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Baker's Dozen Portfolios

1. **Process Overview & Recent Enhancements**
2. **Market Conditions & Performance Review**
3. **Q2 2021 Baker's Dozen Overview**
4. **Market Outlook**

"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.

* GARP = growth at a reasonable price

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Fundamental forensic accounting research

Talking Points Summary

➤ After 6½ years of strong performance from 2009 thru mid-2015 in Sabrient's *Baker's Dozen*, the market became narrow and news-driven, playing havoc with active selection and leading cap-weighted indexes to greatly outperform equal-weight indexes. Although the "Trump Bump" in 2016-17 was more favorable, the China trade war in 2018 resumed the **stark divergences in Growth over Value and Large over Small caps** that hurt Value and Growth-At-Reasonable-Price (GARP) strategies. Also, many of the best growth stocks were bid up to such high valuations that they did not score well in our quantitative rankings, while most cyclical sectors sold off.

➤ This led Sabrient to implement **process enhancements in December 2019** to make our portfolios more "all-weather" – primarily by adding a new Growth Quality Rank (GQR) to our quant model that rewards a history of earnings consistency & reliability, in addition to attractive forward valuations and earnings quality that the model has long favored – thus *allowing for exposure to both the long-term secular growth trends and the shorter-term cyclical growth opportunities.* (Also, we continue to have the forensic accounting team from subsidiary Gradient Analytics review every candidate for the portfolios.)

➤ Indeed, **Sabrient's newer portfolios since December 2019 have shown significantly improved performance** relative to the benchmark, with *some of them substantially outperforming* during quite a range of evolving market conditions. However, although strongly positive, the terminating **Q2 2020 *Baker's Dozen*** is significantly underperforming the S&P 500 – but it was constructed during the depths of the pandemic in April 2020 when most companies had little or no forward visibility, which Sabrient's model depends upon.

➤ Given a favorable outlook of continued economic recovery, strong corporate earnings growth, and generous fiscal and monetary policy support, plus high valuations among mega cap Tech names, we expect continued market breadth and convergence of Value/Growth and Small/Large performance divergences such that *active selection, strategic beta, and equal weighting should thrive* ➜ **favorable for Sabrient's GARP strategies.**

➤ Regardless, our new portfolios – including Q2 2021 *Baker's Dozen* that launched 4/20/21, Small Cap Growth that launched 6/11/21, Sabrient Dividend that launched 6/22/21, and the **new Q3 2021 *Baker's Dozen* that launches on 7/20/21** – reflect better balance between cyclical and secular growth and across market caps.

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Sabrient Overview

- ➢ **Sabrient Systems** was 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**

    - ▪ Numbers-driven; Bottom-up rather than top-down

    - ▪ In 2009, introduced *quantamental* GARP approach to create the *Baker's Dozen* annual portfolio of 13 top picks

- ➢ **Gradient Analytics** was founded in 1996 in Phoenix, AZ (acquired by Sabrient in 2011):

    - ▪ **_Fundamental_** forensic accounting analysis (earnings quality, anomalous insider behavior)

    - ▪ Team of finance & accounting analysts with CFA and CPA credentials

- ➢ The combined team leverages a unique collaboration of engineers and forensic accountants:

    - ▪ Engineers bring a process-driven methodology employing a scientific hypothesis-testing approach to build robust quantitative models

    - ▪ Forensic accountants bring unique insights into financial statement analysis to evaluate balance sheet strength, accounting practices and sustainability of earnings growth

    - ▪ Together we offer quantitative and fundamental equity research, reports, rankings, tools, strategies, portfolios, indexes, and market commentaries

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Sabrient "Quantamental" Approach

1. <u>Quantitative</u> screen to narrow large eligible universe

  (Forward P/E, Forward EPS growth, dynamics of analyst estimates, EQR, GQR)

2. Fund<u>amental</u> analysis to identify top candidates

  (Still mainly numbers-driven, but not algorithmic)

3. Forensic accounting review of top candidates

  (Performed by Sabrient subsidiary Gradient Analytics)

4. Final Stock Selection

  (Manual process, adhering to sector concentration limits)

Enhancements to Sabrient's GARP process
Starting with December 2019 *Baker's Dozen*

1. Add sector constraints relative to benchmark to reduce relative volatility

   - Still maintains the long-standing overall 30% sector maximum allocation

   - Limits extreme sector "tilts" away from S&P 500 allocations (15-30% range)

2. Add new proprietary **Growth Quality Rank (GQR)** to the model

   - Measures:
     a) *Consistency* of past and expected earnings growth
     b) Historical *reliability* of meeting forward estimates (i.e., "surprises")
     c) Probability that consensus earnings estimates will be achieved

   - Puts *secular* growth on more equal footing with *cyclical* growth in rankings
     a) Secular growth stocks tend to have higher valuations but more consistent EPS growth
     b) Cyclical growth stocks tend to have lower valuations but more volatile EPS growth

Various GARP Portfolios

1. **Baker's Dozen** – Sabrient's 13 top GARP picks (all caps), published quarterly

2. **Forward Looking Value** – mid-year GARP portfolio of 30-35 stocks (all caps)

3. **Dividend** – 50 stocks, GARP with solid dividends, <u>4-5% yield</u>, quarterly

4. **Small Cap Growth** – 50-stock GARP portfolio, all under $3.7B cap, quarterly

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Baker's Dozen Long-term Performance

January Model Portfolio (gross total return) – rebalanced when new portfolio is published (1/1/2009 inception thru 6/30/2021, end-of-month data points)

— Sabrient Bakers Dozen (Gross) — S&P 500

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%	31.5%
2020	21.2%	18.4%
2021 YTD	5.9%	15.2%

Gross Performance – 12½ years

Statistics	2009-2021YTD
Annualized Return	20.2%
Average SPY	15.5%
Excess over SPY	4.7%
Standard Deviation	21.3%
Sharpe	0.95
Alpha	1.12
Beta	1.26

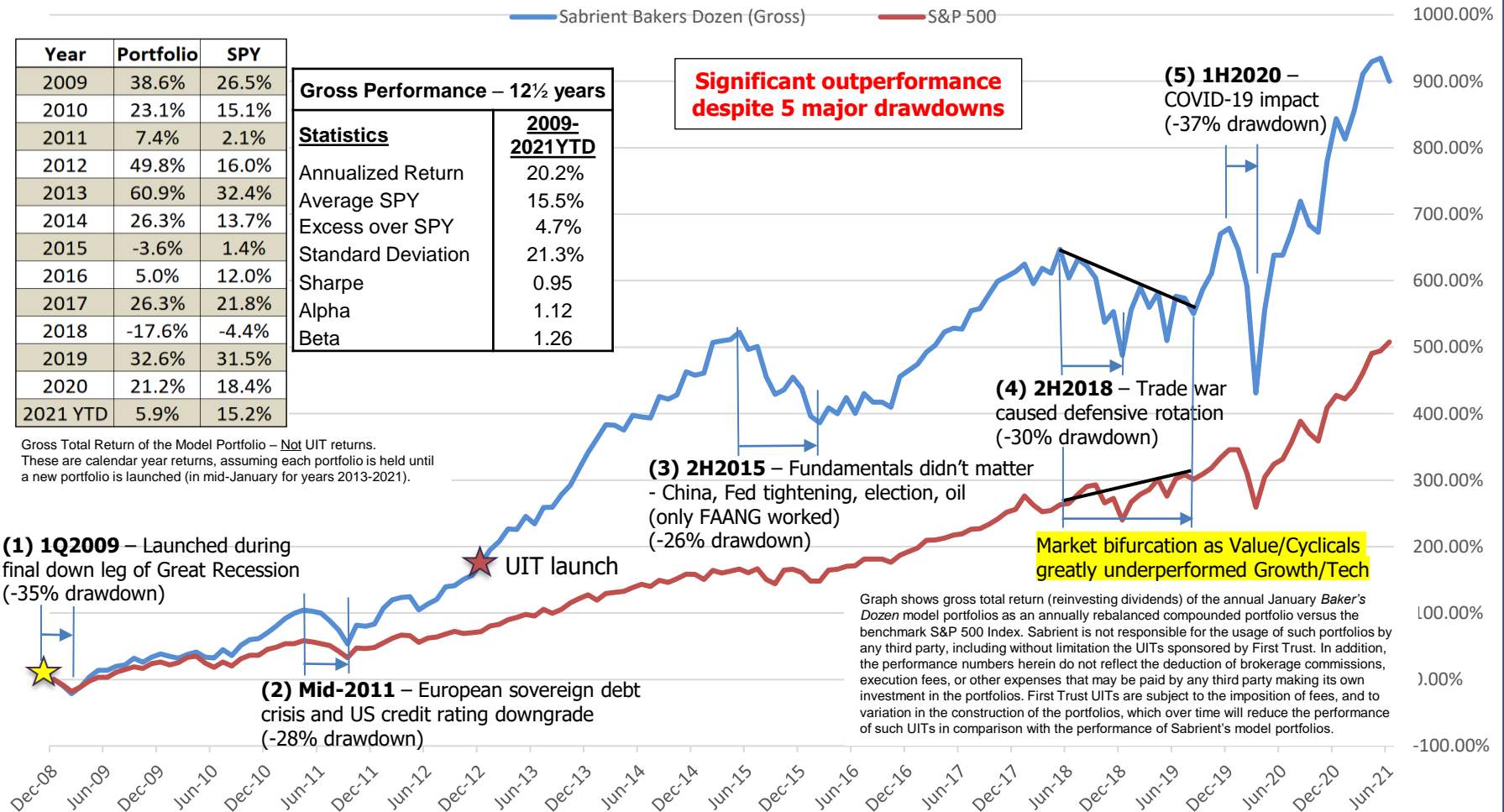**Significant outperformance despite 5 major drawdowns**

(5) 1H2020 – COVID-19 impact (-37% drawdown)

(4) 2H2018 – Trade war caused defensive rotation (-30% drawdown)

(3) 2H2015 – Fundamentals didn't matter - China, Fed tightening, election, oil (only FAANG worked) (-26% drawdown)

Market bifurcation as Value/Cyclicals greatly underperformed Growth/Tech

⭐ UIT launch

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

(1) 1Q2009 – Launched during final down leg of Great Recession (-35% drawdown)

(2) Mid-2011 – European sovereign debt crisis and US credit rating downgrade (-28% drawdown)

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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Market Bifurcation Continues to Converge

Historic divergences between Growth/Value and Large/Small shows sustained convergence

The 6-year chart shows stark divergence between both Growth/Value and Large/Small.

Notable market bifurcation followed escalation in China trade war in June 2018 and worsened from COVID-19 and economic lockdowns. RPG enjoyed a strong uptrend while RZV was mired in a strong downtrend. This also was hard on Sabrient's GARP portfolios.

RZV = S&P Small Cap 600 Pure Value ETF
RPG = S&P Large Cap 500 Pure Growth ETF

However, as noted in the top chart and magnified on the bottom chart, since 5/15/20 there has been an accelerating rotation into Small caps, Value factor, and Cyclical sectors – i.e., a promising attempt at convergence of the historic Growth/Value and Large/Small divergences. This has been beneficial to Sabrient's GARP portfolios.

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Performance since process enhanced in Dec 2019
(Baker's Dozen, Forward Looking Value, Small Cap Growth, Dividend):
1. Since launch, and 2. Since the 2020 year-end value rotation commenced on 10/30/20

Baker's Dozen & FLV - Gross performance thru: 6/30/2021

Portfolio	Launch Date	Close Date	Model Portfolio Gross Return Since Launch	SPY Return Since Launch	Portfolio Gross Return Since 10/30/20	SPY Return Since 10/30/20
Dec 2019 BD	12/20/19	1/20/21	21.4%	21.9%	23.6%	18.1%
Q1 2020 BD	1/20/20	4/20/21	29.0%	26.9%	29.2%	27.2%
Q2 2020 BD	4/20/20		32.4%	55.0%	19.6%	32.5%
2020 FLV	7/2/20		36.9%	39.1%	34.3%	32.5%
Q3 2020 BD	7/20/20		46.2%	34.0%	45.2%	32.5%
Q4 2020 BD	10/20/20		40.4%	26.0%	45.6%	32.5%
Q1 2021 BD	1/20/21		4.4%	12.2%	N/A	

Sabrient Dividend - Gross performance thru: 6/30/2021

Portfolio	Launch Date	Close Date	Model Portfolio Gross Return Since Launch	SPY Return Since Launch	Portfolio Gross Return Since 10/30/20	SPY Return Since 10/30/20
Div 28	7/12/19		22.1%	47.4%	57.0%	32.5%
Div 29	10/7/19		33.4%	50.5%	46.5%	32.5%
Div 30	1/3/20		17.4%	36.1%	47.2%	32.5%
Div 31	4/1/20		89.2%	77.3%	47.4%	32.5%
Div 32	6/30/20		38.8%	40.9%	39.6%	32.5%
Div 33	9/28/20		39.0%	29.5%	35.2%	32.5%
Div 34	12/21/20		20.9%	17.1%	N/A	
Div 35	3/19/21		2.5%	10.3%	N/A	

Small Cap Growth - Gross performance thru: 6/30/2021

Portfolio	Launch Date	Close Date	Model Portfolio Gross Return Since Launch	SLYG Return Since Launch	Portfolio Gross Return Since 10/30/20	Since 10/30/20
SCG 26	3/11/20	6/11/21	108.9%	77.7%	68.5%	48.2%
SCG 27	6/9/20		57.3%	50.4%	54.6%	48.8%
SCG 28	9/4/20		54.8%	47.2%	50.8%	48.8%
SCG 29	3/15/21		-2.1%	-1.1%	N/A	

All portfolios launched since December 2019 were created with the *enhanced* GARP model and selection process that allows for a balance between secular and cyclical growth and across large/mid/small market caps, helping to boost relative performance versus the benchmark while striving for consistent "all-weather" performance.

[As a reminder, the Q2 2020 *Baker's Dozen* portfolio was constructed during the depths of the pandemic when most companies had *little or no forward visibility*.]

The Sabrient Dividend portfolios have all outperformed the S&P 500 since the value rotation commenced on 10/30/2020, and most Dividend portfolios launched since April 2020 (employing the enhanced GARP model and selection process) are outperforming the S&P 500 over their full life since launch.

The Small Cap Growth portfolios are performing well relative to the S&P 600 Small Cap Growth (SLYG) benchmark.

Past performance is no guarantee of future results. Refer to Disclaimer page for other important disclosures.

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Q2 2020 Baker's Dozen Model Portfolio

Launch date (4/20/2020) compared to recent (6/30/2021)

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
NVDA	NVIDIA Corporation	179.2%	38.4	50.8	31.4%	76.6%
AMD	Advanced Micro Devices, Inc.	64.9%	51.5	43.9	71.7%	114.5%
ADSK	Autodesk, Inc.	64.1%	43.1	55.6	50.0%	32.2%
CHTR	Charter Communications, Inc.	44.7%	37.2	32.8	76.0%	113.2%
AMZN	Amazon.com, Inc.	43.7%	84.1	61.2	22.7%	151.1%
VST	Vistra Corp.	14.0%	7.3	4.7	106.0%	-220.2%
HII	Huntington Ingalls Industries, Inc.	12.9%	9.5	16.3	47.9%	7.7%
BMY	Bristol-Myers Squibb Company	11.7%	9.9	8.6	30.7%	22.1%
CAG	Conagra Brands, Inc.	11.2%	13.9	14.3	28.2%	50.8%
CACI	CACI International Inc	6.9%	18.4	14.0	27.4%	49.8%
RNR	RenaissanceRe Holdings Ltd.	-2.0%	10.7	9.6	60.4%	-101.3%
NBIX	Neurocrine Biosciences, Inc.	-4.2%	26.6	29.4	1029.0%	67.0%
VRTX	Vertex Pharmaceuticals Incorporated	-26.2%	35.4	19.6	43.5%	59.1%
	Average	**32.4%**	**29.7**	**27.8**	**125.0%**	**32.5%**
SPY	SPDR S&P 500 ETF Trust	55.0%				

Portfolio has been boosted by strength in technology and telecom names but held back by weakness in biotechs. Overall, 9 of the 13 have either exceeded or come close to meeting estimates.

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Q3 2020 Baker's Dozen Model Portfolio

Launch date (7/20/2020) compared to recent (6/30/2021)

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
APPS	Digital Turbine, Inc.	472.5%	33.9	45.6	88.3%	270.0%
NXST	Nexstar Media Group, Inc.	85.9%	6.7	8.7	70.7%	153.0%
CHTR	Charter Communications, Inc.	27.6%	40.8	32.8	63.0%	113.2%
CACI	CACI International Inc	26.1%	14.4	14.0	25.7%	49.8%
GDDY	GoDaddy Inc.	22.0%	17.1	16.6	44.5%	39.6%
EBAY	eBay Inc.	21.6%	16.1	17.4	23.5%	32.4%
ABBV	AbbVie Inc.	17.5%	9.3	9.1	18.0%	19.7%
CNC	Centene Corporation	12.4%	12.0	14.1	41.8%	47.8%
WGO	Winnebago Industries, Inc.	10.1%	16.6	8.5	73.8%	244.3%
SWX	Southwest Gas Holdings, Inc.	-3.0%	17.6	15.2	24.1%	42.1%
AZN	AstraZeneca PLC	-4.2%	22.4	25.7	12.0%	25.7%
SSRM	SSR Mining Inc.	-36.3%	11.6	10.7	90.6%	38.1%
QDEL	Quidel Corporation	-51.0%	28.6	20.9	184.6%	604.0%
	Average	**46.2%**	**19.0**	**18.4**	**58.5%**	**129.2%**
SPY	SPDR S&P 500 ETF Trust	34.0%				

Portfolio boosted by two stellar performers from technology & consumer sectors but held back by seemingly unwarranted weakness in two healthcare names that easily beat estimates, plus the gold miner. Overall, 12 of the 13 have either exceeded or come close to meeting estimates.

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Q2 2021 Baker's Dozen Portfolio

Statistics upon launch on **4/20/21**

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	15.9	109.7%	14.0	0.13	0.0%	3	10
AMAT	Applied Materials	Information Technology	Semiconductor Equipment	120.1	34.8%	21.2	0.61	0.7%	4	9
AXTA	Axalta Coating Systems	Materials	Specialty Chemicals	7.4	42.0%	16.8	0.40	0.0%	5	9
DBX	Dropbox	Information Technology	Application Software	10.5	36.0%	20.7	0.57	0.0%	5	10
KFY	Korn Ferry	Industrials	HR and Employment Services	3.5	69.9%	19.8	0.28	0.6%	4	8
MBUU	Malibu Boats	Consumer Discretionary	Leisure Products	1.7	64.7%	13.1	0.20	0.0%	4	10
MGA	Magna International	Consumer Discretionary	Auto Parts and Equipment	28.8	91.2%	12.5	0.14	0.0%	5	6
REGN	Regeneron Pharmaceuticals	Health Care	Biotechnology	52.0	42.8%	11.1	0.26	0.0%	4	10
SEM	Select Medical Holdings	Health Care	Health Care Facilities	4.9	23.3%	15.6	0.67	0.0%	5	10
TOL	Toll Brothers	Consumer Discretionary	Homebuilding	7.5	45.7%	11.0	0.24	1.1%	3	9
VSH	Vishay Intertechnology	Information Technology	Electronic Components	3.7	96.4%	14.3	0.15	1.5%	3	8
XEC	Cimarex Energy	Energy	Oil & Gas Exploration/Production	6.2	344.3%	9.5	0.03	1.7%	3	5
XPO	XPO Logistics	Industrials	Air Freight and Logistics	15.1	192.3%	24.8	0.13	0.0%	4	7
Average:				21.3	91.8%	15.7	0.17	0.4%	4.0	8.5
Median:				7.5	64.7%	14.3	0.22			

➤ a large/mid/small cap mix of 3/6/4
➤ a value bias with 6 growth versus 7 value stocks
➤ 5 *secular* growth Tech/HC companies balanced with 8 *cyclical* growth Consumer/Industrial/Materials/Energy/Financial 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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Market Outlook

1. Continued resurgence in global growth, US corporate earnings, and CapEx

2. Inflation slows as supply meets surging demand and bottlenecks resolve, while disinflationary structural trends (demographics, globalization, technological disruption) resume

3. Monetary & fiscal support continues, low interest rates persist, central banks (including Fed) remain supportive, plus a likely infrastructure bill

4. Equity valuations are elevated but justified by robust earnings growth, massive liquidity, low interest rates, and a lack of good alternatives

5. Favors value/cyclicals/smaller-caps as market rotates/broadens, plus high-quality secular growers & dividend payers, active selection, and equal-weight indexes

➤ **Main Risks:**

   (1) Double-dip global recession from vaccine-resistant COVID mutations or unbalanced labor markets

   (2) Sustained inflation surge, selloff in long-term bonds, and rising interest rates on high corporate leverage

   (3) Corporate earnings growth fails to achieve levels necessary to justify high valuations

   (4) Escalation in financial/technological/military conflicts with China and global hegemony

   (5) US dollar meltdown due to massive stimulus and loss of "safe haven" status *(longer-term issue)*

   (6) Deleveraging a heavily-indebted global economy *(longer-term issue)*

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Resources

Be sure to sign up for:

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

- 2-pager with details on each pick (e.g., EQR, GQR, forward P/E, EPS growth, forward PEG)

- Send email request to: **support@Sabrient.com**

2. Monthly *Sector Detector* newsletter

- Market commentary and SectorCast ETF rankings, written by Scott Martindale

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

Also, visit http://BakersDozen.Sabrient.com to find performance information and (on Marketing Materials tab) an updated slide deck and commentary

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