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Baker's Dozen Portfolios

1. *Process Overview & Recent Enhancements*
2. *Market Conditions & Performance Review*
3. *Overview of new Q4 2021 Baker's Dozen*
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.
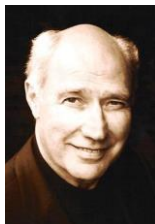
* GARP = growth at a reasonable price

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Sabrient Systems LLC
Quantitative equity research, rankings, strategies

Gradient Analytics LLC
Fundamental forensic accounting research

Talking Points

1. Sabrient & Gradient form a unique <u>collaboration of engineers and forensic accountants</u> who leverage quantitative models, a <u>process-driven</u> methodology, and expertise in financial statement analysis

2. <u>Consistently strong performance</u> 2009–2014, but then market became narrow/news-driven due to rancorous elections, Fed policy uncertainty, trade wars, and social unrest

3. <u>Historic performance divergences</u> formed in *Growth over Value* factors and *Large over Small* caps

4. We implemented <u>process enhancements</u> in Dec 2019 to make portfolios more "all-weather," primarily by adding a Growth Quality Rank (GQR) to quant model that rewards consistent & reliable earnings history

5. Newer portfolios provide exposure to Value & Growth, secular & cyclical growth, and across market caps, resulting in <u>improved performance and lower volatility</u> – with some portfolios *substantially outperforming*

6. We expect <u>continued economic expansion</u>, strong earnings growth, fiscal and monetary policy support, and moderating inflation in 2022

7. Given lofty valuations, we expect <u>broadening leadership and performance reversion</u> in Value/Growth and Small/Large, and share price reliance on earnings growth rather than multiple expansion

8. Given slow recovery of supply chains, persistent COVID impact globally, & China's latest financial issues & growth questions, elevated volatility is likely – so, we suggest staying *long but hedged*

9. Active selection, strategic beta, equal weighting, and the Quality factor <u>should thrive</u>

10. These factors should be <u>favorable for Sabrient's GARP portfolios</u> – including *Baker's Dozen*, Small Cap Growth, Dividend, and Forward Looking Value.

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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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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

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Sabrient "Quantamental" Approach

1. Quantitative screen to narrow large eligible universe

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

2. Fundamental 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)

Baker's Dozen Long-term Performance

January Model Portfolio (gross total return) – rebalanced when new portfolio is published
(1/1/2009 inception thru 9/30/2021, <u>end-of-month</u> data points)
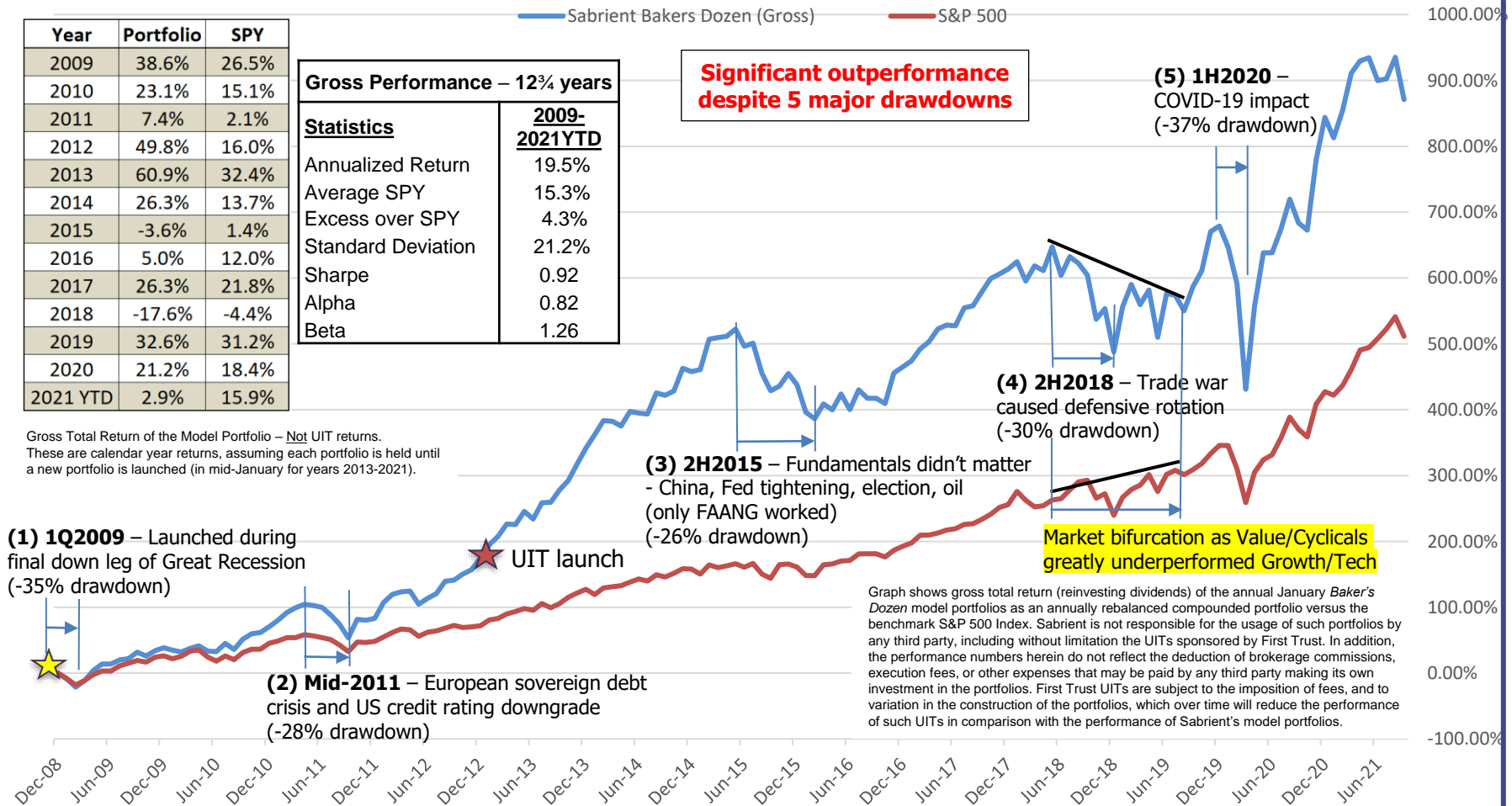

Year	Portfolio	SPY
2009	38.6%	26.5%
2010	23.1%	15.1%
2011	7.4%	2.1%
2012	49.8%	16.0%
2013	60.9%	32.4%
2014	26.3%	13.7%
2015	-3.6%	1.4%
2016	5.0%	12.0%
2017	26.3%	21.8%
2018	-17.6%	-4.4%
2019	32.6%	31.2%
2020	21.2%	18.4%
2021 YTD	2.9%	15.9%

Gross Performance – 12¾ years	
Statistics	**2009-2021YTD**
Annualized Return	19.5%
Average SPY	15.3%
Excess over SPY	4.3%
Standard Deviation	21.2%
Sharpe	0.92
Alpha	0.82
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)

Gross Total Return of the Model Portfolio – <u>Not</u> 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)

UIT launch

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

Market bifurcation as Value/Cyclicals greatly underperformed Growth/Tech

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.

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

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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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Performance Since Process Enhanced in Dec 2019
1) Since launch, and 2) Since the 2020 year-end value rotation commenced on 11/1/20

Baker's Dozen & FLV - Gross performance thru: 10/19/2021

Portfolio	Launch Date	Close Date	Model Portfolio Gross Return Since Launch	SPY Return Since Launch	Model Portfolio Gross Return Since 11/1/20	SPY Return Since 11/1/20
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	7/20/21	29.9%	56.0%	17.4%	33.4%
2020 FLV	7/2/20	10/12/21	33.6%	41.4%	32.5%	34.7%
Q3 2020 BD	7/20/20		52.5%	41.5%	51.8%	39.9%
Q4 2020 BD	10/20/20		39.9%	33.1%	44.9%	39.9%
Q1 2021 BD	1/20/21		4.0%	18.5%	N/A	
Q2 2021 BD	4/20/21		3.3%	10.0%	N/A	
2021 FLV	7/7/21		4.3%	4.1%	N/A	
Q3 2021 BD	7/20/21		12.1%	4.9%	N/A	

Sabrient Dividend - Gross performance thru: 10/19/2021

	Launch Date		Model Portfolio Gross Return Since Launch	SPY Return Since Launch	Model Portfolio Gross Return Since 11/1/20	SPY Return Since 11/1/20
Div 30	1/3/20		21.0%	43.8%	51.6%	39.9%
Div 31	4/1/20		95.0%	87.2%	51.9%	39.9%
Div 32	6/30/20		44.1%	48.8%	45.0%	39.9%
Div 33	9/28/20		43.3%	36.7%	39.3%	39.9%
Div 34	12/21/20		24.1%	23.7%	N/A	
Div 35	3/19/21		4.1%	16.5%	N/A	
Div 36	6/22/21		2.6%	6.8%	N/A	

Small Cap Growth - Gross performance thru: 10/19/2021

	Launch Date	Close Date	Model Portfolio Gross Return Since Launch	SLYG Return Since Launch	Model Portfolio Gross Return Since 11/1/20	SLYG Return Since 11/1/20
SCG 26	3/11/20	6/11/21	108.9%	77.0%	68.5%	48.2%
SCG 27	6/9/20	9/9/21	53.0%	51.6%	50.3%	50.1%
SCG 28	9/4/20		60.4%	48.5%	56.2%	50.1%
SCG 29	3/15/21		-1.1%	-0.3%	N/A	
SCG 30	6/11/21		1.0%	1.3%	N/A	

All portfolios launched since December 2019 were created with the *enhanced* GARP model and selection process, which allows for a balance between secular and cyclical growth and across market caps. This appears to have helped boost relative performance versus benchmarks while striving for consistent "all-weather" performance.

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

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Q3 2020 Baker's Dozen Model Portfolio

Launch date (7/20/2020) compared to recent (10/19/2021) – terminates on 10/20/2021

Q3 2020 Baker's Dozen Model Portfolio

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.	553.4%	33.9	50.4	88.3%	239.3%
NXST	Nexstar Media Group, Inc.	91.5%	6.7	8.2	70.7%	161.9%
CACI	CACI International Inc	39.1%	14.4	16.2	25.7%	45.7%
EBAY	eBay Inc.	29.7%	16.1	18.3	23.5%	13.8%
CHTR	Charter Communications, Inc.	26.9%	40.8	28.0	63.0%	79.3%
WGO	Winnebago Industries, Inc.	17.4%	16.6	8.6	44.6%	229.7%
ABBV	AbbVie Inc.	14.7%	9.3	8.2	18.0%	27.0%
SWX	Southwest Gas Holdings, Inc.	0.9%	17.6	15.4	24.1%	32.0%
CNC	Centene Corporation	-0.2%	12.0	11.9	41.8%	-7.1%
GDDY	GoDaddy Inc.	-2.3%	17.1	21.7	44.5%	-7.3%
AZN	AstraZeneca PLC	-2.8%	22.4	32.2	12.0%	16.7%
SSRM	SSR Mining Inc.	-35.1%	11.6	9.9	90.6%	120.5%
QDEL	Quidel Corporation	-50.3%	28.6	14.9	184.6%	359.8%
	Average	**52.5%**	**19.0**	**18.8**	**56.3%**	**100.9%**
SPY	SPDR S&P 500 ETF Trust	41.5%				

Portfolio boosted by two stellar performers from technology & consumer sectors but held back by seemingly unwarranted weakness in two healthcare names that beat earnings estimates, plus the gold miner (that also beat). Overall, 10 of the 13 have exceeded EPS estimates.

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Q4 2020 Baker's Dozen Model Portfolio

Launch date (10/20/2020) compared to recent (10/19/2021) – terminates on 1/20/2022

Q4 2020 Baker's Dozen Model Portfolio

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.	140.3%	78.1	50.4	66.7%	239.3%
TPX	Tempur Sealy International, Inc.	102.3%	14.1	13.8	38.8%	141.8%
VECO	Veeco Instruments Inc.	87.7%	13.8	16.7	88.8%	128.6%
GTN	Gray Television, Inc.	84.8%	4.9	11.0	43.9%	134.5%
BCC	Boise Cascade Company	48.4%	10.3	8.3	61.7%	537.7%
AMD	Advanced Micro Devices, Inc.	42.6%	58.0	43.3	64.3%	141.9%
ABBV	AbbVie Inc.	33.7%	7.4	8.2	22.7%	27.0%
OMI	Owens & Minor, Inc.	29.4%	9.4	12.2	295.7%	573.5%
CHTR	Charter Communications, Inc.	18.0%	37.1	28.0	53.0%	79.3%
MDC	M.D.C. Holdings, Inc.	9.1%	8.6	5.5	39.7%	85.2%
GDDY	GoDaddy Inc.	-10.4%	18.6	21.9	32.3%	-7.3%
FDX	FedEx Corporation	-19.4%	18.3	11.2	36.5%	56.2%
QDEL	Quidel Corporation	-47.9%	10.2	15.0	426.6%	359.8%
	Average	**39.9%**	**22.2**	**18.9**	**97.7%**	**192.1%**
SPY	SPDR S&P 500 ETF Trust	**33.1%**				

Portfolio enjoys several solid performers from various sectors. Overall, 11 of the 13 have exceeded EPS estimates – mostly by a wide margin.

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New Q4 2021 Baker's Dozen Portfolio

Statistics upon launch on **10/20/21**

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	16.6	38.8%	12.4	0.32	0.0%	5	10
AMAT	Applied Materials	Information Technology	Semiconductor Equipment	121.5	29.6%	16.8	0.57	0.7%	5	10
BLD	TopBuild	Consumer Discretionary	Homebuilding	7.2	31.6%	18.7	0.59	0.0%	5	10
DVN	Devon Energy	Energy	Oil and Gas Exploration and Production	27.3	321.3%	9.8	0.03	1.1%	5	7
FANG	Diamondback Energy	Energy	Oil and Gas Exploration and Production	20.1	120.1%	8.2	0.07	1.6%	3	6
HRI	Herc Holdings	Industrials	Trading Companies and Distributors	5.4	63.2%	20.7	0.33	1.1%	3	10
KLAC	KLA Corp	Information Technology	Semiconductor Equipment	50.5	33.7%	17.1	0.51	1.3%	4	10
MRNA	Moderna	Health Care	Biotechnology	134.7	452.6%	7.5	0.02	0.0%	5	7
NTR	Nutrien	Materials	Fertilizers and Agricultural Chemicals	41.0	140.0%	13.0	0.09	2.6%	4	7
TJX	The TJX Companies	Consumer Discretionary	Apparel Retail	76.8	41.5%	20.2	0.49	1.6%	4	8
TMHC	Taylor Morrison Home	Consumer Discretionary	Homebuilding	3.4	64.0%	4.6	0.07	0.0%	3	9
WLK	Westlake Chemical	Materials	Commodity Chemicals	12.9	75.7%	7.7	0.10	1.2%	5	8
WRK	WestRock	Materials	Paper Packaging	12.9	74.9%	9.6	0.13	2.0%	5	6
Average:				40.8	114.4%	12.8	0.11	1.0%	4.3	8.3

Notes:

➤ Diverse Large/Mid/Small cap mix of 5/6/2
➤ Balanced between 7 Value versus 6 Growth stocks
➤ 3 *secular* growth Tech/Healthcare companies balanced with 10 *cyclical* growth Consumer/Financials/Industrials/Materials/Energy 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. Equity valuations remain elevated, although mostly justified by robust earnings growth, massive global liquidity, low interest rates, and a lack of good alternatives.

2. Inflation moderates in 2022 as supply chains recover and bottlenecks resolve, while disinflationary structural trends resume (e.g., aging demographics, globalization, technological disruption, automation, productivity).

3. We suggest equity portfolios hold a balance between 1) value/cyclicals and 2) high-quality secular growers & dividend payers.

4. Given slow recovery of supply chains & China growth questions, elevated volatility is likely. We suggest staying long but *hedged* (e.g., inverse ETFs, puts, gold, crypto).

➢ **Main Risks:**

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

   (2) China's financial issues grow, leading to tighter monetary policy there and slower global growth

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

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

   (5) Escalation in financial/technological/military conflicts with China and global hegemony *(growing risk)*

   (6) US dollar meltdown due to massive stimulus and loss of "safe haven" status *(no risk for now)*

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

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Resources

Be sure to sign up for:

1. **Quarterly *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) updated slide deck, commentary, and the latest portfolio tear sheet

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