

Peering into the Policy Crystal Ball of the New Administration
February 15, 2017



[Questions Board Members Should Ask](#) -Key questions that directors should be asking of management in post-election America:

- **Information gathering:** How are we informing ourselves about the new administration's proposed policies, their implementation, and what they might mean to our company?

Panelists Chris William, Friso van der Oord and Mel Schwarz

- Election results indicate voters want a change
- Don't follow the noise but look for signals from the new administration
- Flexibility is the watch ward; Companies need to be able to respond to alternatives

- **Outreach:** What is our outreach and engagement plan for advancing our positions on important issues with the new administration?
 - Panelists shared belief that pieces of Dodd Frank will be repealed

- **New trends:** How are we identifying current trends, disruptors, and business impact issues, along with key actions that have longer-term or permanent implications?
 - Companies should use robust scenario planning
 - Need to put in "sign posts" when it's time to pivot
 - Healthcare *Panelist Phil Wellington*
 - Whether we repeal the ACA or not the economics of healthcare are not sustainable
 - Need to pay attention to these things, which will drive healthcare economics: (1) the drive to deliver lower cost, higher quality healthcare; (2) the Medicare Access Chip Reauthorization Act (MACRA; Passed bi-partisan in 2015), which governs how hospital & doctor are paid in value based models based on quality of results ; shift from fee for service to fee for value(3) health care providers negotiating directly with employers to provide health care to employees (4) providers becoming payers; payers becoming providers; Industry Consolidation5) movement to promote wellness vs. treating illness

- **Tax policy:** What are we doing to prepare for shifts in the tax policy?
 - *Panelist Mel Schwartz* does not believe tax reform will be drastic
 - In a global economy, the US tax system should look like the rest of the world
 - This would include Value Added Tax which is a beneficial system however, little political possibility
 - Corporate tax reform is something Washington can agree on; these changes could get done

- **Spending:** How are we positioning the company to benefit from "infrastructure" spending?
 - One aspect of spending is on healthcare; *panelist Phil Wellington* sees more high deductible plans where employers put the health care spending dollars in the hands of the consumer

Peering into the Policy Crystal Ball of the New Administration
February 15, 2017

- *Growth*: What core assumptions about growth should be reconsidered in light of this new administration?
 - Two points from *panelist Dr. John Silvia*, Chief Economist at Wells Fargo that resulted from some follow up questions:
 - As illustrated in the attached note, credit standards have started to tighten for consumer loans—especially for new/used autos
 - Interesting that auto debt delinquencies have started to drift upward (bottom graph)
 - As for inflation, the Blue Chip consensus projects CPI at 2.5% for 2017 but back down to 2.3% for 2018, this suggests that while the path is there for the FOMC to raise the funds rate this year—what is the incentive to continue to raise rates in 2018 if inflation is slowing?
 - See separate Wells Fargo report

- *Growth*: What possible emerging growth opportunities are on the horizon that we should be anticipating and for which we should be building a capture plan?
 - Panelists all shared that small business concerns have been lost in the noise

- *Exposure*: What is our exposure to trade policy changes and the fluctuation of the U.S. dollar?
 - Watch global exposure and spill over impacts

- *Supply chain*: Do we know which of our critical suppliers could be impacted by a focus on a more nationalistic trade policy?
 - Consider a review of all the goods used to mfg. or deliver products and service and their source

- Strategic planning: How are we integrating political risk analysis and assessments into our strategy and risks processes?

- Scenario planning: How robust and effective are our current “scenario-planning” processes, and how prepared are we to act quickly if needed?
 - *Panelist Frisco van der Oord* stressed this point about scenario planning and sign posts

- Technology: What technology impacts will the new administration’s direction produce?
 - Noted that $\frac{3}{4}$ of the jobs lost in manufacturing were lost to technology, this is a trend what won’t be reversed

- Director skills: What skills are most needed in our company’s directors going forward?