PLCY | Translating Washington.

All roads lead to Washington D.C. The U.S. capitol is the epicenter of the country's policymaking process and plays a pivotal role in passing laws and setting regulations. The policies originating from Washington D.C. can have profound impacts on companies. However, the policymaking process can be difficult to understand. In this Q&A, EventShares' CIO discusses policy investing and why investors might consider a policy Exchange-Traded Fund (ETF) to complement their equity allocations.

Q: How do you define "Policy"?

A: Policy is simple, yet investors often overlook its impact on companies. Too often, investors connect the political process of negotiating policy to the final policy. We think this is misguided. While the political process creates policy, it's important to remember: **Policy ≠ Politics**.

At EventShares, we group policy into two buckets: Legislation and Regulation. Legislation represents the laws and budgets passed by Congress. Regulation refers to the rules government agencies put in place to interpret and enforce Congress's legislation.

Q: Why does Policy matter?

A: Policy matters because it represents the rules that companies must follow. It's similar to how commodity prices, currency values and interest rate levels impact company profits. A change in legislation and/or regulation can impact a company's business model and valuation, which is why we view **policy as a leading indicator**.

Q: What is Policy Investing?

A: First, it's important to understand what policy investing is not. It's not a "Twitter" strategy or built around news headlines. It's not a day trading strategy. **Policy Investing** focuses on buying companies benefiting from policy themes, while avoiding companies that are harmed. In a world full of exotic investment strategies, this common-sense investing approach looks to emphasize the basics.

We believe investments aligned with Washington can outperform the market. Academic research demonstrated that legislation has an undetected impact on company stock prices. The authors of "Legislating Stock Prices" concluded, "A long-short portfolio based on legislators' views earns abnormal returns of over 0.90% per month following the passage of legislation."[1] We view policy investing as an opportunity that most investors are missing.

Q: What is a Policy Theme?

A: A **Policy Theme** is a legislative or regulatory change impacting a common group of companies. Policy themes signify a paradigm change - a new way of doing business. Similar to how new technology revolutionizes companies, policy can alter a company's status quo. New policies can create disruption and headaches for management teams. However, they offer unique investment opportunities for smart investors.

Q: Can you provide a few examples?

A: Policy themes are abundant. They originate from Congress and the federal system of 430 departments and agencies[2]. Each year[3], Congress passes 758 bills, the Supreme Court rules on 130 cases, and federal agencies issue 3,853 rules. That's a significant amount of policy disruption on an annual basis.

One notable policy theme is the Affordable Care Act (ACA), which passed in 2010. The ACA reduced the uninsured population and offered states the opportunity to expand Medicaid. Those changes benefitted companies such as Molina Healthcare (MOH) and Centene (CNC)[4], which sell health insurance coverage and manage health plans for the government. MOH's revenue grew from $3.7 billion in 2009 to $19.9 billion in 2017, while CNC's revenue grew from $4.1 billion to $48.4 billion over the same period[5].

"May Day" is another notable policy. Prior to 1975, stock brokers charged fixed commission rates. The practice was thought to have started in the late 18th century when brokers gathered near the New York Stock Exchange's current location. The brokers made a pact to charge high, fixed commissions, which essentially created a monopoly. In 1975, the Department of Justice and SEC ordered the end of fixed commissions and the beginning of competitively negotiated ones. A new startup called Charles Schwab, seized the opportunity to offer a new trading service with lower commission rates. Because of that, May Day is credited with the creation of discount stock brokers (e.g. TD Ameritrade, E*Trade, Fidelity, Interactive Brokers).

Continue →

[1] Cohen, Diether, Malloy "Legislating Stock Prices." National Bureau of Economic Research
[2] Competitive Enterprise Institute, August 2015
[3] Forbes.com; MIC.com; Civilrights.org
[4] MOH (1.3%) and CNC (1.27%) are both held in PLCY as of 1/31/2019. Holdings subject to change.
[5] FactSet Data & Company 10Ks

The table below lists more policy themes[6]:

For illustrative purposes only. The fund may invest in the current themes listed and/or additional themes not referenced which are subject to change.

Legislative Catalysts		
Historical	Glass-Steagall Act (1933)	BANKING
	Dodd–Frank Wall Street Reform (2010)	FINANCIALS
	Affordable Care Act – Obamacare (2010)	HEALTHCARE
Current	Fiscal Year 2020 Defense Budget	DEFENSE
	State Medicaid Expansion under the ACA	HEALTHCARE
	Social Media, Data Regulation & Consumer Privacy	TECHNOLOGY

Regulatory Catalysts		
Historical	Hours of Service of Drivers (FMCSA, 2011)	TRANSPORTATION
	Fixed Commissions Elimination & Rise of Discount Brokers (1975)	BROKER DEALERS
	Fannie Mae & Freddie Mac Dividend Sweep (DoT & FHFA, 2012)	HOUSING
Current	5G Telecom Deregulatory Agenda (FCC)	TELECOMS
	Drug Pricing & Rebates (FDA)	PHARMA
	Value-Based Healthcare Reimbursement (CMS)	HEALTHCARE

Q: Why buy PLCY instead of purchasing sector or industry ETFs ?

A: Sector and industry ETFs are not pure policy investments in our view. For example, a diversified healthcare sector ETF can hold pharma and biotech companies, drugstore chains, insurance providers and hospitals. From the example above, we know insurance providers benefited from the ACA. However, both Democrats and Republicans have targeted drug pricing in recent years (a negative policy theme in our view). A diversified healthcare sector ETF is unable to distinguish between positive and negative catalysts within the healthcare sector. If drug pricing reform is passed, pharma and biotech companies may underperform and dilute the outperformance of insurers.

Similarly, defense ETFs have difficulty distinguishing between commercial aerospace and defense markets. While increased defense budgets benefit defense companies, the government doesn't generally buy commercial aircraft. Purchasing a fund with non-defense aerospace exposure introduces commercial aerospace cyclicality. Commercial aerospace stocks may also decrease portfolio correlation to defense budgets.

In contrast, PLCY strives to invest in policy themes by owning groups of companies with direct policy exposure. PLCY seeks to distinguish between the negative policy catalysts facing pharma and biotech companies and the positive catalysts benefiting insurance providers.

PLCY can also distinguish between commercial aerospace and defense markets. Purchasing a fund with the ability to identify and hold the right industries is important to generating outperformance in our view.

Q: Where does PLCY fit in a portfolio?

A: PLCY tends to invest in small-cap, mid-cap and smaller large-cap companies. Policy themes disrupt smaller sized companies the most per our analysis. This is because the largest companies are often too diversified, have multiple business lines and have international revenue sources. In contrast, small-cap and mid-cap companies are generally less diversified and are more impacted by changing policies. This makes PLCY an ideal replacement for small-cap and mid-cap exposure in our view .

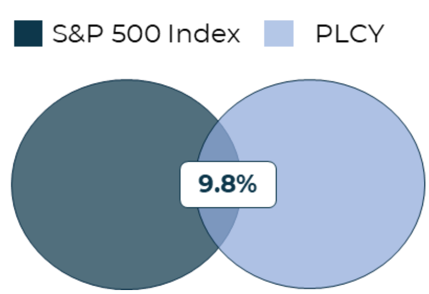
Q: What makes PLCY unique ?

A: PLCY is unique because it's one of the only funds guided by legislative and regulatory catalysts. PLCY strives to provide targeted policy exposure to multiple industry-changing policy themes within one portfolio. This allows the investor to purchase one buy-and-hold product that rotates among policy themes as they evolve. We believe this simplifies the portfolio management process while providing exposure to the latest and most impactful policy themes.

From a portfolio holdings perspective, PLCY seeks to maintain low overlap with major market indices. The charts below show the index overlap of PLCY against the S&P 500 Index[7].

PLCY strives to outperform by investing in policy themes and managing portfolio risk. As a buy-and-hold investment fund, we believe PLCY is one of the best ways to invest in policy disruption.

PORTFOLIO OVERLAP



[6] FCC = Federal Communications Commission, SIFI = Systemically Important Financial Institution , FMCSA = Federal Motor Carrier Safety Administration, CMS = Centers for Medicare & Medicaid Services, DoT = U.S. Department of Treasury , FHFA = Federal Housing Finance Agency
[7] As of 1/31/2019. ETF Think Tank data.

PLCY Risks There is no guarantee the Fund will achieve its investment objective. An investment in the Fund is subject to risk, including the possible loss of principal amount invested. The prices of equity securities rise and fall daily. These price movements may result from factors affecting individual issuers, industries or the stock market as a whole. Shares of the Fund may trade above or below their net asset value (NAV). The trading price of the Fund's shares may deviate significantly from their NAV during periods of market volatility. There can be no assurance that an active trading market for the Fund's shares will develop or be maintained. In addition, equity markets tend to move in cycles which may cause stock prices to fall over short or extended periods of time.

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund's shares and the possibility of significant losses. Losing all or a portion of your investment is a risk of investing in the fund. Failure of the government to take positive action on policy and regulation themes, as well as other factors besides government action, may result in losses. Unanticipated political or social developments may result in sudden and significant investment losses. Political and social developments that are anticipated but at odds with a Fund's theme may result in sudden and significant investment losses. Investing in securities of small and medium capitalization companies may involve greater volatility than investing in larger and more established companies because small and medium capitalization companies can be subject to more abrupt or erratic share price changes than larger, more established companies. The use of hedging and derivatives could produce disproportionate gains or losses and may increase costs. Short positions entered into by the Fund may involve higher risks and costs, and potential losses relating to such investments are not typically limited.

Shares are bought and sold at market price (closing price) not NAV. Shares are not individually redeemed from the Fund and owners of shares may acquire or redeem shares in Creation Units only. Shares of the ETFs may be bought and sold throughout the day on the exchange through any brokerage account. Buying and selling shares of ETFs will result in brokerage commissions.

Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. For a prospectus with this and other information about the Fund, please call (877) 539-1510 or visit our website at www.EventSharesFunds.com. Read the prospectus carefully before investing.

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S&P 500 Index — An American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.