

EVENT
SHARES



Washington's Impact On Wall Street



Washington D.C. is the epicenter of U.S. policymaking.

Fortunately, most of the policymaking process in the U.S. is public, which may offer investors the opportunity to forecast policy outcomes with increased accuracy.

Policy can be used as a leading indicator with long-term implications on investment returns. Investors consider many factors when making investment decisions, including how government policies impact their portfolios.

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About EventShares

EventShares is a family of thematic, active ETFs managed by Active Weighting Advisors LLC, an independent asset manager headquartered in New York City. The company's goal is to make investing more approachable and accessible for all investors. The firm seeks to build a disruptive family of actively managed funds offering exposure to geopolitical and policy-driven events, and is the first of its kind. Additional information about EventShares can be found at www.EventShares.com and the firm's Twitter feed can be followed @Event_Shares.

Policy Investing

Actions in Washington D.C. can be a powerful leading indicator for investment returns. **Policy Investing** strives to identify changes in policy and invest in the most impacted companies.

Key Features

- ▶ **Leading Indicator** - The U.S. legislative process is highly publicized
 - ▶ **Long-term Horizon** - Policy can impact companies over multi-year periods as government agencies implement rules & management reacts.
 - ▶ **Historically Uncorrelated** - Policymaking occurs independent of economic cycles and may present investment opportunities uncorrelated to the stock market.
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How It Works

- ▶ **Policy: (1)** Track legislative updates **(2)** Analyze policy & build policy profile
 - ▶ **Markets: (3)** Screen companies/sectors **(4)** Portfolio Allocation
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Policy Outlook

- ▶ **NAFTA** – New deal by end of May 2018 allows current Congress to vote Dec 2018
- ▶ **Banks** – Head of CFPB continues deregulation push (regionals & custody banks)
- ▶ **Ethanol** – Corn states pushing for year round ethanol production mandate
- ▶ **Drug/Opioid** – Drug distribution executives appeared before House on 5/8/2018

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2. Key Features
3. How it Works & Past Examples
4. 2018 Policy Outlook

What is Policy Investing?

- Policy can be a **powerful leading indicator of changes** to companies and industries
- EventShares seeks to **identify policy's impact on individual companies** and invest in those stocks
- Holds long positions in companies expected to benefit & short companies expected to be negatively impacted

EventShares Policy Investing Universe

Company Sizes	Micro Cap <\$300 Million	Small Cap \$0.3 to \$2 Billion	Mid Cap \$2 to \$10 Billion	Large Cap > \$10 Billion
Policy Factors	Trade	Regulatory	Fiscal	Monetary

Chart Legend

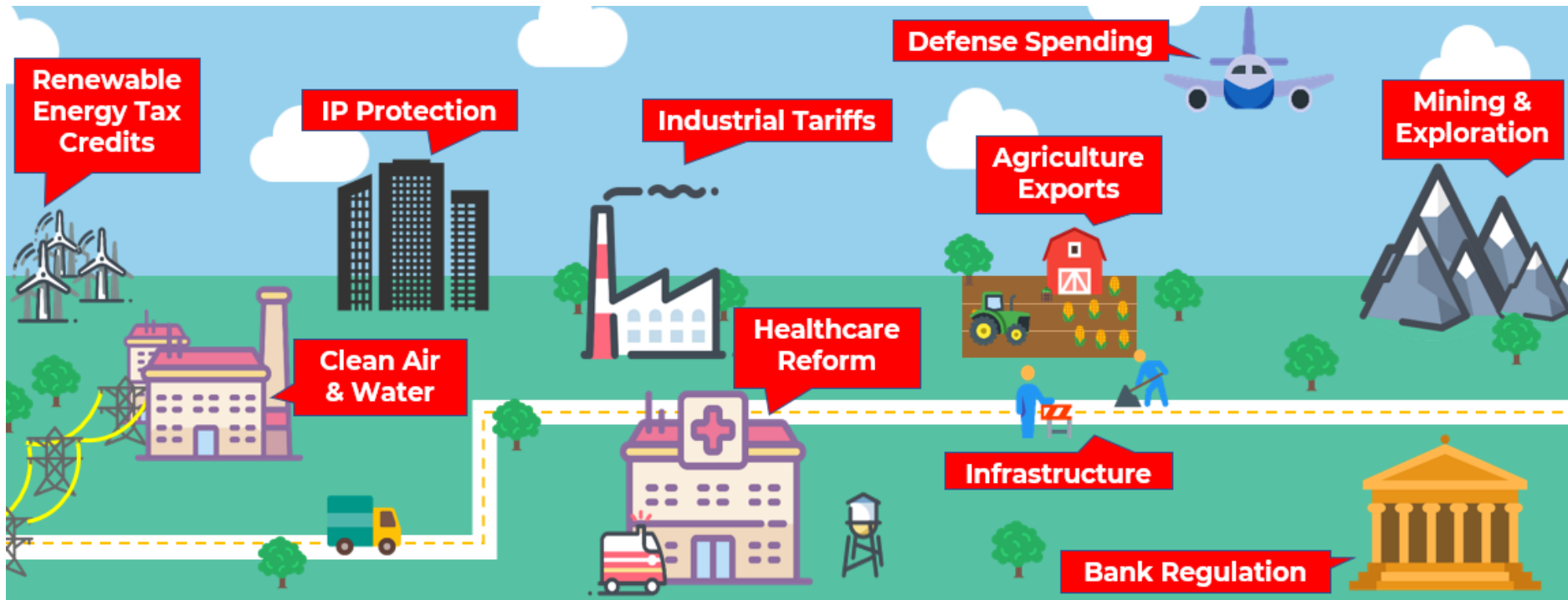
In Universe

Not In Universe

Source: EventShares, 2018

EventShares uses policy as a leading indicator to guide the investment process.

- Policy impacts your everyday life, including where you shop and work
- Levels of defense spending, capital requirements at banks, oil & gas exploration, and tariff and tax levels can change industry fundamentals



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Leading Indicator

The U.S. legislative process is highly publicized, which may allow investors to position ahead of material changes

- ▶ **Meetings and hearings are typically open to the public**, and most proposed rulemaking and comment requests are filed publicly in the Federal Register.
- ▶ **Sites like the Library of Congress provide real-time updates** on individual bills and the upcoming week's agenda, and Congressional voting records are made public.
- ▶ **The media adds another level of transparency** as it monitors the nation's policymaking process.



Long-term Horizon

Policy can impact companies over multi-year periods as government agencies implement rules and regulations and management teams react

- ▶ **Policy and regulation forces businesses to pivot.** Company leadership teams must adapt to survive or risk falling behind.
- ▶ **Changes may cause investors to reconsider business valuations.** However, many may miss the change occurring until management discusses it on an earnings call.
- ▶ **In our view, this presents an opportunity to buy mispriced assets** because:
 - (1) Investors might not understand that regulations could change profit margins
 - (2) Investors may not factor in a new customer base or product opportunity (i.e. Obamacare)
 - (3) The impact may create a relative opportunity to grow market share at the expense of competitors (i.e. solar panel tariffs)



Historically Uncorrelated

Policymaking occurs independent of economic cycles and may present investment opportunities uncorrelated to the market

- ▶ **Congress debates and passes legislation throughout economic cycles**, without considering the level of inflation or interest rates, job and payroll data, or foreign currency movement.
 - ❖ The government can't pause policy-making just because of a recession.
- ▶ **In fact, policymaking may be more important during an economic downturn.** For example, the Obama administration and Congress passed both the Affordable Care Act and Dodd-Frank Act in 2010, only two years after the depths of the 2008 financial crisis.
- ▶ **It's because of this that we believe policy offers returns uncorrelated to broader markets** and economic cycles.

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POLICY

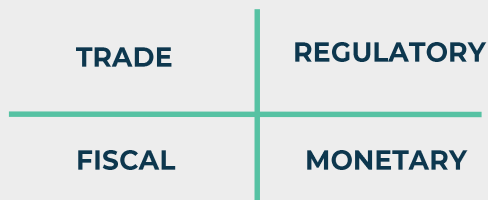
- ① **TRACK:** Congress passes bills that become law. Government agencies issue regulations to interpret those laws. Public resources, such as government websites, can be used to track policy movement.

Note: News outlets primarily focus on near term policies. Identifying policy changes may allow an investor to position earlier.



- ② **ANALYZE:** Develop a “policy profile” for key bills and regulations to understand sector impacts and whether they help or hurt companies.

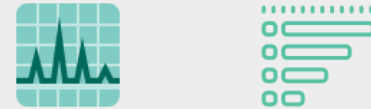
Note: Key policies change industry structures, creates new product lines (i.e. Obamacare), and impact industry regulations.



MARKETS

- ③ **SCREEN:** The “policy profile” is used to filter companies both fundamentally and quantitatively.

Note: Filters can be focused on company metrics (revenues, profit margins, balance sheet) or industry trends (product lines, regulations).



- ④ **ALLOCATE & MANAGE:** Invest in companies with a clear thematic policy catalyst. Continue to monitor the policy and political environment for information that changes the investment thesis.

Note: While policy is the catalyst, politics can influence how policy is created and the final version.





Solar Panel Tariffs (FSLR)

Section 201 tariffs ordered by the Trump administration after International Trade Commission (“ITC”) makes tariff recommendations

- ▶ **U.S. Trade Representative Robert Lighthizer announced President Trump has issued a 30% year-one tariff on imported solar cells and modules that declines over the next four-years to 15%.** The announcement is the result of a Section 201 study performed by the ITC.
- ▶ **FSLR uses thin film solar cells, which were not mentioned in the trade case, instead of silicon panels.** While FSLR’s supply chain using production facilities in Malaysia with imports to the U.S. is not impacted, competitors using silicon panels will have a higher relative import cost due to the tariffs.
- ▶ The industry dynamics are dramatically changed, as the barriers to entry in the U.S. solar market are now fundamentally different.
 - ❖ **FSLR could grab market share while other firms reconfigure their supply chains**



Renewable Energy Tax Credits (HASI, PEGI)

Deducibility of certain investment tax credits, including renewable energy tax credits, against a company's calculated Base Erosion Anti-Abuse Tax (BEAT)

- ▶ **Renewable energy sponsors earn tax credits when they build certain projects.** The credits can be used to offset taxable income and help finance the project or sold if the sponsor can't use the tax credit.
- ▶ **Companies must calculate the BEAT annually to determine if they owe additional taxes after factoring in interest and royalty payments to foreign affiliates.** If the company owes more tax, they can offset the renewable energy tax credits against.
 - ❖ The December 2017 tax reform bill limited the offset to only 80%
- ▶ **Because the base erosion tax calculation is performed annually, a company can owe it one year and not the next.** This prevents an investor from reliably forecasting its ability to use the credit.
 - ❖ If 20% of the credit can't be used, the investor's return is lowered, and the investor may not purchase the credit

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NAFTA

- ▶ Trump administration must agree to new NAFTA deal by the end of May 2018 in order for current Congress to vote on trade agreement agreement in December 2018
- ▶ Next steps would include: 90 day notice to Congress, 105 day U.S. trade commission review, 30 day Statement of Administrative Action, Congress votes
- ▶ **Stocks to watch: Auto supplier (BWA, DLPH), KSU and automakers (F, GM, TM, FCAU)**

Bank Deregulation

- ▶ Mick Mulvaney (Head of Consumer Financial Protection Bureau) continues industry deregulatory push
- ▶ Congress proposes raising regulatory threshold from \$50M to \$250M, which may lower regulatory costs & spur regional bank M&A activity
- ▶ Federal Reserve & Office of the Comptroller of the Currency (OCC) proposed tailoring leverage ratio requirements to business activities & risk profiles of banks, which may benefit custody banks
- ▶ **Stocks to watch: Regional banks (ASB, KEY, PACW), Custody banks (NTRS, BK)**

Ethanol Mandate/Exports

- ▶ Corn states pushing for year round ethanol production mandate
- ▶ Japan opens to U.S. ethanol exports as the country moves away from Brazil's sugarcane ethanol
- ▶ **Stocks to watch: Ethanol producers (ADM, GPRE, VLO)**

Drug/Opioid Distributors

- ▶ Bipartisan effort to combat the opioid crisis; Class action lawsuit in Cleveland against drug distributors
- ▶ Drug distribution company executives appeared before House on 5/8/2018
- ▶ **Stocks to watch: Drug distributors (ABC, CAH, MCK)**

Refiner RIN Exemptions

- ▶ Refiners required to blend 10% of a plant based ethanol into the fuel they produce or buy credits called Renewable Identification Numbers (RINs) to cover their blending obligations
- ▶ EPA started granting renewable fuel credit waivers to refiners in late March
- ▶ **Stocks to watch: Refiners (HFC, MPC, PSX)**

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