



Updated March 20, 2019

Baker's Dozen Monthly Portfolios

plus Dividend, Rising Rate, Defensive Equity, Small Cap Growth

***“Quantamental” GARP approach
with a forensic accounting overlay***

This presentation, including the gross historical performance shown in this presentation, pertains solely to the theoretical *model portfolios* published by Sabrient Systems, LLC. Sabrient is not responsible for the usage of such portfolios by any third party, including without limitation the *Baker's Dozen* UITs sponsored by First Trust. In addition, the performance numbers herein do not reflect the deduction of brokerage commissions, execution fees, or other expenses that may be paid by any third party making its own investment in the portfolios. First Trust UITs are subject to the imposition of fees, and to variation in the construction of the portfolios, which will over time reduce the performance of such UITs in comparison with the performance of Sabrient's model portfolios.



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Sabrient Systems LLC

Quantitative equity research, rankings, strategies

Gradient Analytics LLC

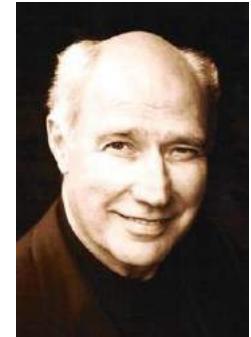
Fundamental forensic accounting research

Talking Points Summary

- Disciplined, model-driven, bottom-up, "*quantamental*" GARP* selection process with a forensic accounting review – tends to outperform when fundamentals matter
- 10-year outperformance (despite 4 notable news-driven drawdowns) 1Q2009
mid-2011
2H2015
2H2018
- June 11 – escalating trade wars and hawkish Fed led to fear-based risk-off rotation into defensive sectors and mega-caps (AAPL, AMZN, MSFT) despite little change in strong outlook (based on sell-side analyst consensus estimates)
- Most of our 2018 underperformance occurred 6/11–9/20 as S&P 500 rose while cyclical sectors and small-mid caps fell, before the broad market ultimately sold off
- But forward guidance *improved* while prices *fell* in the cyclical sectors, so forward valuations are much more attractive today => *buying opportunity, in our view*
- Indeed, market strong since Christmas Eve capitulation day, led by cyclicals and smaller caps – and *all Baker's Dozen portfolios have outperformed* thru February

* Note: **GARP** = "Growth At a Reasonable Price" (growth/value hybrid)

- **Quantitative** fundamentals-based multifactor models since 2000
- Diverse team of engineers/analysts/programmers, led by former NASA engineer (Apollo 11 moon landing) **David Brown**
- Numbers-driven; Bottom-up rather than top-down
- Focused on **Growth At a Reasonable Price** (GARP)
- Relies on database of sell-side analyst estimates
=> Key metric: Forward PEG ratio (next 12 months)
- In 2009, introduced *quantamental* GARP approach to create the *Baker's Dozen* annual portfolio of 13 top picks



- **Fundamental** in-depth forensic accounting analysis since 2002
 - Team of CFAs, CPAs – finance & accounting backgrounds, led by President & Director of Research **Brent Miller**, CFA
 - Institutional clientele (mostly long/short hedge funds)
 - Earnings quality and anomalous insider activity
 - Acquired by Sabient in 2011
 - ➔ Long vetting helps to “play defense”
 - ➔ Built **Earnings Quality Rank (EQR)** for use in GARP model
- [Also, it is licensed to hedge funds and to the **First Trust Long-Short ETF (FTLS)**]



Gradient Vetting Process

- Identify aggressive accounting practices ("financial engineering")
- Examine 10-K, 10-Q, earnings releases, conference call transcripts
- Review accruals, working capital, cash flow, GAAP/non-GAAP adjustments
- Identify overstating assets & revenue, understating liabilities & expenses
- Corporate integrity and governance
- Insider behavior (anomalous buying/selling)
- Sell-side reports, regulatory review, any circulating short thesis
- Involves only *publicly available* information

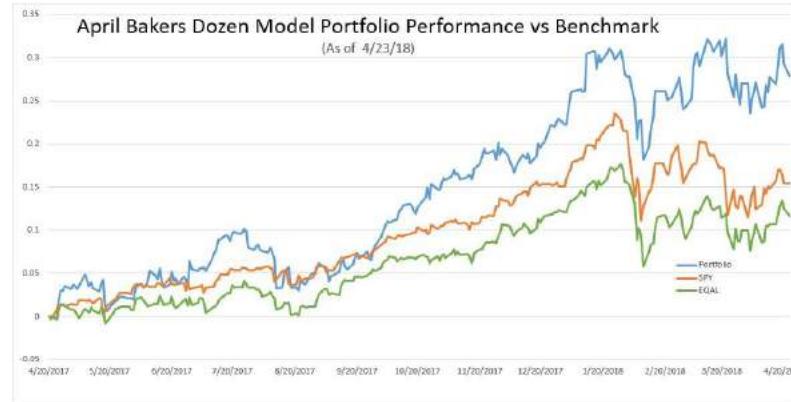
Sabrient “Quantamental” Approach

-
- 1. Quantitative screen** to narrow large eligible universe
(Forward P/E, Forward EPS growth, dynamics of analyst estimates, EQR)
 - 2. Fundamental analysis** to identify top candidates
(Still mainly numbers-driven, but not algorithmic)
 - 3. Forensic accounting review** of top candidates
 - 4. Final Stock Selection**, with sector limits

We target average Forward PEG of < 0.5, while S&P 500 is > 1.5

January–May 2017 Baker's Dozens

Outperformance for all portfolios that terminated before 6/11/2018



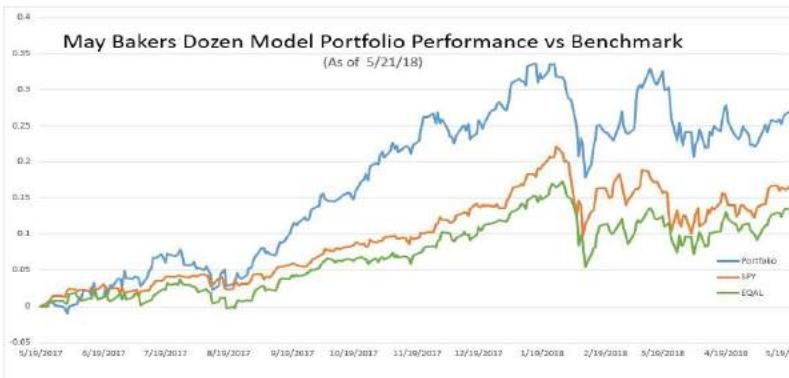
Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	1/17/2017	33.04%	25.78%	18.40%

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	4/20/2017	26.92%	15.43%	11.74%

Note: April 2017 was the first of the new monthly *Baker's Dozens*. No portfolios were published in February or March 2017.



Total Returns Thru Current

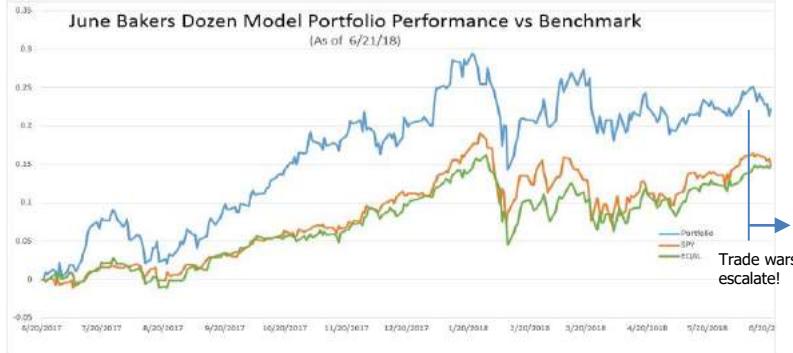
Event	Date	Portfolio	SPY	EQAL
Launch	5/19/2017	28.27%	16.90%	13.99%

Graphs display Gross Total Return of the Model Portfolios – Not UIT returns. Sabrient tracks model performance from closing prices on launch date to closing prices 12 months + 1 day later, when the new portfolio launches. Sabrient is not responsible for the usage of such portfolios by any third party, including without limitation the *Baker's Dozen* UITs sponsored by First Trust. In addition, the performance numbers herein do not reflect the deduction of brokerage commissions, execution fees, or other expenses that may be paid by any third party making its own investment in the portfolios. First Trust UITs are subject to the imposition of fees, and to variation in the construction of the portfolios, which will over time reduce the performance of such UITs in comparison with the performance of Sabrient's model portfolios.

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June–August 2017 Baker's Dozens

Outperformance begins to be impacted by summer risk-off rotation



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	6/20/2017	21.00%	14.96%	14.08%



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	7/20/2017	13.95%	15.52%	13.01%



Total Returns Thru Current

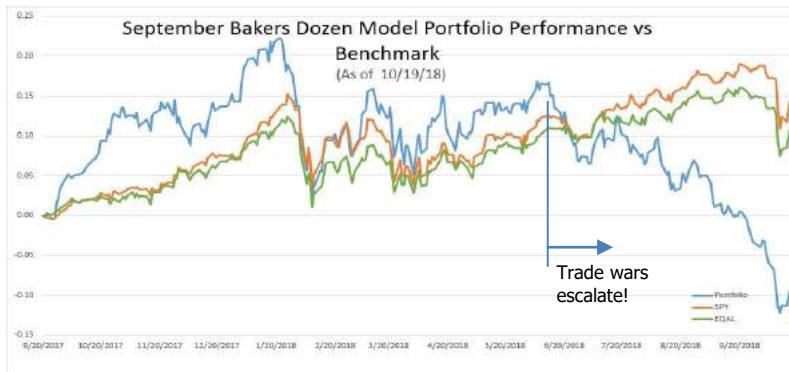
Event	Date	Portfolio	SPY	EQAL
Launch	8/18/2017	12.83%	19.90%	18.56%

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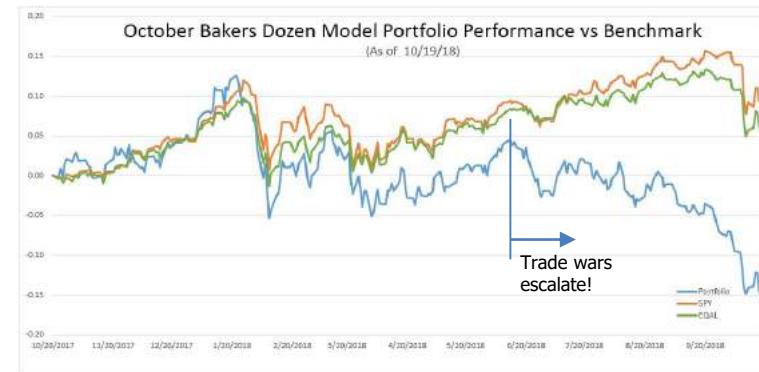
Sept–Nov 2017 Baker's Dozens

Performance severely impacted by summer risk-off rotation



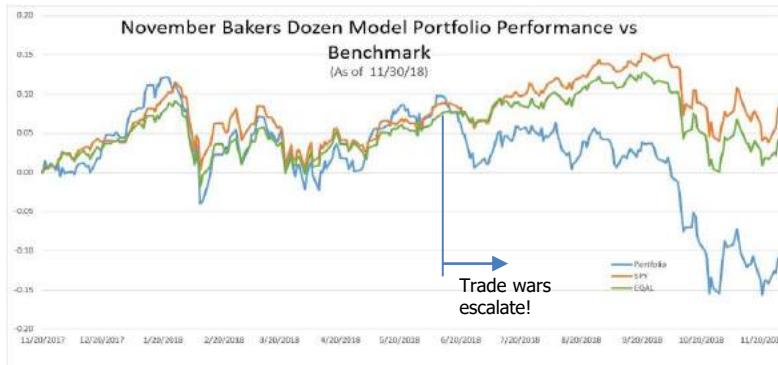
Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	9/20/2017	-12.78%	12.49%	8.29%



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	10/20/2017	-14.98%	9.38%	5.79%



Total Returns Thru Current

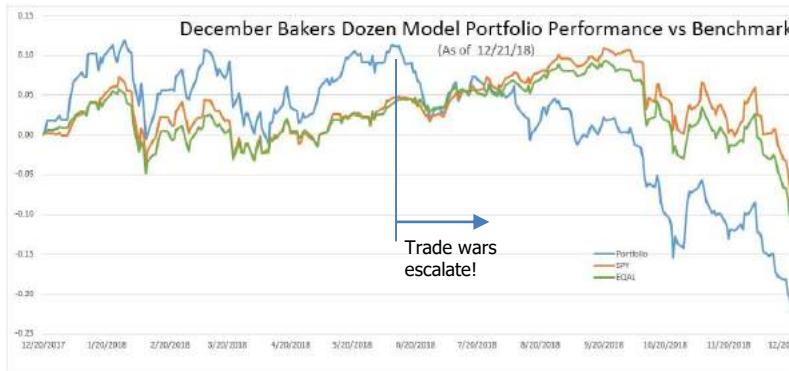
Event	Date	Portfolio	SPY	EQAL
Launch	11/20/2017	-10.58%	8.67%	4.62%

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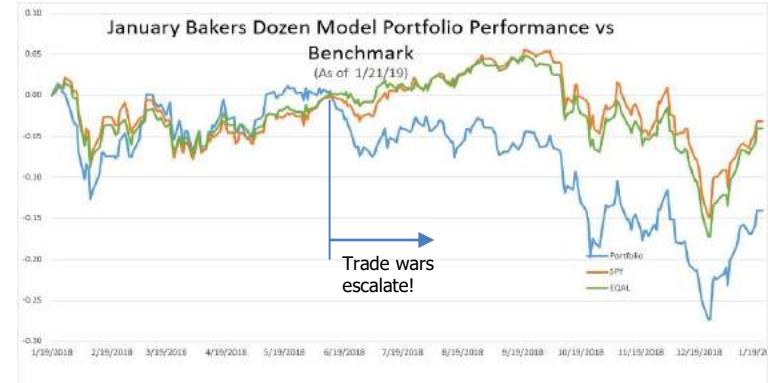
Dec 2017–Feb 2018 Baker's Dozens

Performance severely impacted by summer risk-off rotation, but recovering



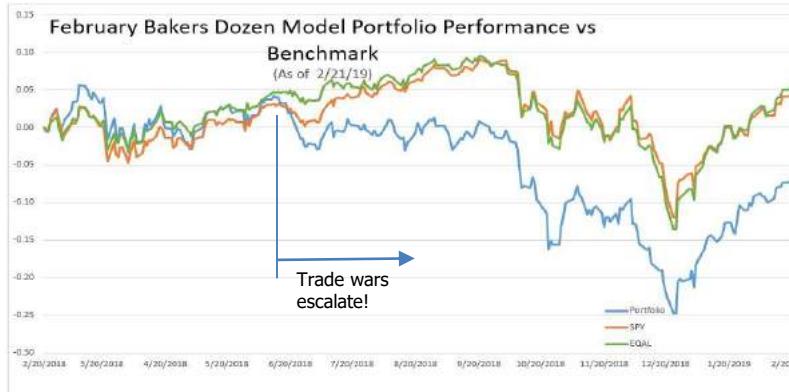
Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	12/20/2017	-21.68%	-8.15%	-11.15%



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	1/19/2018	-14.10%	-3.17%	-4.03%



Total Returns Thru Current

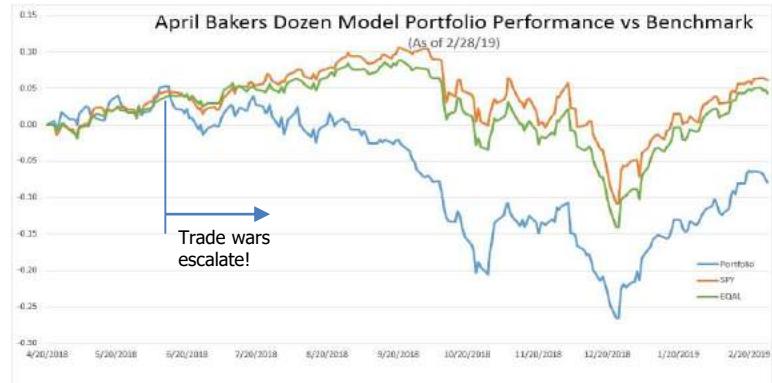
Event	Date	Portfolio	SPY	EQAL
Launch	2/20/2018	-7.10%	4.16%	5.26%

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Mar–May 2018 Baker's Dozens

Performance severely impacted by summer risk-off rotation, but recovering

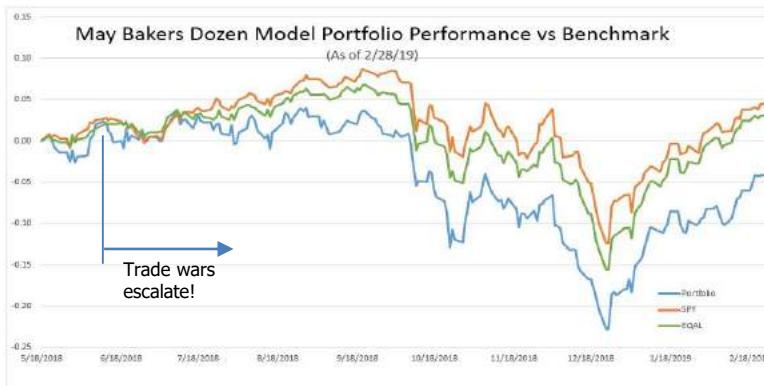


Total Returns Thru Current

Event	Date	Portfolio	SPY500 TR	EQAL
Launch	3/20/2018	-9.65%	5.97%	4.75%

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	4/20/2018	-7.97%	6.09%	4.33%



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	5/18/2018	-2.97%	4.24%	2.44%

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Jun–Aug 2018 Baker's Dozens

Performance impacted by summer risk-off rotation, but recovering



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	6/20/2018	-5.23%	2.03%	0.10%



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	7/20/2018	-4.43%	0.68%	-0.42%



Total Returns Thru Current

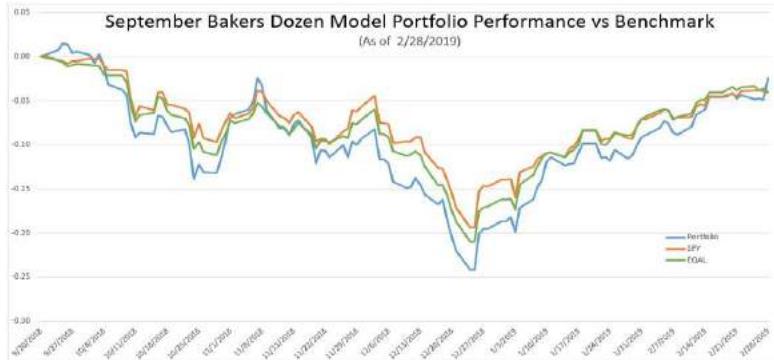
Event	Date	Portfolio	SPY	EQAL
Launch	8/20/2018	0.94%	-1.43%	-2.03%

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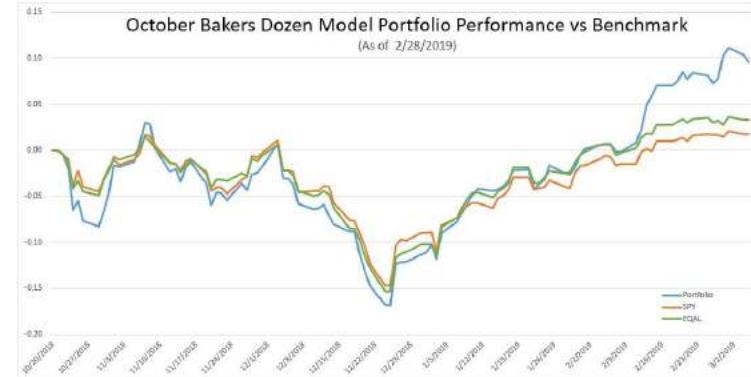
Sep–Oct 2018 Baker's Dozens

As markets rotate to risk-on, relative performance improves



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	9/20/2018	-2.48%	-4.09%	-4.04%



Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	10/20/2018	9.58%	1.73%	3.28%

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2018 Monthly Baker's Dozen Performance vs S&P500

During post-selloff recovery: 12/24/18 thru 3/1/19

Baker's Dozen Monthly Portfolio	Gross Absolute Portfolio Return	Gross Excess Return vs. SPY
Feb-18	22.9%	3.2%
Mar-18	25.1%	5.4%
Apr-18	26.2%	6.5%
May-18	26.7%	7.0%
Jun-18	28.4%	8.7%
Jul-18	32.5%	12.8%
Aug-18	26.5%	6.8%
Sep-18	29.3%	9.6%
Oct-18	35.1%	15.4%
Nov-18	23.0%	3.3%
Dec-18	22.8%	3.1%
Average:	27.1%	7.4%
SPY Return:	19.7%	

January 2018 Baker's Dozen

Prices fell even though EPS was better than expected

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
CAT	Caterpillar Inc.	21.4	11.4	42.4%	94.8%
COG	Cabot Oil & Gas	34.4	13.4	95.5%	92.7%
CVX	Chevron	22.7	18.2	81.2%	113.8%
FMC	FMC Corp	19.0	15.6	75.7%	111.1%
IQV	IQVIA Holdings	19.4	22.2	37.7%	45.5%
LRCX	Lam Research	13.8	13.2	28.3%	53.3%
MPC	Marathon Petroleum	13.7	9.8	58.4%	54.1%
ON	ON Semiconductor	15.4	12.2	49.6%	69.9%
PGR	The Progressive	17.8	14.5	40.1%	99.2%
PHM	PulteGroup	11.9	8.7	39.7%	62.9%
WLK	Westlake Chemical	14.3	10.8	49.9%	66.8%
WYNN	Wynn Resorts	27.2	21.4	45.4%	55.6%
XPO	XPO Logistics	33.0	13.9	63.5%	69.4%
Average		20.3	14.3	54.4%	76.1%

=> Best performer is from Healthcare sector

=> Worst performer is from Industrial sector

=> 40% better growth than expected, but P/E fell 30% (as of 2/26/2019)

February 2018 Baker's Dozen

Prices fell even though EPS was better than expected

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM	
				EPS Growth at Launch	Actual EPS Growth
CMA	Comerica	15.0	10.5	38.4%	53.6%
COG	Cabot Oil & Gas	29.8	13.4	95.6%	92.7%
CVX	Chevron	16.7	18.2	81.2%	117.5%
FMC	FMC Corp	15.2	15.7	87.8%	115.4%
LUV	Southwest Airlines	11.6	10.5	43.0%	21.7%
ON	ON Semiconductor	9.6	12.2	48.0%	67.0%
PHM	PulteGroup	12.5	8.7	38.8%	61.4%
STLD	Steel Dynamics	16.8	9.0	49.0%	107.2%
STM	STMicroelectronics N.V.	13.0	14.9	42.4%	54.1%
TMUS	T-Mobile US	16.7	18.8	63.1%	53.6%
TRV	The Travelers Companies	13.1	12.0	48.5%	23.0%
URI	United Rentals	11.3	7.0	40.5%	54.0%
XPO	XPO Logistics	27.3	13.9	72.6%	64.9%
Average		16.0	12.7	57.6%	68.2%

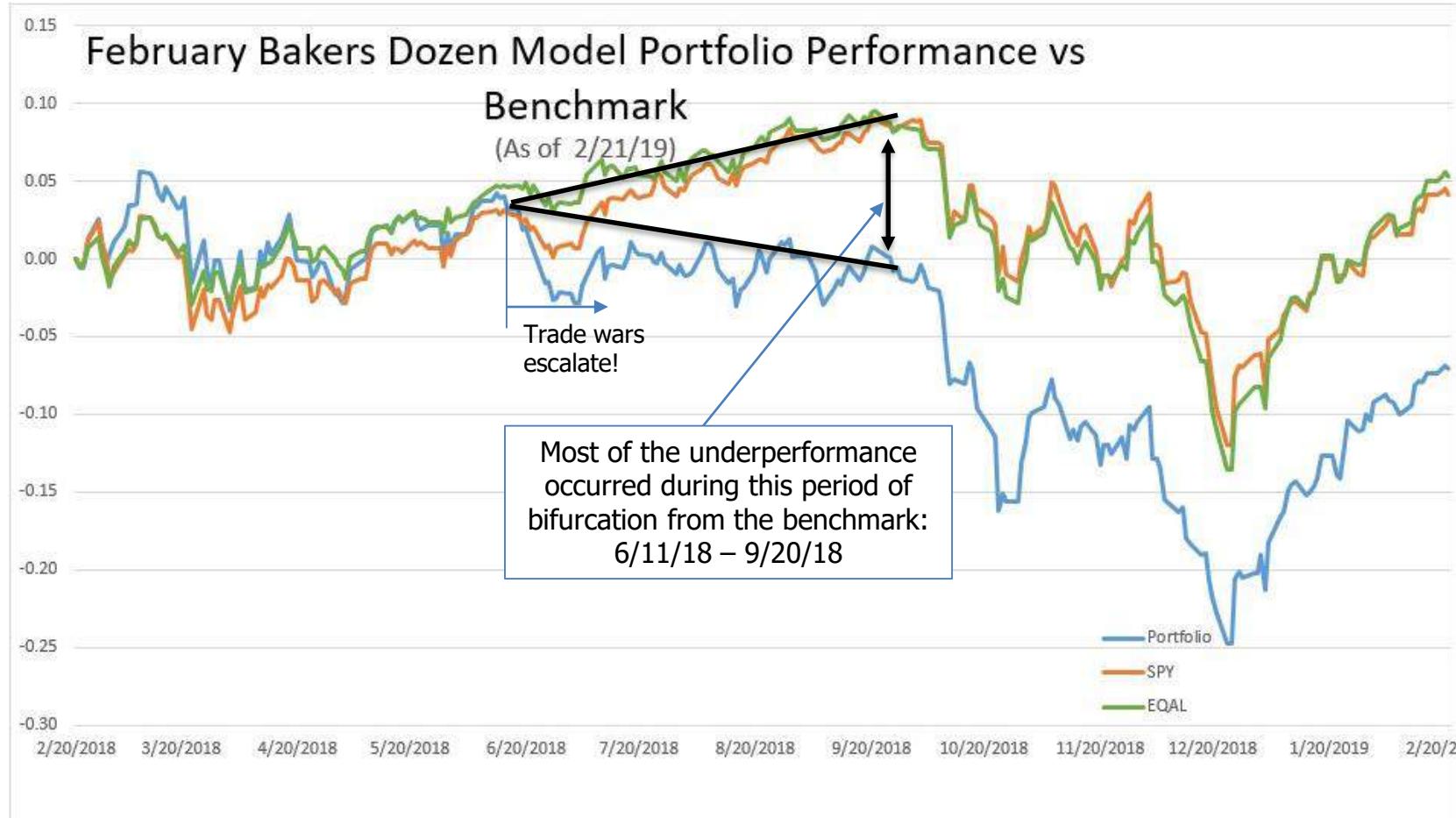
<= Best performer is from Telecom sector

<= Worst performer is from Industrial sector

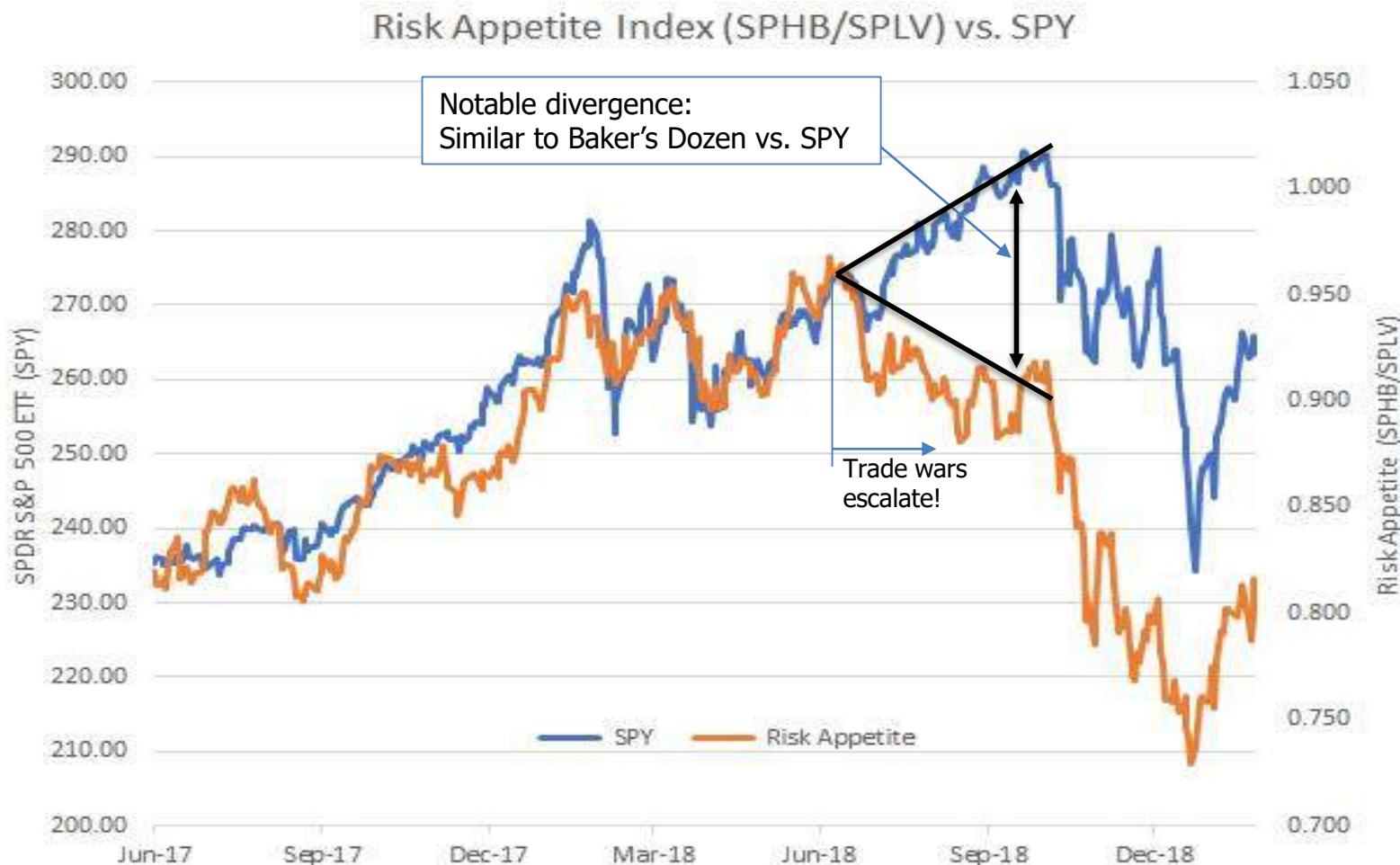
=> 18% better growth than expected, but P/E fell 20% (as of 2/26/2019)

Performance Divergence Last Summer

Example (consistent across all portfolios):



Risk Appetite Index



Market Conditions: 2017—1H2018

- **2017** – risk-on continues, driven by fundamentals (good for GARP)
 - ✓ Synchronized global growth, China strong, rising oil prices, Fed data-driven
 - ✓ “Trump Bump” from deregulation and anticipation of tax reform
 - ✓ Strong breadth, record low volatility, cyclicals and small caps lead
 - ✓ Momentum factor dominates (versus Value, Quality, Low-Volatility factors)
 - ✓ P/E multiples expand
- **1H 2018** – market up, but sentiment changes after Feb correction
 - ✓ Cyclicals and small caps still lead, but with higher volatility
 - ✓ With tax reform in place, investors watch corporate behavior and capex
 - ✓ Trade rhetoric gains traction; P/E multiples start to compress

Market Conditions: 2H2018

- **June 11** – trade war rhetoric becomes reality; defensive rotation begins
 - ✓ Tariffs and trade war with China escalate; FOMC on “autopilot” tightening
 - ✓ Rotation out of risk-on sectors (cyclicals, small caps, Intl, emerging markets)
 - ✓ Rotation into risk-off defensive sectors (large cap Utilities, Healthcare, Staples, Telecom) and mega-caps (AAPL, MSFT, AMZN) until the Q4 selloff
- S&P 500 was better able to hold up due to:
 1. High allocation tilt to Technology sector
 2. Exclusively large caps (which are more defensive)
 3. Cap-weighted (so, it's dominated by mega caps)
 4. Ability to retain capital while rotating into defensive sectors and mega-caps

Sector Performance: 1/1/18 thru 3/1/19

Risk-on: Market *rises*, led by mega-caps, cyclicals, and small caps, while defensives trail ("normal" behavior)

Risk-off: Market *hits new highs*, but it's led by mega-caps & defensives as trade war with China escalates

Risk-off: Market *sells off* as mega-caps fall along with cyclical sectors, while defensives hold up better

Risk-on: Market *recovers*, led by small caps and cyclicals, while defensive sectors lag

1/1/18 - 6/11/18	
Amazon	45.3%
Microsoft	18.4%
Apple	13.6%
Technology	12.8%
Semiconductors	12.7%
Consumer Discretionary	12.4%
Russell 2000 small caps	9.9%
Steel	7.2%
Energy	6.2%
S&P 500 Index	4.4%
Equal-weight S&P 500	3.5%
Healthcare	3.0%
Industrials	1.1%
Materials	0.8%
Financials	0.1%
Telecom	-4.8%
Homebuilding	-5.4%
Utilities	-6.7%
Consumer Staples	-9.7%

6/11/18 - 9/20/18	
Apple	13.8%
Amazon	13.4%
Microsoft	13.1%
Healthcare	10.6%
Utilities	9.2%
Telecom	8.2%
Consumer Staples	7.4%
Consumer Discretionary	5.9%
S&P 500 Index	5.4%
Industrials	4.5%
Equal-weight S&P 500	4.2%
Technology	4.0%
Financials	2.6%
Russell 2000 small caps	2.2%
Materials	-0.6%
Semiconductors	-2.5%
Energy	-2.9%
Homebuilding	-3.6%
Steel	-6.4%

9/20/18 - 12/24/18	
Utilities	-2.0%
Consumer Staples	-9.5%
Healthcare	-10.9%
Microsoft	-11.5%
Telecom	-14.1%
Equal-weight S&P 500	-17.0%
Consumer Discretionary	-17.3%
Technology	-18.7%
Materials	-18.9%
Financials	-19.5%
Homebuilding	-19.7%
S&P 500 Index	-20.2%
Semiconductors	-20.6%
Industrials	-20.9%
Russell 2000 small caps	-23.0%
Steel	-23.8%
Energy	-23.9%
Amazon	-24.4%
Apple	-28.6%

12/24/18 - 3/1/19	
Semiconductors	28.8%
Industrials	26.6%
Russell 2000 small caps	25.7%
Homebuilding	25.6%
Amazon	24.4%
Technology	23.8%
Energy	23.4%
Equal-weight S&P 500	21.5%
Consumer Discretionary	20.8%
Telecom	20.2%
S&P 500 Index	19.7%
Financials	19.6%
Microsoft	19.5%
Apple	19.2%
Steel	18.9%
Materials	16.1%
Healthcare	15.2%
Consumer Staples	11.3%
Utilities	10.8%

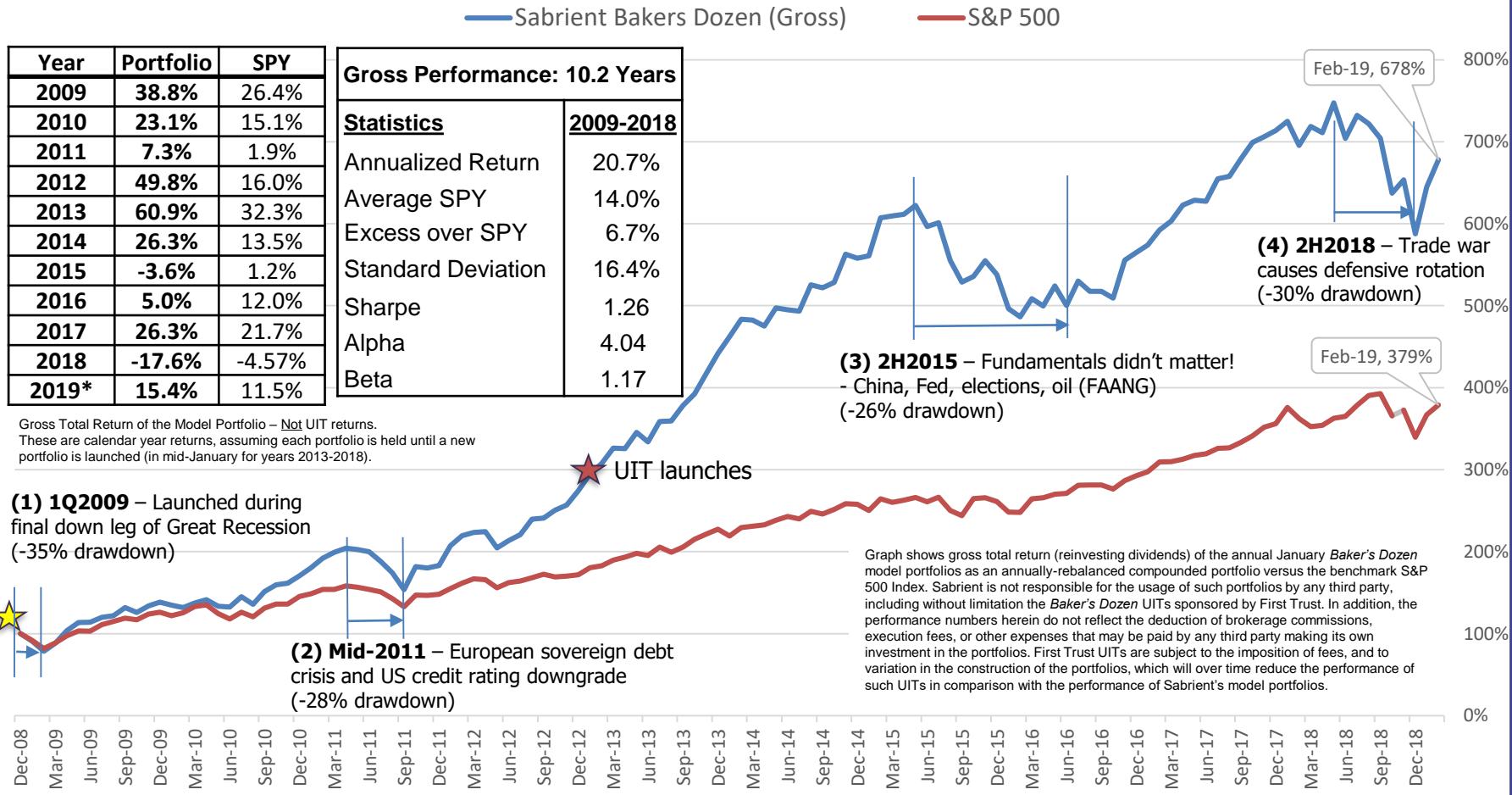
=> Sabrient's portfolios were cyclicals-heavy, as one might expect in a strong economy

Sector Changes in P/E multiples: 2018

	Proxy ETF	Fwd P/E at start of 2018	Fwd P/E at start of 2019	Change
Steel	SLX	14.2	6.4	-54.9%
Telecom	IYZ	25.7	12.8	-50.2%
Energy	XLE	23.8	15.3	-35.7%
Consumer Discretionary	XLY	21.7	14.1	-35.0%
Homebuilding	XHB	15.8	10.3	-34.8%
Industrials	XLI	20.2	14.1	-30.2%
Russell 2000 small caps	IWM	19.4	13.6	-29.9%
Materials	XLB	18.8	13.3	-29.3%
Financials	XLF	15.0	10.8	-28.0%
Equal-weight S&P 500	RSP	18.0	13.1	-27.2%
S&P 500 Index	SPY	18.5	14.5	-21.6%
Semiconductors	SMH	14.6	12.2	-16.4%
Consumer Staples	XLP	20.0	17.0	-15.0%
Technology	XLK	17.6	15.8	-10.2%
Healthcare	XLV	17.0	15.3	-10.0%
Utilities	XLU	17.3	16.2	-6.4%

Baker's Dozen Long-term Performance

January Model Portfolio (gross total return) – rebalanced when new portfolio is published
 (1/1/2009 inception thru 2/28/2018, end-of-month data points)



Historical Recoveries: January Baker's Dozen

18 months following trough of 25%+ drawdown

Drawdown Period	Max Drawdown	Drawdown Trough Date	18-month Subsequent Return	18-month SPY return
1Q 2009	-35%	3/9/2009	+104%	+63%
Mid-2011	-28%	10/3/2011	+103%	+41%
2H 2015	-26%	1/13/2016	+31%	+29%
2H 2018	-30%	12/24/2018	???	???



Note: +25.7% vs. +19.7 for SPY, thru 3/1/19

Market Outlook (implicit in our rankings)

1. Global growth intact; Robust US corporate earnings, buybacks, and CapEx
2. Fiscal stimulus & deregulation; No protracted trade war
3. Modest inflation and low bond yields persist; Supportive Federal Reserve
4. Valuations fine relative to interest rates (e.g., Fed Model; Divs+Buybacks)
5. Cycicals and small-mid caps most attractive; Preference for quality
6. Gradual withdrawal of liquidity suggests active mgmt can beat passive

➤ **Major Risks:**

- (1) Tariffs and trade war escalation with China (*but negotiations are promising*)
- (2) Monetary tightening by Federal Reserve (*but recent comments are less hawkish*)
- (3) Deleveraging a heavily-indebted global economy (*this is a longer-term issue*)

Baker's Dozen Portfolio – March 2019

Ticker	Company Name	Industry	Mkt Cap (\$B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield
AGCO	AGCO Corp	Agricultural and Farm Machinery	5.2	19.7%	14.6	0.74	0.9%
AME	AMETEK	Electrical Components and Equipment	18.4	23.3%	20.0	0.86	0.7%
ANTM	Anthem	Managed Health Care	79.2	20.1%	16.1	0.80	1.0%
ATI	Allegheny Technologies	Steel	3.3	25.7%	13.7	0.53	0.0%
BYD	Boyd Gaming	Casinos and Gaming	3.1	33.5%	15.8	0.47	0.9%
CF	CF Industries	Fertilizers and Agricultural Chemicals	9.4	102.6%	18.0	0.17	2.8%
HLT	Hilton Worldwide	Hotels, Resorts and Cruise Lines	25.1	34.8%	22.6	0.65	0.7%
SAVE	Spirit Airlines	Airlines	3.7	49.0%	8.2	0.17	0.0%
SSNC	SS&C Technologies	Application Software	15.8	30.8%	16.6	0.54	0.6%
TRV	The Travelers Companies	Property and Casualty Insurance	35.0	24.7%	11.9	0.48	2.3%
URI	United Rentals	Trading Companies and Distributors	9.6	18.0%	6.3	0.35	0.0%
VST	Vistra Energy	Independent Power Producers and Energy Traders	12.4	211.9%	11.9	0.06	1.9%
ZAYO	Zayo Group	Alternative Carriers	6.6	49.0%	38.2	0.78	0.0%
Average:			17.4	49.5%	16.4	0.33	0.9%

Various GARP Portfolios

- 1. Baker's Dozen** – Sabrient's 13 top GARP picks (all caps), published monthly
- 2. Forward Looking Value** – mid-year GARP portfolio of 30-35 stocks (all caps)
- 3. Dividend** – 50 stocks, GARP with solid dividends, 4-5% yield, quarterly
- 4. Defensive Equity** – 50 stocks, GARP with defensive behavior, quarterly
- 5. Rising Rate** – 50 GARP stocks, tend to thrive when interest rates rise, quarterly
- 6. Small Cap Growth** – 50-stock GARP portfolio, all under \$3.7B cap, quarterly

Talking Points Summary

- Disciplined, model-driven, bottom-up, "*quantamental*" GARP selection process with a forensic accounting review – tends to outperform when fundamentals matter
- 10-year outperformance (despite 4 notable news-driven drawdowns) 1Q2009
mid-2011
2H2015
2H2018
- June 11 – escalating trade wars and hawkish Fed led to fear-based risk-off rotation into defensive sectors and mega-caps (AAPL, AMZN, MSFT) despite little change in strong outlook (based on sell-side analyst consensus estimates)
- Most of our 2018 underperformance occurred 6/11–9/20 as S&P 500 rose while cyclical sectors and small-mid caps fell, before the broad market ultimately sold off
- But forward guidance *improved* while prices *fell* in the cyclical sectors, so forward valuations are much more attractive today => *buying opportunity, in our view*
- Indeed, market strong since Christmas Eve capitulation day, led by cyclicals and smaller caps – and *all Baker's Dozen portfolios have outperformed* thru February
- **What can go wrong?**
 - (1) Outlook for corporate earnings changes radically (*has not happened*)
 - (2) Fundamentals ignored (*did happen in 2H2018*)

Resources

Be sure to sign up for:

1. Monthly *Baker's Dozen* “talking points” tear sheet

- 2-pager with details on each pick (including fwd P/E, Growth Rate, fwd PEG)
- Send email request to: **support@Sabrient.com**

2. *Sector Detector* periodic newsletter

- Market commentary and SectorCast ETF rankings, written by Scott Martindale
- Go to sign-up box on **Sabrient.com** home page

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