Updated December 4, 2019

Baker's Dozen Portfolios

plus Small Cap Growth and Dividend Opportunity

1. *Process Overview*
2. *Performance Review*
3. *Market Commentary & 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 Summary

- Model-driven, bottom-up, "*quantamental*" GARP selection process with forensic accounting review => *Tends to outperform when fundamentals matter to investors*
- 10-year outperformance (despite 4 big drawdowns: 1Q2009, mid-2011, 2H2015, 2H2018)
- June 2018 – escalating trade war with China and hawkish Fed led to risk-off rotation into defensive sectors, low-volatility, momentum, and large caps at the expense of cyclical sectors, value, and small-mid caps that typically lead a rising market in a solid economy – ending in a 4Q2018 selloff
- But forward outlook has held up while prices fell in risk-on segments, so valuations became more attractive, leading to numerous attempts at risk-on recoveries
- May and Aug 2019 saw big risk-off rotations into Treasuries and "bond proxy" defensive sectors due to trade war uncertainty holding back capital spending => historic relative valuation divergence of low-volatility/defensive/large cap over value/cyclical/small-mid cap
- But cyclicals have shown readiness for recovery given dovish Fed, China trade talks, and US economic strength led by strong consumer => *Bodes well for Sabrient's portfolios*
- 8/27/19 started a promising risk-on recovery in small caps, value, and cyclical sectors
- *Introduced to model the new **Growth Quality Rank (GQR)** as an enhancement*
- What can go wrong for Sabrient?
  - (1) Outlook for revenues & earnings changes negatively *(revs still solid, but earnings lower)*
  - (2) Investors ignore fundamentals *(has happened starkly => news-driven, risk-off trading)*

New enhancement to GARP Model:
Growth Quality Rank (GQR)

- Seeks to improve GARP (growth at a reasonable price) model performance during periods of "irrational" defensive sentiment despite solid economic outlook, without degrading performance in "normal" conditions
- Model development leveraged *Monte Carlo simulation* rather than static hypothesis testing
- Evaluates:
  - Consistency of earnings growth
  - Historical quality/predictability of forward estimates
  - Probability that consensus earnings estimates will be achieved
- Recently introduced into our underlying GARP model for new portfolios

Comparison of Models

The January *Baker's Dozen* portfolios historically have been selected based on Sabrient's existing "GARP-Aggressive Model," and the volatility has been similar. However, the "New **GARP-GQR** Model" has much lower volatility and higher Sharpe, which bodes well as the basis for future *Baker's Dozen* portfolios.

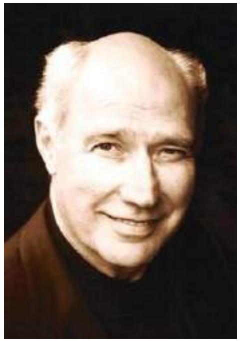
|<- 50-stock algorithmic simulations ->|

	Theoretical Historical Rolling Annual January *Baker's Dozen* Portfolio	GARP-Aggressive	**New GARP-GQR Model**	SPY
2009	38.60%	53.68%	**25.03%**	26.46%
2010	23.07%	25.21%	**25.75%**	15.06%
2011	7.40%	-0.82%	**11.68%**	2.11%
2012	49.82%	31.75%	**19.42%**	16.00%
2013	60.90%	61.26%	**37.94%**	32.39%
2014	26.28%	20.86%	**13.09%**	13.69%
2015	-3.56%	-5.69%	**8.34%**	1.38%
2016	5.00%	16.63%	**12.90%**	11.96%
2017	26.33%	25.84%	**30.81%**	21.83%
2018	-17.64%	-20.97%	**-1.77%**	-4.38%
2019 YTD*	20.10%	20.68%	**24.22%**	21.67%
** Through 10/15/19*				
Cumulative Return	605.66%	546.99%	**538.65%**	317.37%
Avg Annual Return	19.85%	18.89%	**18.75%**	14.16%
Standard Deviation	16.60%	19.94%	**15.17%**	13.53%
Simple Sharpe Ratio	1.20	0.95	**1.24**	1.05

Note: Both the existing **GARP-Aggressive Model** and the **New GARP-GQR Model** performance are based on 100% rules-based back-test simulations, which may or may not be indicative of future performance. They employ 50-stock portfolios, rebalanced quarterly with sector concentration limits. On the other hand, the **Theoretical Rolling January *Baker's Dozen*** assumes end-of-day closing prices for the actual published 13-stock January portfolios, rebalanced annually.
Refer to Disclaimer page for other important disclosures.

Sabrient®

- **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

GRADIENT analytics℠
a Sabrient Systems company

- **<u>Fundamental</u>** 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 Sabrient in 2011
  - ➔ Long vetting helps to "play defense"
  - ➔ Built **Earnings Quality Rank** (EQR) for use in GARP model

    [EQR is also 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 > 2.0

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

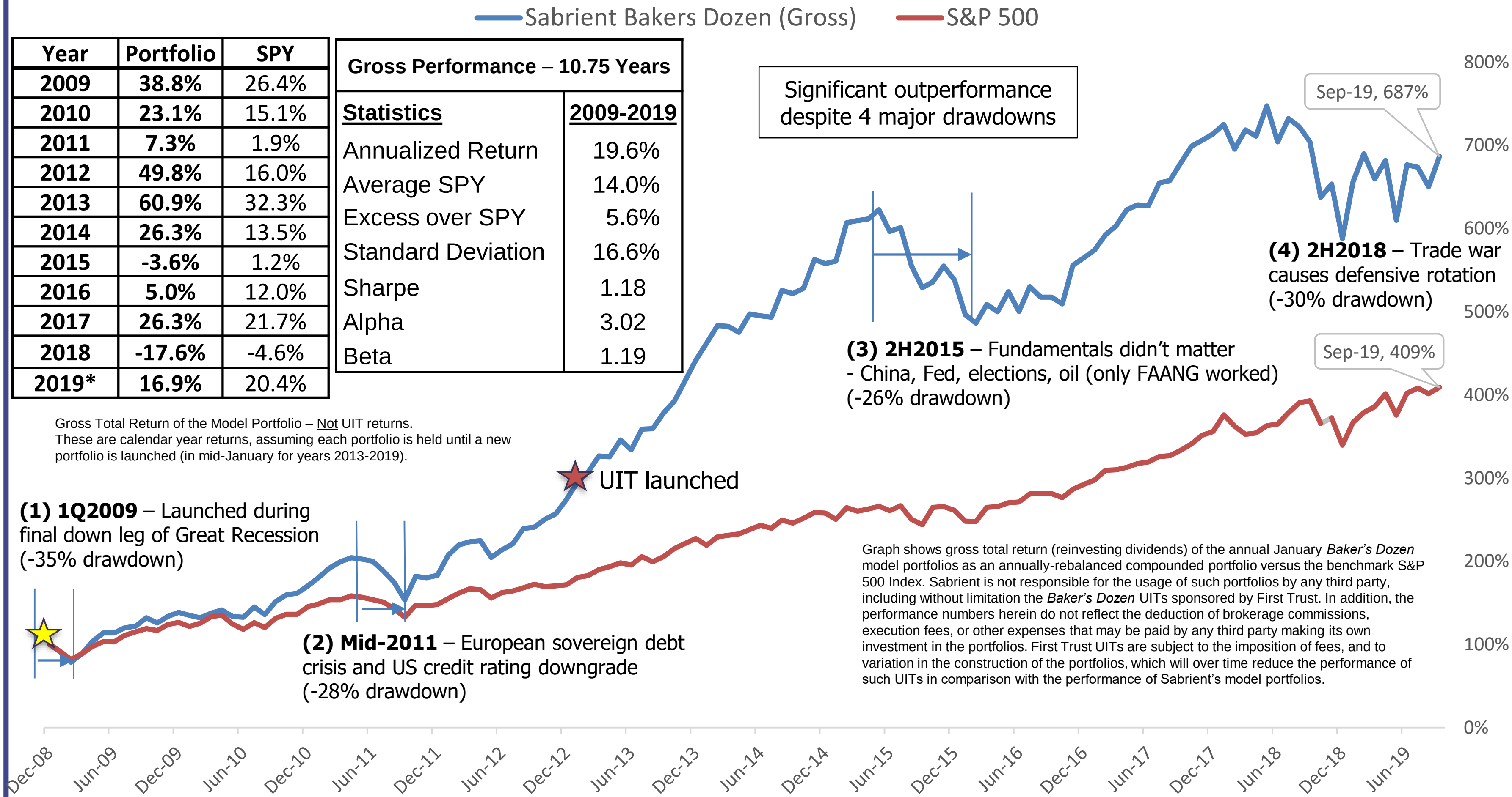
Baker's Dozen Long-term Performance

January Model Portfolio (gross total return) – rebalanced when new portfolio is published (1/1/2009 inception thru 9/30/2019, <u>end-of-month</u> data points)

Year	Portfolio	SPY
2009	**38.8%**	26.4%
2010	**23.1%**	15.1%
2011	**7.3%**	1.9%
2012	**49.8%**	16.0%
2013	**60.9%**	32.3%
2014	**26.3%**	13.5%
2015	**-3.6%**	1.2%
2016	**5.0%**	12.0%
2017	**26.3%**	21.7%
2018	**-17.6%**	-4.6%
2019*	**16.9%**	20.4%

Gross Performance – 10.75 Years	
<u>Statistics</u>	**<u>2009-2019</u>**
Annualized Return	19.6%
Average SPY	14.0%
Excess over SPY	5.6%
Standard Deviation	16.6%
Sharpe	1.18
Alpha	3.02
Beta	1.19

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 2013-2019).



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 *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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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: So far, **+38.8%** thru 11/30/19
vs. +36.1% for SPY

Monthly *Baker's Dozen* Model Portfolios: Performance vs S&P500

During the latest risk-on emergence of value/cyclicals/small-mid caps

8/27/19—11/30/19 ➔ Reasons for Optimism!

Baker's Dozen Monthly Portfolio	Gross Absolute Portfolio Return	Gross Excess Return vs. SPY
Nov-18	**19.4%**	**9.3%**
Dec-18	**21.4%**	**11.3%**
Jan-19	**23.4%**	**13.3%**
Feb-19	**14.6%**	**4.6%**
Mar-19	**15.3%**	**5.3%**
Apr-19	**18.6%**	**8.6%**
May-19	**20.1%**	**10.1%**
Jun-19	**14.0%**	**4.0%**
Jul-19	**13.1%**	**3.0%**
Aug-19	**16.5%**	**6.4%**
Average:	**17.6%**	**7.6%**
SPY Return:	10.1%	

Performance of other Sabrient Model Portfolios

Gross performance thru 11/30/2019:

Portfolio	Launch Date	Portfolio Gross Return Since Launch	Benchmark Return Since Launch	Portfolio Gross Return Since 8/27/19	Benchmark Return Since 8/27/19
			SLYG		SLYG
SCG 20	9/26/18	-6.8%	-5.0%	**17.0%**	8.9%
SCG 21	12/21/18	27.6%	23.2%	**16.5%**	8.9%
SCG 22	3/18/19	0.4%	4.9%	**15.6%**	8.9%
SCG 23	6/17/19	9.4%	6.6%	**12.7%**	8.9%
			SPYD		SPYD
Dividend 22	2/2/18	7.3%	13.4%	**8.8%**	12.1%
Dividend 23	4/27/18	7.1%	14.1%	**13.0%**	12.1%
Dividend 24	7/25/18	4.0%	9.9%	**16.0%**	12.1%
Dividend 25	10/22/18	11.6%	11.6%	**14.0%**	12.1%
Dividend 26	1/16/19	8.5%	13.4%	**12.2%**	12.1%
Dividend 27	4/15/19	0.5%	3.0%	**14.1%**	12.1%
Dividend 28	7/12/19	-0.9%	2.4%	**11.4%**	12.1%
			SPY		SPY
Def Equity 18	11/29/18	11.1%	17.1%	**9.6%**	10.1%
Def Equity 19	2/27/19	3.3%	14.2%	**6.9%**	10.1%
Def Equity 20	5/24/19	6.8%	12.3%	**9.3%**	10.1%
Def Equity 21	8/21/19	4.1%	8.0%	**6.4%**	10.1%
Rising Rate 7	2/21/18	-9.6%	20.5%	**17.3%**	10.1%
Rising Rate 8	5/21/18	-3.3%	18.5%	**16.1%**	10.1%
Rising Rate 9	8/17/18	-6.8%	13.1%	**15.5%**	10.1%
Rising Rate 10	11/16/18	3.2%	17.2%	**19.9%**	10.1%
Rising Rate 11	5/15/19	6.7%	11.4%	**21.1%**	10.1%
Rising Rate 12	8/12/19	15.9%	9.6%	**20.4%**	10.1%

Despite relative weakness in small caps overall, the **Small Cap Growth** portfolios have performed mostly in-line with the S&P 600 Growth ETF (SLYG) but have significantly outperformed both YTD and especially since investor sentiment turned risk-on on 8/27/19.

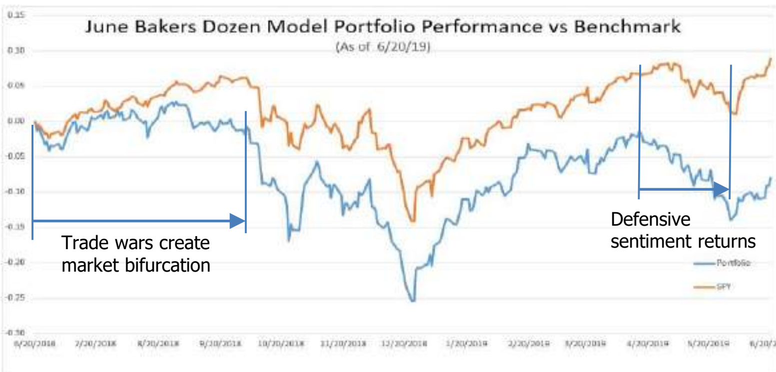
Although a GARP-orientation hurt them given the pervasive defensive sentiment of the past 18 months, the **Dividend** portfolios have kept pace with or outperformed the S&P 500 High Dividend ETF (SPYD) both YTD and since investor sentiment turned risk-on on 8/27/19.

Defensive Equity has more of a value orientation than the other portfolios, and the Value factor has badly trailed the Growth factor over most timeframes during the past few years.

Likewise, **Rising Rate** has a value bent given its high allocation to the Financials sector. These portfolios were doing well while interest rates were rising but began to significantly underperform when rates reversed. However, since investor sentiment turned risk-on on 8/27/19, rates have been rising and our Rising Rate portfolios have greatly outperformed.

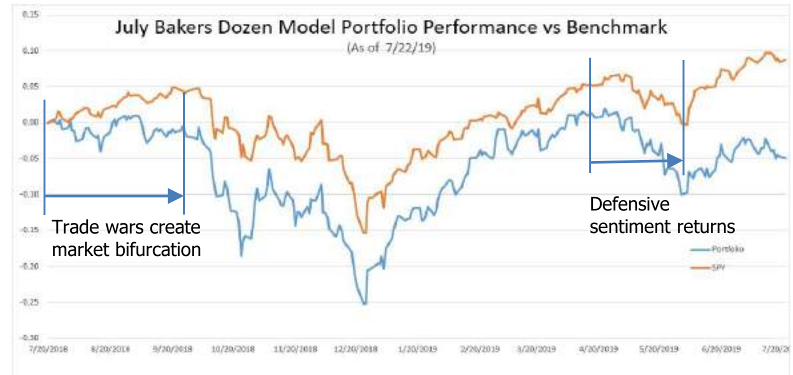
Jun–Aug 2018 *Baker's Dozens*

Performance hurt by two major risk-off rotations



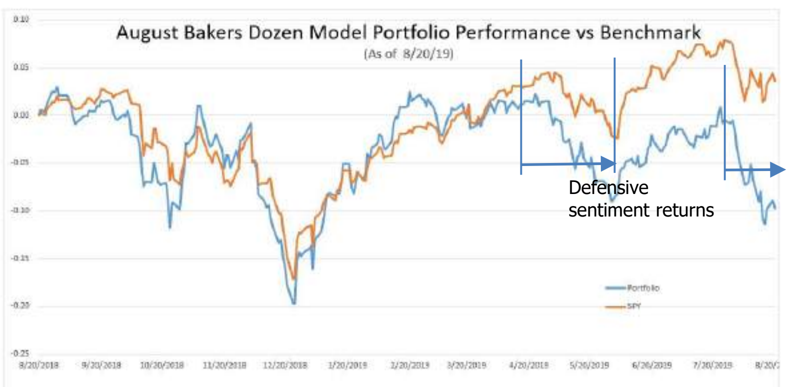
Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	6/20/2018	-8.01%	8.93%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	7/20/2018	-4.90%	8.71%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	8/20/2018	-9.73%	3.60%

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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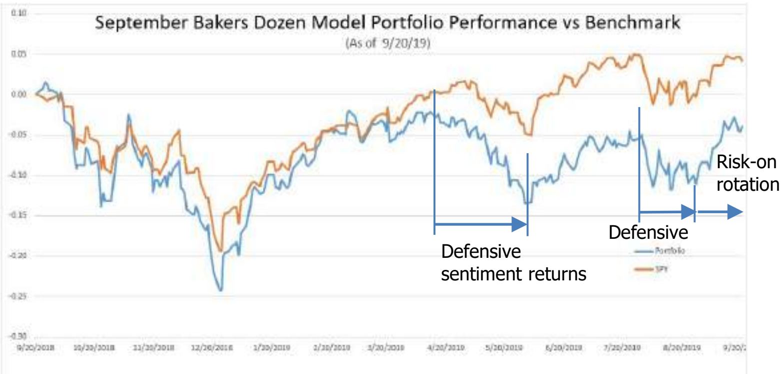
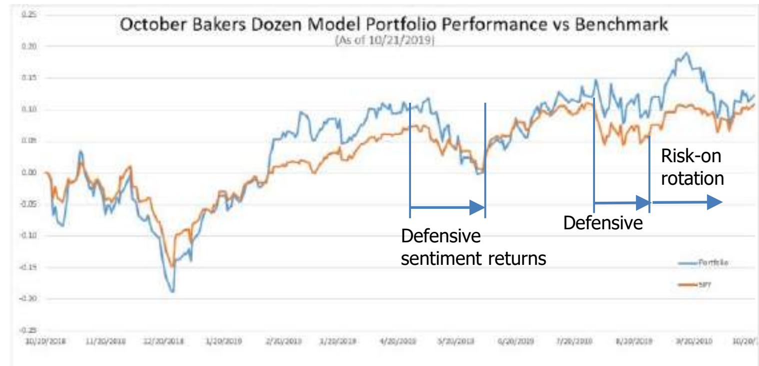
Sep–Nov 2018 *Baker's Dozens*

Defensive sentiment reigns, but with glimpses of risk-on optimism



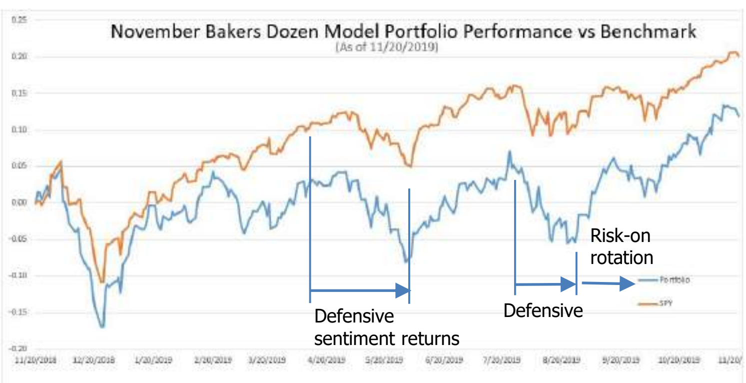
Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	9/20/2018	-3.99%	4.19%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	10/20/2018	12.28%	10.87%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	11/20/2018	11.89%	20.07%

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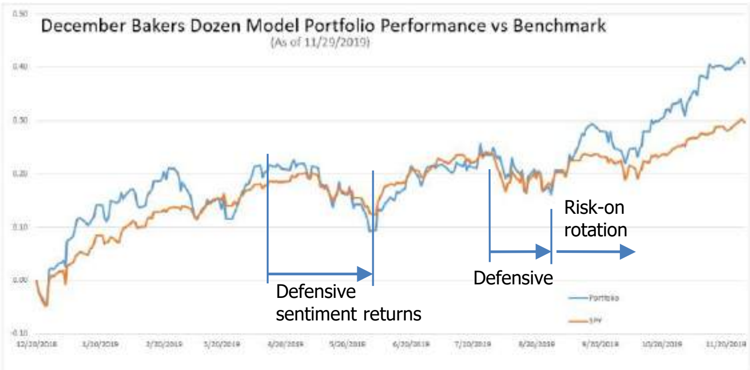
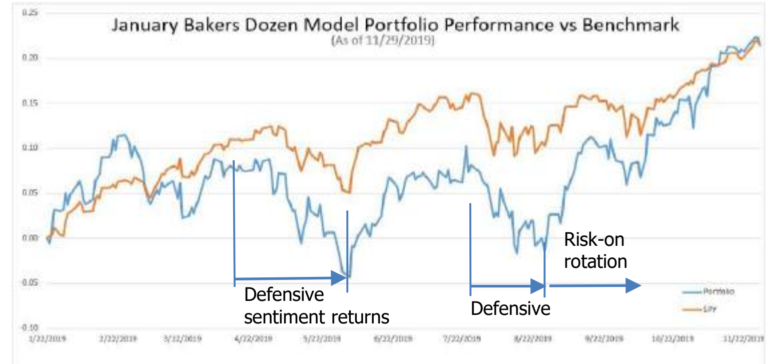
Dec–Feb 2019 *Baker's Dozens*

Defensive sentiment persists, but with glimpses of risk-on optimism



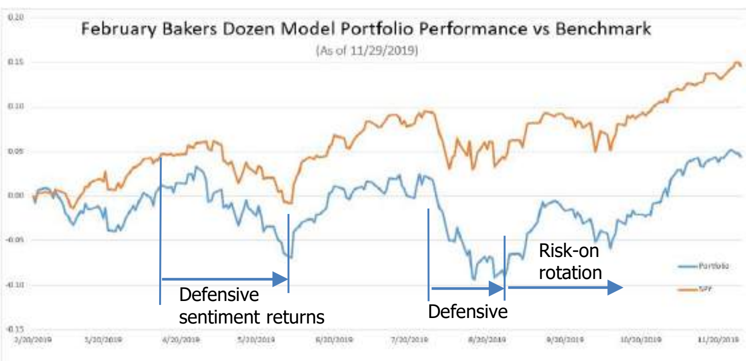
Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	12/20/2018	40.75%	29.74%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	1/22/2019	21.50%	21.41%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	2/20/2019	4.43%	14.56%

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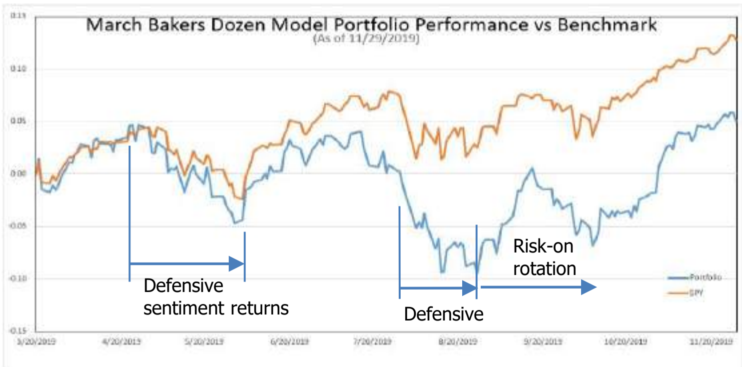
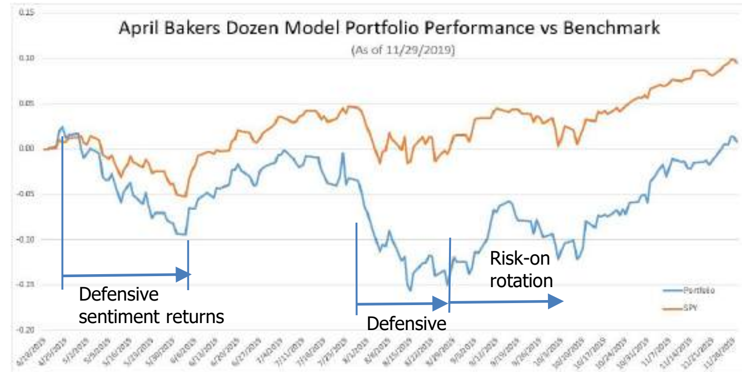
Mar–May 2019 *Baker's Dozens*

Defensive sentiment persists, but with glimpses of risk-on optimism



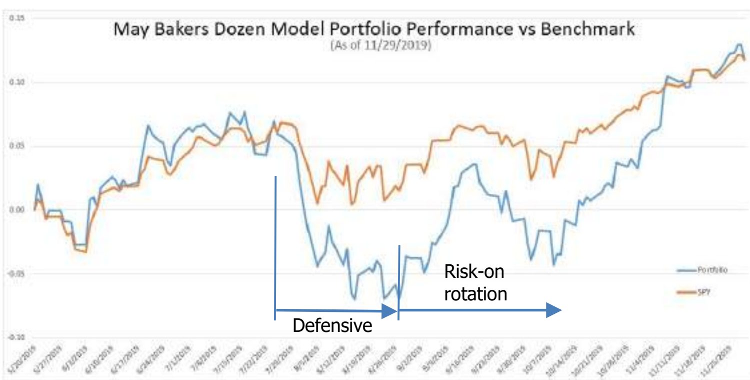
Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	3/20/2019	5.03%	12.76%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	4/18/2019	0.78%	9.47%



Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	5/20/2019	11.91%	11.76%

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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 war rhetoric rises; P/E multiples contract

Market Conditions: 2H2018—Current

- **2H 2018** – trade war rhetoric becomes reality; defensive rotation begins
  - ✓ Tariffs and trade war with China escalate; FOMC on "autopilot" tightening
  - ✓ Rotation <u>out of risk-on</u> sectors (cyclicals, small caps, Intl, emerging markets)
  - ✓ Rotation <u>into risk-off</u> defensive sectors (large cap Utilities, Healthcare, Staples, Telecom) and mega-caps (AAPL, MSFT, AMZN) … until the <u>Q4 selloff</u>
- **1H 2019** – market recovers, with some flashes of readiness for risk-on
  - ✓ China trade negotiations resume; FOMC dovish ("Fed put"); low interest rates
  - ✓ Nevertheless, P/E multiples expand (SP500 at 17x) amid persistent preference for momentum, growth, and low-volatility factors, Treasury bonds and "bond proxy" defensive sectors – over value, small-mid caps, and cyclical sectors
- **Sep-Nov 2019** – <u>sustained</u> risk-on rotation into value/cyclical/small-mid

18 months of Sector Performance by Market Cap

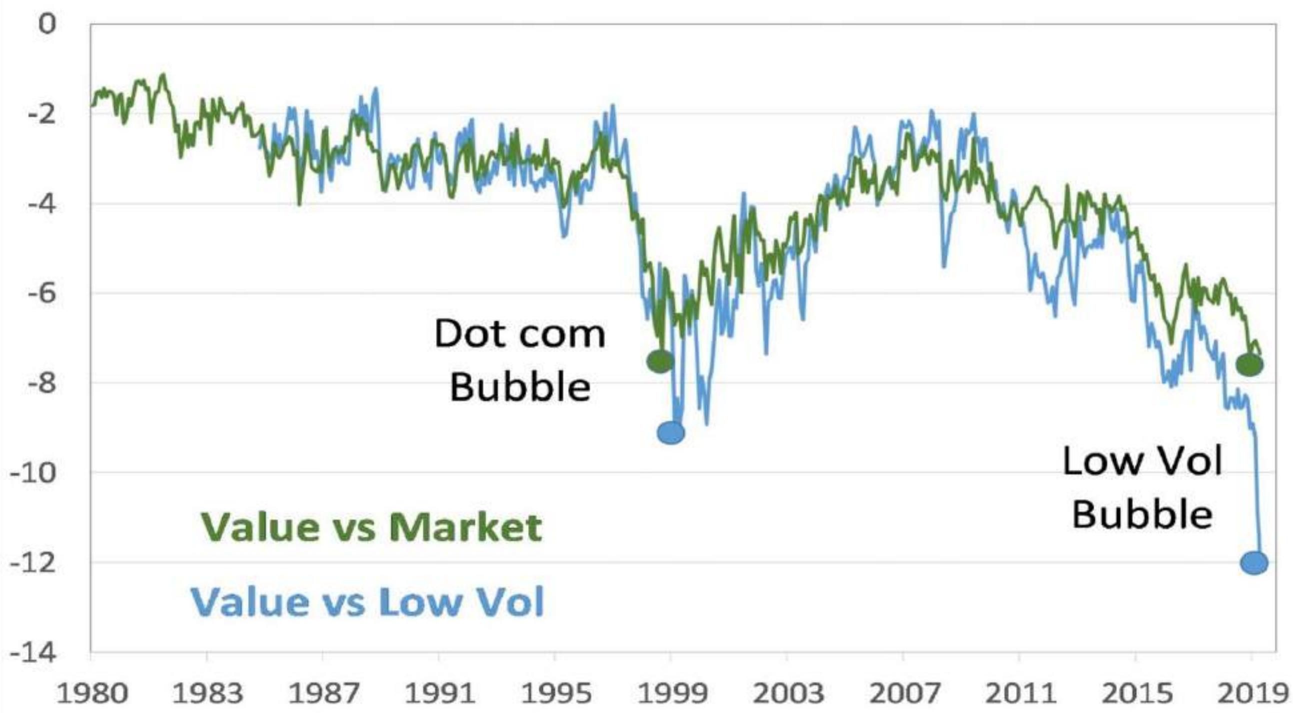
since tariffs were announced 3/8/18, as published by First Trust Advisors

Large-, Mid- & Small-Cap Cumulative Total Returns *(3/8/18-8/26/19)*

Category	S&P 500 Index	S&P MidCap 400 Index	S&P SmallCap 600 Index
Index	8.18%	-1.13%	-3.16%
Comm. Services	8.66%	10.56%	7.13%
Consumer Disc.	13.46%	-8.33%	-3.22%
Consumer Staples	15.99%	-0.31%	2.86%
Energy	-12.10%	-44.89%	-52.58%
Financials	-6.33%	-9.79%	-3.19%
Health Care	7.86%	11.20%	0.84%
Industrials	-1.10%	-1.51%	-2.98%
Info. Tech.	16.07%	7.59%	2.95%
Materials	-5.63%	-15.24%	-23.20%
Real Estate	33.44%	16.71%	16.63%
Utilities	32.95%	30.49%	34.19%

Source: Bloomberg. Past performance is no guarantee of future results.
As of 9/28/18, the Global Industry Classification Standard (GICS) was reconstituted and the Telecommunications Services sector was renamed Communication Services. GICS sector information for periods prior to 9/28/18 may not necessarily be comparable to the reconstituted sectors.

Historic "Bubble" in Relative Valuation



Source: JPMorgan

JP Morgan quant strategist Marko Kolanovic sees:

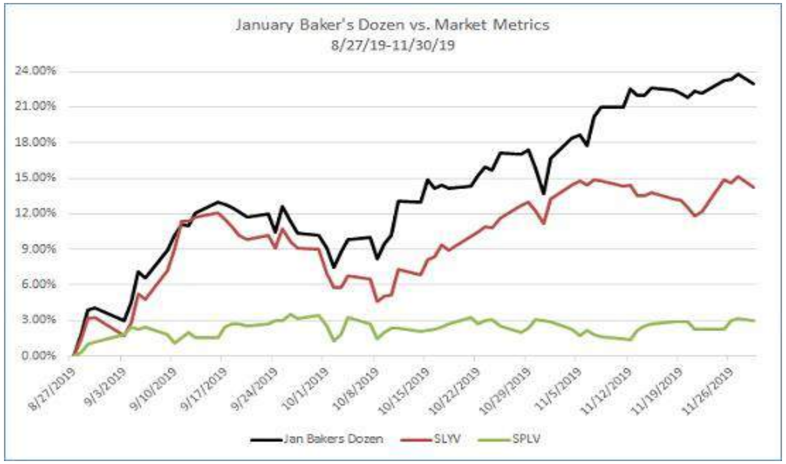
1. a "once in a decade opportunity" to position for convergence of the historic divergence between **value/cyclical** stocks and **low volatility/defensive** stocks, which is *more significant than any stock market relative valuation bubble in modern history*
2. The main beneficiaries of a re-convergence should be small caps, oil and gas, materials, and those with generally low P/E and P/B ratios

Rotation to Value/Cyclicals/Small-cap

Could this be signaling the bursting of Low-volatility/Defensive bubble?

8/20/17 – 6/11/18:
Risk-on rotation in anticipation of fiscal stimulus bill (tax cuts) leads to outperformance of theoretical rolling January *Baker's Dozen* and Small-cap Value (SLYV) over risk-off/defensive Large-cap Low Volatility (SPLV)

6/11/18 – 8/27/19:
Risk-off rotation from escalating trade war leads to big outperformance of defensive Large-cap Low Volatility (SPLV) over rolling January *Baker's Dozen* and Small-cap Value (SLYV) – creating an historic relative valuation bubble



8/27/19 – Current:
Nascent **risk-on rotation** leads to big outperformance of theoretical rolling January *Baker's Dozen* portfolio and Small-cap Value (SLYV) over Large-cap Low Volatility (SPLV)

November 2018 Baker's Dozen Model Portfolio

Launch date (11/20/2018) compared to current (11/30/2019)

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
NMIH	NMI Holdings, Inc.	74.4%	9.4	10.7	47.2%	63.4%
AMWD	American Woodmark Corporation	59.6%	7.9	12.9	39.0%	18.3%
KEM	KEMET Corporation	41.7%	4.9	16.5	61.1%	50.6%
POST	Post Holdings, Inc.	14.4%	18.2	21.2	23.7%	21.8%
XPO	XPO Logistics, Inc.	9.3%	18.3	18.7	37.7%	25.9%
CF	CF Industries Holdings, Inc.	4.9%	16.7	18.6	186.6%	97.2%
AIR	AAR Corp.	2.9%	15.6	16.4	46.0%	34.9%
MPC	Marathon Petroleum Corporation	-1.6%	8.6	8.3	45.7%	11.9%
TBK	Triumph Bancorp, Inc.	-2.3%	12.1	14.9	62.2%	20.9%
HFC	HollyFrontier Corporation	-11.0%	7.7	10.3	64.7%	35.7%
MCY	Mercury General Corporation	-14.3%	15.6	16.9	67.4%	-3.6%
UFS	Domtar Corporation	-14.7%	7.8	18.5	59.0%	25.1%
EOG	EOG Resources, Inc.	-30.8%	15.3	15.1	38.6%	-2.6%
	Average	**10.2%**	**12.2**	**15.3**	**59.9%**	**30.7%**
SPY	SPDR S&P 500 ETF Trust	20.3%				

Best performers from Consumer, Consumer Finance, and Technology

Worst performers from deep cyclical sectors Energy, Materials, Financial

The portfolio in aggregate has only produced about half the expected earnings, and only one holding (the top performing NMIH) beat estimates, although relative performance has been improving over the past few months.

December 2018 Baker's Dozen Model Portfolio

Launch date (12/20/2018) compared to current (11/30/2019)

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
NMIH	NMI Holdings, Inc.	97.9%	8.0	10.7	47.1%	63.4%
SAIA	Saia, Inc.	72.4%	12.4	18.6	24.6%	27.0%
CELG	Celgene (acquired 11/20/19 by BMY)	62.2%				
KEM	KEMET Corporation	60.1%	4.4	16.5	61.1%	50.6%
BYD	Boyd Gaming Corporation	43.5%	12.5	15.1	36.7%	31.1%
WCG	WellCare Health Plans, Inc.	43.4%	17.9	20.3	30.5%	54.2%
CMC	Commercial Metals Company	32.0%	8.4	9.2	30.4%	36.5%
TBK	Triumph Bancorp, Inc.	23.3%	9.7	14.9	61.8%	20.9%
AIR	AAR Corp.	23.1%	13.9	16.4	30.4%	20.2%
CF	CF Industries Holdings, Inc.	11.9%	16.2	18.6	172.7%	97.2%
DAL	Delta Air Lines, Inc.	11.5%	8.2	8.2	20.8%	31.5%
MPC	Marathon Petroleum Corporation	6.0%	8.3	8.3	39.7%	11.9%
PXD	Pioneer Natural Resources Company	-1.4%	14.3	14.7	46.0%	10.2%
	Average	**37.4%**	**11.2**	**14.3**	**50.1%**	**37.9%**
SPY	SPDR S&P 500 ETF Trust	28.6%				

This portfolio launched shortly before the 12/24/18 Christmas Eve market capitulation. Although the portfolio has fallen somewhat short of estimates, improving guidance and investor sentiment has boosted the value factor and cyclical sectors, propelling outperformance.

Market Outlook (implicit in our rankings)

1. Global growth improves; Resurgent US corp earnings, buybacks, CapEx
2. Fiscal stimulus & deregulation; some resolution to trade war
3. Ramp-up in capital spending & guidance once trade war is settled
4. Modest inflation and low interest rates persist; Supportive Federal Reserve
5. Valuations fine relative to interest rates (e.g., Fed Model; Divs+Buybacks)
6. Cyclicals and small-mid caps are most attractively valued
7. High-quality dividend payers also appealing, as interest rates stay low

- **Major Risks:**
  - (1) Escalation in trade wars, tariffs, and protectionism *(risk is elevated but stable)*
  - (2) Quantitative tightening by Federal Reserve *(risk is low)*
  - (3) Election/political uncertainty: e.g., socialism, impeachment *(market ignoring for now)*
  - (4) Deleveraging a heavily-indebted global economy *(a longer-term issue)*

Baker's Dozen Portfolio – November 2019

Statistics upon launch on 11/20/19

Ticker	Company Name	Industry	Mkt Cap ($B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield
AIZ	Assurant	Multi-line Insurance	8.0	33.1%	14.2	0.43	1.9%
ALK	Alaska Air Group	Airlines	8.6	21.1%	10.1	0.48	2.0%
AMD	Advanced Micro Devices	Semiconductors	46.0	166.5%	38.7	0.23	0.0%
ANTM	Anthem	Managed Health Care	74.2	22.8%	13.3	0.58	1.1%
CHTR	Charter Communications	Cable and Satellite	102.9	110.2%	41.2	0.37	0.0%
ENVA	Enova International	Consumer Finance	0.7	28.4%	5.0	0.17	0.0%
ERIC	Ericsson	Communications Equipment	29.1	37.8%	19.2	0.51	0.0%
KBH	KB Home	Homebuilding	3.1	30.5%	10.7	0.35	1.0%
MGM	MGM Resorts	Casinos and Gaming	16.4	68.7%	22.0	0.32	1.6%
MPC	Marathon Petroleum	Oil and Gas Refining and Marketing	40.2	30.8%	8.3	0.27	3.3%
NMIH	NMI Holdings	Thrifts and Mortgage Finance	2.3	31.4%	11.0	0.35	0.0%
TPX	Tempur Sealy	Home Furnishings	4.6	41.5%	17.0	0.41	0.0%
VLO	Valero Energy	Oil and Gas Refining and Marketing	40.1	71.0%	10.5	0.15	3.6%
		Average:	28.9	53.4%	17.0	0.32	1.1%

Talking Points Summary

- Model-driven, bottom-up, *"quantamental"* GARP selection process with forensic accounting review => *Tends to outperform when fundamentals matter to investors*
- 10-year outperformance (despite 4 big drawdowns: 1Q2009, mid-2011, 2H2015, 2H2018)
- June 2018 – escalating trade war with China and hawkish Fed led to risk-off rotation into defensive sectors, low-volatility, momentum, and large caps at the expense of cyclical sectors, value, and small-mid caps that typically lead a rising market in a solid economy – ending in a 4Q2018 selloff
- But forward outlook has held up while prices fell in risk-on segments, so valuations became more attractive, leading to numerous attempts at risk-on recoveries
- May and Aug 2019 saw big risk-off rotations into Treasuries and "bond proxy" defensive sectors due to trade war uncertainty holding back capital spending => historic relative valuation divergence of low-volatility/defensive/large cap over value/cyclical/small-mid cap
- But cyclicals have shown readiness for recovery given dovish Fed, China trade talks, and US economic strength led by strong consumer => *Bodes well for Sabrient's portfolios*
- 8/27/19 started a promising risk-on recovery in small caps, value, and cyclical sectors
- *Introduced to model the new* ***Growth Quality Rank (GQR)*** *as an enhancement*
- What can go wrong for Sabrient?
  - (1) Outlook for revenues & earnings changes negatively *(revs still solid, but earnings lower)*
  - (2) Investors ignore fundamentals *(has happened starkly => news-driven, risk-off trading)*

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. **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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