



Sabrient leverages a unique collaboration of engineers and forensic accountants and a process-driven methodology to build robust quantitative equity models and produce actionable research, portfolio strategies, and rules-based indexes, rankings, tools, and analytics.

“Quantamental GARP approach with a forensic accounting overlay”

Baker’s Dozen, Dividend, Small Cap Growth, Forward Looking Value

- 1. Market overview, inflation, money supply, interest rates***
- 2. Description of enhanced selection process***
- 3. Performance update***
- 4. Overview of the latest Q4 2022 Baker’s Dozen***
- 5. Market outlook***

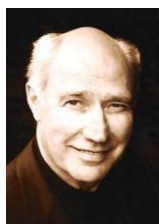
Updated 12/5/2022



Scott Martindale
President & CEO



Brent Miller, CFA
President of Gradient



David Brown
Founder & Chief Market Strategist

Sabrient Systems LLC
Quantitative equity research, rankings, strategies

Gradient Analytics LLC
Fundamental forensic accounting research

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Summary Talking Points

1. Sabrient leverages a unique collaboration of engineers and forensic accountants, quantitative models, and a process-driven “*quantamental*” methodology (quantitative screen plus fundamental review & selection).
2. Our portfolios displayed consistently strong performance in 2009–2014 of, but then the market became narrow & news-driven leading to historic performance divergences in Growth over Value factors and Large over Small caps during 2015–2019, which was challenging for our value & quality-oriented *Growth at a Reasonable Price (GARP)* strategy.
3. Process enhancements in December 2019 have made our portfolios more all-weather, with balanced exposure to value and growth factors, cyclical and secular growth stocks, and across market caps.
=> Improved performance and lower volatility ... *while maintaining the potential for significant outperformance.*
4. Sabrient’s Baker’s Dozen, Dividend, Small Cap Growth, and Forward Looking Value portfolios leverage our *enhanced* model-driven selection approach (which combines Quality, Value, and Growth factors) to provide exposure to both secular and cyclical growth trends. 18 of our 19 live portfolios are outperforming or staying even with their benchmarks.
5. Notably, our Dividend portfolio seeks both capital appreciation and yield of 4%+ (and today offers *5% current yield*), and many market observers expect a 2023 bull market will be led by Small Caps
6. Massive liquidity in response to pandemic led to speculation and asset inflation, but there is now a preference for Quality and Value factors, which is *favorable for active selection, strategic beta, equal weighting ... and for Sabrient’s portfolios.*
7. Equity valuation multiples have risen with dovish Fed signals despite concerns about recession and corporate earnings. Forward P/E for S&P 500 and S&P 600 small caps are now 18.1x and 13.6x (as of 12/2/22).
8. Inflation and bond yields have been receding and recession expectations have grown, setting up a potential neutral Fed pivot—perhaps leading to further upside in stocks.
9. Stock-bond correlations surged in 2022 with interest rates, but as rates recede, the 60:40 portfolio may regain its luster.
10. We continue to suggest staying long but hedged, with a heightened emphasis on quality and a balance between value/cyclicals/dividend payers and high-quality secular growers. Energy remains our top-ranked sector.

Company Overview

- **Sabrient Systems LLC** – founded in 2000 in Santa Barbara, CA
 - Quantitative fundamentals-based multifactor models
 - Diverse team of engineers/analysts/programmers, led by former **NASA** engineer (Apollo 11 moon landing) David Brown and former **Chevron** engineer Scott Martindale
 - Numbers-driven; Bottom-up rather than top-down
 - In 2009, introduced *quantamental* GARP approach for *Baker's Dozen* annual portfolio (13 top picks)

- **Gradient Analytics LLC** – founded in 1996 in Phoenix, AZ and acquired by Sabrient in 2011
 - Fundamental forensic accounting analysis (earnings quality)
 - Team of finance & accounting analysts, led by Brent Miller, CFA
 - Together we built proprietary **Earnings Quality Rank (EQR)**

- Combined team leverages a unique **collaboration of engineers and forensic accountants**:
 - Engineers bring process-driven methodology and scientific hypothesis-testing approach
 - Forensic accountants bring unique insights into financial statement analysis
 - Together we offer quantitative and fundamental equity research, datasets, rankings, tools, strategies
=> *including portfolios for UITs, indexes for ETFs and TAMPs, and insightful market commentaries*

“Quantamental” approach with a forensic accounting overlay

1. **Quantitative screen** to narrow large eligible universe (50-100 names)

Forward P/E, Forward EPS growth, recent dynamics of analyst consensus estimates, Earnings Quality Rank (EQR), and Growth Quality Rank (GQR)

2. **Fundamental analysis** to identify top candidates (~25 names)

Still mainly numbers-driven, but not algorithmic

3. **Forensic accounting review** of top candidates

Earnings quality, aggressive practices, insider selling, governance

4. **Final Stock Selection** (13 names)

Manual process, adhering to sector concentration limits

We believe a GARP strategy is “all-weather,” so what could go wrong? Two things:

- 1) Consensus EPS estimates are reduced after portfolio launch, or they fail to materialize.
- 2) Investor sentiment turns defensive, leading to narrow market breadth.

Note: This applies to Baker's Dozen selection, but we employ a similar approach for all portfolios (adjusted for appropriate universe or investment mandate).

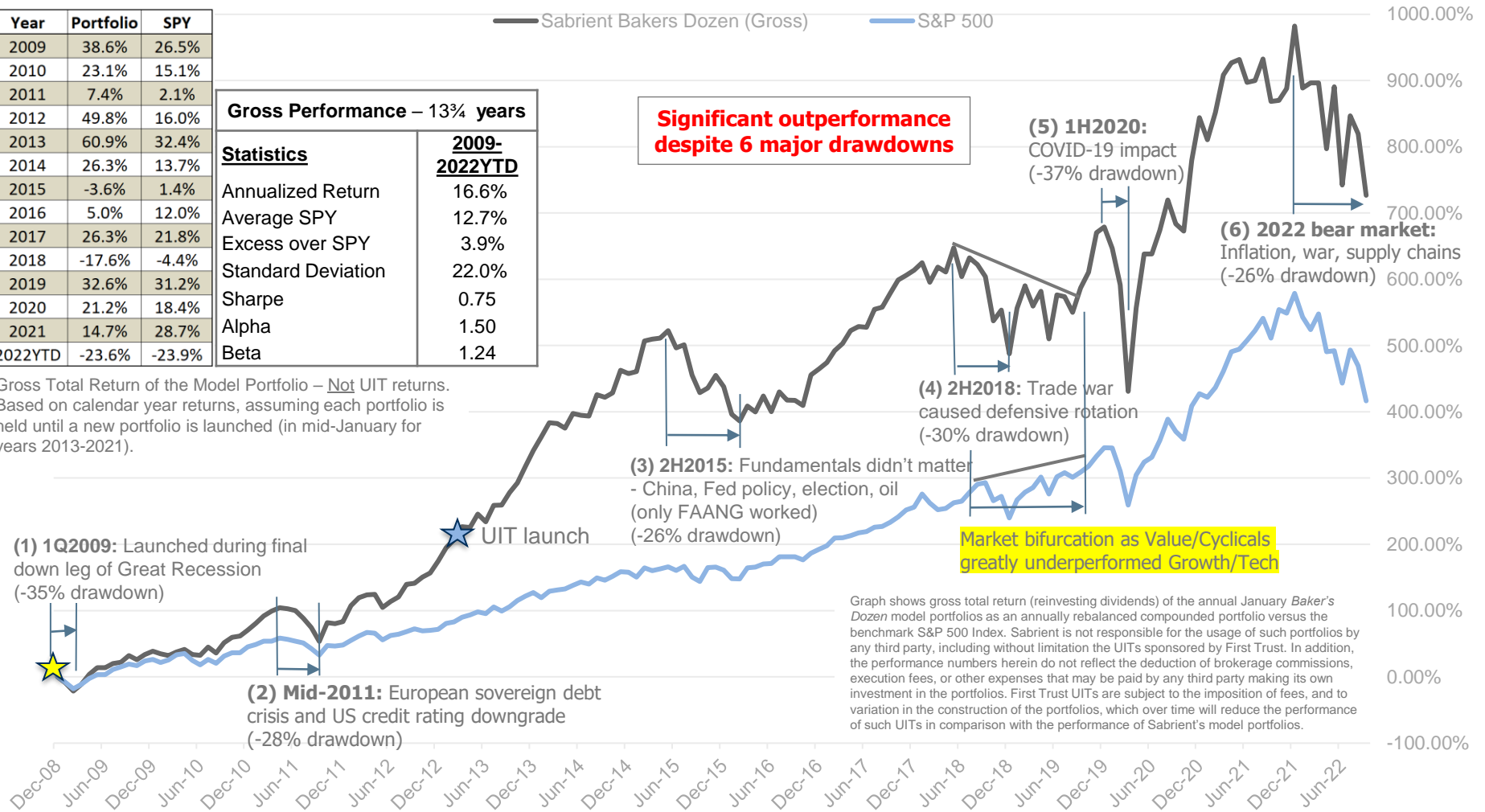
Baker's Dozen – Model Portfolio Performance (rebalanced each January)

(1/1/2009 inception thru 9/30/2022, end-of-month data points)

Year	Portfolio	SPY
2009	38.6%	26.5%
2010	23.1%	15.1%
2011	7.4%	2.1%
2012	49.8%	16.0%
2013	60.9%	32.4%
2014	26.3%	13.7%
2015	-3.6%	1.4%
2016	5.0%	12.0%
2017	26.3%	21.8%
2018	-17.6%	-4.4%
2019	32.6%	31.2%
2020	21.2%	18.4%
2021	14.7%	28.7%
2022YTD	-23.6%	-23.9%

Gross Performance – 13 $\frac{3}{4}$ years	
Statistics	2009-2022YTD
Annualized Return	16.6%
Average SPY	12.7%
Excess over SPY	3.9%
Standard Deviation	22.0%
Sharpe	0.75
Alpha	1.50
Beta	1.24

Gross Total Return of the Model Portfolio – Not UIT returns. Based on calendar year returns, assuming each portfolio is held until a new portfolio is launched (in mid-January for years 2013-2021).



Graph shows gross total return (reinvesting dividends) of the annual January Baker's Dozen model portfolios as an annually rebalanced compounded portfolio versus the benchmark S&P 500 Index. Sabrient is not responsible for the usage of such portfolios by any third party, including without limitation the 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 over time will reduce the performance of such UITs in comparison with the performance of Sabrient's model portfolios.

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Performance of live portfolios since new enhancements – as of 12/2/22

Baker's Dozen & FLV - Gross return thru: 12/2/2022

Portfolio	Launch	Close	Gross Return (FTP website)	SPY Return	Active Return
Q4 2021 BD	10/20/21		5.7%	-8.7%	14.4%
Q1 2022 BD	1/20/22		1.0%	-7.9%	8.9%
Q2 2022 BD	4/20/22		3.6%	-7.7%	11.4%
FLV 10	7/15/22		17.7%	6.1%	11.6%
Q3 2022 BD	7/20/22		11.4%	3.5%	7.9%
Q4 2022 BD	10/20/22		5.6%	11.4%	-5.7%

Sabrient Dividend - Gross return thru: 12/2/2022

Portfolio	Launch	Close	Gross Return	SPY Return	Active
Div 34	12/21/20		27.0%	13.4%	13.7%
Div 35	3/19/21		7.5%	6.7%	0.8%
Div 36	6/22/21		10.7%	-2.1%	12.8%
Div 37	9/20/21		18.6%	-4.8%	23.4%
Div 38	12/20/21		10.7%	-9.5%	20.2%
Div 39	3/18/22		-1.6%	-7.7%	6.0%
Div 40	6/15/22		7.6%	8.2%	-0.6%
Div 41	9/12/22		2.3%	-0.6%	2.8%

Small Cap Growth - Gross return thru: 12/2/2022

Portfolio	Launch	Close	Gross Return	IWM Return	Active
SCG 31	9/8/21		13.4%	-14.7%	28.1%
SCG 32	12/6/21		-2.8%	-13.0%	10.3%
SCG 33	3/4/22		-3.3%	-4.4%	1.2%
SCG 34	6/1/22		3.6%	2.9%	0.7%
SCG 35	8/29/22		3.6%	1.0%	2.6%
SCG 36	11/14/22		NEW!		

All portfolios launched since December 2019 were created with our **enhanced GARP model** and selection process, which allows for a balance between secular and cyclical growth and across market caps.

This appears to have **boosted relative performance versus benchmarks** while striving for consistent “all-weather” performance ... *and the potential for significant outperformance.*

The **table** shows gross total returns (without transactional sales charge, as displayed on the ftpportfolios.com website) versus a relevant benchmark for all the **currently live portfolios**.

18 of the 19 live portfolios are outperforming or staying even (within 1%) with benchmarks, despite market volatility and defensive sentiment. Also, **32 of the 39 portfolios** selected since December 2019 have either outperformed or stayed even (within 1%) with their benchmarks in a challenging market climate (Dec 2019 – Oct 2022).

Notably, the **Dividend portfolio** is not purely yield-focused. Instead, it is a GARP+Income strategy that seeks *quality* stocks with solid *growth* potential and attractive valuations, as well as a history of raising dividends, a good dividend coverage ratio, and an aggregate dividend yield approaching 4% or more. (Note: Dividend 41 is currently *yielding 5.0%*.)

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Q4 2021 Baker's Dozen Model Portfolio – performance update

Launch date (10/20/2021) through current (12/2/2022)

Q4 2021 Baker's Dozen Portfolio				Est. NTM EPS			
Ticker	Company Name	Sector	Return	Fwd P/E at Launch	Current Fwd P/E	Growth at Launch	Actual EPS Growth
DVN	Devon Energy Corporation	Energy	67.3%	9.8	7.1	321.6%	277.5%
ACGL	Arch Capital Group Ltd.	Financials	42.1%	12.4	11.3	38.8%	38.1%
FANG	Diamondback Energy, Inc.	Energy	30.9%	8.2	5.7	121.4%	164.5%
TJX	The TJX Companies, Inc.	Consumer Discretionary	25.6%	20.1	23.3	41.7%	29.1%
NTR	Nutrien Ltd.	Materials	20.9%	13.0	8.2	140.1%	239.0%
KLAC	KLA Corporation	Information Technology	17.7%	17.1	18.1	33.7%	46.0%
WLK	Westlake Corporation	Materials	6.8%	7.7	10.1	76.4%	80.5%
TMHC	Taylor Morrison Home Corporation	Consumer Discretionary	8.1%	4.6	4.1	64.0%	120.5%
AMAT	Applied Materials, Inc.	Information Technology	-20.4%	16.8	15.9	29.8%	12.4%
WRK	WestRock Company	Materials	-22.7%	9.6	9.4	75.1%	41.7%
HRI	Herc Holdings Inc.	Industrials	-29.5%	20.7	9.3	63.2%	60.9%
BLD	TopBuild Corp.	Consumer Discretionary	-31.3%	18.8	9.7	30.6%	60.4%
MRNA	Moderna, Inc.	Health Care	-45.2%	7.5	25.5	452.6%	69.5%
Average =			+5.7%	12.8	12.1	114.5%	95.4%
SPY	SPDR S&P 500 ETF Trust		-8.7%				
RSP	S&P 500 Equal-Weight		-4.0%				
MDY	SPDR S&P MidCap 400 ETF Trust		-6.1%				
IWM	iShares Russell 2000 ETF		-16.2%				
EWMC	S&P 400 MidCap Equal-Weight		-4.7%				
EWSC	S&P 600 SmallCap Equal-Weight		-9.4%				

Strong performers led by energy companies and other cyclical names offset a variety of laggards from biotech, construction, and packaging.

Some of the losers, like construction suppliers HRI and BLD, met or exceeded EPS estimates with solid forward guidance—but still sold off, with their forward P/Es cut in half.

Nevertheless, the portfolio outperformed (*by a wide margin*) all relevant large cap, mid-cap, and small-cap benchmarks (including both cap-weight and equal-weight).

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Sabrient Portfolios

- **Q4 2022 Baker's Dozen** (13 stocks) launched on 10/20
- **Forward Looking Value 10** (35 stocks) launched on 7/15
- **Small Cap Growth 36** (45 stocks) launched on 11/14
- **Dividend 41** (47 stocks, GARP+Income) launched on 9/12
Current Yield of 5%!

Note: **Dividend 42** launches on 12/9

Latest Q4 2022 Baker's Dozen Portfolio – statistics upon launch

Launch date: 10/20/2022

Ticker	Company Name	Sector	Industry	Mkt Cap (\$B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield	EQR	GQR
ALK	Alaska Air Group	Industrials	Airlines	5.3	91.1%	8.5	0.09	0.0%	4	6
BOX	Box Inc.	Information Technology	Application Software	3.9	35.0%	20.9	0.60	0.0%	4	10
DAR	Darling Ingredients	Consumer Staples	Agricultural Products	12.0	49.7%	11.7	0.24	0.0%	4	9
DE	Deere & Co.	Industrials	Agricultural & Farm Machinery	112.1	40.0%	13.7	0.34	1.2%	4	6
DVN	Devon Energy	Energy	Oil & Gas Exploration & Production	47.1	41.3%	7.3	0.18	8.9%	5	10
EWBC	East West Bancorp	Financials	Regional Banks	10.0	35.3%	8.0	0.23	2.2%	5	9
GPK	Graphic Packaging	Materials	Paper Packaging	6.5	32.1%	9.3	0.29	1.9%	5	6
HAL	Halliburton	Energy	Oil & Gas Equipment & Services	29.0	65.6%	13.0	0.20	1.6%	3	7
IMO	Imperial Oil	Energy	Integrated Oil & Gas	31.0	57.8%	6.9	0.12	2.1%	5	8
LNTH	Lantheus Holdings	Health Care	Health Care Supplies	4.8	66.4%	19.4	0.29	0.0%	5	10
MUR	Murphy Oil	Energy	Oil & Gas Exploration & Production	7.0	128.0%	6.0	0.05	2.3%	3	8
NTR	Nutrien Ltd.	Materials	Fertilizers & Agricultural Chemicals	44.0	32.4%	6.8	0.21	2.4%	3	8
PGR	The Progressive Corp.	Financials	Property & Casualty Insurance	70.9	70.9%	20.0	0.28	1.6%	5	9
Average:				29.5	57.3%	11.7	0.20	1.9%	4.2	8.2

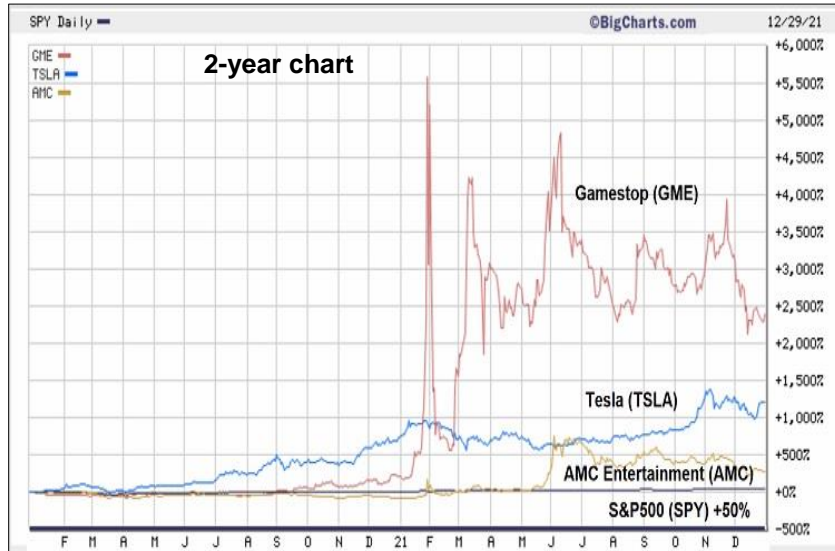
- Diverse Large/Mid/Small cap mix of 6/6/1
- 6 Value and 7 Growth stocks
- 4 *secular* growth Tech/Healthcare/Consumer/Insurance companies balanced with 9 *cyclical* growth Energy/Industrials/Materials/Bank names

EQR has quintile scale of 1-5 (5 is best)
GQR has decile scale of 1-10 (10 is best)

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Massive liquidity led to speculation, asset inflation, “malinvestments”

Meme stocks:



NFTs:



Cryptos



Dogecoin

CryptoPunk #2338: \$4.4 Million



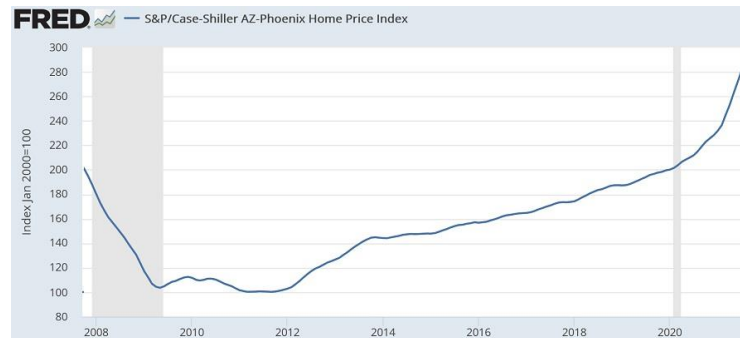
The First Tweet: \$2.9 Million



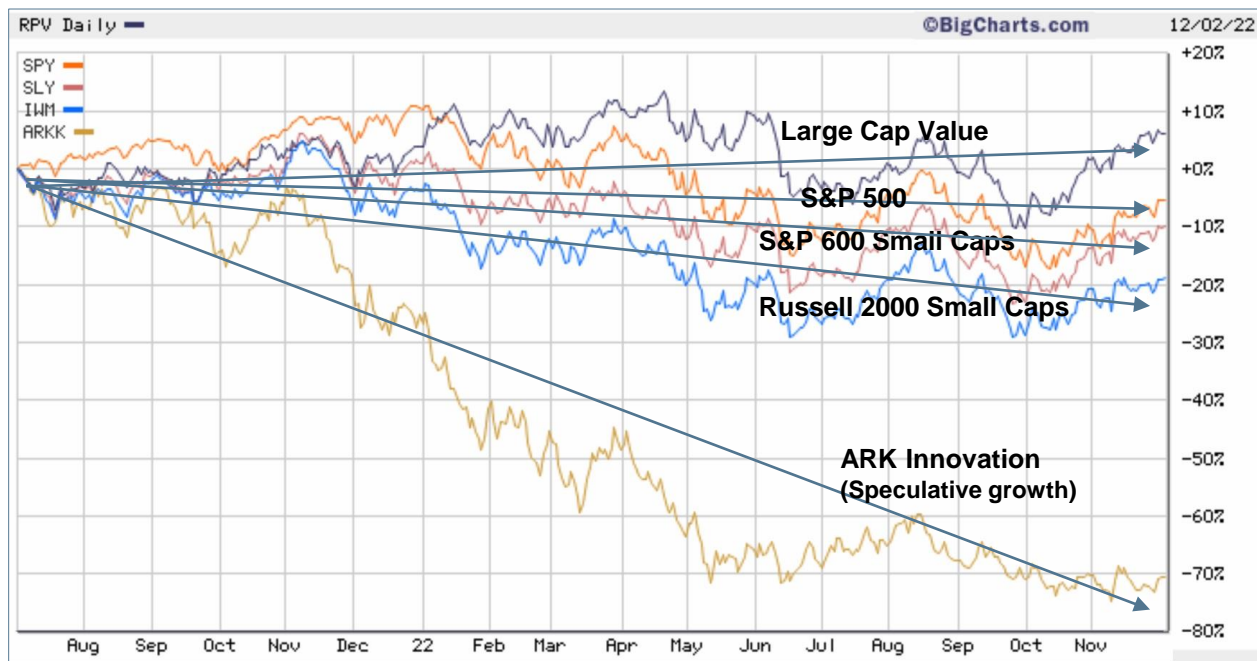
SPACs:

e.g.,
“Social Capital Hedosophia IV” (IPOD)

Housing:



Rotation toward Quality and Value



Forward P/E (as of 10/19/2022):

RPV = 10.1 Large Cap Pure Value (subset of S&P 500)
 SLY = 13.6 S&P 600 Small Caps (positive earnings requirement)
 IWM = 13.9 Russell 2000 Small Caps (no quality requirement)
 SPY = 18.1 S&P 500
 ARKK = 42.0 ARK Innovation (speculative growth)

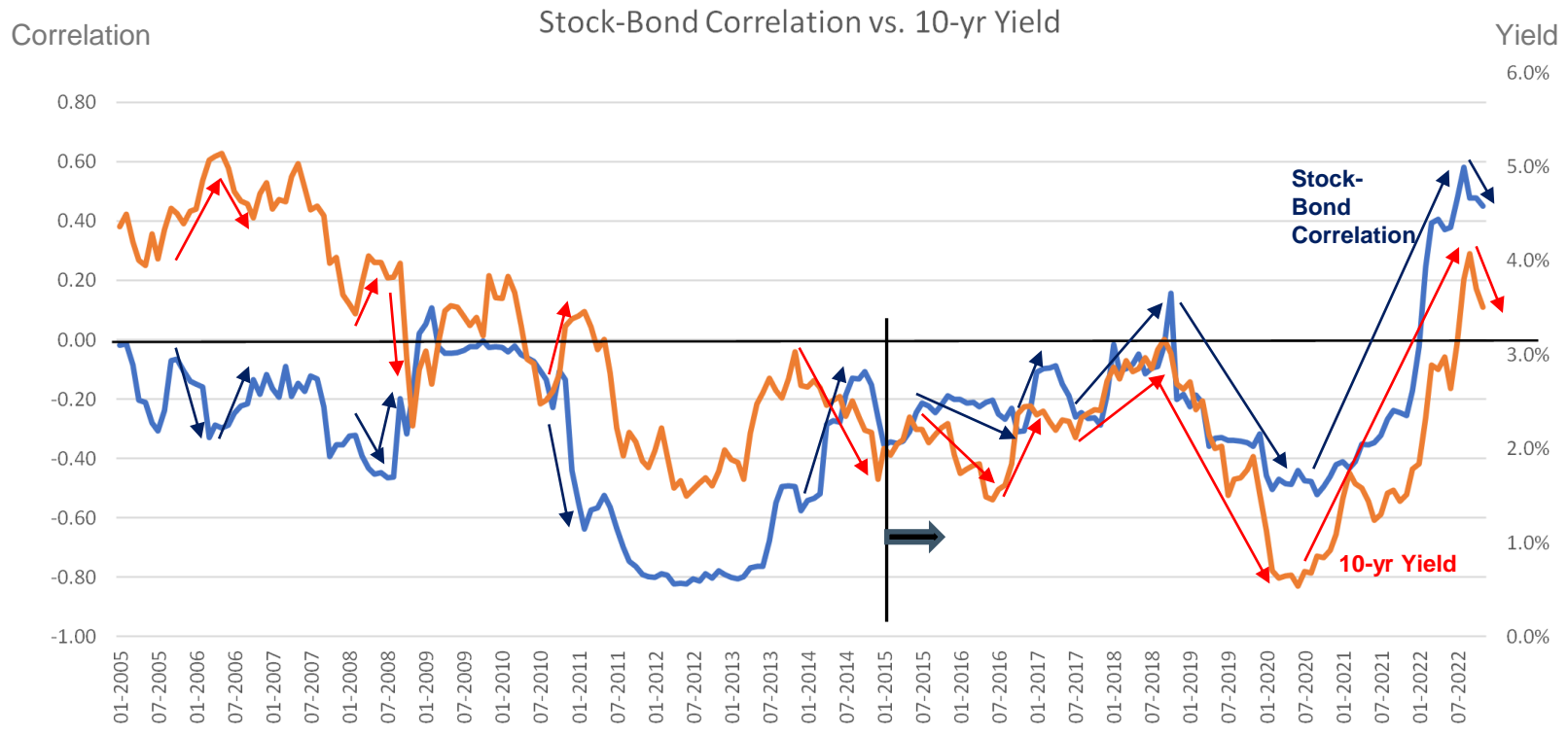
Chart illustrates quality preference within small caps (SLY outperforming IWM) as well as preference for value over speculative growth, and large over small caps.

Sabrient SectorCast ETF Rankings (as of 12/2/2022)

Dow Jones U.S. Sector	Tracking ETF	Outlook Score
ENERGY	IYE	96
TECHNOLOGY	IYW	62
CONSUMER STAPLES	IYK	61
HEALTHCARE	IYH	51
CONSUMER DISCRETIONARY	IYC	49
FINANCIALS	IYF	48
INDUSTRIALS	IYJ	42
BASIC MATERIALS	IYM	27
TELECOMMUNICATIONS	IYZ	19
UTILITIES	IDU	11

Current rankings are neutral or mixed, with no clear bias toward cyclicals or defensives. Energy is by far the strongest, with a single-digit forward P/E, strong EPS estimates, and favorable sentiment among both analysts and insiders.

60:40 Stock-Bond Portfolio: Correlations versus Yields



- Stock-bond correlations (blue line) historically are low and usually inverse—until 2022 when they became highly (and undesirably) correlated.
- Before 2015, 10-yr yield (red line) sometimes moved with stock-bond correlation and sometimes opposite stock-bond correlation (as denoted by arrows).
- Since 2015, there has been a visible correlation between rising (or falling) yields and rising (or falling) stock-bond correlation.
- Why? Money flowed heavily into growth stocks as the market became narrow and focused on mega-cap Tech (giving rise to “FAANG” acronym). Thus, stock-bond correlation has been more correlated with bond yield, likely due to the predominance of growth stocks whose valuations are highly sensitive to interest rates (on a discounted cash flow basis) compared to value stocks and dividend payers.
- As interest rates fall and capital rotates into value stocks and cyclicals, stock-bond correlations should fall...*and the 60:40 model may work once again.*

Market Outlook - 1

1. Inflation appears to be receding as: supply chains and labor markets recover; US dollar remains strong; energy, commodity, and shipping prices fall; and the Fed lessens monetary accommodation, reducing excess demand (and perhaps inducing a mild recession).
2. US Treasury bond yields are falling. For most of 2022, yields have surged as prices of stocks, bonds, and other risk assets have fallen together. But yields may have peaked as deleveraging ends and income-hungry global investors and retirees scoop up elevated yields. Also, Fed must ensure sufficient supply of dollars for global finance...and stop exporting inflation via the ultra-strong dollar.
3. Equity valuations have risen lately despite lower reported earnings and reduced guidance due to softer language from the FOMC, as falling inflation and growing probabilities of recession and rising unemployment suggest a neutral/dovish Fed pivot by early-2023. Forward P/E for S&P 500 and S&P 600 small caps are now 18.1x and 13.6x (as of 12/2/22).
4. High cash balances and persistently low sentiment readings among consumers, investors, and fund managers have served as a contrarian bullish indicator.

Market Outlook - 2

5. We suggest staying *long but hedged*, with a heightened emphasis on quality and a balance between 1) value/cyclicals & dividend payers and 2) high-quality secular growers.
6. The passive, broad-market, mega-cap-dominated indexes that have been so hard for active managers to beat in the past may be volatile and lackluster going forward. So, the time may be ripe for active strategies that can exploit the performance dispersion among individual stocks. This should be favorable for Sabrient's portfolios – which combine Value, Quality, and Growth factors and provide exposure to both secular and cyclical growth opportunities.

Risks:

- (1) Catastrophic escalation in war in Ukraine and enhanced sanctions on Russia
- (2) New COVID lockdowns that prolong China's economic slowdown and stunt supply chains
- (3) Untamed "structural" inflation and Fed rapidly withdrawing liquidity (policy mistake)
- (4) Corporate earnings growth falls far short of expectations
- (5) Escalation in global financial/technological/military conflicts

Resources

1. Quarterly *Baker's Dozen* "talking points" tear sheet

- Send email request to: support@Sabrient.com

2. Visit <http://BakersDozen.Sabrient.com>

- Latest performance info, slide deck, commentary, talking points sheet

3. *Sector Detector* newsletter / blog post

- Go to sign-up box on Sabrient.com home page

Proposal: Sabrient Quality Index Series (for ETF or TAMP licensing)

Comprises 5 broad-market and 5 sector-specific, rules-based, quarterly rebalanced, strategic beta and thematic indexes for ETF licensing, as such:

1. **Sabrient Armageddon Portfolio** (for tumultuous market conditions, like now!!)
2. **Sabrient Quality Growth Plus Income Index** (combines solid growth with high dividend yield)
3. **Sabrient Quality Growth Index** (similar to *Baker's Dozen* quant prescreen)
4. **Sabrient SMID Quality Growth Index** (similar to *Small Cap Growth* portfolio)
5. **Sabrient Earnings Quality Leaders Index** (focusing on Gradient's EQR model)
6. **Sabrient Quality Growth Healthcare Index**
7. **Sabrient Quality Growth InfoTech Index**
8. **Sabrient Quality Growth Infrastructure Index**
9. **Sabrient Quality Energy Index**
10. **Sabrient Quality Legacy & Green Energy Index**

If you are interested in any of these concepts, please tell your favorite ETF wholesaler ... or contact me about TAMP access!

Plus: **Sabrient Space Exploration & Sustainability Portfolio**, which leverages Sabrient founder David Brown's NASA (Apollo 11) pedigree

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