

A Primer to Change-Driven THEMATIC INVESTING



Presentation by

McAlinden Research Partners

Change-driven thematic investing captures alpha opportunities that arise from sudden shifts, discontinuities, and other disruptions to the status quo that usher in new innovation.

Change-Driven Thematic Investing

Efficient Market Theory argues that market prices reflect all available information and adjust incrementally to routine data flows.

In contrast to incremental changes within an ongoing equilibrium, disruptive change marks a radical break to the equilibrium itself.

Research from behavioral economics has identified a natural human tendency to resist new knowledge that contradicts the status quo.

Investment opportunities in financial markets arise when there is a lag between a disruption to the status quo and the market's adjustment to the new equilibrium.

The MRP Formula

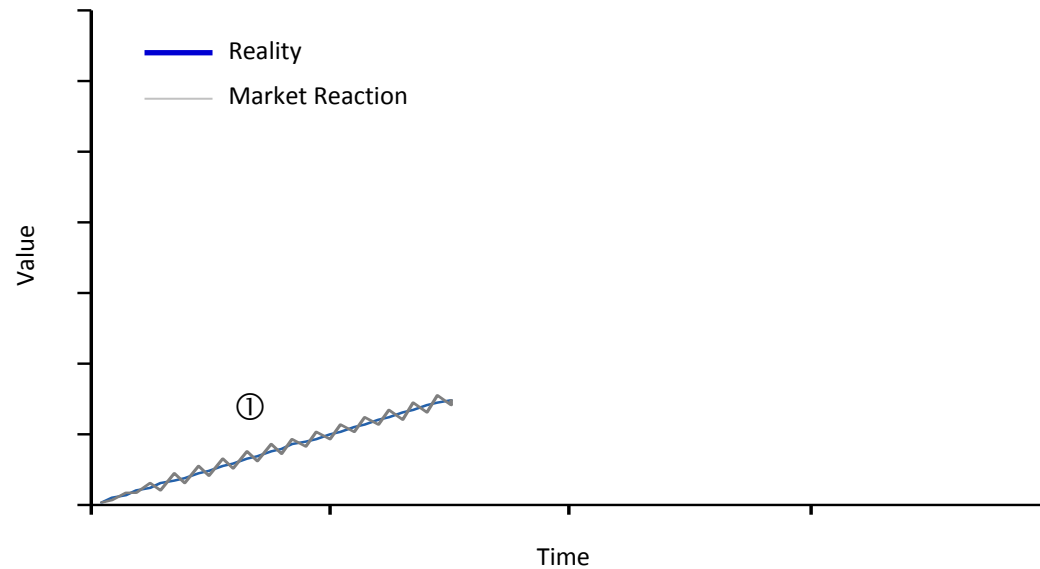
$$\begin{aligned} &\text{Disruptive Change} \\ &+ \\ &\text{Status Quo Bias} \\ &= \\ &\text{Thematic} \\ &\text{Opportunities} \end{aligned}$$

Disruptive change can be caused by:

- Technological innovations
- Business-cycle turning points
- Government regulations
- Elections
- New business models
- Natural events

These changes can arise gradually as tipping points or suddenly when gales of Schumpeterian creative destruction rip through economies.

Disruptive Change



① When in equilibrium, markets are continuously oscillating gently around an established equilibrium

The MRP Formula

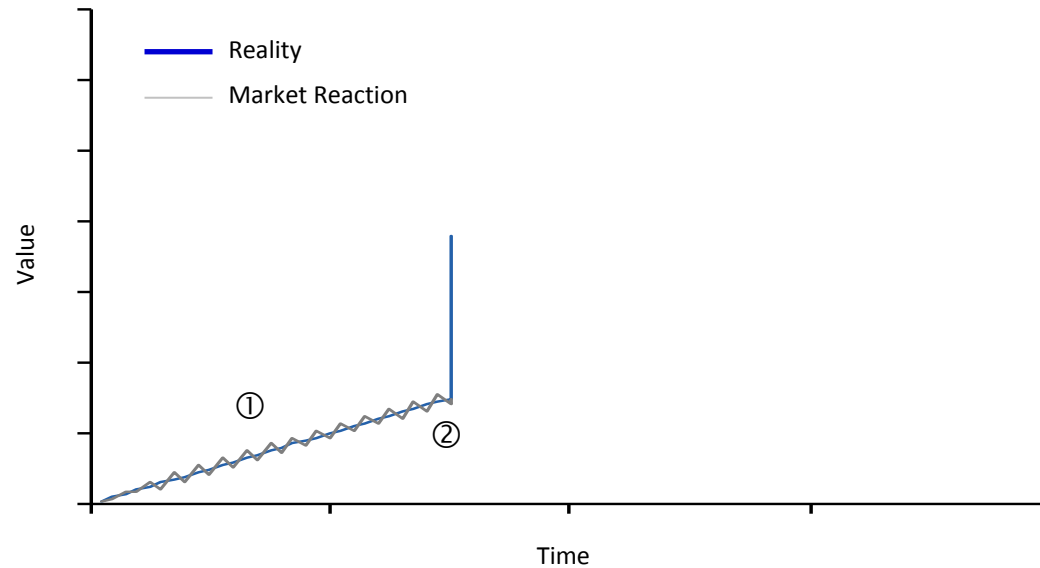
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Disruptive Change



- ① When in equilibrium, markets are continuously oscillating gently around an established equilibrium
- ② Disruptive change alters the status quo

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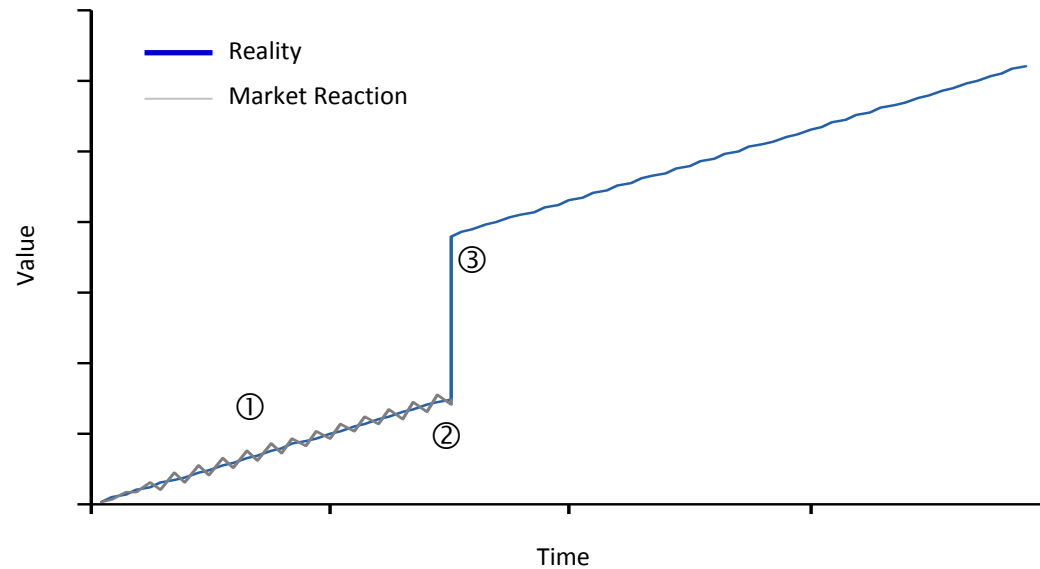
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② Disruptive change alters the status quo

③ The equilibrium is shifted, disrupting assumptions that are embedded in security prices

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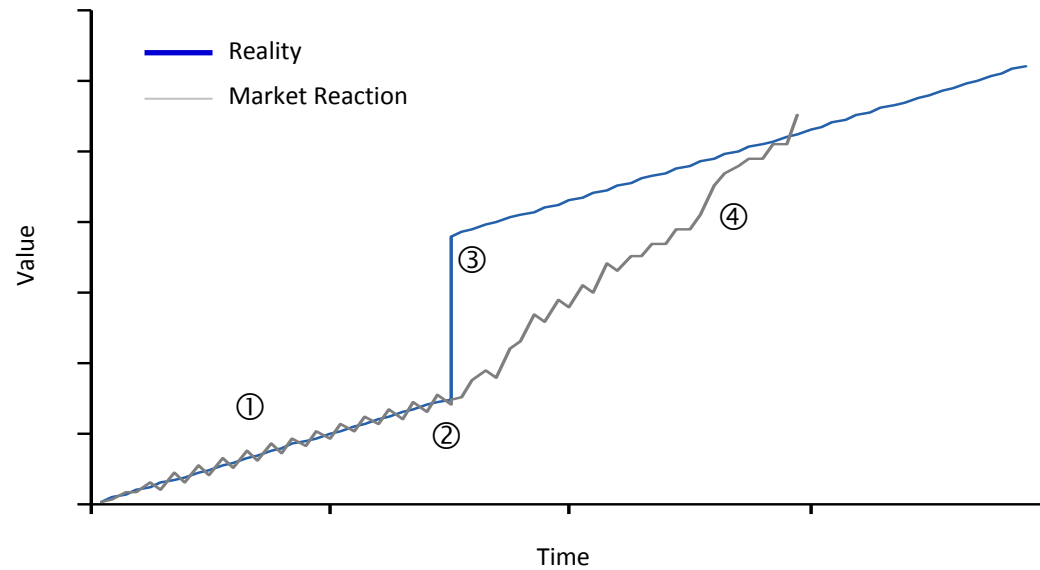
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- ③ The equilibrium is shifted, disrupting assumptions that are embedded in security prices
- ④ Status quo bias creates alpha opportunities when markets adjust incrementally to disruptive change

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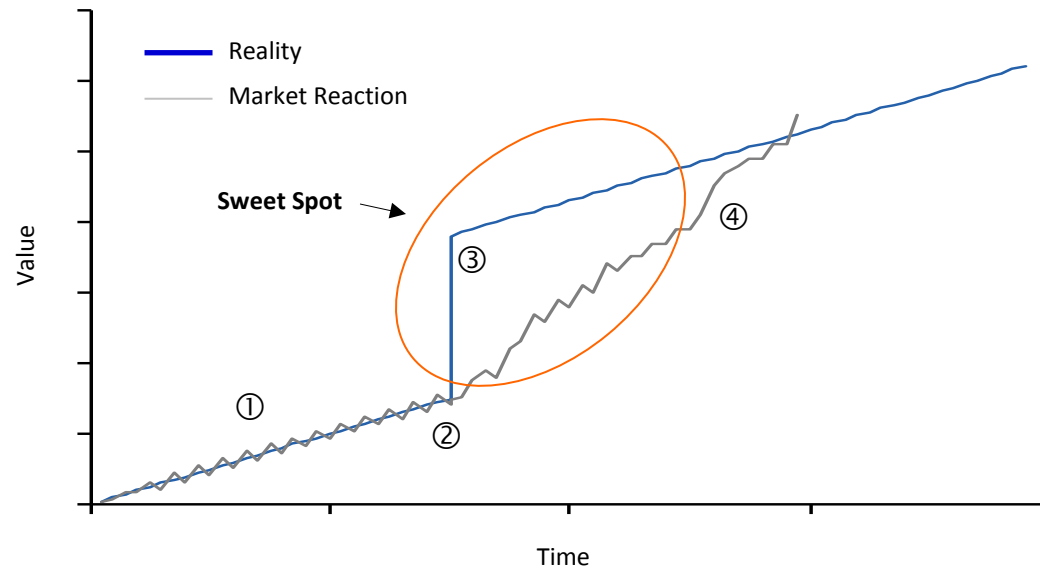
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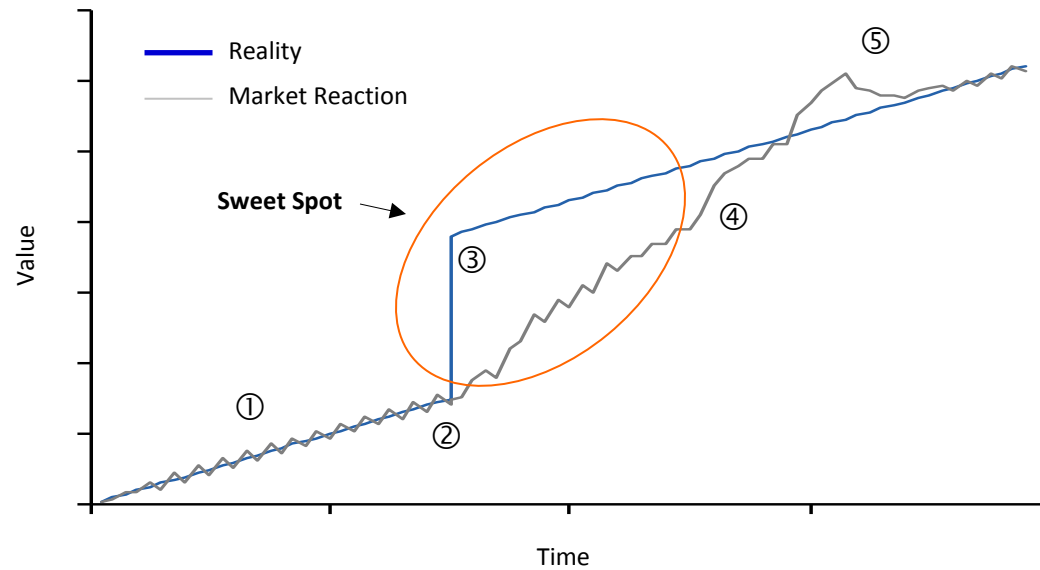
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⑤ Markets can overreact before eventually settling into the new equilibrium

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Example #1: US Health Care Providers

Status Quo Ante		
Rising share of Americans without health insurance		

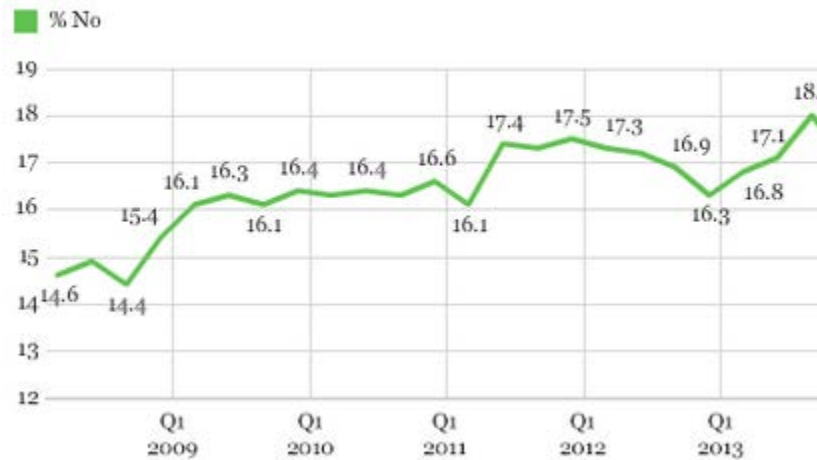
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Percentage of U.S. Adults Without Health Insurance, by Quarter

Do you have health insurance coverage?
Among adults aged 18 and older



Quater 1 2008-Quarter 4 2014
Gallup-Healthways Well-Being Index

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Example #1: US Health Care Providers

Status Quo Ante	Discontinuity	
Rising share of Americans without health insurance	Passage of ACA sets stage for drop in uninsured rate	

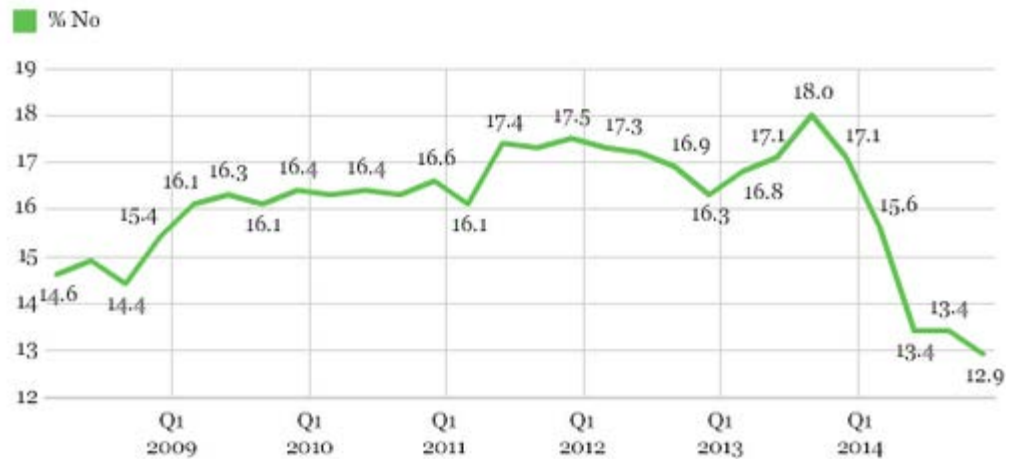
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Status Quo Ante	Discontinuity	Market Reaction
Rising share of Americans without health insurance	Passage of ACA sets stage for drop in uninsured rate	Health Care Provider stocks rally

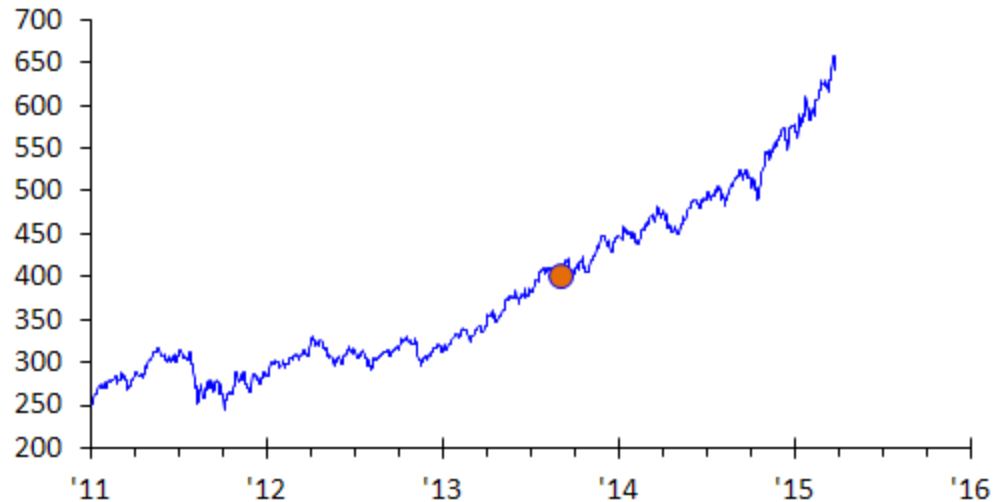
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— S&P 500 Health Care Providers & Services

● Uninsured Rate Drops



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Example #2: Abe Elected in Japan

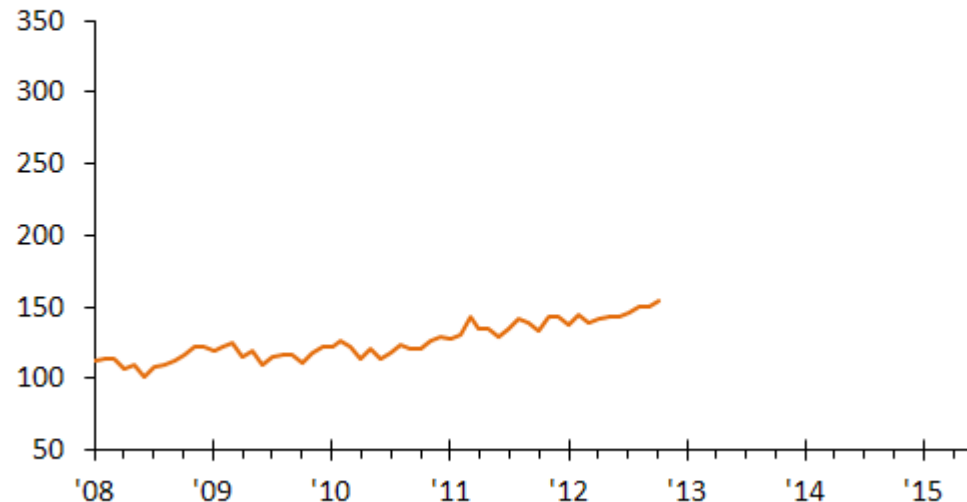
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Japan mired in deflationary quagmire with overvalued currency		

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— Bank of Japan Balance Sheet Assets (Millions of Yen)



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Status Quo Ante	Discontinuity	
Japan mired in deflationary quagmire with overvalued currency	Shinzo Abe elected with reform agenda, including massive monetary easing	

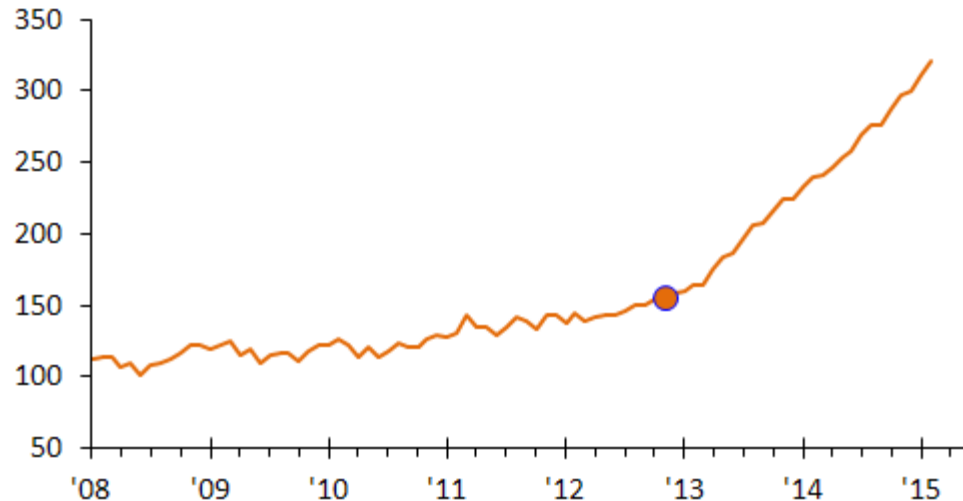
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● Abe Elected



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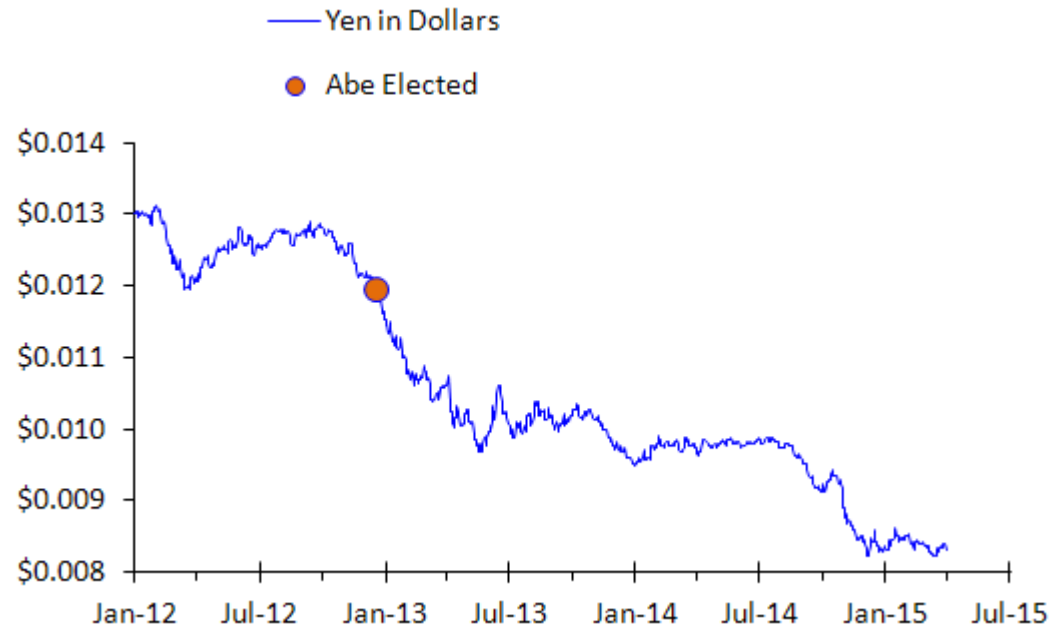
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Status Quo Ante	Discontinuity	Market Reaction
Japan mired in deflationary quagmire with overvalued currency	Shinzo Abe elected with reform agenda, including massive monetary easing	Yen sells off sharply



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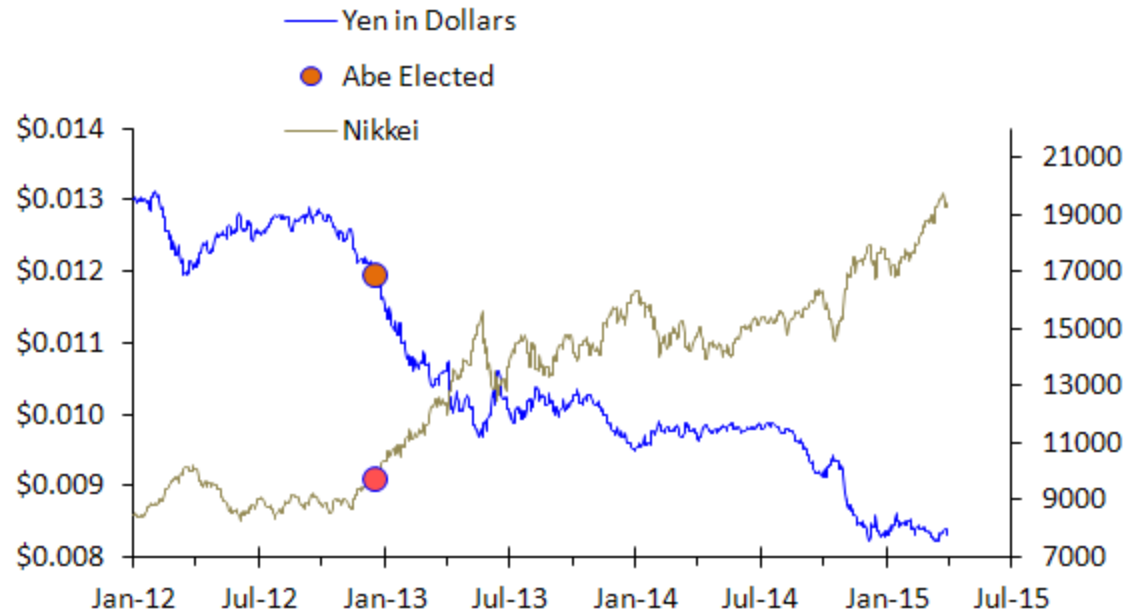
Example #2: Abe Elected in Japan

Status Quo Ante	Discontinuity	Market Reaction
Japan mired in deflationary quagmire with overvalued currency	Shinzo Abe elected with reform agenda, including massive monetary easing	Yen sells off sharply & Stocks rally smartly

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Example # 3: US Household Formation

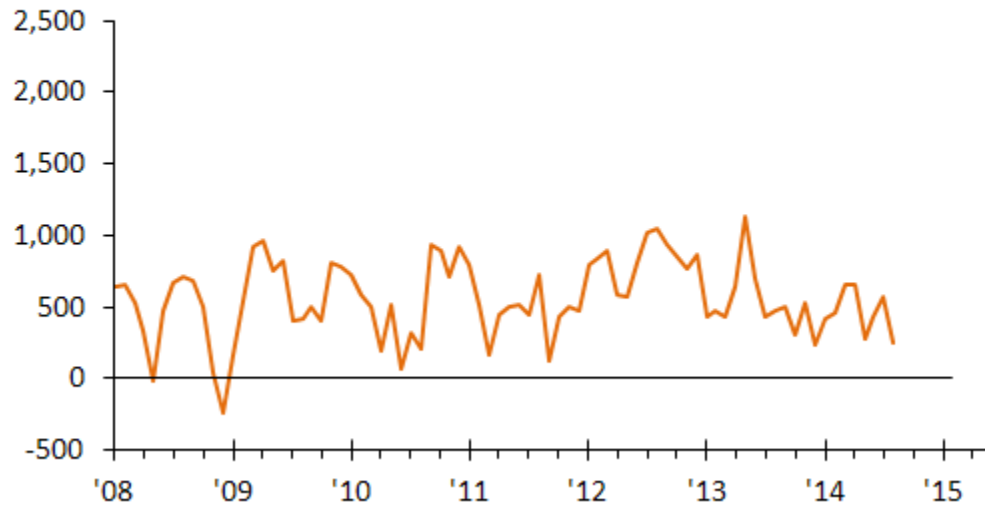
Status Quo Ante		
Housing recovery stalled		

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— US Household Formations (1,000s)



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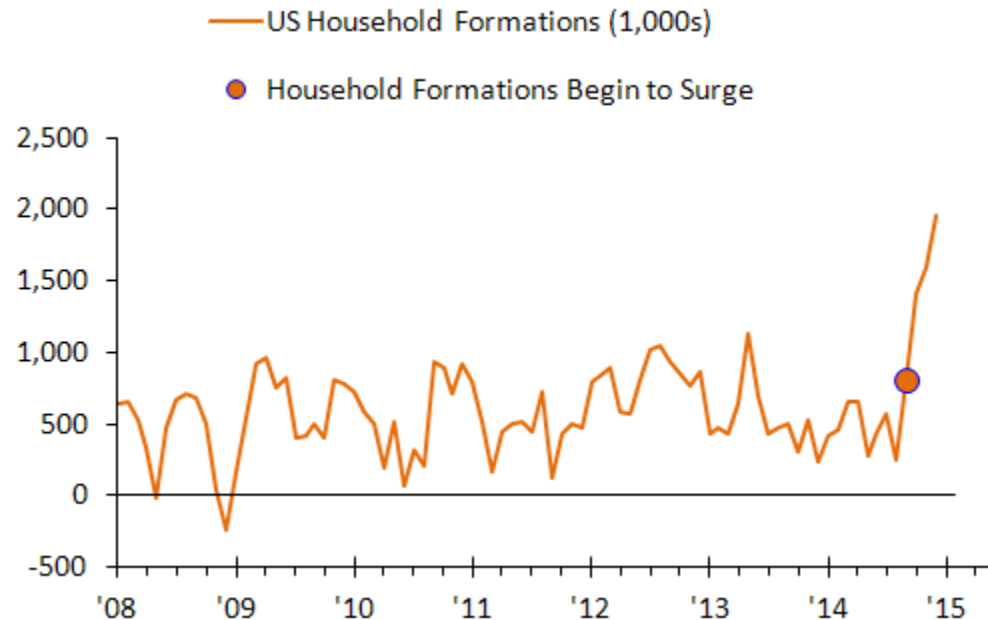
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Status Quo Ante	Discontinuity	
Housing recovery stalled	US household formations surge	

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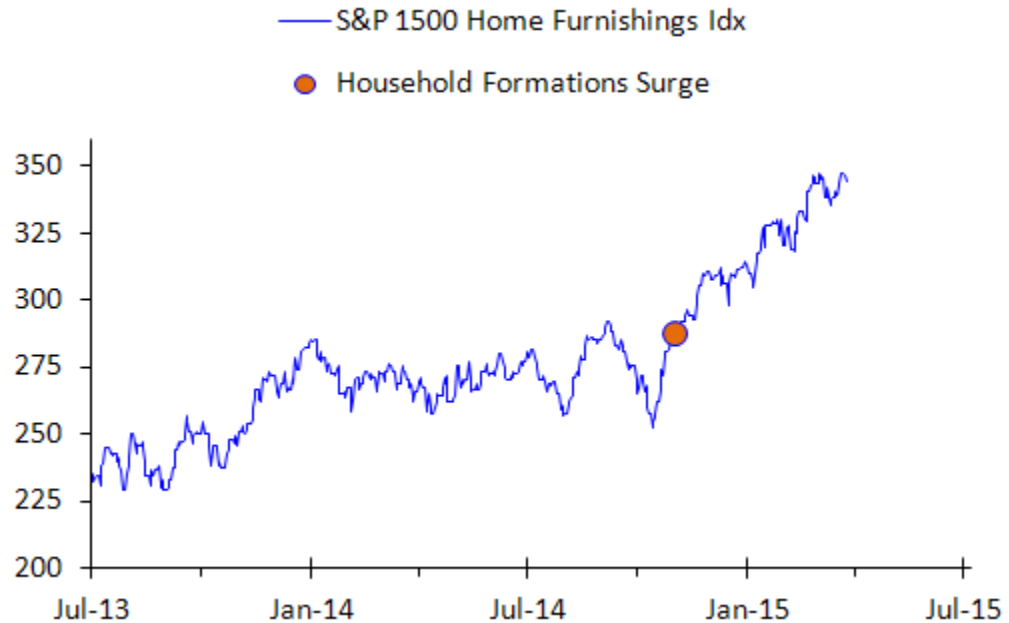
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Example # 3: US Household Formation

Status Quo Ante	Discontinuity	Market Reaction
Housing recovery stalled	US household formations surge	Home Furnishing stocks rally



The MRP Team

Joseph J. McAlinden, CFA

- Chief Investment Officer
- Over 50 years of investment and research experience
- Former CIO of Morgan Stanley Investment Management
- Former CIO of Dillon Read
- Former President & CEO of Argus Research
- Rutgers University – B.A. in Economics

Nelly Nyambi

- Investor Relations and Client services
- Over 14 years of financial services experience
- Former investor relations & marketing VP at PMA Capital
- Former marketing & product manager at Altura Capital
- Former sales and trading analyst at Citigroup
- Columbia University – B.A. in Economics

Rob Davis

- Business Development
- Over 40 years of investment & research sales experience
- Former business development MD at Concept Capital
- Former hedge fund services sales at Montgomery PB
- Former equity sales at Morgan Stanley, Dillon Read & Oppenheimer
- SUNY New Paltz – B.A. in Education

Warren Hatch, CFA, Ph.D.

- Portfolio Management and Macroeconomic Research
- Over 15 years of investment and research experience
- Former portfolio manager and investment strategist at Morgan Stanley Investment Management
- Former research associate at University of Oxford
- University of Oxford – Ph.D. in Politics
- Monterey Institute – M.A. in International Relations

Brian Hatch

- Research and Economic Policy Analysis
- Over 15 years of policy strategy & analysis experience
- Former infrastructure consultant in the government and private sectors
- Former holder of local and national government appointments
- University of Utah – M.P.A. in Public Policy

Anna Zeng

- Operations, Finance, and Compliance
- Over 10 years of legal, operational, and administrative experience
- Former legal assistant at Loeb & Loeb
- Former program assistant at Practising Law Institute
- UCLA School of Law – J.D

MRP's team of industry professionals has extensive research and operational experience and is led by a seasoned veteran.

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