


U.S. Infrastructure

POLICY PLAYBOOK | Investment Strategy for Key Policy Themes

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U.S. Infrastructure: A Complicated Bipartisan Initiative

\$270 billion

average monthly expenditures on construction by state and local governments (2016-2018)

9½ Months

of project backlog as of Q3 2018, the second highest infrastructure backlog in history

↑ 12.5%

increase in nonresidential transportation spending over the past year - seasonally adjusted

POLICY OVERVIEW | What's Happening?

There may be no bigger spending topic in Washington D.C. right now than infrastructure (engineering and construction of roads, bridges, dams, levies, ports, tolls, etc.). Trump campaigned on it, and the White House addressed Congress in February 2018 with a \$1.5 trillion spending proposal. Democrats and Republicans differ on whether certain projects, such as roads vs sidewalks/bike share lanes/landscaping, should be paid for with federal or state dollars.

OUR TAKE | The Market Opportunity & Investment Case

Why invest in infrastructure? The American Society of Civil Engineers, a politically unaffiliated coalition, rated U.S. infrastructure with a D+. It's not difficult to see. The nation's roads and bridges are crumbling, lack of pipeline infrastructure is slowing oil movement and water systems are rusting. Both political parties understand the popularity of empowering communities and promoting economic growth via new infrastructure investments.

How will infrastructure spending be financed? This is where infrastructure progress grinds to a halt. The two parties are unable to identify: (1) which projects should be funded with federal vs state dollar and (2) how the federal portion of infrastructure will be funded. One option are public-private partnerships (PPPs). In a PPP, the contractor has equity in the project. The government pays back the contract overtime as the project finds cash flow (i.e. toll roads). This style of financing puts more risk on the company, but allows for higher project volume. Federal lawmakers have proposed their own solutions. Trump's \$1.5 trillion package in the beginning of 2018 went nowhere; however, Democrats responded with their own \$1 trillion bill (financed through gas taxes and public borrowing). Republicans presented a smaller bill, which relied heavily on financing from PPPs and pushed increased costs onto local and state governments.

What is the impact on these companies? There are multiple ways to invest in an infrastructure buildout: project managers, construction materials and construction equipment. For project managers, building a project backlog is essential to realizing near-future earnings and growing the business. It's an opportunity to grow their revenues. Construction materials companies, such as rock, steel, wood, and concrete, are used by the project managers during construction. Increased infrastructure spending is an opportunity for them to grow revenues and sell greater product volumes. Construction equipment (e.g. building tractors, bulldozers, heavy duty trucks and renting equipment) is also essential with companies having the potential to grow their revenues.

TIMING | Significant Actions Taken & Next Steps

The Trump administration coined the term "Infrastructure Week" in 2018. In a sign of the difficulties of funding infrastructure, there were multiple "Infrastructure Weeks" that produced little progress. The last time Congress passed a transportation bill was in 2015. That bill funded surface transportation from FY2016 through FY2020, but did little to solve the long-term funding problem. With FY2021 approaching, we expect infrastructure funding to become a hot topic in 2019. Our question: Will Congress pass short-term infrastructure spending packages? Or will Congress pass a long-term funding mechanism that provides certainty to states and contractors?

Indecision by Congress and the Federal government is pushing state governments and local voters to take matters into their own hands. Los Angeles county voters overwhelmingly passed Measure M in 2016, which provides LA county's transit authority \$120 billion over the next 40 years to expand public transportation. Seattle voters also passed an infrastructure package, called Sound Transit 3, in 2016 to expand the light rail system, while Minneapolis is expanding its subway system. Airports are also being updated, with Newark Liberty International approving a \$2.7 billion redevelopment plan and NY LaGuardia currently undergoing an \$8 billion renovation.

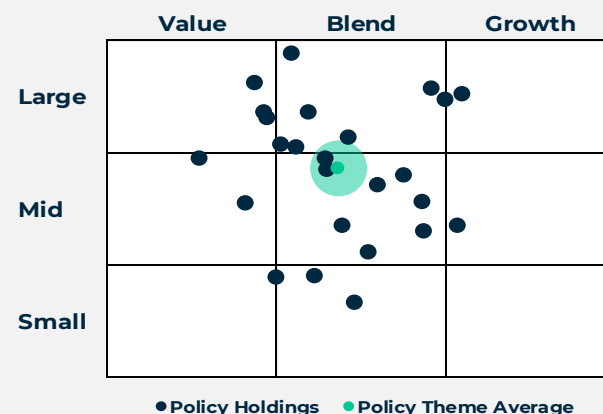
Key Statistics

Sector	Infrastructure
Sub-Industries	Project Management, Water, Material Providers, Equipment, Energy
Holdings	25
Average Market Cap (\$B)	\$8.3
Price to Earnings (P/E)	14.4x
Price/Book	2.2x
Price/Sales	1.0x
Price/Cash Flow	49.5x
Dividend Yield %	0.97%

Price Returns

	S&P 500	Basket
3 Month	-3.58%	-9.00%
6 Month	-5.25%	-14.65%
1 Year	4.98%	-14.84%

Holdings Style Map



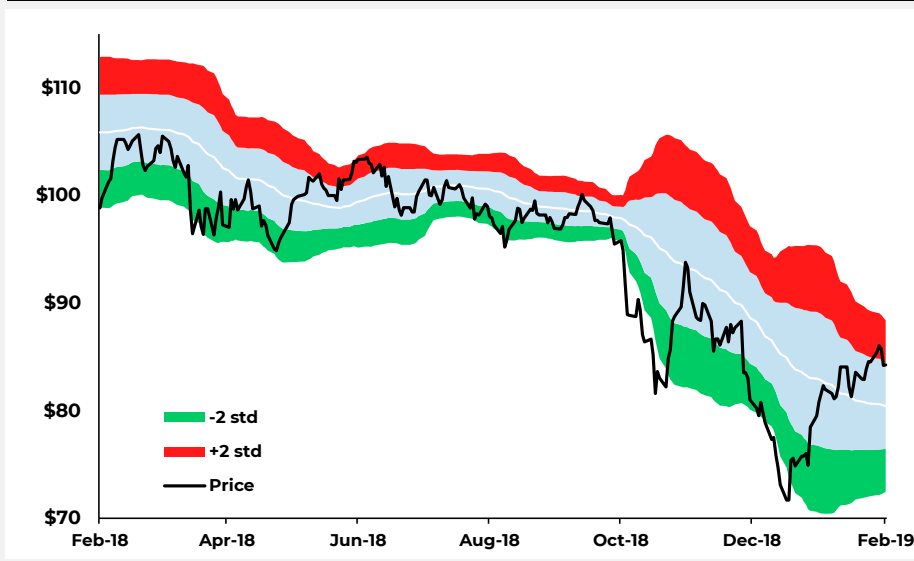
Source: FactSet (as of 2/8/2019)

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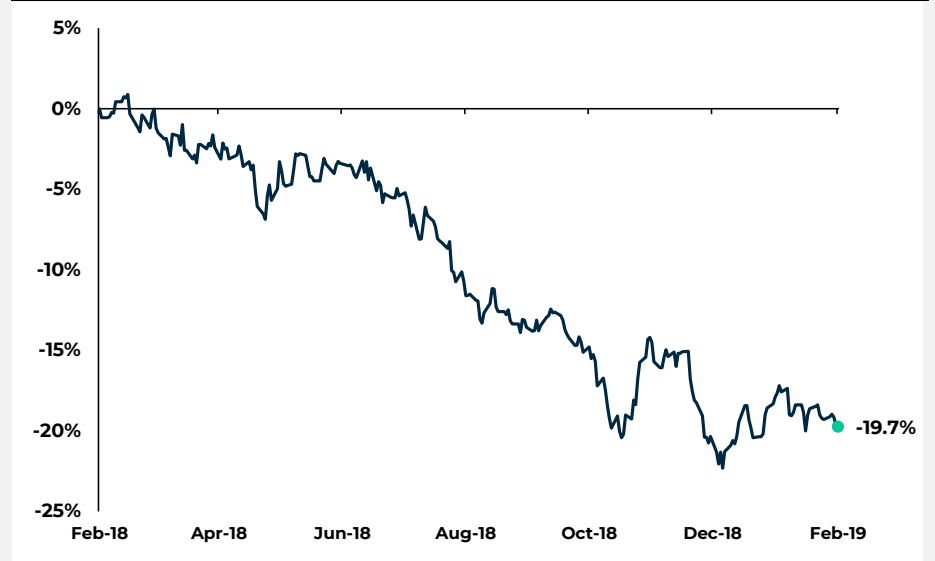
CHARTS: U.S. Infrastructure Policy Basket

Trading Range (Equal Weight Basket)



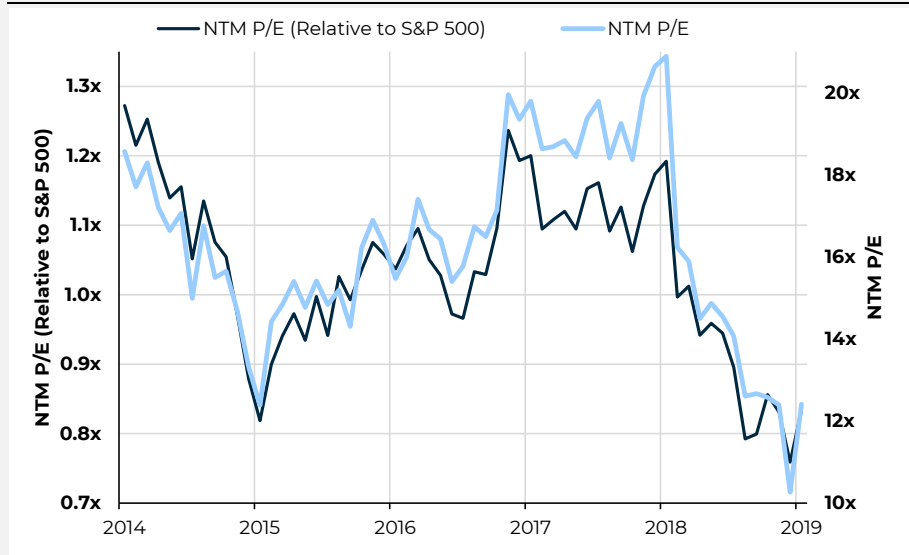
Source: FactSet (last 12-months; as of 2/8/2019)

Relative Returns to S&P 500 (Equal Weight Basket)



Source: FactSet (last 12-months; as of 2/8/2019)

Historical P/E Multiples (Basket Average)



Source: FactSet (as of 2/8/2019)

Rolling NTM P/E (Sub-industry and Basket Averages)



Source: FactSet (as of 2/8/2019)

FUNDAMENTALS: U.S. Infrastructure Policy Basket

Average Rank		Valuation NTM P/E	Size Market Cap (\$B)	Profitability EBITDA Margin	Cash Flow Yield	Leverage Debt/EBITDA	Liquidity Cash/Sales	Payout Div. Payout Ratio
1	Steel Dynamics	8.4x	\$8.21	17.1%	17.0%	1.4x	8.9%	14.0%
2	Nucor Corp	9.8x	\$18.28	16.4%	8.8%	1.3x	5.6%	20.8%
3	Caterpillar	10.6x	\$75.89	21.4%	4.9%	3.1x	14.4%	32.0%
4	United States Steel	7.7x	\$3.89	10.8%	-1.9%	1.8x	7.1%	3.2%
5	Mueller Water Products	16.0x	\$1.62	18.5%	5.4%	2.0x	21.4%	28.7%
6	United Rentals	6.6x	\$10.05	45.8%	6.7%	2.6x	0.5%	-
7	Jacobs Engineering	12.9x	\$9.17	7.3%	1.4%	2.3x	5.8%	51.2%
8	Tetra Tech	18.5x	\$3.10	8.4%	7.5%	1.0x	2.4%	18.2%
9	EMCOR Group, Inc.	12.6x	\$3.73	6.1%	3.6%	0.6x	4.5%	-
10	AECOM	10.0x	\$4.50	4.0%	9.8%	4.1x	4.1%	-
11	Granite Construction	12.7x	\$1.98	6.9%	0.0%	1.2x	8.3%	-
12	Fluor Corporation	12.7x	\$4.85	3.8%	-2.1%	2.1x	9.9%	-
13	Quanta Services	10.6x	\$5.01	7.0%	2.3%	1.0x	1.1%	-
14	Vulcan Materials	23.2x	\$13.66	25.0%	2.5%	2.4x	1.0%	-
15	Martin Marietta	21.2x	\$11.56	25.1%	2.8%	2.7x	1.3%	-
16	Terex Corporation	9.5x	\$2.27	5.9%	3.7%	2.5x	6.6%	-
17	Tutor Perini	6.8x	\$0.78	4.6%	4.4%	2.6x	3.9%	-
18	Cheniere Energy	34.9x	\$16.85	34.0%	-7.6%	9.7x	40.0%	-
19	Stantec	14.7x	\$2.68	6.6%	1.8%	2.2x	3.2%	-
20	U.S. Concrete	11.3x	\$0.61	10.7%	7.9%	3.4x	1.7%	-
21	Badger Meter	34.6x	\$1.73	-	-	0.2x	3.0%	58.9%
22	MasTec	10.3x	\$3.26	9.1%	-4.8%	2.4x	1.1%	-
23	Summit Materials	19.8x	\$1.75	17.7%	-0.8%	4.1x	6.1%	-
24	Primoris Services	10.6x	\$1.01	7.1%	-6.9%	1.6x	2.3%	-
25	Herc Holdings	15.0x	\$1.08	32.8%	-25.1%	3.3x	0.9%	-

HOLDINGS: U.S. Infrastructure Policy Basket

Ticker	Company	Market Cap (\$B)	Price to Earnings (P/E)	Price/ Book	Price/ Sales	Price/ Cash Flow	Dividend Yield %	Stock Price	52 Week Range
Construction & Project Management									
ACM	AECOM	\$4.5	10.0x	1.1x	0.2x	8.8x	-	\$28.80	\$37.53 - 24.83
JEC	Jacobs Engineering	\$9.2	12.9x	1.6x	0.5x	45.0x	1.03%	\$65.73	\$82.24 - 55.17
TTEK	Tetra Tech	\$3.1	18.5x	3.3x	1.0x	13.9x	0.86%	\$56.09	\$72.56 - 44.65
TPC	Tutor Perini	\$0.8	6.8x	0.4x	0.2x	6.2x	-	\$15.69	\$24.98 - 14.66
FLR	Fluor Corporation	\$4.9	12.7x	1.6x	0.4x	121.9x	2.44%	\$34.48	\$62.08 - 29.78
STN	Stantec	\$2.7	14.7x	1.8x	0.7x	21.1x	1.71%	\$23.57	\$29.10 - 21.44
EME	EMCOR Group	\$3.7	12.6x	2.1x	0.6x	19.5x	0.49%	\$64.79	\$82.04 - 57.29
GVA	Granite Construction	\$2.0	12.7x	1.5x	0.7x	20.9x	1.23%	\$42.17	\$63.39 - 38.55
Construction Material Providers									
VMC	Vulcan Materials	\$13.7	23.2x	2.7x	3.5x	16.9x	1.08%	\$103.47	\$134.44 - 82.52
MLM	Martin Marietta Material	\$11.6	21.2x	2.3x	2.7x	17.1x	1.04%	\$184.34	\$232.89 - 150.75
USCR	U.S. Concrete	\$0.6	11.3x	2.0x	0.5x	6.0x	-	\$36.50	\$79.60 - 27.68
SUM	Summit Materials	\$1.7	19.8x	1.3x	0.7x	8.3x	-	\$15.65	\$33.31 - 11.25
X	United States Steel	\$3.9	7.7x	1.0x	0.2x	4.2x	0.91%	\$21.95	\$47.64 - 17.09
NUE	Nucor Corp	\$18.3	9.8x	1.9x	0.6x	7.8x	2.67%	\$59.82	\$69.79 - 49.79
STLD	Steel Dynamics	\$8.2	8.4x	2.1x	0.6x	5.8x	2.10%	\$35.76	\$52.10 - 28.91
Construction Equipment									
URI	United Rentals	\$10.1	6.6x	3.0x	1.0x	3.6x	-	\$126.29	\$190.74 - 94.28
HRI	Herc Holdings	\$1.1	15.0x	1.9x	0.8x	2.3x	-	\$37.82	\$72.99 - 24.16
CAT	Caterpillar	\$75.9	10.6x	4.8x	1.4x	11.5x	2.67%	\$128.60	\$164.60 - 112.06
TEX	Terex Corporation	\$2.3	9.5x	2.3x	0.6x	12.2x	1.43%	\$30.85	\$45.47 - 25.47
Water Infrastructure									
BMI	Badger Meter	\$1.7	34.6x	5.9x	3.3x	39.7x	1.01%	\$59.39	\$59.75 - 41.00
MWA	Mueller Water Products	\$1.6	16.0x	3.0x	1.5x	11.3x	1.95%	\$10.24	\$12.59 - 8.47
Energy Infrastructure									
PWR	Quanta Services	\$5.0	10.6x	1.3x	0.5x	12.6x	0.47%	\$34.31	\$37.44 - 27.90
MTZ	MasTec	\$3.3	10.3x	2.2x	0.5x	743.9x	-	\$41.40	\$54.70 - 37.24
PRIM	Primoris Services	\$1.0	10.6x	1.7x	0.5x	67.4x	1.22%	\$19.74	\$28.90 - 17.82
LNG	Cheniere Energy	\$16.8	34.9x		2.3x	8.9x	-	\$65.59	\$71.03 - 50.08

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