Sabrient®

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"

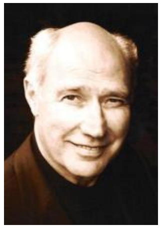
Baker's Dozen, Dividend, Small Cap Growth, Forward Looking Value

1. *Market observations*
2. *Description of Sabrient's enhanced selection process*
3. *Performance update*
4. *Introduction to the new Q1 2023 Baker's Dozen*
5. *Market outlook*

Updated 1/23/2023


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

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 made our portfolios more all-weather by combining Quality, Value, and Growth factors to provide balanced exposure to value and growth factors, cyclical and secular growth trends, and across market caps. => Improved performance and lower volatility—*while maintaining potential for significant outperformance vs. benchmarks*
4. 20 of our 21 live (or recently terminated) portfolios are outperforming or staying even with (within 1%) their benchmarks—*some quite substantially*. This includes *Baker's Dozen*, Dividend, Small Cap Growth, and Forward Looking Value portfolios.
5. Notably, our Dividend portfolio seeks both capital appreciation and a strong yield of 4% or more. The new Dividend 42 offers *4.7% current yield.*
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 fallen given hawkish Fed and concerns about war, geopolitical turmoil, recession, and corporate earnings. Forward P/E for S&P 500 and S&P 600 small caps are now 18.0x and 13.8x (as of 1/23/2023).
8. Inflation and bond yields have been receding and recession expectations have grown, setting up a potential Fed pause (and possible dovish pivot) by mid-2023, *perhaps igniting a stock market rally in H2 2023*.
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)

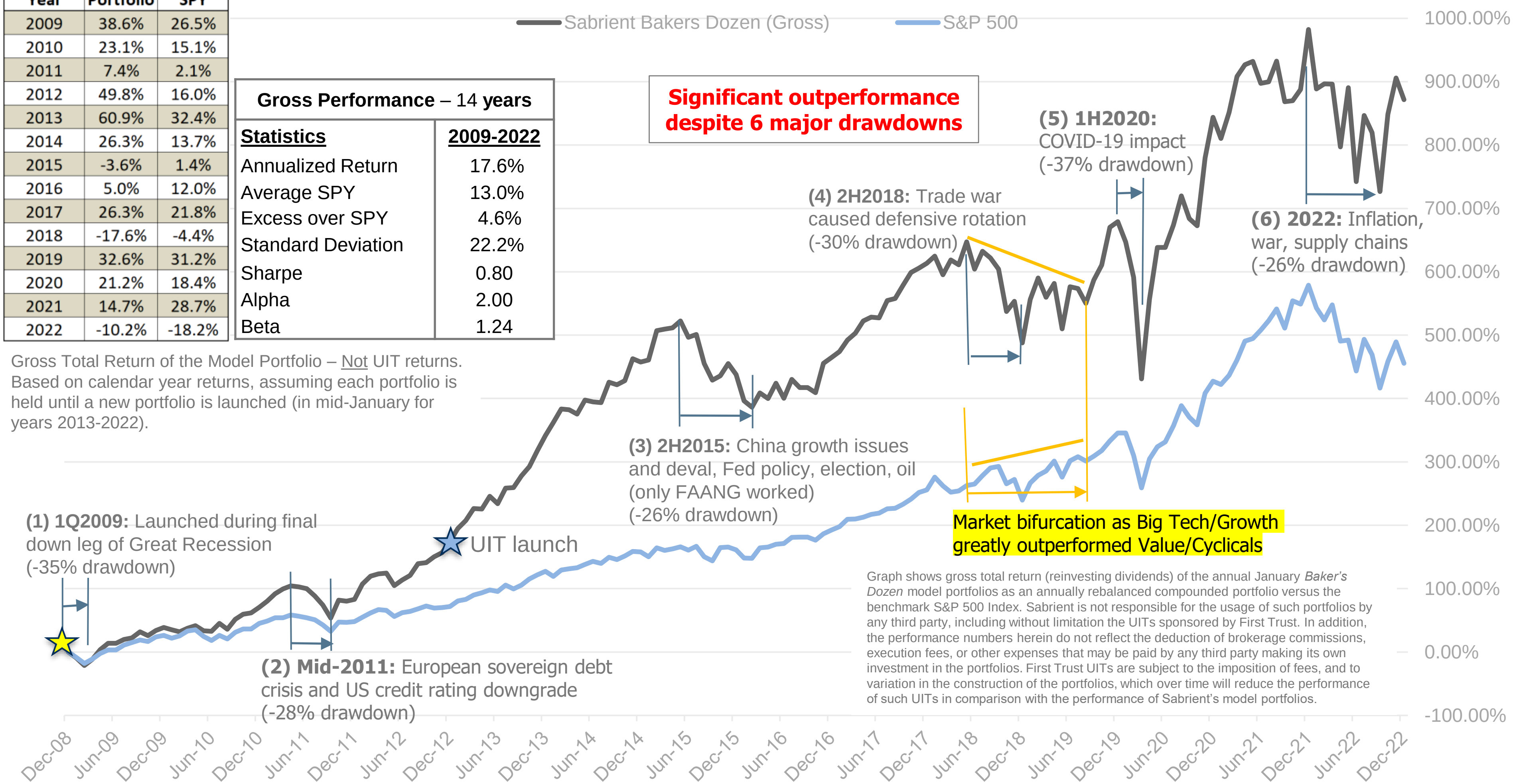
(1/1/2009 inception thru 12/31/2022, end-of-month data points)

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%
2022	-10.2%	-18.2%

Gross Performance – 14 years

Statistics	**2009-2022**
Annualized Return	17.6%
Average SPY	13.0%
Excess over SPY	4.6%
Standard Deviation	22.2%
Sharpe	0.80
Alpha	2.00
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 2013-2022).



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.

Performance of live portfolios since new enhancements – as of 1/23/2023

Baker's Dozen & FLV - Gross return thru: 1/23/2023

Portfolio	Launch	Close	Gross Return (FTP website)	SPY Return	Active Return
Q4 2021 BD	10/20/21	1/20/23	**9.1%**	-9.7%	18.8%
Q1 2022 BD	1/20/22		**8.8%**	-8.9%	17.7%
Q2 2022 BD	4/20/22		**9.0%**	-8.7%	17.8%
FLV 10	7/15/22		**22.3%**	4.9%	17.4%
Q3 2022 BD	7/20/22		**12.5%**	2.4%	10.2%
Q4 2022 BD	10/20/22		**3.3%**	10.1%	-6.8%

Sabrient Dividend - Gross return thru: 1/23/2023

Portfolio	Launch	Close	Gross Return	SPY Return	Active
Div 34	12/21/20	12/21/22	**19.8%**	8.1%	11.7%
Div 35	3/19/21		**7.2%**	5.6%	1.6%
Div 36	6/22/21		**10.7%**	-3.1%	13.8%
Div 37	9/20/21		**18.9%**	-5.9%	24.8%
Div 38	12/20/21		**13.1%**	-10.5%	23.6%
Div 39	3/18/22		**-0.5%**	-8.7%	8.2%
Div 40	6/15/22		**7.5%**	7.0%	0.5%
Div 41	9/12/22		**1.2%**	-1.7%	2.9%
Div 42	12/9/22		**1.6%**	2.3%	-0.7%

Small Cap Growth - Gross return thru: 1/23/2023

Portfolio	Launch	Close	Gross Return	IWM Return	Active
SCG 31	9/8/21	12/8/22	**9.2%**	-18.0%	27.1%
SCG 32	12/6/21		**0.5%**	-13.0%	13.4%
SCG 33	3/4/22		**1.0%**	-4.3%	5.3%
SCG 34	6/1/22		**7.6%**	2.9%	4.7%
SCG 35	8/29/22		**6.4%**	1.0%	5.4%
SCG 36	11/14/22		**1.3%**	1.8%	-0.5%

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 ftportfolios.com website) versus a relevant benchmark for all the **currently live portfolios** (plus two that just terminated in December).

20 of the 21 live portfolios (plus the 3 that recently terminated) are outperforming or staying even with (within 1%) their benchmarks, despite market volatility and defensive sentiment. And **all are positive** (or flat). Also, **34 of the 41 portfolios** selected since enhancements were implemented in December 2019 have either outperformed or stayed even with (within 1%) their benchmarks in a challenging market climate.

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: the new Dividend 42 portfolio has current yield of ***4.7%***.)

Q4 2021 *Baker's Dozen* Model Portfolio – performance update

Launch date (10/20/2021) through termination (1/20/2023)

Q4 2021 Baker's Dozen Portfolio							
Ticker	**Company Name**	**Sector**	**Return**	**Fwd P/E at Launch**	**Current Fwd P/E**	**Est. NTM EPS Growth at Launch**	**Actual EPS Growth**
DVN	Devon Energy Corporation	Energy	58.3%	9.8	8.1	321.6%	277.5%
ACGL	Arch Capital Group Ltd.	Financials	46.5%	12.4	11.7	38.8%	38.1%
FANG	Diamondback Energy, Inc.	Energy	32.7%	8.2	6.4	121.4%	164.5%
KLAC	KLA Corporation	Information Technology	25.0%	17.1	19.5	33.7%	46.0%
TJX	The TJX Companies, Inc.	Consumer Discretionary	24.6%	20.1	23.9	41.7%	29.1%
NTR	Nutrien Ltd.	Materials	19.2%	13.0	8.8	140.1%	239.0%
TMHC	Taylor Morrison Home Corporation	Consumer Discretionary	16.1%	4.6	4.7	64.0%	120.5%
WLK	Westlake Corporation	Materials	11.9%	7.7	11.2	76.4%	80.5%
BLD	TopBuild Corp.	Consumer Discretionary	-17.8%	18.8	12.4	30.6%	60.4%
AMAT	Applied Materials, Inc.	Information Technology	-18.2%	16.8	17.1	29.8%	12.4%
HRI	Herc Holdings Inc.	Industrials	-23.3%	20.7	11.0	63.2%	60.9%
WRK	WestRock Company	Materials	-24.2%	9.6	9.6	75.1%	41.7%
MRNA	Moderna, Inc.	Health Care	-41.7%	7.5	35.5	452.6%	69.5%
		Average =	**+9.1%**	**12.8**	**13.8**	**114.5%**	**95.4%**
SPY	SPDR S&P 500 ETF Trust		-10.8%				
RSP	S&P 500 Equal-Weight		-4.6%				
MDY	SPDR S&P MidCap 400 ETF Trust		-6.6%				
IWM	iShares Russell 2000 ETF		-17.2%				
EWMC	S&P 400 MidCap Equal-Weight		-4.4%				
EWSC	S&P 600 SmallCap Equal-Weight		-9.9%				

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

Sabrient Portfolios

- **Q1 2023 Baker's Dozen** (13 stocks) launched on 1/20
- **Forward Looking Value 10** (35 stocks) launched on 7/15
- **Small Cap Growth 36** (45 stocks) launched on 11/14
- **Dividend 42** (47 stocks, GARP+Income) launched on 12/9

  => Current Yield of 4.7% (as of 1/23/2023)

New *Q1 2023 Baker's Dozen* Portfolio – statistics upon launch

Launch date: 1/20/2023

Ticker	Company Name	Sector	Industry	Mkt Cap ($B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield	EQR	GQR
ACGL	Arch Capital Group	Financials	Property and Casualty Insurance	23.3	36.9%	11.6	0.31	0.0%	5	10
COLL	Collegium Pharmaceutical	Health Care	Pharmaceuticals	0.9	122.8%	4.1	0.03	0.0%	5	4
DAL	Delta Air Lines	Industrials	Airlines	24.5	60.4%	7.5	0.12	0.0%	4	7
DAR	Darling Ingredients	Consumer Staples	Agricultural Products	10.4	42.8%	9.9	0.23	0.0%	4	8
EQT	EQT Corporation	Energy	Oil and Gas Exploration and Production	12.5	109.6%	5.2	0.05	1.8%	3	9
EVBG	Everbridge	Information Technology	Application Software	1.1	401.2%	23.7	0.06	0.0%	5	7
EXTR	Extreme Networks	Information Technology	Communications Equipment	2.4	43.0%	16.9	0.39	0.0%	5	9
LNTH	Lantheus Holdings	Health Care	Health Care Supplies	3.7	31.9%	13.3	0.42	0.0%	5	10
MKL	Markel Corporation	Financials	Property and Casualty Insurance	18.5	33.4%	17.6	0.53	0.0%	5	9
NEX	NexTier Oilfield Solutions	Energy	Oil and Gas Equipment and Services	2.1	97.9%	4.1	0.04	0.0%	4	8
PFBC	Preferred Bank	Financials	Regional Banks	1.0	8.8%	7.3	0.83	3.1%	5	10
TALO	Talos Energy	Energy	Oil and Gas Exploration and Production	1.7	29.5%	4.9	0.17	0.0%	3	8
ZION	Zions Bancorporation	Financials	Regional Banks	7.4	26.2%	7.6	0.29	3.4%	4	7
			Average:	8.4	80.3%	10.3	0.13	0.6%	4.4	8.2

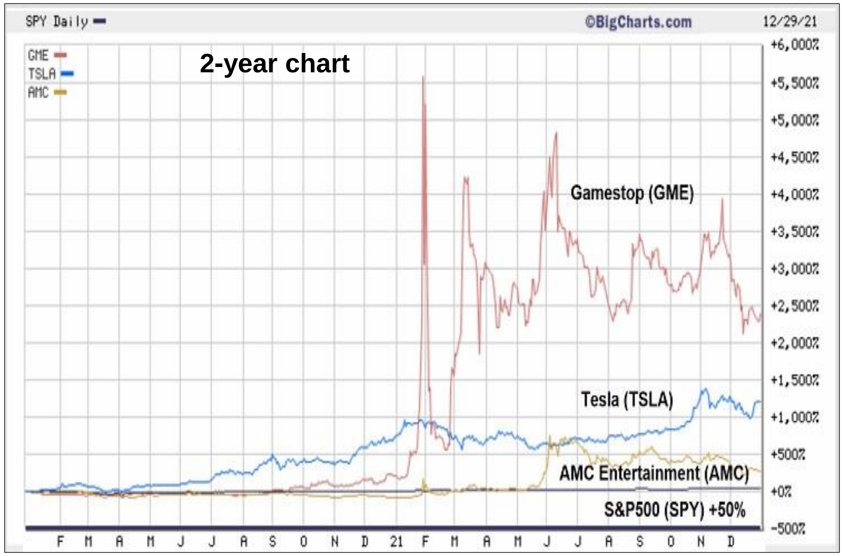
Notes

- Diverse (but small-biased) Large/Mid/Small cap mix of 2/4/7
- 7 Value and 6 Growth stocks
- 6 *secular* growth Tech/Healthcare/Consumer/Insurance companies balanced with 7 *cyclical* growth Energy/Bank/Airline names

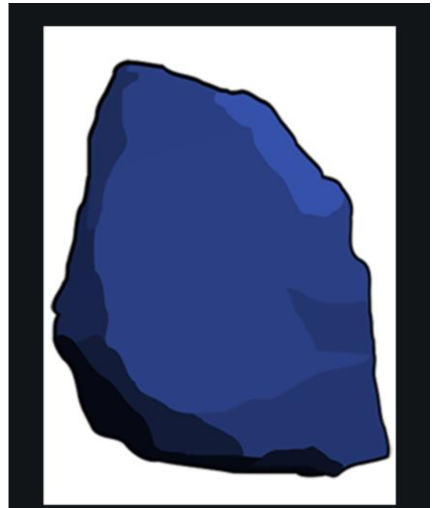
EQR has quintile scale of 1-5 (5 is best)
GQR has decile scale of 1-10 (10 is best)

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

Meme stocks:



NFTs:

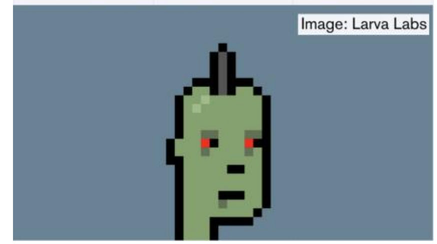


EtherRock #55, which sold for $3.8 million in October [Source: Fractional]

Cryptos

Dogecoin

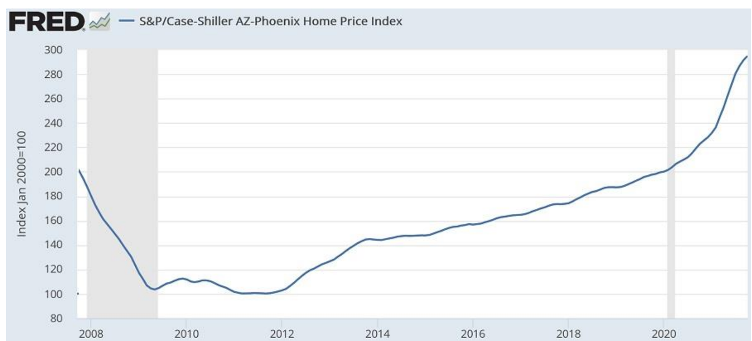
CryptoPunk #2338: $4.4 Million



SPACs:

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

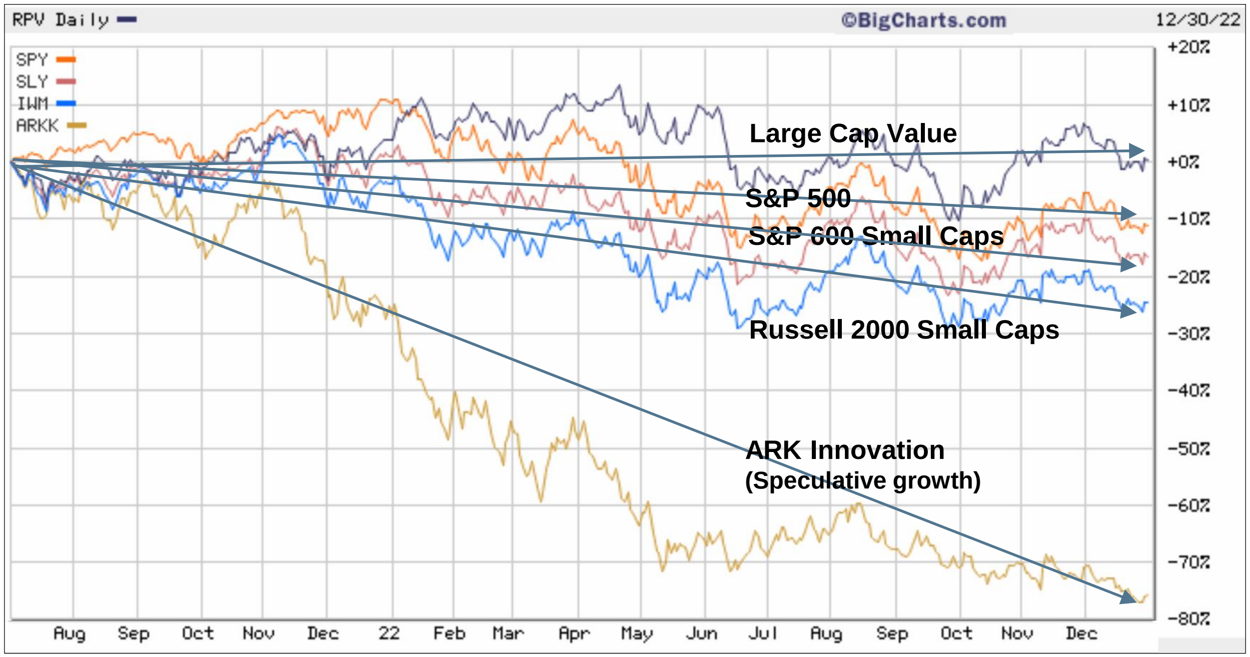
Housing:



The First Tweet: $2.9 Million

=> Deleveraging created selloff and rotation back to <u>Quality</u>

Rotation toward Quality and Value



Forward P/E (as of 1/23/2023):
RPV = 10.3 Large Cap Pure Value (subset of S&P 500)
SLY = 13.8 S&P 600 Small Caps (positive earnings requirement)
IWM = 14.1 Russell 2000 Small Caps (no quality requirement)
SPY = 18.0 S&P 500
ARKK = 42.5 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 1/1/2023)

Dow Jones U.S. Sector	Tracking ETF	Outlook Score
ENERGY	IYE	91
TECHNOLOGY	IYW	74
CONSUMER STAPLES	IYK	61
HEALTHCARE	IYH	61
CONSUMER DISCRETIONARY	IYC	50
INDUSTRIALS	IYJ	44
BASIC MATERIALS	IYM	42
FINANCIALS	IYF	31
TELECOMMUNICATIONS	IYZ	13
UTILITIES	IDU	6

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 growth estimates, high return ratios, and favorable insider sentiment.

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.
- 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 surged as prices of stocks, bonds, and other risk assets fell in unison. But yields seem to have peaked as deleveraging ends and income-hungry global investors and retirees scoop up elevated yields. Also, the Fed must ensure sufficient supply of dollars for global finance…and stop exporting inflation via the ultra-strong dollar.

3. Equity valuation multiples have fallen given hawkish Fed and concerns about war, geopolitical turmoil, recession, and corporate earnings. Forward P/E for S&P 500 and S&P 600 small caps are now 18.0x and 13.8x (as of 1/23/2023).

4. High cash balances and low sentiment readings among consumers, investors, and fund managers are contrarian bullish indicators. Also, the third year (post-midterm elections) of the last 18 presidencies since 1950 have been flat or solidly positive, with the S&P 500 averaging +16.8%.

Market Outlook - 2

5. The passive, broad-market, mega-cap-dominated indexes that have been so hard for active managers to beat in the past may see further weakness during H1 2023, with elevated volatility. But that doesn't mean all stocks will fall. Thus, the time may be ripe for active strategies that can exploit the performance dispersion among individual stocks.

6. 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.

7. 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.

Main Risks:

(1) Catastrophic escalation in Russia's war on Ukraine

(2) New COVID lockdowns that prolong China's economic slowdown and stunt supply chains

(3) Untamed "structural" inflation or Fed rapidly withdrawing liquidity (policy mistake)

(4) Corporate earnings fall far short of expectations

(5) Escalation in global financial/technological/military conflicts (especially with China)

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 (the most timely are **highlighted**):

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

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

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References to market indexes, benchmarks or other measures of relative market performance over a specified period of time are provided for information only. Reference to an index does not imply that the SABRIENT model portfolio will achieve returns, volatility or other results similar to the index. The composition of a benchmark index may not reflect the manner in which a SABRIENT model portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time.

Past performance is no guarantee of future results. Investment returns will fluctuate, and principal value may either rise or fall.

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