

EVENT
SHARES



Ultimate Guide to U.S. Midterms



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.

Policy Alpha Resources

- ▶ **The *Policy Tracker* is updated quarterly – over 115 U.S. stocks with the highest policy sensitivity per our research**
 - ▶ Stay current on policy investing with twice-monthly research emails
 - ▶ Free to sign-up and download at EventShares.com
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Midterms Outlook

- ▶ U.S. midterm elections will shift the playing field in Washington D.C. policy-making, offering a new set of investment opportunities.
- ▶ EventShares is tracking three midterm scenarios. We highlight the stock and industries to own under each outcome.
- ▶ Lastly, we'll highlight three policy catalysts we expect to continue regardless of the midterm outcomes: (1) Big Tech regulation, (2) ACA insurer profitability, and (3) Trucking & Logistics market tightness.

- 1. Introduction**
2. 4Q 2018 Policy Tracker
3. Midterms 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

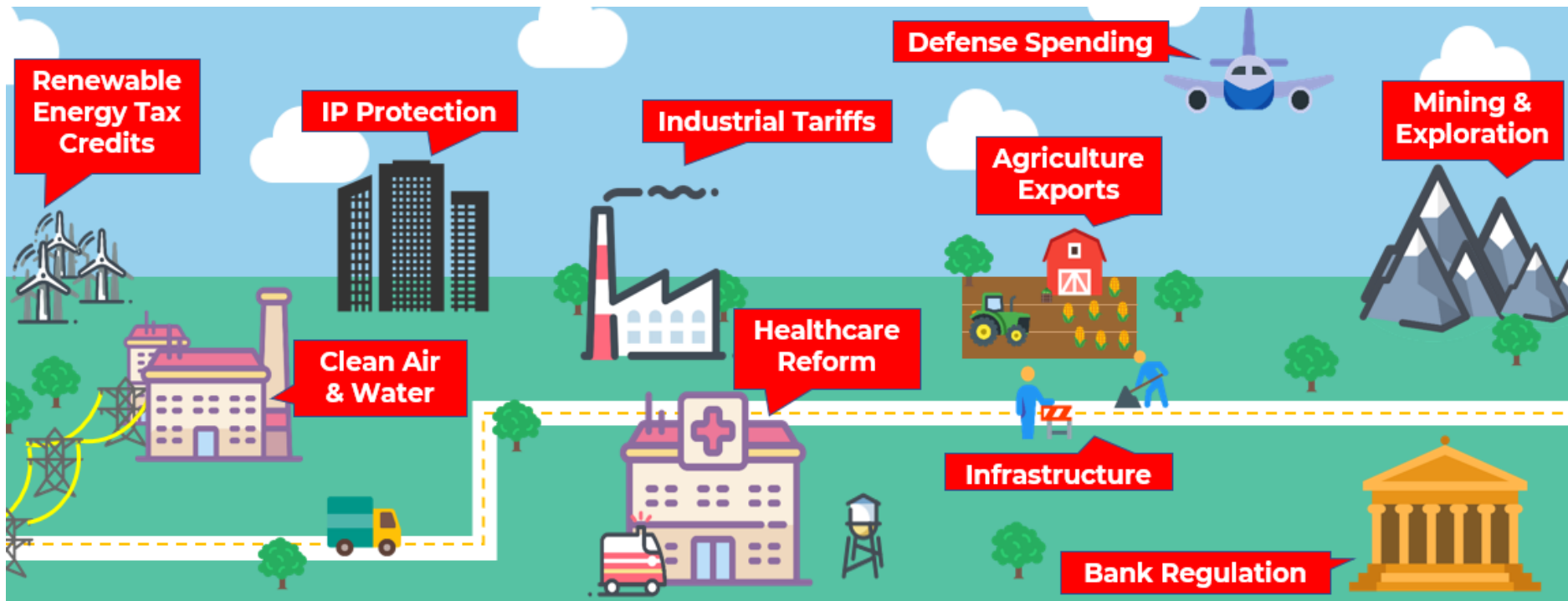
Chart Legend

In Universe

Not In Universe

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



1. Introduction
- 2. 4Q 2018 Policy Tracker**
3. Midterms Outlook

4Q 2018 Policy Tracker

US and Foreign Defense Industry Sales

- (+) *Defense Primes:* LMT, RTN, NOC, BA, HII, BWXT
- (+) *Defense Industry Suppliers:* AVAV, FLIR, AJRD, KTOS, OSIS
- (+) *Aircraft Parts:* UTX, TDG, COL, HXL, HON, TXT, MOG.A
- (+) *Outsourced IT & Consulting:* BAH, LDOS, CACI, ICFI, SAIC

RIN Waivers

- (+) *Refiners:* ANDV, CVRR, HFC, PSX, VLO
- (-) *Ethanol Producers:* ANDE, GPPE, REX, PEIX

Energy Infrastructure

- (+) *LNG Terminals:* LNG
- (+) *Pipeline Builders:* PWR

FERC MLP Ruling

- (+ / -) *Cost of Service (CoS) MLPs:* SEP, EEP, TCP
- (+) *Prior CoS Merged into Corp Parent:* WPZ (parent WMB)

Student Lending & Loan Servicing

- (+) *Educational Materials:* GHC, CHGG
- (+) *Student Lenders:* NNI, NAVI, SLM

Gainful Employment

- (+) *For Profit Ed:* CECO, ATGE, LAUR, LOPE, STRA

Affordable Care Act

- (+) *Hospitals:* HCA, UHS, LPNT, EHC
- (+) *Health Insurers:* MOH, CNC, WCG, HUM
- (+) *Health Tech:* CERN, TDOC, ASGN, MDRX, OMCL, VCRA, EVH, TRHC, MASI

Opioid Crisis

- (-) *Manufacturers:* MNK, INSY, JNJ, MYL, ENDP, TEVA
- (-) *Drug Distributors:* MCK, CAH, ABC

E-Cigarette Ban

- (+ / -) *Tobacco Companies:* MO, PM, BTI

2% Medicare Sequestration Cuts

- (-) *Home Health:* LHCG, AMED, CHE, SEM
- (-) *Medical Devices:* MDT, ISRG, SYK, TFX

Drug Compounding

- (-) ATNX

White House Drug Plan

- (+ / -) *Drug Manufacturers:* AGN, MMK, VRTX, TEVA, MYL, PFE, LLY, GILD

Drug Rebates

- (-) *Pharmacy Benefits Managers:* ESRX, CVS, UNH

Capital Markets

- (-) *Stock Exchanges:* CBOE, ICE, NDAQ, CME

Deregulation - SIFIs

- (+) *Super Regional Banks:* ASB, PACW, ZION, KEY, AXP, STI, BBT

Deregulation - Leverage Ratio Requirement

- (+) *Large-Cap Banks:* BAC, C, GS, JPM, MS, WFC
- (+) *Custody Banks:* STT, BK, NTRS

Non-Traditional Lenders

- (+) *Lenders:* ENVA, CURO, FCFS, GDOT, OMF

Trucking & Intermodal Supply Chains

- (+) *Trucking:* DSKE, KNX, WERN, ARCB, SNDR, SAIA, ODFL
- (+) *Asset Light Transports:* LSTR, HUBG, XPO, EXPD, ECHO, RRTS
- (+) *Intermodal:* NSC, UNP, JBHT, KSU, TRTN
- (+) *Trains Manufacturers & Lessors:* TRN, ARII, GATX, WAB, GBX

Infrastructure

- (+) *Project Management:* FLR, KBR, GVA, ACM, PRIM
- (+) *Construction Materials:* MLM, VMC, EXP, SUM, USCR

Chinese IP Theft

- (-) *IT:* INTC, QCOM, NVDA, MU, IBM, AMD, TXN

Social Media & Data Regulation

- (-) *Social Media:* FB, TWTR, AMZN, GOOGL
- (-) *Data Brokers & Aggregators:* ACXM, CLGX
- (-) *Credit Reporting Agencies:* EFX, TRU

5G Development

- (+) *Network Transformation Providers:* ERIC, NOK
- (+) *Communications Hardware:* QCOM, SWKS, QROV, CSCO
- (+) *Cell Towers & Comms Equipment:* ZAYO, AMT, GLW, CCI, UNIT
- (+) *Technology Patents:* IDCC
- (+) *Telecoms:* T, VZ, S, TMUS

NAFTA

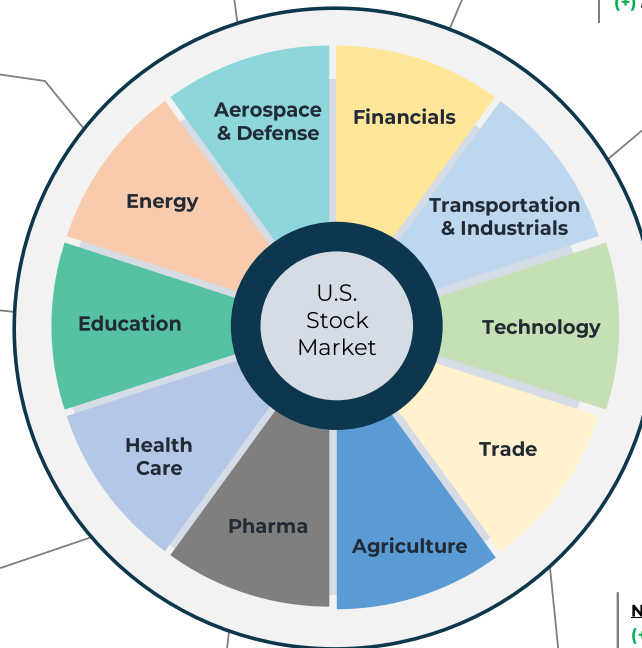
- (+) *Significant Mexico Operations:* KSU, UNP, BWA, STZ
- (+) *Significant Canada Operations:* TAP, COST, PWR, FLR, MGA
- (+) *U.S. Based Auto Suppliers:* ASLN, AXL, APTV

China

- (-) *Asia-Pacific Trade:* EXPD, MATX, AAWW
- (-) *Agriculture Machinery:* CAT, DE
- (-) *Significant Chinese Operations:* DLPH, BWA, SWKS, QCOM, AVGO, MU, WYNN, LVS

Farm Bill

- (+) *Grocers / Private Label Food Manufacturers:* WMT, TGT, KR, DLTR, DG



1. Policy Investing
2. Key Features
- 3. Midterms Outlook**

- ▶ The upcoming U.S. midterm elections will **shift the playing field in Washington D.C. policy-making**, offering a new set of investment opportunities.
- ▶ Before we discuss potential midterm scenarios, we want to highlight the significant role government agencies currently play in setting policy (e.g., FDA drug compounding and Department of Education Gainful Employment Rule).
- ▶ The current Congress has had mixed success in passing legislation, leading to most policy-making being regulatory and not legislative.
- ▶ **In our view, the White House and government agencies will continue to play a significant role in driving policy under all three scenarios.**
- ▶ The question becomes, how will the 116th Congress interact with the White House and government agencies?

(I) Status Quo:

- ▶ Republicans continue to control the legislative branch and executive branch. From an investor's point of view, this is the goldilocks scenario for the markets due to lack of policy uncertainty.
- ▶ Republican-led policies continue to dominate, with minimal threat of government shutdowns or impeachment.
- ▶ Under this scenario, we prefer to **continue owning what is currently working, such as financials** (e.g. banks and non-traditional lenders including CURO, FCFS, GDOT), **defense** (e.g. prime contractors and their suppliers like BWXT, MOG.A, TDG), **energy** (e.g. DK, LNG, SHLX), and **education** (e.g. student lenders and for-profit colleges such as ATGE) **companies**.

(2) House Flip with Senate Holding Red:

- ▶ Democrats win control of the House, while Republicans maintain control of the Senate.
- ▶ In our view, this materially increases political noise in the market, boosts impeachment probability, Congressional hearings, and pushback against Trump's expansion of executive branch power. The resulting headlines create pockets of dislocation and opportunity, but the market likely shrugs off the noise much like it has under Trump's time in office.
- ▶ In our view, legislative successes would need to be bipartisan, such as infrastructure. Budget stalemates may occur more frequently and will likely lead to an increase \$1 for \$1 in both defense and non-defense spending in our opinion.
- ▶ Under this scenario, **we prefer to own companies like in the Status Quo scenario, with the addition of infrastructure project managers and raw materials** (e.g. FLR, KBR, GVA, MLM, VMC).

(3) Blue Wave:

- ▶ Government shutdowns and Trump's increased use of veto power. Washington DC ceases to function efficiently and pushes deals to the last minute, which increases regulatory risk and makes investors more jittery.
- ▶ From an investor's point of view, this is the worst scenario for the markets.
- ▶ **Under this scenario, we would look more to government agencies and state legislation** (e.g. California inverse condemnation and dialysis regulation, Medicaid expansion, and state/city-level push back against immigration) **for policy catalysts and investment opportunities.**
- ▶ Stocks we'd prefer to own under this scenario include **defensive REITs** (e.g. CPT, MPW), **healthcare** (e.g. EHC, HCA, MOH, WCG), **and consumer staples** (e.g. ARMK, COST, KR, THS).



While there are clear policy differences in the scenarios above, EventShares believes three policies continue regardless of the midterm outcomes:

1. Big Tech Regulation
2. ACA Insurer Profitability
3. Trucking & Logistics Market Tightness

Big Tech Regulation

- ▶ Congress continues to talk about **big tech (e.g. AMZN, GOOGL, FB, TWTR)** and **data management (e.g. AXCM, CLGX)**.
- ▶ Various committees in both the House and Senate have called executives from the major tech companies to testify before Congress.
- ▶ Republicans accuse them of censorship, while Democrats are concerned about user privacy.
- ▶ Regardless of midterm outcomes, big tech will continue to be a policy target for Congress in our view.
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ACA Insurer Profitability

- ▶ After years of operating on the government exchanges, insurance companies finally have enough data and risk information to price their policies correctly.
- ▶ The regulatory risk environment has also subsided in our opinion, as the likelihood of legislative action repealing the ACA is low.
- ▶ Republicans have shown they're unable to form a consensus around repeal-and-replace, while Democrats appear to be interested in stabilizing and expanding the exchanges. This decreases the legislative risk for insurance companies in our view, regardless of the midterm outcomes.
- ▶ From a state perspective, Medicaid expansion may be the next growth opportunity for the insurers. Impacted companies include **insurers (e.g. MOH, WCG, HUM, CNC)**, as well as those focused on increasing efficiency and improving patient outcomes such as **health tech (e.g. TDOC, ASGN, EVH, MDRX, OMCL, VCRA, TRHC)**.

Trucking & Logistics Market Tightness

- ▶ The trucking industry continues to be impacted by ELD implementation and service hour rules, as well as a historically tight labor market.
- ▶ This is straining the transportation and logistics network at a time when online shopping is increasing.
- ▶ In our view, companies involved in the **intermodal market (e.g. NSC, JBHT, UNP, TRTN), third-party logistics services (e.g. ECHO, HUBG, EXPD, XPO, LSTR), and specialized trucking services (e.g. DSKE)** will benefit from this mix of labor and regulation constraints.

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