI software in the cloud offers significant advantages, such as the ability to quickly bring together millions of developers worldwide. In the long run, this benefit is likely to turn into hard currency. Market research firms Gartner and IDC forecast an increase in public cloud revenue from USD 75 billion in 2015 to USD 204 billion in 2020. Lastly, Julius Baer projects that artificial intelligence will become increasingly embedded in software offered as part of cloud services. Based on this, it advises investors to focus on leading cloud providers – those firms that stand to benefit the most from AI in the near term.

«Artificial intelligence: the new Multi BRC offers exposure to the future trend with contingent protection.»

Cloud providers – the real winners in the AI race

Cloud specialists Alphabet and Microsoft rank highly among Julius Baer's top picks, with German group SAP also playing a strong role. After all, SAP's cloud subscriptions and support revenue increased more than 10-fold between 2010 and 2016. Alphabet, Google's parent, is not only actively pursuing cloud business, it has also added machine-learning capabilities to its digital assistant, designed to accompany users throughout their day. All three groups have a Buy rating from Julius Baer Research. Thus, the new Autocallable Multi Barrier Reverse Convertible sits on a firm foundation. The trigger barrier for the autocallable feature is set exactly at the strike. If the trio quotes at or above the trigger barrier on one of the quarterly observation dates, which begin six months after the product

launch, the BRC is called early. If that does not occur, the investment period ends after 12 months. It is crucial that none of the three shares touches its barrier, set at 70% of the strike. If that happens, i.e. if one or more trades at or below its barrier, the redemption amount will be guided by the weakest share of the underlying trio. But irrespective of share price moves, the guaranteed coupon of 7.75% p.a. is payable on a quarterly basis. Another piece of good news is that the taxable interest portion for Swiss residents amounts to a mere 1.81% p.a. The new Multi BRC therefore offers investors a solid opportunity to buy into the future through AI and achieve a high investment return, even if the market trades flat.

Product features

These structured products ('products') with knock-in are investment instruments that pay out a guaranteed coupon. The capital invested is protected until the knock-in barrier is reached. If the barrier is hit, investors receive a cash payment based on the drawdown on the worst-performing underlying relative to its strike. If a trigger event occurs on one of the observation dates, the principal is paid out together with a final, prorated coupon. This product is intended for investors expecting the performance of the underlying shares to be flat or slightly positive, although minor price corrections cannot be ruled out.

Risk

An investment in this certificate entails essentially the same risks as direct investment in the underlying securities. A total loss is possible if one of the underlying securities is valued at zero at maturity. In contrast to collective investment schemes, investors in structured products do not benefit from specific asset protection in the event of issuer insolvency.

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