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**2018  
WHITE PAPER**

[www.EventShares.com](http://www.EventShares.com)

**A GUIDE  
TO POLICY  
INVESTING**



## About EventShares

EventShares is an asset manager located in New York City focused on the investment implications of current legislation, regulation, and fiscal policy coming out of Washington, D.C. The firm is founded on the belief that policy is a powerful leading indicator and catalyst for companies, and that investments aligned correctly with Washington can outperform the market.

EventShares offers numerous educational resources to help investors connect the worlds of Washington and Wall Street.

## WASHINGTON D.C.



### **Washington D.C. is the hub of U.S. policymaking.**

The Constitution is the founding document of the United States. Articles I and II establish the legislative and executive branches, while Article III establishes the judicial branch. Congress is the face of the legislative branch and is granted authority to pass laws. The President is the face of the executive branch, with the power to execute and enforce laws. The Supreme Court is the head of the judicial branch, with the power to interpret law and apply it to court cases. Behind the scenes are government agencies, congressional staffers, and cabinet secretaries counseling the President. The system is designed to create and implement U.S. policy.

## POLICY FACTORS



### **We group policy into four broad categories: Fiscal, Trade, Regulatory, and Monetary.**

- **Fiscal** is defined by the level of government spending and taxing. It's driven by government budgets and appropriations, tax rates, and debt levels.
- **Trade** relates to the regulations and agreements controlling imports and exports. It includes taxes, tariffs, and the resulting trade deficits and surpluses.
- **Regulatory** is the use of regulations, laws, and other instruments to achieve the government's objectives. Regulations can impact banking and insurance, the environment, minimum wages, etc.
- **Monetary** is the process by which the country's monetary authority, the Federal Reserve, determines the size and growth rate of the money supply and interest rate levels.

**In our view, only monetary policy is closely followed by investors.** The remaining three policy groups are less scrutinized, with investors passively consuming most Washington, D.C. news. Instead, they rely on fundamental

and technical analysis to identify policy catalysts at the individual company level. For these investors, policy is not a top-down, macro catalyst, but rather a series of one-time, market-moving headlines.

Along those lines, many investors tend to incorrectly equate policy with politics. We think this causes them to discount policy in the portfolio-management process and underestimate its potential impacts. While both policy and politics originate in Washington, D.C., they are not equivalent. Politics represents government conflict and debate, while policy is the resulting legislation.

## THE OPPORTUNITY



**These misconceptions about policy offer an opportunity: investing in policy trends that create mispriced assets.**

The mispricing can result from numerous fundamental misconceptions or concerns about business-model disruption. In instances of regulatory concerns, short-term volatility may offer an opportunity to buy or sell a security as the market becomes irrational due to policy-related headlines. Below are examples of previous fundamental misconceptions driven by policy.

- **Profitability:** Investors might not understand how a regulation decreases profit margins (e.g. increased compliance costs under Dodd-Frank or increased competition due to airline deregulation in the 1970s).
- **Revenue:** Investors may not be aware of a new customer base or revenue opportunity (e.g. decrease in uninsured population under the Affordable Care Act and resulting Medicaid expansion, or new contracts for defense companies under the George W. Bush and Trump administrations).
- **Market Share:** The impact might also be an opportunity for some companies to grow market

share (e.g. SunPower's solar panels being subject to Trump administration tariffs while First Solar's solar panels were not).

## POLICY TRENDS



**Policy trends occur when changing rules and regulations alter industry dynamics, company business models, and global trade.**

The resulting impacts from policy can be positive, negative, or a mixture of both. They can last days, months, or years. The common theme is the fundamental disruption of a company. For example, some past long-term policy trends include: (1) Dodd-Frank, (2) the Affordable Care Act, and (3) Bush defense spending in the early 2000s.

## KEY FEATURES



**Policy investing has three key features: its status as a (1) leading indicator with a (2) long-term horizon that is (3) historically uncorrelated to broader markets.**

We view policy as a leading indicator with long-term implications because it forces businesses to pivot. Company leadership teams must adapt to survive or risk falling behind. The resulting changes can impact operations and cause investors to revalue companies.

It's important to note that policymaking tends to occur independently of economic cycles. This is because Congress typically debates and passes legislation without considering the level of inflation and interest rates, job and payroll data, or foreign currency movement. The government can't pause policymaking just because of a recession. In fact, policymaking may be more important during an economic downturn as the government attempts to implement reforms via new policies and regulations.

Once enacted, policy tends to unfold over multiple years as government agencies refine laws by issuing interpretive guidance. This creates a long-tail effect, during which investors may continue to reprice a stock as the policy is refined. For example, the Affordable Care Act was passed in 2010, with Medicaid and Medicare expansion in the following years. However, the policy reversed course six years later when Donald Trump ended government subsidy payments and 2017 tax reform repealed the individual mandate tax penalty. It's because of such variations that we believe policy plays out over a long-term horizon and is uncorrelated to the broader markets.

## POLICY RESOURCES



### **Fortunately for investors, policymaking is highly publicized.**

The benefit of policymaking is that most of the policymaking process in the nation's capital is made public. Understanding which resources to use may help identify policy trends.

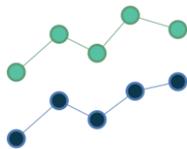
Examples of policy resources include:

- **Congressional Hearings:** Hearings and legislative markups are open to the public and allow policy investors to watch policymaking occur in real-time.
- **Federal Register:** The official journal of the U.S. federal government. It is published daily and serves as an outlet for the government to announce public changes, both final and proposed, to its rules, policies, and interpretative guidance.
- **House and Senate Committee Websites:** Each committee within the House and Senate maintains a website, which typically includes replays of past legislative hearings and markups, as well as committee agendas.

- **Congress.gov:** The website is a hub for all things Capitol Hill and provides real-time updates on individual bills and the upcoming week’s agenda. Users can also set up alerts to track specific bills and review roll call votes for prior bills and amendments.

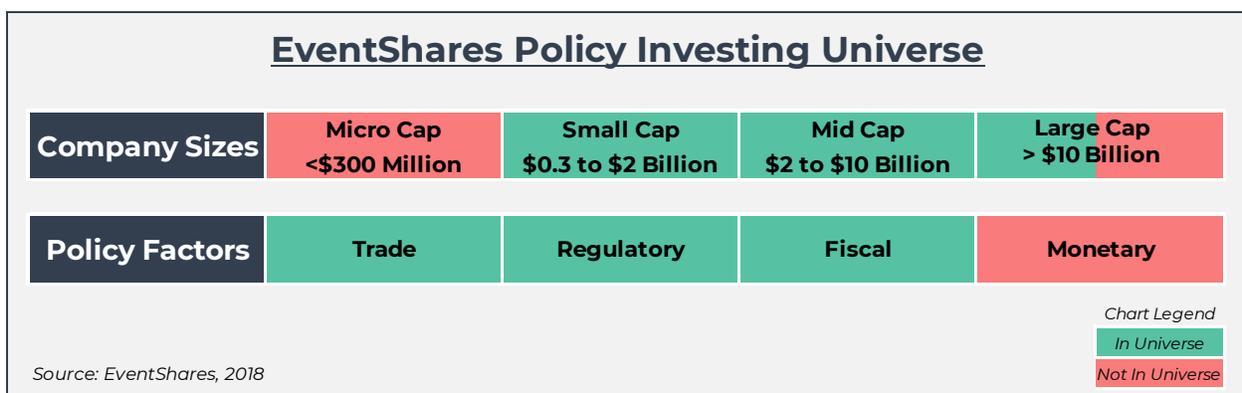
In addition to the above government-run resources, the media adds another level of transparency as it monitors the nation’s policymaking process. By utilizing sources like these, investors may be able to forecast and model policy with increased accuracy.

## PORTFOLIO ALLOCATION



### Policy has the biggest impact on the small- to mid-cap (SMID) segment of a portfolio.

We think most large cap companies are too diversified for policy to make an impact. While these companies may have one impacted segment, multiple unrelated segments could diversify away the policy impact. Additionally, large cap stocks are typically followed by more research analysts, reducing the “policy edge” for investors.



Conversely, SMID cap stocks, and large cap stocks up to \$15 billion in market cap, tend to be less diversified and less followed by major research analysts. With less diversification, a smaller company may be more impacted by changes in the dollar amounts of government contracts, or by increases in the insured population, or decreases in regulatory costs.

It's more difficult for a smaller company to absorb a policy and minimize the impact, whether it's good or bad.

**In our view, investors should allocate a portion of their portfolio to policy investing.**

At EventShares, we strive to sift through the noise and gauge a policy's financial or operational impact on companies in the marketplace. We think holding policy-sensitive stocks across diverse sectors gives investors market exposure with embedded policy catalysts. If the policy catalysts occur, the portfolio may offer lower correlations to the broader market and the opportunity to generate alpha.

## NEXT STEPS: Download the Policy Tracker

**Policy Tracker** EVENT SHARES

The EventShares Policy Tracker is a summary of the current policies, legislation, and regulations we are monitoring in Washington D.C. We provide potential market impacts of each policy, including links to primary source documents.

**U.S. Stock Market**

- US and Foreign Defense Industry Sales**  
Defense Contractors: LMT, RTN, NOC, BA, HII, GD  
Defense Industry Suppliers: HXL, FLIR
- Renewable Identification Number (BIN) Waivers**  
Refiners: ANDV, CVRR, HFC, PSX, VLO
- Energy Infrastructure**  
LNG Terminals: LNG
- FERC MLP Ruling**  
MLPs: WPZ, SEP, EEP, TCP, SHLX, EQM, ETP
- Student Lending & Loan Servicing**  
For Profit Ed: CECO, ATGE, CPLA, LAUR, LOPE  
Educational Materials: GHC, OHGG  
Student Lenders: NNI, NAVI, SLM
- Affordable Care Act**  
Hospitals: HCA, UHS, LPNT, EHC  
Health Insurers: MOH, CVC, WCC, HUM  
Healthcare Tech: CERN, TDOC, ASGN
- Opioid Crisis**  
Drug Distributors: MCK, CAH, ABC
- White House Prescription Drug Plan**  
Specialty Pharma: AON, MMK  
Generic Pharma: TEVA, MYL
- 2% Medicare Sequestration Cuts**  
Home Health: LHCG, AMED, XND, CHE, SEM  
Medical Devices: MDT, ISRG, SYK, TFX
- 2017 Tax Reform & Jobs Act**  
CAL, COST, FISV, GPK, STAY, PIZZ
- Financials**
- Industrials**
- Technology**
- Trade**
- Agriculture**
- Tax Reform**
- Health Care**
- Education**
- Energy**
- Aerospace & Defense**

**Deregulation - SIFs**  
Regional Banks: ASB, PACW, ZION, KEY

**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

**Rural Broadband**  
Broadband: AMT, GLU

**Infrastructure**  
Project Management: FLR, KBR, GVA  
Construction Materials: MLM, VMC

**Chinese IP Theft**  
I.T.: INTC, QCOM, NVDA, MU, IBM, AMD, TXN

**Increased Data Regulation on Social Media**  
Social Media: FB, TWTR, AMZN, GOOGL  
Data Brokers & Aggregators: AQXM, CLBK  
Credit Reporting Agencies: EFX, TRU

**NAFTA 2.0**  
Auto Suppliers: DLPH, BWA, OMI  
Transportation: KSU

**China Tariffs**  
Asia-Pacific Trade: EXPD, MATX, AAWW  
Agriculture Machinery: CAT, DE

**Farm Bill**  
Grocers: WMT, TGT, KR, DLTR, DG

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# EventShares Advisor Resources

## Policy Insights

### Newsletter Highlights

- In your inbox every Monday morning
- A summary of our weekly discussions with policy experts in D.C.
- Topics: Current events, Legislation analysis, Sector commentary/outlook

Sign Up



## Strategies

### Policy Investing Solutions

- We achieve long-term alpha by focusing on policy and how it changes the way companies and sectors operate.
- Our portfolio management team and policy strategists work seamlessly to construct policy focused portfolios.

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Strategies

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