

Interactive Brokers Webinar  
August 11, 2015

**MRP Change-Driven  
THEMATIC INVESTING  
Theme Examples**

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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

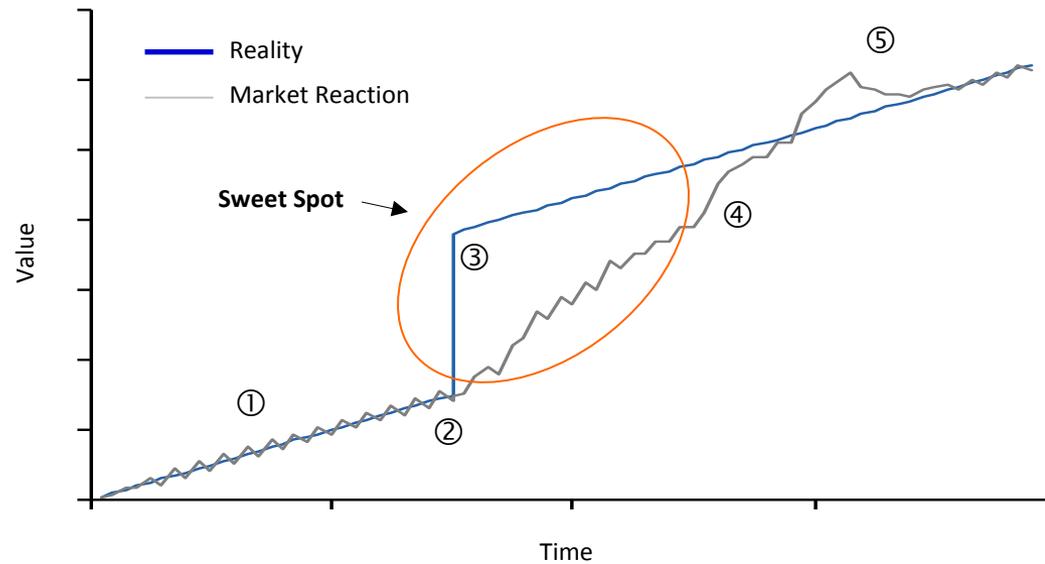
$$\begin{aligned} &\text{Disruptive Change} \\ &+ \\ &\text{Status Quo Bias} \\ &= \\ &\text{Thematic} \\ &\text{Opportunities} \end{aligned}$$

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

② Disruptive change alters the status quo

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

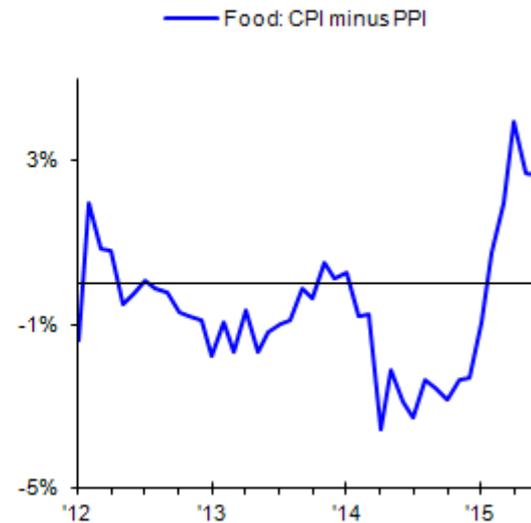
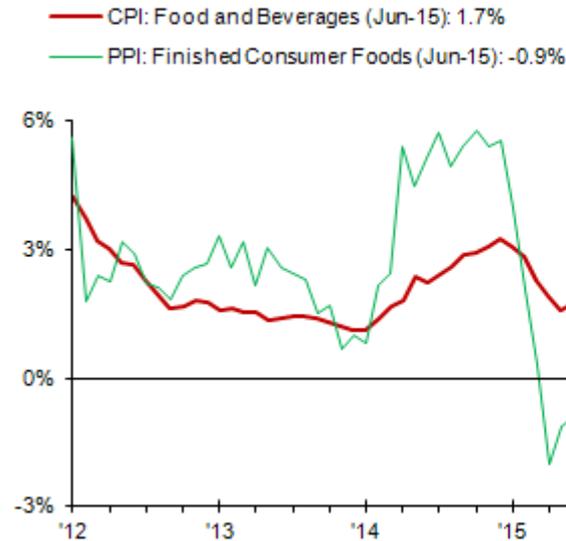
⑤ Markets can overreact before eventually settling into the new equilibrium

## Example # 1: Food Packaging

### Food Packaging Launched July 9, 2014

*After surging in early 2014, grain prices plunged as global harvests come in better than expected. That's bad news for farmers and grain exporting countries. But it's great news for restaurants and packaged food manufacturers, many of whom had only recently begun raising prices and now find themselves in a pricing power sweet spot. Meanwhile, on the short side, farm equipment suppliers are struggling as orders start to dry up.*

Status Quo Ante	Discontinuity	Market Reaction
Producer Costs Exceed Sales Prices	Producer Costs Drop & Pricing Power Surges	



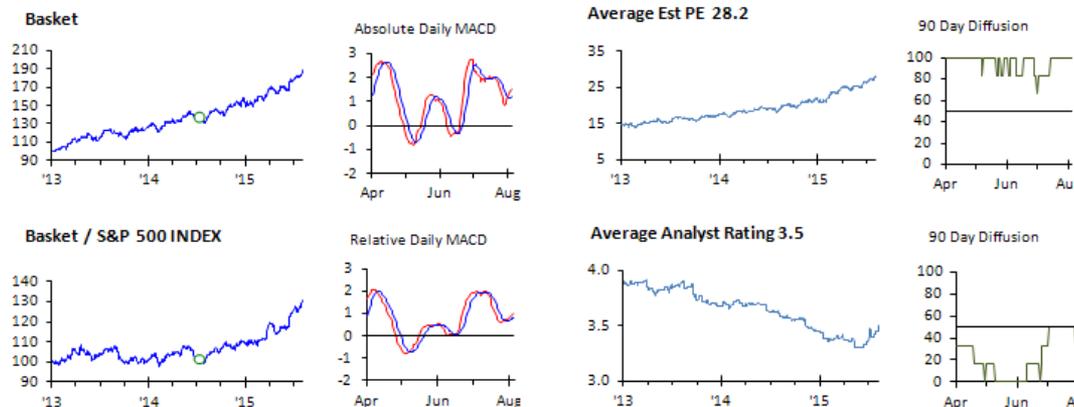
## Example # 1: Food Packaging

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Status Quo Ante	Discontinuity	Market Reaction
Producer Costs Exceed Sales Prices	Producer Costs Drop & Pricing Power Surges	Food Packaging Stocks Rally

### FOOD PACKAGING



Source: Bloomberg, MRP. Dot denotes theme launch. Basket pricing in USD. Basket construction excludes penny stocks (< \$US5) and microcaps (< \$US 50MM). Ratings charts exclude stocks with low analyst coverage (< 3). PE charts exclude outliers (> 50).

Ticker	Name	Country of Issue	Price Local	1 Yr %	Price USD	Mkt Cap USD Billion	Forward PE	Div Yield	Short Int Ratio	Analyst Rating	Z Score
KHC	Kraft Heinz Co/T	US	80.24		80.24	97.29	30.83	2.74	2.72	3.71	
GIS	General Mills In	US	59.26	16.5	59.26	35.48	19.91	2.97	3.29	3.10	4.76
K	Kellogg Co	US	68.63	11.8	68.63	24.22	19.44	2.91	7.03	2.81	3.49
CAG	Conagra Foods	US	44.73	46.7	44.73	19.18	20.10	2.24	1.60	3.27	2.79
MKC	Mccormick-N/V	US	83.29	25.5	83.29	10.65	23.63	1.92	8.13	3.00	5.36
WWAV	Whitewave Food	US	52.26	76.2	52.26	9.15	46.29		3.46	4.33	
HAIN	Hain Celestial	US	70.20	69.0	70.20	7.20	37.30		9.13	4.30	6.73

## Example # 2: Solar

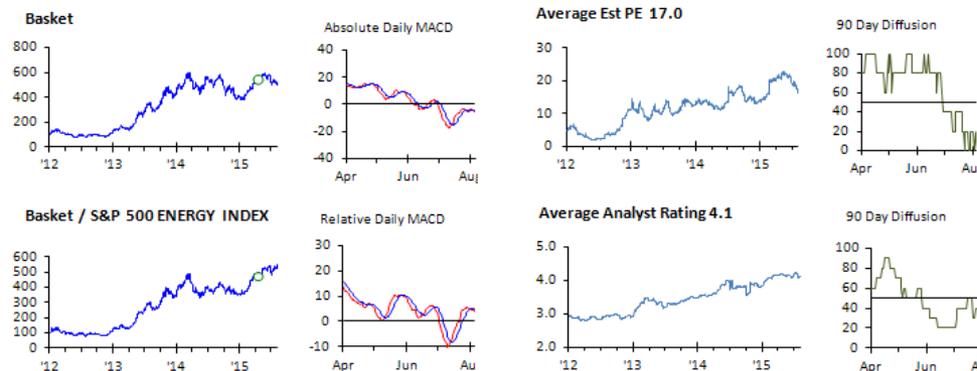
### Solar

Launched: April 14, 2015

*The environment for solar is getting better after a lengthy period of government subsidy cuts gives way to stronger global demand for solar installations. As silicon panel costs drop, fossil fuel prices firm, and new energy storage technologies appear on the horizon, solar power generation is reaching a tipping point where it can compete with traditional energy sources, even without subsidies*

Status Quo Ante	Discontinuity	Market Reaction
Competitive with Fossil Fuels Only with Subsidies	Breakeven Costs Drop, "War on Carbon"	Solar Stocks Regain Strength

TAN SOLAR ENERGY INDEX ETF FILTERED UNWEIGHTED BASKET



Source: Bloomberg, MRP. Dot denotes theme launch. Basket pricing in USD. Basket construction excludes penny stocks (<\$US5) and microcaps (<\$US 50MM). Ratings charts exclude stocks with low analyst coverage (< 3). PE charts exclude outliers (> 50).

Ticker	Name	Country of Issue	Price Local	1 Yr %	Price USD	Mkt Cap USD Billion	Forward PE	Div Yield	Short Int Ratio	Analyst Rating	Z Score
SUNE	Sunedison Inc	US	22.82	-17.8	22.82	7.15		7.65	4.40	-0.02	
SCTY	Solarcity Corp	US	60.14	-15.6	60.14	5.85		12.59	4.40		
FSLR	First Solar Inc	US	52.02	-18.3	52.02	5.25	21.75	3.01	3.82	3.60	
TERP	Terraform Powe-A	US	29.30	-1.2	29.30	4.27	170.35	4.44	4.19	4.00	
SPWR	Sunpower Corp	US	27.69	-16.7	27.69	3.78	17.31	3.26	4.57	1.68	
ABY	Abengoa Yield Pl	US	23.61	-34.7	23.61	2.37	22.74	6.78	7.37	4.38	
VSLR	Vivint Solar Inc	US	15.00		15.00	1.59		7.97	2.80		
CSIQ	Canadian Solar I	US	26.71	6.2	26.71	1.47	9.14	1.07	5.00	1.99	
S92 GR	Sma Solar Techno	DE	30.50	49.7	33.26	1.15			3.27	1.62	
AEIS	Adv Energy Inds	US	27.72	60.7	27.72	1.13	14.03	3.36	4.67	6.06	
HQCL	Hanwha Q Cel-Adr	US	12.29	-34.6	12.29	1.02		11.67	1.00	-0.09	

## Example # 3: UK Homebuilders

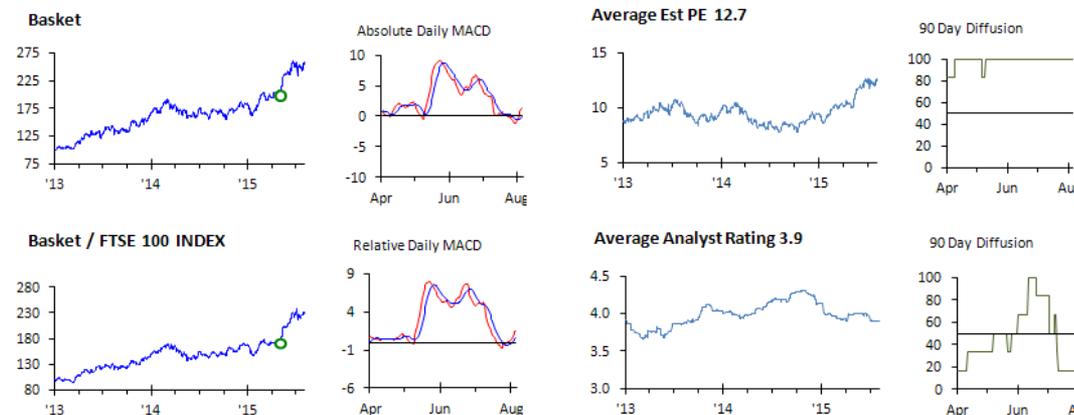
### UK Housing

Launched: May 5, 2015.

*If there is one thing that all the politicians can agree on, it is that the UK needs more housing. The combination of a major public policy push and constrained resources all but guarantees a full order book for the UK homebuilders for a long time to come, leading MRP to recommend a long position in a basket of those stocks. As a group, they have rallied nicely in the last year and the recent pre-election sell-off creates a timely entry point.*

Status Quo Ante	Discontinuity	Market Reaction
Housing Shortage Ahead of Uncertain Elections	Tories Elected with New Housing Policies	UK Homebuilder Stocks Rally

#### UK HOMEBUILDERS UNWEIGHTED BLOOMBERG BASKET



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Ticker	Name	Country of Issue	Price Local	1 Yr %	Price USD	Mkt Cap USD Billion	Forward PE	Div Yield	Short Int Ratio	Analyst Rating	Z Score
PSN LN	Persimmon	GB	2054.00	78.0	32.04	9.83	14.00	4.63		3.12	5.50
BDEV LN	Barratt Dev	GB	641.00	89.9	10.00	9.96	14.37	2.06		3.88	4.34
BKG LN	Berkeley Group	GB	3391.00	42.5	52.89	7.23	13.97	5.90		3.44	3.54
BWY LN	Bellway Plc	GB	2414.00	64.6	37.65	4.62	11.20	2.81		4.12	4.64
BVS LN	Bovis Homes Grp	GB	1152.00	56.2	17.97	2.42	11.42	3.54		4.36	4.17
RDW LN	Redrow Plc	GB	468.30	100.8	7.30	2.70	11.04	0.95		4.43	3.69

## 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.

## CONTACT

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