

Market Commentary

Welcome to the EventShares Q2 2019 investment outlook. Our team tracks government legislation and regulation with the goal of investing in policy disruption. You can check out our investment philosophy [here](#). **We've listed four state and four federal policy opportunities to monitor during 2019.**

State Legislation & Regulation

**Infrastructure:** Infrastructure spending continues to be a hot topic as investors look to Washington D.C. for clues on future spending plans. The nation's roads are crumbling, and the increased spending would mean growth for infrastructure companies. While Washington D.C. is grabbing investors' attention, state infrastructure initiatives are being overlooked. For example, Alabama and Arkansas each passed infrastructure bills in March 2019. The two states join 27 other states that have increased or adjusted their state gas taxes since 2013. Many states are also increasing electric and hybrid vehicle registration fees to account for the vehicles' lowered fuel consumption and gas tax receipts. We expect states to continue increasing their transportation budgets via fuel tax increases and vehicle registration fees. Management teams, such as Granite Construction and U.S. Concrete, are already mentioning state funding as a growth catalyst on their earnings calls. Check out our Infrastructure Policy Playbook, which includes a list of impacted companies, [here](#).

**Sales Tax Compliance:** The Supreme Court finally caught up to the digital age during June 2018. The case, South Dakota vs Wayfair, Inc., raised the question of collecting sales tax in an e-commerce era. In the past, states could only tax sales by businesses with a physical presence in their state. South Dakota argued the explosion of e-commerce

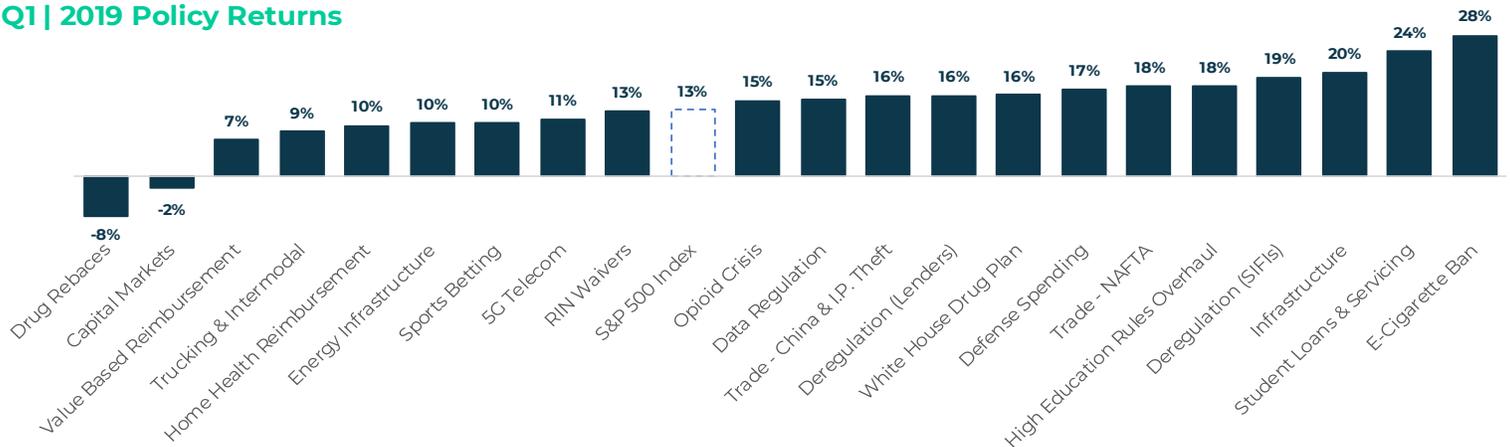
allowed businesses to get around the physical presence test, which cost states billions in legitimate sales tax revenue. The Supreme Court agreed and authorized states to collect sales tax regardless of a business's physical presence.

We expect a significant amount of state legislative activity this year to address the Wayfair sales tax decision. The outcome will likely be a patched network of state tax rules, which means companies will look for technology to ease their tax compliance burden. Avalara (AVLR), a seller of tax compliance software, is positioned to capture this surge of new business in our view. Management has spent the last decade building the technology and is now ready to reap the benefits of increased sales in our view.

**Sports Betting:** This is another Supreme Court decision from May 2018. In this case, the court granted states authority to legalize sports wagering. A handful of states have already passed legislation permitting sports betting. While this policy is still in its early stages, we expect an increase in sports betting legislation during 2019. Check out our Sports Betting Policy Playbook, which includes a list of impacted companies, [here](#).

**Marijuana Legalization:** Despite being illegal at the federal level, more and more states are legalizing medical and recreational marijuana. To date, 33 states plus Washington

Q1 | 2019 Policy Returns



This chart tracks the performance of policies by measuring the performance of separate baskets of stocks. The adviser selects stocks for each basket based on what it believes will be impacted by each policy. See the disclosure section at the bottom of page 3 for a complete list of the stocks included in each policy and the calculation methodology.

D.C. have legalized medical marijuana. Another 10 states have legalized recreational marijuana. While this trend likely continues, it's important to note there are significant policy implications that come with legalizing marijuana, which could slow down federal legalization. Those include taxing and regulating the product, responding to employer concerns about liability and drug testing, monitoring for driving under the influence, and addressing the marijuana industry's inability to use federally insured banks. We also question the attractiveness of investing in marijuana. If marijuana is legalized, what is defensible about a grower's business? Does marijuana simply become another commodity with unattractive grower economics? Questions like these and marijuana stock volatility leave us cautious.

### Federal Legislation & Regulation

**Value Based Reimbursement:** The Federal government continues to look for ways to lower healthcare spending. One of the top proposals is a switch from the current fee-for-service reimbursement scheme (e.g. hospitals are paid per service visit) to a value-based reimbursement scheme (e.g. hospitals are paid based on the value they provide). We expect this policy to get more attention in the years ahead. Check out our newly released Value Based Reimbursement Policy Playbook, which includes a list of impacted companies, [here](#).

**Tobacco/Vaping:** The FDA continues to highlight the growing percentage of teenagers using e-cigarettes, flavored cigars and menthol cigarettes. In March, the FDA released a proposed rule limiting e-cigarettes sales in convenience stores and online websites. Tobacco related stocks, such as Altria, Philip Morris, British American Tobacco

and Turning Point Brands, have all sold off on expectations of increased regulation. However, the current FDA commissioner, Scott Gottlieb, announced his retirement this month. We question whether the FDA will be successful in increasing regulation without a full-time commissioner.

**Defense:** Last year was a volatile year for defense spending. Defense Secretary Mattis resigned, President Trump pushed for 5% budget cuts before reversing course and pushing for increased defense spending and the Pentagon reacted to President Trump's orders to pull U.S. troops out of Syria. We expect 2019 to be less volatile and highlight the potential for increased defense company revenues as prior year defense appropriations start being distributed. We're also looking at defense stocks as a potential recession proof investment, because defense spending growth is not always correlated to broader market sales growth. Check out our Defense Policy Playbook, which includes a list of investible stocks, [here](#).

**Affordable Care Act:** This continues to be a long-tail policy in our view, with the next leg of growth coming from State Medicaid expansion. Voters in Idaho, Nebraska and Utah all approved proposals last year to expand Medicaid in their respective states. We expect this trend to continue to as the Trump administration provides more flexibility to Republican state legislatures to expand their Medicaid programs. In the background, a Texas judge rules the ACA is unconstitutional, and the Trump administration is pushing for negotiated healthcare prices to be made public. **Both are noise in our view.**

### Quarterly Outlook Chartbook

Download the chartbook version of this report [here](#).

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The 4Q 2018 Policy Returns (on page 1) are calculated by averaging the performance of a group of stocks that AWA considers to be impacted by each respective policy for the dates of 12/31/2018 to 3/18/2019 (date of this report was published). The following includes the tickers used for each policy — Capital Markets: CBOE, ICE, NDAQ, CME; Deregulation (SIFIs): ASB, KEY, AXP, STI, BBT, FITB, PNC, MTB, USB; Deregulation (Lenders): ENVA, CURO, FCFS, GDOT, OMF; Sports Betting: MGM, CHDN, WYNN, LVS, PENN, IGT, SGMS, TSG; Infrastructure: FLR, KBR, GVA, ACM, PRIM, TPC, MLM, VMC, EXP, SUM, USCR; Trucking & Intermodal: LSTR, HUBG, XPO, EXPD, ECHO, RRTS, NSC, UNP, JBHT, KSU, TRTN, TRN, GATX, WAB, GBX; Data Regulation: FB, TWTR, GOOGL, AMZN, RAMP, CLGX, IGP, EFX, TRU; 5G Telecom: ERIC, NOK, CIEN, DY, QCOM, SWKS, QRVO, CSCO, ZAYO, AMT, GLW, CCI, UNIT, SBAC, UBNT, WIFI, CMTL, COMM, MSI, IDCC, T, VZ, S, TMUS; RIN Waivers: CVRR, HFC, PSX, VLO, DK, ANDE, GPPE, REX, PEIX, ADM, REGI, GPP; Energy Infrastructure: LNG, PWR, FLR, HAL, NEE, DUK, EXC, AEP, AEE, PCG, EIX, SO, D, ED; Defense Spending: LMT, RTN, NOC, BA, HII, BWXT, AVAV, FLIR, AJRD, KTOS, OSIS, UTX, TDG, HXL, HON, TXT, MOG.A, BAH, LDOS, CACI, ICFI, SAIC; White House Drug Plan: AGN, MMK, VRTX, TEVA, MYL, PFE, LLY, GILD; Drug Rebates: CI, CVS, UNH; Value Based Reimbursement: HCA, UHS, EHC, MOH, CNC, WCG, HUM, CERN, TDOC, ASGN, MDRX, OMCL, VCRA, EVH, TRHC, MASI; Opioid Crisis: MNK, INSY, JNJ, MYL, ENDP, TEVA, MCK, CAH, ABC; Home Health Reimbursement: LHCG, AMED, CHE, ADUS; E-Cigarette Ban: MO, PM, BTI; Trade - NAFTA: KSU, UNP, BWA, STZ, TAP, COST, PWR, FLR, MGA, ASLN, AXL, APTV; Trade - China & I.P. Theft: EXPD, MATX, AAWW, CAT, DE, SWKS, QCOM, QRVO, AVGO, MU, WYNN, LVS, INTC, QCOM, NVDA, MU, IBM, AMD, TXN; Student Loans & Servicing: NNI, NAVI, SLM; High Education Rules Overhaul: CECO, ATGE, LAUR, LOPE, STRA.