Baker's Dozen Monthly Portfolios

plus Dividend, Rising Rate, Defensive Equity, Small Cap Growth

"Quantamental" GARP approach
with a forensic accounting overlay

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Sabrient Systems LLC
Quantitative equity research, rankings, strategies

Gradient Analytics LLC
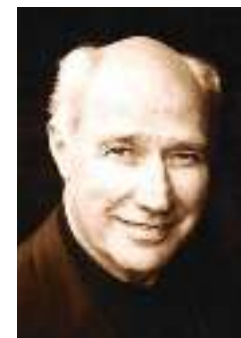*Fundamental forensic accounting research*

Talking Points Summary

➢ Our 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 news-driven drawdowns: 1Q2009, mid-2011, 2H2015, 2H2018)

➢ 6/11/2018 – escalating trade war with China and hawkish Fed led to risk-off rotation into defensive sectors and mega-caps despite little change in strong fundamental outlook

➢ Market bifurcated 6/11/18–9/20/18 as S&P 500 rose while cyclical sectors and small-mid caps fell, before the broad market ultimately sold off in 4Q2019

➢ But forward guidance *has held up* while prices *have fallen* in risk-on segments, so valuations are much more attractive => *buying opportunity, in our view*

➢ Risk-on recovery after Christmas Eve capitulation day (12/24/18–4/16/19) was led by cyclicals and smaller caps – *most of 2018 Baker's Dozen portfolios outperformed* in that timeframe

➢ 4/16/19 – start of another risk-off rotation into Treasuries and dividend-paying defensive sectors (e.g., Utilities, REITs, Staples) at the expense of cyclicals and small caps

* Note: **GARP** = "Growth At a Reasonable Price" (growth/value hybrid)

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- **<u>Quantitative</u>** 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

➢ **Fundamental** 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

   [Also, it is 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. <u>Quant</u>itative screen to narrow large eligible universe
(Forward P/E, Forward EPS growth, dynamics of analyst estimates, EQR)

2. Fund<u>amental</u> 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**

Baker's Dozen Long-term Performance

January Model Portfolio (gross total return) – rebalanced when new portfolio is published
(1/1/2009 inception thru 3/31/2018, <u>end-of-month</u> data points)

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

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%	-4.57%
2019 YTD	10.3%	13.5%

Gross Performance: 10.25 yrs	
Statistics	**2009-2019**
Annualized Return	20.0%
Average SPY	14.1%
Excess over SPY	5.9%
Standard Deviation	16.4%
Sharpe	1.22
Alpha	3.59
Beta	1.16
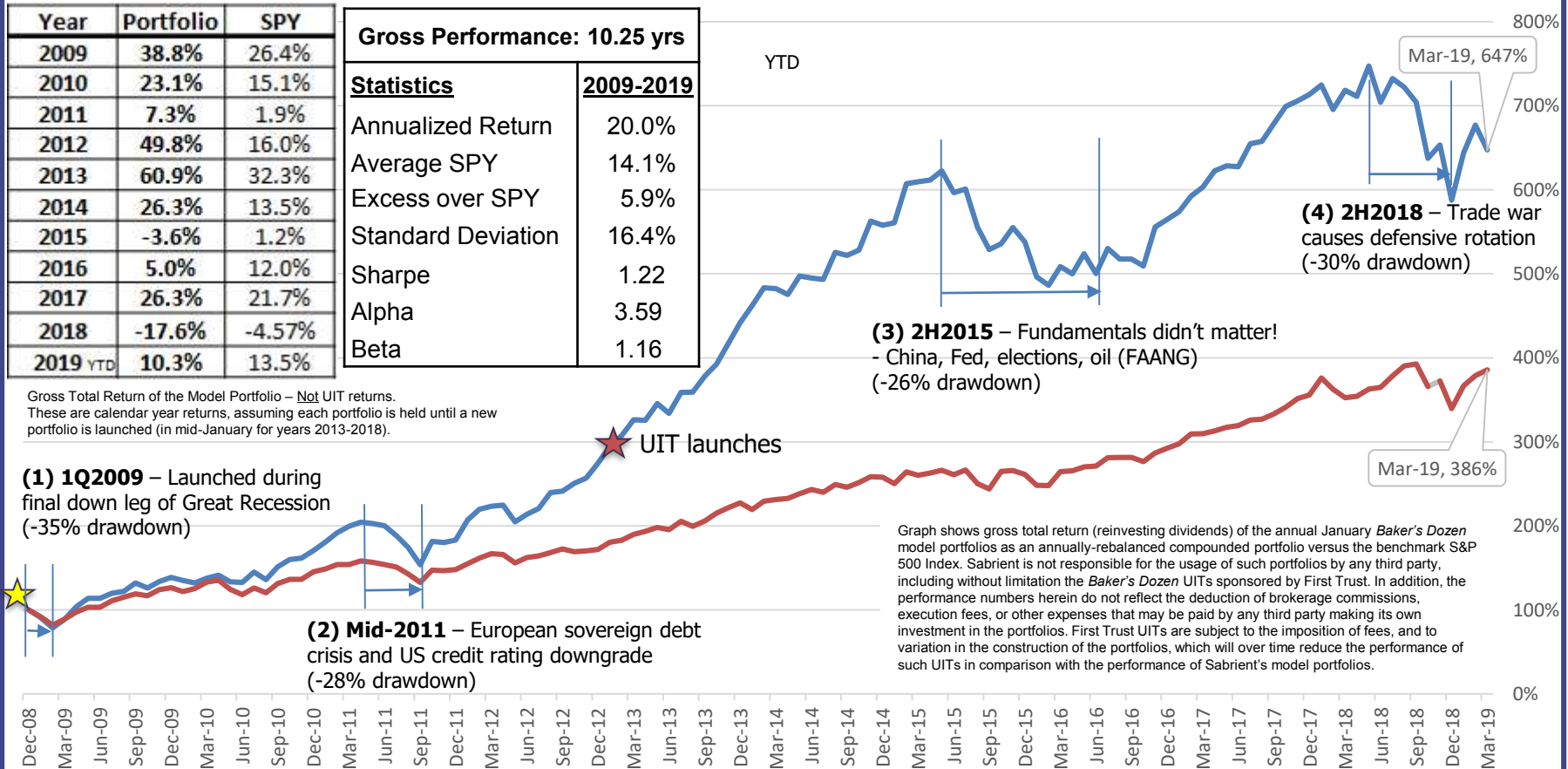
Gross Total Return of the Model Portfolio – <u>Not</u> UIT returns.
These are calendar year returns, assuming each portfolio is held until a new
portfolio is launched (in mid-January for years 2013-2018).

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

★ UIT launches

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

(3) 2H2015 – Fundamentals didn't matter!
- China, Fed, elections, oil (FAANG)
(-26% drawdown)

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

Mar-19, 647%

Mar-19, 386%

YTD

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
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Jan–May 2017 *Baker's Dozens*
Outperformance for all portfolios that terminated before 6/11/2018

January Bakers Dozen Model Portfolio Performance vs Benchmark

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	1/17/2017	51.04%	25.79%	15.00%

April Bakers Dozen Model Portfolio Performance vs Benchmark

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	4/26/2017	25.92%	15.45%	11.74%

Note: April 2017 was the first of the new monthly *Baker's Dozens*. No portfolios were published in February or March 2017.

May Bakers Dozen Model Portfolio Performance vs Benchmark

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	5/19/2017	28.27%	16.90%	13.99%

Graphs display Gross Total Return of the Model Portfolios – <u>Not</u> 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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Jun–Aug 2017 *Baker's Dozens*

Outperformance begins to be impacted by June 2018 risk-off rotation

June Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars escalate!

Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP
Launch 6/26/2017		21.80%	14.95%	14.68%

July Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars escalate!

Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP
Launch 7/26/2017		18.30%	15.55%	14.05%

August Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars escalate!

Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP
Launch 8/24/2017		22.90%	16.00%	19.50%

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Sep–Nov 2017 *Baker's Dozens*
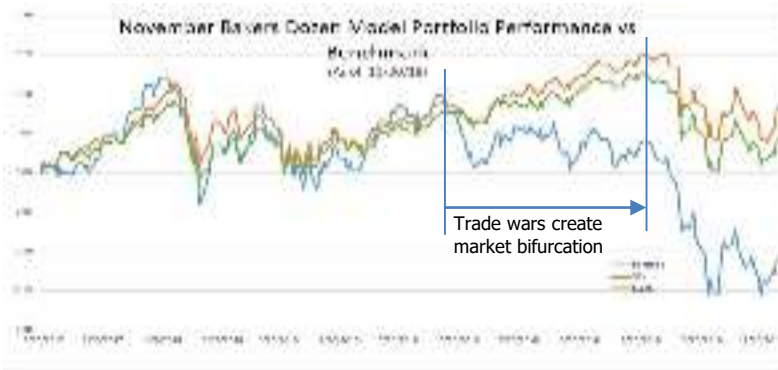## Performance hurt by June 2018 risk-off rotation

September Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation
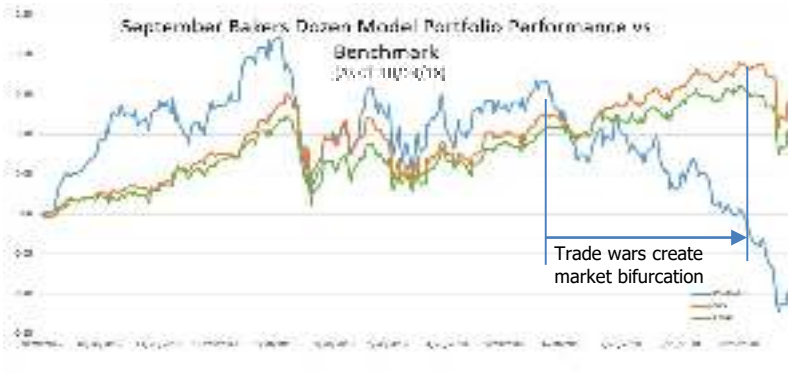
Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	9/20/2017	-12.75%	12.48%	8.29%

October Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	10/20/2017	-14.98%	9.39%	5.75%

November Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	11/20/2017	-10.93%	4.87%	1.62%

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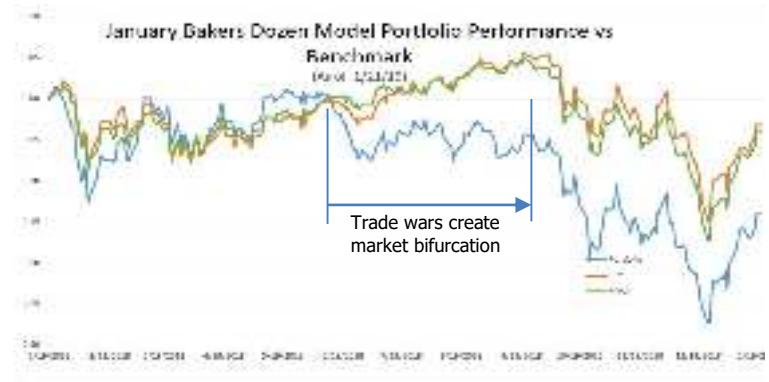
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Dec 2017–Feb 2018 *Baker's Dozens*

## Performance hurt by June 2018 risk-off rotation

December Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	12/20/2017	-21.62%	-8.17%	-11.15%

January Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation

Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	1/19/2018	14.10%	3.17%	4.03%

February Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation
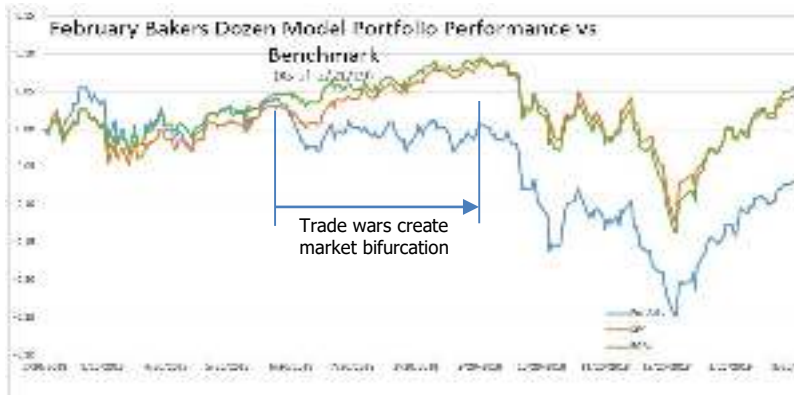
Total Returns Thru Current

Event	Date	Portfolio	SPY	EQAL
Launch	2/20/2018	-7.10%	4.10%	3.20%

Graphs display Gross Total Return of the Model Portfolios – <u>Not</u> 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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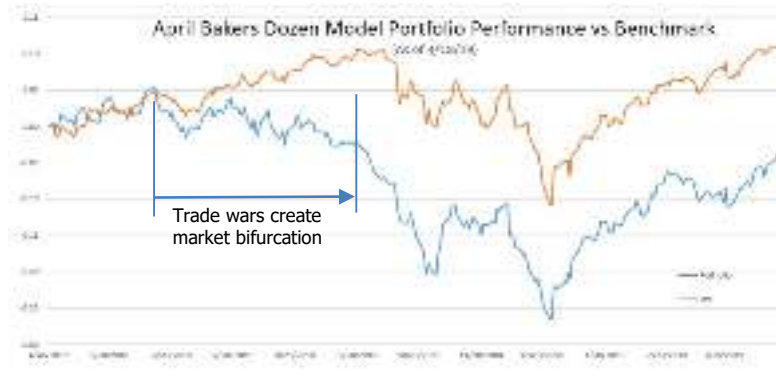
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11

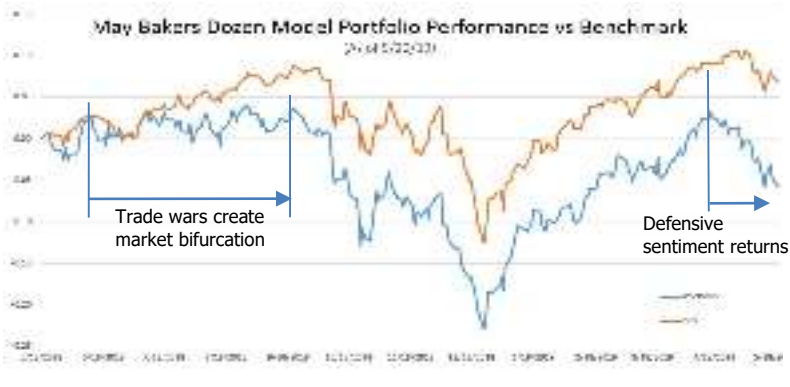# Mar–May 2018 *Baker's Dozens*
Performance hurt by June 2018 risk-off rotation

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Jun–Aug 2018 *Baker's Dozens*
Hurt by risk-off rotations in 2H2018 and 2Q2019

June Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation

Defensive sentiment returns

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	6/20/2018	-10.56%	5.86%

July Bakers Dozen Model Portfolio Performance vs Benchmark

Trade wars create market bifurcation

Defensive sentiment returns

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	7/20/2018	-9.87%	4.44%

August Bakers Dozen Model Portfolio Performance vs Benchmark

Defensive sentiment returns

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	8/20/2018	4.82%	2.24%

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Sep–Dec 2018 *Baker's Dozens*
Hurt by risk-off rotations in 2H2018 and 2Q2019

September Bakers Dozen Model Portfolio Performance vs Benchmark

Defensive sentiment returns

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	9/20/2018		

December Bakers Dozen Model Portfolio Performance vs Benchmark

Defensive sentiment returns

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch			

November Bakers Dozen Model Portfolio Performance vs Benchmark

Defensive sentiment returns

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	11/20/2018		

December Bakers Dozen Model Portfolio Performance vs Benchmark

Defensive sentiment returns

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	12/20/2018		

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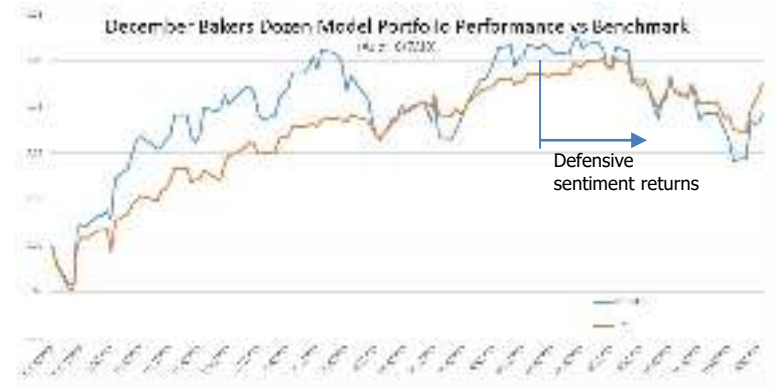
June 2018 *Forward-Looking Value*

35 GARP stocks; 15-month hold

Foward Looking Value Model Portfolio Performance vs Benchmark
(As of 6/7/19)

Trade wars create market bifurcation

Defensive sentiment returns
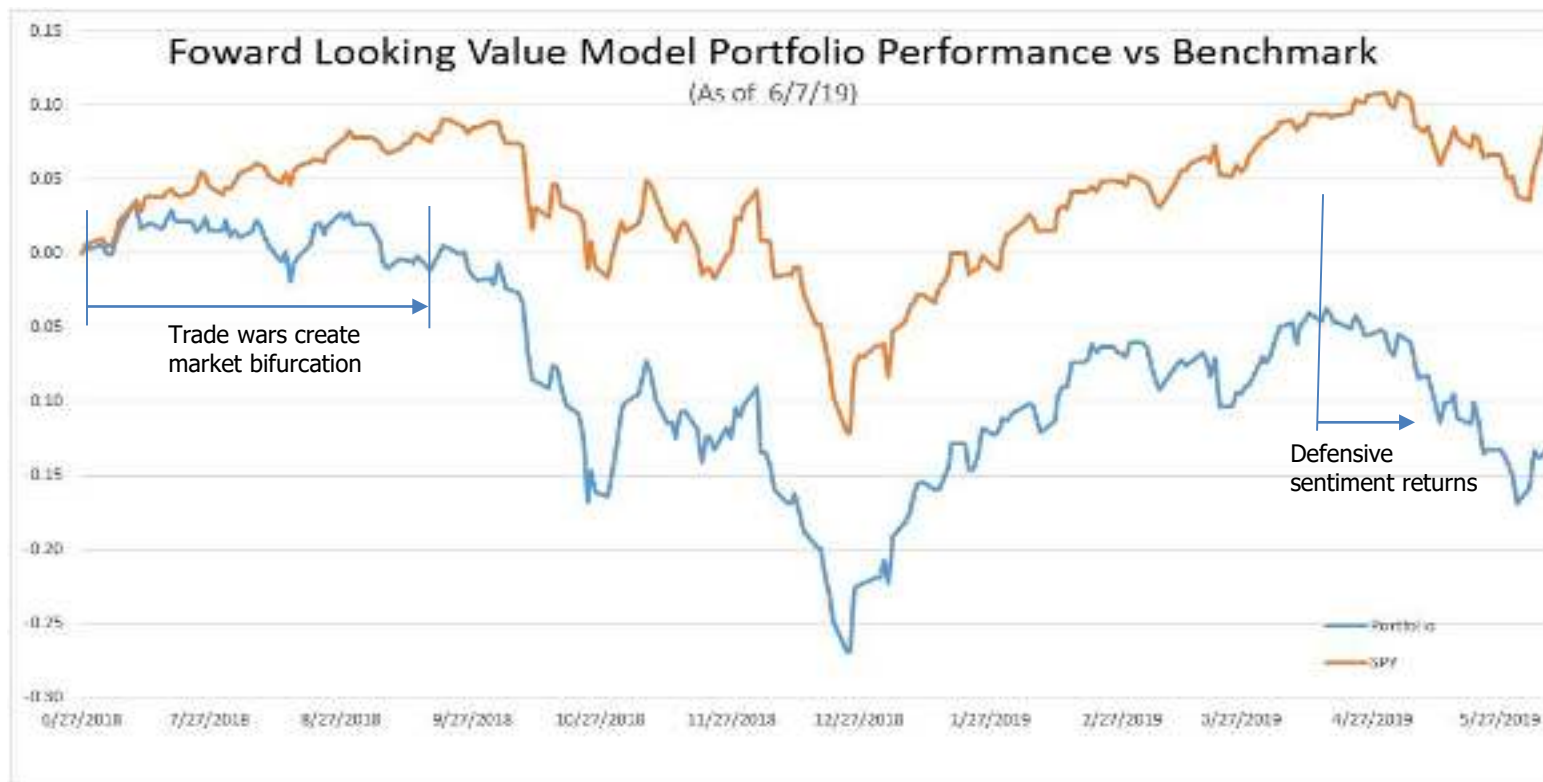
Graph display Gross Total Return of the Model Portfolios – Not UIT returns. Sabrient tracks model performance from closing prices on launch date to closing prices 12 months + 1 day later, when the new portfolio launches.

Total Returns Thru Current

Event	Date	Portfolio	SPY
Launch	6/27/2018	-13.24%	8.52%

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2018 Monthly *Baker's Dozens*: Performance vs SPY
During the risk-on recovery after Christmas Eve selloff:
12/24/18—4/16/19 (before market again rotated defensive)

Baker's Dozen Monthly Portfolios	Gross Absolute Portfolio Return	Thru date	SPY Return	Gross Excess Return vs. SPY
Jan-18 - Closed	26.4%	2/20/19	18.8%	7.6%
Feb-18 - Closed	20.3%	3/20/19	20.7%	-0.4%
Mar-18 - Closed	25.7%	4/22/19	24.5%	1.2%
Apr-18	30.9%	4/16/19	24.4%	6.5%
May-18	33.6%	4/16/19	24.4%	9.2%
Jun-18	32.0%	4/16/19	24.4%	7.6%
Jul-18	35.5%	4/16/19	24.4%	11.1%
Aug-18	25.7%	4/16/19	24.4%	1.3%
Sep-18	28.8%	4/16/19	24.4%	4.4%
Oct-18	36.8%	4/16/19	24.4%	12.4%
Nov-18	24.2%	4/16/19	24.4%	-0.2%
Dec-18	26.5%	4/16/19	24.4%	2.1%

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January 2018 Baker's Dozen

Prices fell even though EPS was better than expected

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
CAT	Caterpillar Inc.	21.4	11.4	42.4%	94.8%
COG	Cabot Oil & Gas	34.4	13.4	95.5%	92.7%
CVX	Chevron	22.7	18.2	81.2%	113.8%
FMC	FMC Corp	19.0	15.6	75.7%	111.1%
IQV	IQVIA Holdings	19.4	22.2	37.7%	45.5%
LRCX	Lam Research	13.8	13.2	28.3%	53.3%
MPC	Marathon Petroleum	13.7	9.8	58.4%	54.1%
ON	ON Semiconductor	15.4	12.2	49.6%	69.9%
PGR	The Progressive	17.8	14.5	40.1%	99.2%
PHM	PulteGroup	11.9	8.7	39.7%	62.9%
WLK	Westlake Chemical	14.3	10.8	49.9%	66.8%
WYNN	Wynn Resorts	27.2	21.4	45.4%	55.6%
XPO	XPO Logistics	33.0	13.9	63.5%	69.4%
Average		**20.3**	**14.3**	**54.4%**	**76.1%**

<= Best performer from defensive Healthcare sector

<= Worst performer from cyclical Industrial sector

=> 40% better growth than expected, but P/E fell 30% (as of 2/26/2019)

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February 2018 Baker's Dozen

Prices fell even though EPS was better than expected

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth	
CMA	Comerica	15.0	10.5	38.4%	53.6%	
COG	Cabot Oil & Gas	29.8	13.4	95.6%	92.7%	
CVX	Chevron	16.7	18.2	81.2%	117.5%	
FMC	FMC Corp	15.2	15.7	87.8%	115.4%	
LUV	Southwest Airlines	11.6	10.5	43.0%	21.7%	
ON	ON Semiconductor	9.6	12.2	48.0%	67.0%	
PHM	PulteGroup	12.5	8.7	38.8%	61.4%	
STLD	Steel Dynamics	16.8	9.0	49.0%	107.2%	
STM	STMicroelectronics N.V.	13.0	14.9	42.4%	54.1%	
TMUS	T-Mobile US	16.7	18.8	63.1%	53.6%	<= Best performer from defensive Telecom sector
TRV	The Travelers Companies	13.1	12.0	48.5%	23.0%	
URI	United Rentals	11.3	7.0	40.5%	54.0%	
XPO	XPO Logistics	27.3	13.9	72.6%	64.9%	<= Worst performer from cyclical Industrial sector
Average		**16.0**	**12.7**	**57.6%**	**68.2%**	

=>   18% better growth than expected, but P/E fell 20% (as of 2/26/2019)

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March 2018 Baker's Dozen
Prices fell even though EPS was within 5% of expectations

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
ANDV	Andeavor (acquired)				
COG	Cabot Oil & Gas Corporatio	21.5	13.8	114.2%	128.3%
EXTR	Extreme Networks, Inc.	11.6	13.7	88.5%	0.0%
HII	Huntington Ingalls Industri	14.7	14.4	42.4%	57.3%
LUV	Southwest Airlines Co.	12.1	11.0	42.6%	21.7%
OLN	Olin Corporation	14.3	13.1	124.8%	101.4%
ON	ON Semiconductor Corpor	14.7	12.3	48.1%	67.0%
PHM	PulteGroup, Inc.	9.4	9.1	39.5%	61.4%
RYAM	Rayonier Advanced Materi	10.4	11.4	104.5%	81.9%
STLD	Steel Dynamics, Inc.	11.3	9.0	52.5%	107.2%
TEX	Terex Corporation	15.2	8.6	82.5%	95.7%
TRV	The Travelers Companies,	13.0	12.2	48.5%	23.0%
USFD	US Foods Holding Corp.	16.8	16.0	48.7%	47.1%
Average		**13.7**	**12.1**	**69.7%**	**66.0%**

Best performer from <= Energy sector

<= Worst performer is from Technology sector

=> growth close to forecasts, but P/E fell 12% (as of 4/18/2019)

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19

April 2018 Baker's Dozen

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
BLDR	Builders FirstSource, Inc.	10.7	8.5	41.0%	50.4%
CMC	Commercial Metals Compa	11.3	7.2	92.8%	55.2%
COG	Cabot Oil & Gas Corporatic	21.1	13.4	110.3%	167.7%
CVX	Chevron Corporation	19.1	13.7	74.8%	74.4%
EXTR	Extreme Networks, Inc.	10.2	11.1	88.5%	-22.2%
NGHC	National General Holdings	11.5	9.5	120.2%	108.9%
OLN	Olin Corporation	14.7	10.4	121.6%	119.9%
PATK	Patrick Industries, Inc.	12.5	11.3	45.1%	29.8%
PHM	PulteGroup, Inc.	9.2	9.4	39.5%	43.4%
POST	Post Holdings, Inc.	16.3	21.7	62.5%	46.6%
RYAM	Rayonier Advanced Materi	11.5	11.6	102.9%	81.9%
TEX	Terex Corporation	15.7	8.1	81.6%	60.8%
USFD	US Foods Holding Corp.	16.6	16.7	49.4%	47.1%
Average		**13.9**	**11.7**	**79.3%**	**66.5%**

EXTR: <= Worst performer from cyclical Technology sector

POST: <= Best performer from defensive Consumer Staples

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May 2018 Baker's Dozen

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth	
CMC	Commercial Metals	12.5	6.4	94.4%	55.2%	
COG	Cabot Oil & Gas	18.4	13.0	105.0%	167.7%	
COP	ConocoPhillips	19.2	12.8	118.2%	167.8%	
FMC	FMC Corporation	14.5	13.3	54.2%	49.8%	
GTN	Gray Television, Inc.	6.3	11.3	53.2%	49.4%	<= Best performer from defensive Communications Services sector
OLN	Olin Corporation	13.9	11.8	158.7%	119.9%	
PHM	PulteGroup, Inc.	8.9	9.6	33.9%	43.4%	
POST	Post Holdings, Inc.	15.4	19.6	44.2%	31.3%	
STLD	Steel Dynamics, Inc.	10.2	7.7	81.6%	95.0%	<= Worst performer from cyclical Materials sector
TEX	Terex Corporation	13.4	7.1	66.4%	60.8%	
TRV	The Travelers Companies	11.9	13.1	44.7%	23.0%	
WGO	Winnebago Industries	10.3	9.6	40.1%	27.8%	
XPO	XPO Logistics	29.2	14.7	61.8%	37.8%	
Average		**14.2**	**11.5**	**73.6%**	**71.5%**	

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June 2018 Baker's Dozen

Ticker	Company Name	Original Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth	
ARCB	ArcBest Corporation	16.7	7.8	52.2%	100.0%	<= Worst performer 1 from cyclical Industrials sector
CMA	Comerica Incorporated	13.4	8.5	35.1%	48.7%	
CMC	Commercial Metals	12.2	6.4	96.5%	55.2%	
COG	Cabot Oil & Gas	18.8	13.0	103.8%	167.7%	
COP	ConocoPhillips	15.9	12.8	145.1%	167.8%	Worst performer 2
MRC	MRC Global Inc.	20.0	16.1	292.2%	128.9%	from cyclical
MU	Micron Technology	4.9	9.3	33.9%	27.5%	<= Technology sector
NGHC	National General	11.8	8.9	86.2%	80.8%	
NMIH	NMI Holdings, Inc.	10.6	11.8	90.7%	118.6%	<= Best performers
NXST	Nexstar Media Group	9.4	15.3	82.2%	104.2%	<= from Financial & defensive Comm Serv
OLN	Olin Corporation	12.7	11.8	157.4%	119.9%	
STLD	Steel Dynamics	8.6	7.7	98.2%	95.0%	<= Worst performer 3
TRV	The Travelers Companies	11.6	13.1	44.9%	23.0%	from cyclical Industrials sector
Average		**12.8**	**11.0**	**101.4%**	**95.2%**	

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Performance Divergence Last Summer

Example (consistent across all portfolios):

February Bakers Dozen Model Portfolio Performance vs Benchmark (As of 2/21/19)

Trade wars escalate!

Most of the underperformance occurred during this period of bifurcation from the benchmark: 6/11/18 – 9/20/18
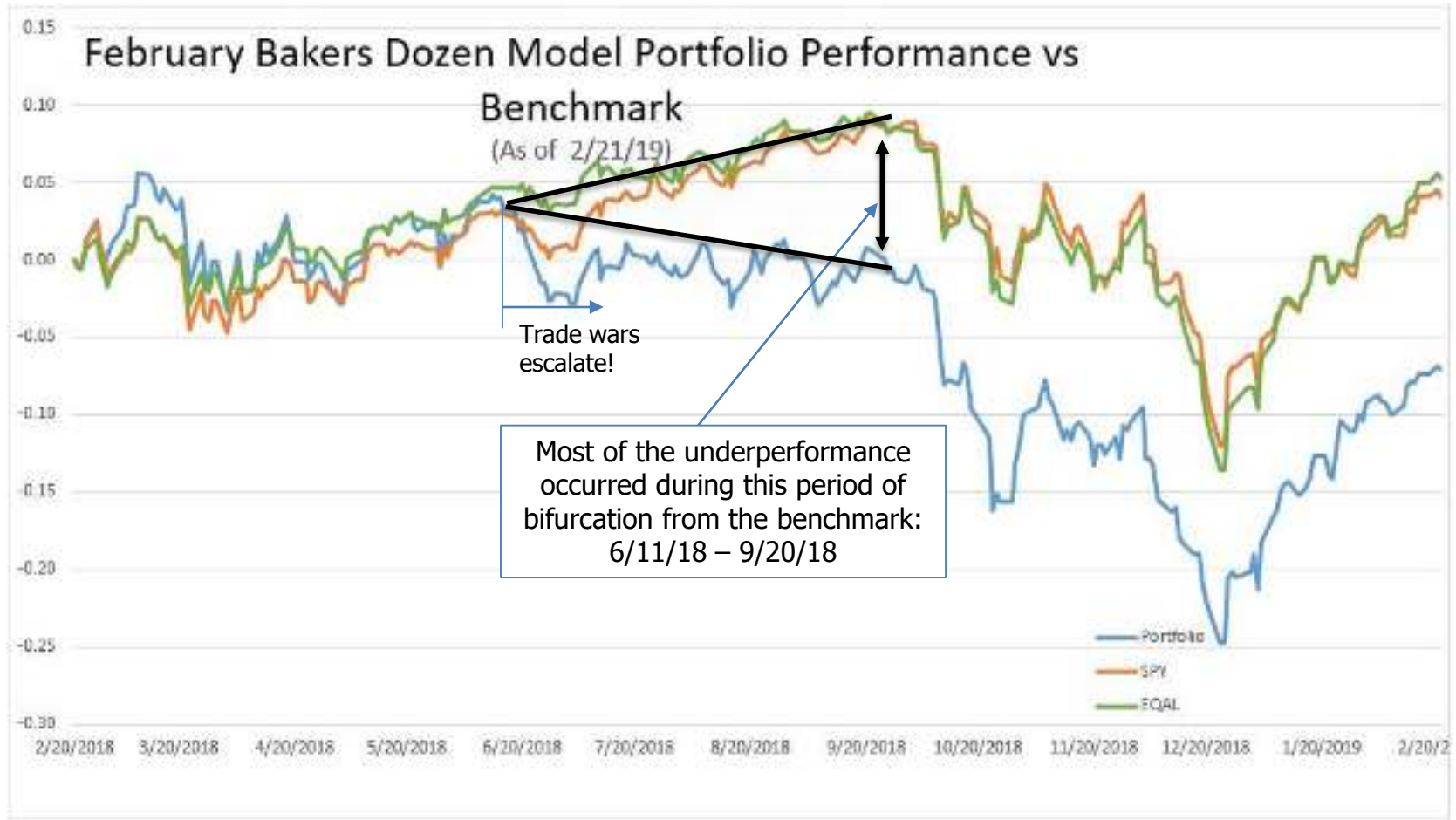
Market Conditions: 2017—1H2018

- **2017** – risk-on continues, driven by <u>fundamentals</u> (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 start to contract

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Market Conditions: 2H2018—1H2019

➢ **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 Q4 selloff

➢ **1Q 2019** – recovery rally ensues after Christmas Eve "capitulation day"

    ✓ Trade deal with China "90% done"; FOMC takes on dovish tone ("Fed put")

    ✓ Rotation into risk-on sectors (e.g., Technology, Semiconductors, Steel, Transports, Homebuilders, Industrials), small caps, and mega-cap Tech

    ✓ P/E multiples expand

➢ **2Q 2019** – trade war re-escalates; defensive rotation returns

    ✓ Global uncertainty pushes capital into US Treasuries and dividend-paying defensive sectors

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Sector Changes in P/E multiples: 2018

	Proxy ETF	Fwd P/E at start of 2018	Fwd P/E at start of 2019	Change	
Steel	SLX	14.2	6.4	-54.9%	8.6x as of 6/7/19
Telecom	IYZ	25.7	12.8	-50.2%	
Energy	XLE	23.8	15.3	-35.7%	
Consumer Discretionary	XLY	21.7	14.1	-35.0%	
Homebuilding	XHB	15.8	10.3	-34.8%	
Industrials	XLI	20.2	14.1	-30.2%	
Russell 2000 small caps	IWM	19.4	13.6	-29.9%	
Materials	XLB	18.8	13.3	-29.3%	
Financials	XLF	15.0	10.8	-28.0%	
Equal-weight S&P 500	RSP	18.0	13.1	-27.2%	
S&P 500 Index	**SPY**	**18.5**	**14.5**	**-21.6%**	
Semiconductors	SMH	14.6	12.2	-16.4%	
Consumer Staples	XLP	20.0	17.0	-15.0%	
Technology	XLK	17.6	15.8	-10.2%	
Healthcare	XLV	17.0	15.3	-10.0%	
Utilities	XLU	17.3	16.2	-6.4%	18.2x as of 6/7/19

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Sector Performance: 1/1/18 thru 6/7/19

Risk-on: Market *rises*, led by mega-caps Tech, cyclicals, and small caps, while defensive sectors lag ("normal" behavior)

Risk-off: Market *hits new highs*, but led by mega-cap Tech & defensive sectors, as trade war sets in and Fed language hawkish

Risk-off: Market *sells off* as mega-cap Tech & cyclical sectors plummet, while defensive sectors hold up better

Risk-on: Market *recovers* with strong breadth, led by mega-cap Tech, cyclicals, & small caps, while defensive sectors lag

Risk-off: Broad market *stable*, but rotates into defensives and dividend payers, as trade war escalates & 10-yr T-note yield plummets -20%

1/1/18 - 6/11/18		6/11/18 - 9/20/18		9/20/18 - 12/24/18		12/24/18 - 4/16/19		4/16/19 - 6/7/19	
Amazon	45.3%	Apple	13.8%	Utilities	-2.0%	Semiconductors	43.1%	Microsoft	8.8%
Microsoft	18.4%	Amazon	13.4%	Consumer Staples	-9.5%	Amazon	38.6%	Utilities	4.5%
Apple	13.6%	Microsoft	13.1%	Healthcare	-10.9%	Apple	35.7%	Consumer Staples	3.7%
Technology	12.8%	Healthcare	10.6%	Microsoft	-11.5%	Technology	33.9%	Healthcare	3.0%
Semiconductors	12.7%	Utilities	9.2%	Telecom	-14.1%	Homebuilding	32.8%	Homebuilding	-0.4%
Consumer Discret	12.4%	Telecom	8.2%	Equal-wt S&P 500	-17.0%	Consumer Discret	29.5%	Financials	-0.8%
R2000 small caps	9.9%	Consumer Staples	7.4%	Consumer Discret	-17.3%	Industrials	28.1%	**S&P 500 Index**	**-0.9%**
Steel	7.2%	Consumer Discret	5.9%	Technology	-18.7%	Telecom	25.6%	Materials	-1.0%
Energy	6.2%	**S&P 500 Index**	**5.4%**	Materials	-18.9%	Energy	25.6%	Technology	-1.3%
S&P 500 Index	**4.4%**	Industrials	4.5%	Financials	-19.5%	R2000 small caps	25.2%	Equal-wt S&P 500	-1.8%
Equal-wt S&P 500	3.5%	Equal wt S&P 500	4.2%	Homebuilding	-19.7%	Equal wt S&P 500	24.7%	Industrials	-2.1%
Healthcare	3.0%	Technology	4.0%	**S&P 500 Index**	**-20.2%**	**S&P 500 Index**	**23.8%**	Consumer Discret	-2.8%
Industrials	1.1%	Financials	2.6%	Semiconductors	-20.6%	Microsoft	23.0%	Amazon	-3.3%
Materials	0.8%	R2000 small caps	2.2%	Industrials	-20.9%	Materials	22.8%	R2000 small caps	-4.2%
Financials	0.1%	Materials	-0.6%	R2000 small caps	-23.0%	Financials	22.6%	Apple	-4.6%
Telecom	-4.8%	Semiconductors	-2.5%	Steel	-23.8%	Steel	20.3%	Telecom	-4.6%
Homebuilding	-5.4%	Energy	-2.9%	Energy	-23.9%	Consumer Staples	16.0%	Energy	-9.4%
Utilities	-6.7%	Homebuilding	-3.6%	Amazon	-24.4%	Utilities	11.5%	Semiconductors	-10.2%
Consumer Staples	-9.7%	Steel	-6.4%	Apple	-28.6%	Healthcare	9.4%	Steel	-10.8%

=> Sabrient portfolios have been heavy in cyclicals & small caps, given the strong US economy

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, **+14.3%** thru 6/7/19

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Market Outlook (implicit in our rankings)

1. Global growth intact; Solid US corporate earnings, buybacks, <u>CapEx</u>

2. Fiscal stimulus & deregulation; No protracted trade war

3. Ramp-up in capital spending & guidance once trade war is settled

4. Modest inflation and <u>low bond yields</u> 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 attractive

7. High-quality dividend payers attractive, as interest rates stay low

➢ **Major Risks:**

   (1) Tariffs and trade war escalation
   (2) Renewed tightening by Federal Reserve
   (3) Deleveraging a heavily-indebted global economy *(a longer-term issue)*

Baker's Dozen Portfolio – May 2019
Statistics upon launch on 5/20/19

Ticker	Company Name	Industry	Mkt Cap ($B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield
AIZ	Assurant	Multi-line Insurance	5.9	44.3%	10.8	0.24	2.5%
ANTM	Anthem	Managed Health Care	67.9	23.3%	12.9	0.55	1.2%
AXTA	Axalta Coating Systems	Specialty Chemicals	6.0	31.1%	14.4	0.46	0.0%
BOOM	DMC Global	Oil and Gas Equipment and Services	1.1	37.8%	20.5	0.54	0.1%
BYD	Boyd Gaming	Casinos and Gaming	3.0	35.9%	14.5	0.40	0.9%
CMC	Commercial Metals	Steel	1.9	53.6%	6.8	0.13	2.9%
GDDY	GoDaddy	Internet Services and Infrastructure	13.4	56.2%	22.6	0.40	0.0%
MCY	Mercury General	Property and Casualty Insurance	3.1	42.6%	15.1	0.35	4.5%
NMIH	NMI Holdings	Thrifts and Mortgage Finance	1.8	31.1%	11.0	0.36	0.0%
PCRX	Pacira BioSciences	Pharmaceuticals	1.8	35.3%	26.5	0.75	0.0%
SSNC	SS&C Technologies	Application Software	15.0	19.8%	15.2	0.77	0.7%
URI	United Rentals	Trading Companies and Distributors	10.1	16.6%	6.6	0.39	0.0%
VAC	Marriott Vacations	Hotels, Resorts and Cruise Lines	4.4	35.3%	12.3	0.35	1.8%
		Average:	10.4	35.6%	14.5	0.41	1.1%

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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, <u>4-5% yield</u>, quarterly

4. **Defensive Equity** – 50 stocks, GARP with defensive behavior, quarterly

5. **Rising Rate** – 50 GARP stocks, tend to thrive when interest rates rise, quarterly

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

Talking Points Summary

➤ Our 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 news-driven drawdowns: 1Q2009, mid-2011, 2H2015, 2H2018)

➤ 6/11/2018 – escalating trade war with China and hawkish Fed led to risk-off rotation into defensive sectors and mega-caps despite little change in strong fundamental outlook

➤ Market bifurcated 6/11/18–9/20/18 as S&P 500 rose while cyclical sectors and small-mid caps fell, before the broad market ultimately sold off in 4Q2019

➤ But forward guidance *has held up* while prices *have fallen* in risk-on segments, so valuations are much more attractive => *buying opportunity, in our view*

➤ Risk-on recovery after Christmas Eve capitulation day (12/24/18–4/16/19) was led by cyclicals and smaller caps – and *most 2018 Baker's Dozen portfolios outperformed* in that timeframe

➤ 4/16/19 – start of another risk-off rotation into Treasuries and dividend-paying defensive sectors (e.g., Utilities, REITs, Staples) at the expense of cyclicals and small caps

➤ What can go wrong for Sabrient?

  (1) Outlook for corporate earnings changes <u>radically</u> *(has not happened)*

  (2) Investors ignore fundamentals *(has been happening in new-driven climate)*

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. *Sector Detector* periodic newsletter

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

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

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