Sabrient®

Baker's Dozen Portfolios

plus Small Cap Growth and Dividend Opportunity

1. *Market Conditions & Performance Review*
2. *Process Overview & Latest Enhancements*
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.
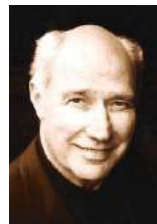
* GARP = growth at a reasonable price

Scott Martindale
President & CEO

Brent Miller
President of Gradient

David Brown
Founder & Chief Market Strategist

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 drive investor sentiment rather than the news*

➢ 11.25-year outperformance despite 5 big drawdowns: 1Q2009, 2Q2011, 2H2015, 2H2018, 1Q2020

➢ After the first 6-1/2 years of Baker's Dozen outperformance (2009-1H2015), the rise of *Populism* starting in mid-2015 followed by *escalation in Trade Wars* in 2018 led to persistent <u>risk-off</u> investor preference for bonds, defensive sectors, and secular-growth Tech (i.e., **"new normal"** conditions)

➢ Market indexes still rose despite persistently cautious investor sentiment creating *historically large relative valuation divergence* favoring <u>momentum/low-volatility/defensive/large cap</u> over <u>value/high-beta/cyclical/small-mid cap</u> => Thus, passive *market-cap-weighted indexes greatly outperformed equal-weighted indexes* and most actively-selected portfolios

➢ But cyclicals showed <u>intermittent readiness for recovery</u> given dovish Fed, China trade progress, and US economic strength led by strong consumer; indeed *<u>8/27/19-12/31/19 had risk-on rotation</u>* into small caps, value, and cyclicals => *<u>boosting Sabrient portfolios</u>* ... until **COVID-19** took hold

➢ Historic rebound from 3/23/20 low, with *strong breadth led by risk-on cyclical sectors and smaller caps* – although may have been temporarily upended by threats of new tariffs to punish China

➢ In response to "new normal" market, **we enhanced our selection process** by implementing:
  (1) *Guardrails against extreme sector "tilts"* relative to the benchmark S&P 500's allocations
  (2) Our new *Growth Quality Rank (GQR)* as enhancement to GARP model *to boost <u>all-weather</u> performance*

➢ What can go wrong?
  (1) Consensus forward EPS estimates in our model are slashed **<u>(COVID-19 has changed everything!!)</u>**
  (2) Fickle investors ignore the fundamentals on which we based our rankings
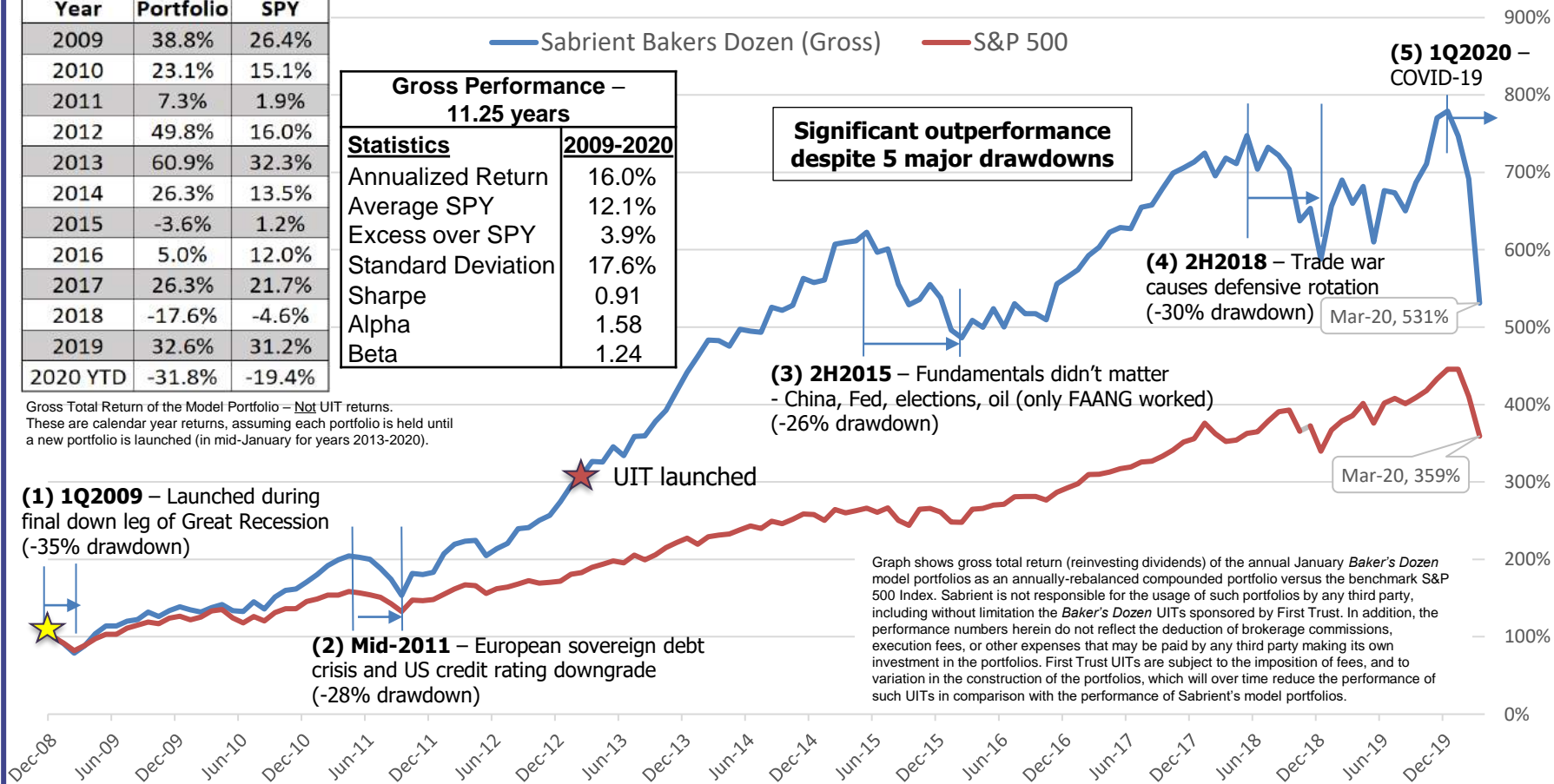
Baker's Dozen Long-term Performance

January Model Portfolio (gross total return) – rebalanced when new portfolio is published
(1/1/2009 inception thru 3/31/2020, <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	32.6%	31.2%
2020 YTD	-31.8%	-19.4%

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 2013-2020).

Gross Performance – 11.25 years

Statistics	2009-2020
Annualized Return	16.0%
Average SPY	12.1%
Excess over SPY	3.9%
Standard Deviation	17.6%
Sharpe	0.91
Alpha	1.58
Beta	1.24

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

Significant outperformance despite 5 major drawdowns

(5) 1Q2020 – COVID-19

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

Mar-20, 531%

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

Mar-20, 359%

UIT launched

(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 *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.

Sabrient®

Baker's Dozen: Typical Allocation Tilts vs Benchmark

All allocation tilts (which are typically *beneficial in a growing economy*) have shown **<u>negative</u>** attribution since "new normal" began in mid-2015

Category	Baker's Dozen Portfolios	S&P 500
Position weights:	Equal weighted	Market cap weighted
Sector allocations:	Cyclical growth oriented	Secular growth dominated
Capitalizations:	Small-mid cap focused	Mega-cap focused
Value/Growth factor:	Value-oriented	Growth-oriented

Market Conditions: 2015—2016

- **1H2015** – market up, Sabrient outperformance streak hits 6-1/2 years

- **2H2015** – market suddenly driven by <u>news rather than fundamentals</u>

  - ✓ Election rhetoric, Populism, China devaluation, oil falls, Fed targets rate hikes

  - ✓ <u>Narrow breadth</u> & leadership, led by FAANGM stocks ("FANG" acronym is born)

  - ✓ Smart/rich/successful investors and HFs down double digits; Sabrient performance takes a hit

  - ✓ "<u>NEW NORMAL</u>" market conditions begin

- **1H2016** – market up, but led by defensives (Utilities, Telecom, Staples)

- **2H2016** – risk-on rotation with all eyes on US presidential election

  - ✓ <u>Post-election rally</u> (as uncertainty is lifted), led by cyclicals

  - ✓ Greater market breadth, lower sector correlations

Sabrient®

Market Conditions: 2017—1H2018

- **2017** – risk-on "Trump Bump" driven by <u>fundamentals</u> (good for GARP)

  - ✓ Synchronized <u>global growth</u>, China strong, rising oil prices, Fed data-driven

  - ✓ New <u>fiscal stimulus</u> from deregulation and anticipation of tax reform

  - ✓ Strong breadth, record low volatility, <u>cyclicals and small caps lead</u>

  - ✓ Momentum factor dominates (versus Value, Quality, Low-Volatility factors)

  - ✓ P/E multiples <u>expand</u>

- **H1 2018** – market continues up, but sentiment turns <u>cautious</u>

  - ✓ Cyclicals and small caps still lead, but with <u>higher volatility</u>

  - ✓ With tax reform in place, investors watch for corporate behavior and capex

  - ✓ <u>Trade war rhetoric worsens</u>; investors turn cautious; P/E multiples <u>compress</u>

Sabrient®

Market Conditions: 2H2018—Current

➢ **H2 2018** – trade war rhetoric becomes reality; defensive rotation begins

  ✓ Rotation <u>out of risk-on</u> sectors (value, cyclicals, small caps, emerging markets)

  ✓ Rotation <u>into risk-off</u> defensive sectors (large cap Utilities, Healthcare, Staples, Telecom) and mega-cap Tech (AAPL, MSFT, AMZN) … until the <u>Q4 selloff</u>

➢ **Jan-Aug 2019** – market recovers but still mostly defensive sentiment

  ✓ China trade negotiations resume; FOMC dovish ("Fed put"); low interest rates

  ✓ P/E multiples expand despite persistent preference for risk-off momentum/low-volatility/bonds/defensive/mega-cap over risk-on value/cyclicals/small-mid caps

➢ **Sep-Dec 2019** – <u>sustained risk-on rotation</u> into value/cyclical/small-mid

➢ **Q1 2020** – new highs and optimism are halted by COVID-19 pandemic

  ✓ Like Q4 2018, market rises despite defensive rotation … until the <u>selloff</u>

  ✓ Historic rebound off 3/23/20 low, with strong breadth led by risk-on cyclical sectors and smaller caps

Sabrient®

Rotation to Value/Cyclicals/Small-cap
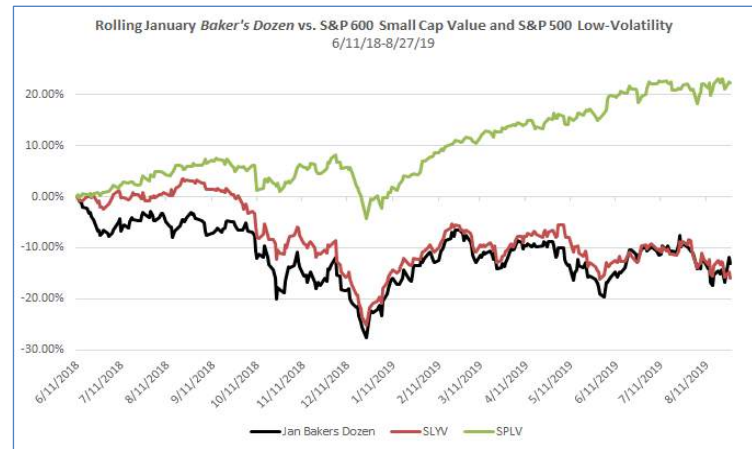## Bursting of Low-volatility/Defensive bubble began on 8/27/19 – until COVID-19 arose

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)
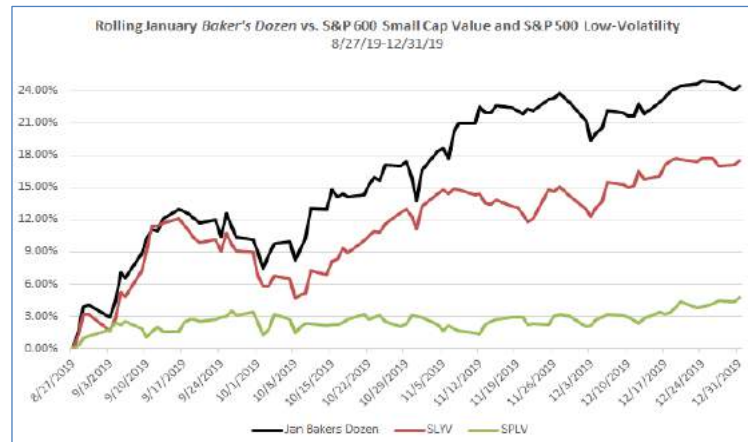

Rolling January *Baker's Dozen* vs. S&P 600 Small Cap Value and S&P 500 Low-Volatility 8/18/17-6/11/18
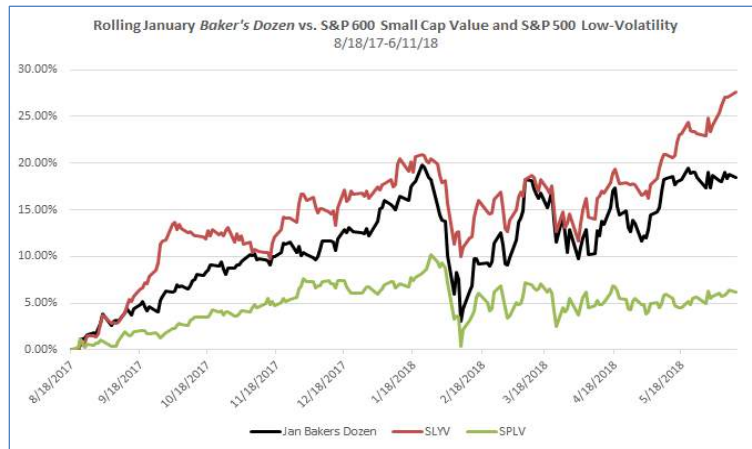
6/11/18 – 8/27/19:
Risk-off rotation from escalating trade war leads to big outperformance of defensive Large-cap Low Volatility (SPLV) over rolling January *Baker's Dozen* and Small-cap Value (SLYV) – creating an historic relative valuation bubble

Rolling January *Baker's Dozen* vs. S&P 600 Small Cap Value and S&P 500 Low-Volatility 6/11/18-8/27/19

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.

Rolling January *Baker's Dozen* vs. S&P 600 Small Cap Value and S&P 500 Low-Volatility 8/27/19-12/31/19

8/27/19 – 12/31/19:
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)

Narrow Market Leadership 6/11/18-3/23/20
Cap-weighted S&P 500 greatly outperformed most Equal-weighted indexes

SPY   = Market-cap-weight S&P 500 large caps
QQEW = Equal-weight NASDAQ 100 *(the only one to <u>outperform</u> SPY due to its 40% Tech sector allocation)*
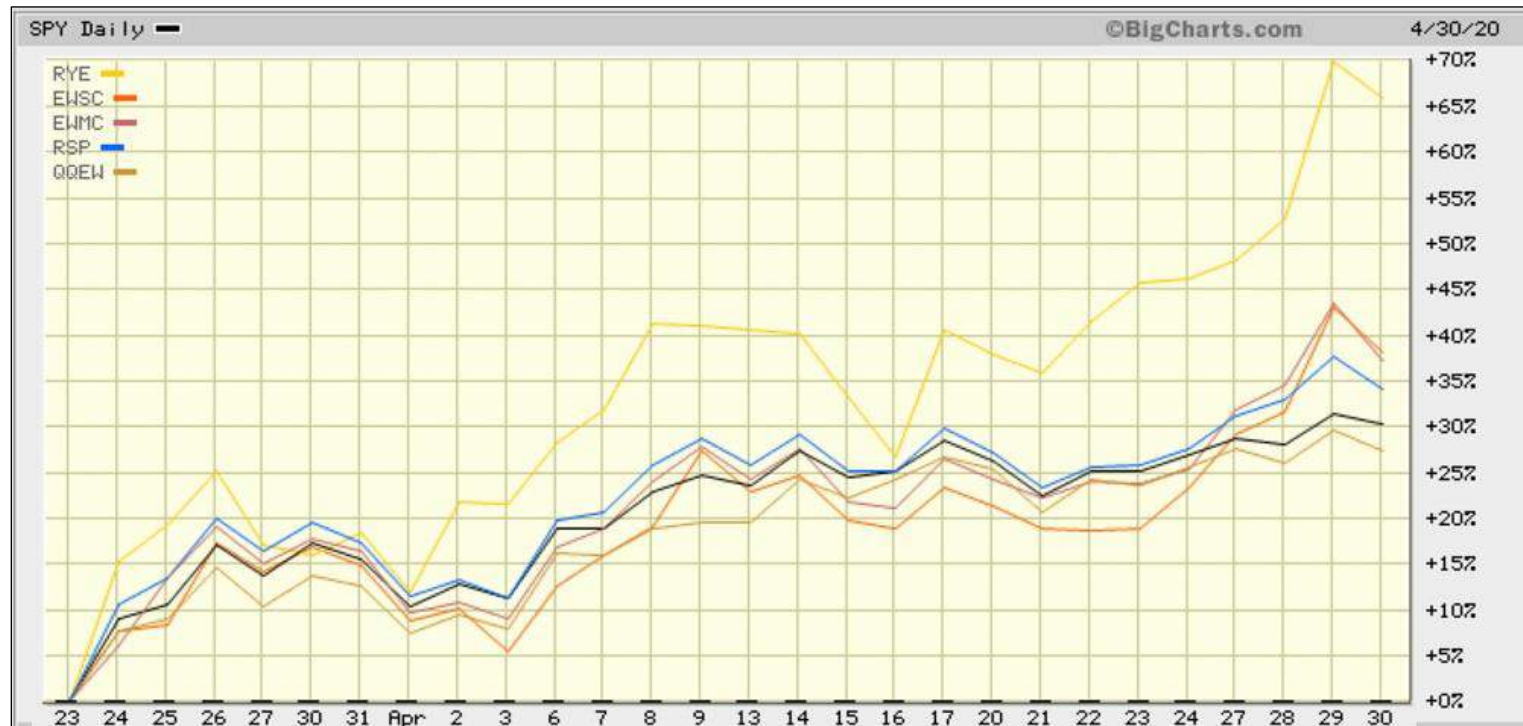RSP   = Equal-weight S&P 500 large caps
ESMC = Equal-weight S&P 400 mid caps
EWSC = Equal-weight S&P 600 small caps
RYE   = Equal-weight S&P 500 Energy Sector

Promising Risk-on Rebound

Many neglected Equal-weighted indexes greatly outperformed Cap-weighted S&P 500
(since market bottomed on 3/23/2020)

SPY   = Market-cap-weight S&P 500 large caps

QQEW = Equal-weight NASDAQ 100 *(the only one to underperform SPY since it didn't selloff as much earlier)*

RSP   = Equal-weight S&P 500 large caps

ESMC = Equal-weight S&P 400 mid caps

EWSC = Equal-weight S&P 600 small caps

RYE   = Equal-weight S&P 500 Energy Sector

Sabrient ®

Recovery of *Baker's Dozen* Portfolios from COVID-19 selloff low

Portfolio returns versus SPY return: 3/23/2020 - 4/30/2020

Baker's Dozen Portfolio	Gross Absolute Portfolio Return	Gross Excess Return vs. SPY
April 2019	45.2%	14.8%
May 2019	41.6%	11.3%
June 2019	47.6%	17.3%
July 2019	41.3%	10.9%
August 2019	40.0%	9.6%
September 2019	35.1%	4.7%
October 2019	43.5%	13.1%
November 2019	46.6%	16.3%
December 2019	49.6%	19.2%
Q1 2020	45.6%	15.2%
Average:	**43.6%**	13.2%
SPY Return:	30.4%	
RSP Return:	34.2%	
EWSC Return:	38.2%	

Sabrient®

11

Process Enhancements
Expected to improve model performance in a *post-pandemic* economy

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

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

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

2. Developed and introduced a new **Growth Quality Rank (GQR)**

   - Seeks to improve model performance during periods of macro uncertainty or "irrational" defensive sentiment (despite solid economic outlook), without substantial performance degradation during "normal" conditions

   - Development of the model leveraged *Monte Carlo simulation* rather than relying solely on our normal scientific hypothesis testing

   - Puts *secular* growth stocks (which often have higher forward P/E) on more equal footing with *cyclical* growth (which tend to have lower forward P/E)

   - Evaluates:

     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

Sabrient®

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 enhanced "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* Model Portfolio	Previous GARP-Aggressive Simulation	New GARP-GQR Model Simulation	SPY
2009	38.78%	57.16%	25.03%	26.46%
2010	23.07%	20.20%	25.75%	15.06%
2011	7.30%	-6.40%	11.68%	2.11%
2012	49.82%	25.17%	19.42%	16.00%
2013	60.90%	61.65%	37.94%	32.39%
2014	26.28%	16.38%	13.09%	13.69%
2015	-3.56%	-7.71%	8.34%	1.38%
2016	5.00%	19.55%	12.90%	11.96%
2017	26.33%	17.62%	30.81%	21.83%
2018	-17.64%	-17.94%	-1.77%	-4.38%
2019	32.60%	40.96%	28.45%	31.49%
Cumulative Return	679.39%	524.89%	560.38%	351.04%
Avg Annual Return	20.52%	18.13%	18.72%	14.68%
Standard Deviation	16.50%	21.26%	15.17%	13.55%
Simple Sharpe Ratio	1.24	0.85	1.23	1.08

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®

Sabrient®

- **<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

![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®

Sabrient "Quantamental" Approach

1. <u>Quantitative screen</u> 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
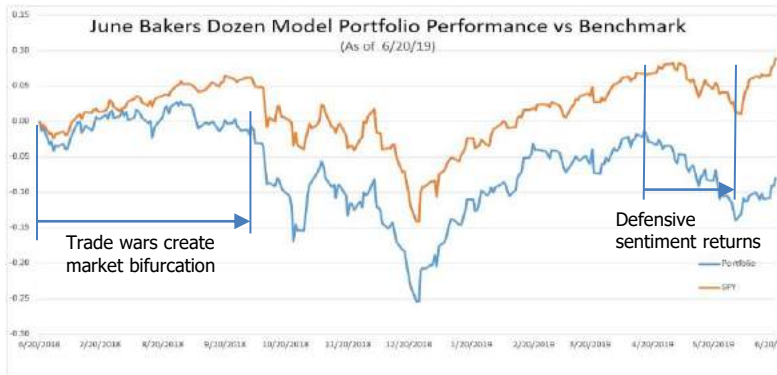
4. Final Stock Selection, with sector limits

We target average Forward PEG of < 0.5, while S&P 500 is > 2.0

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

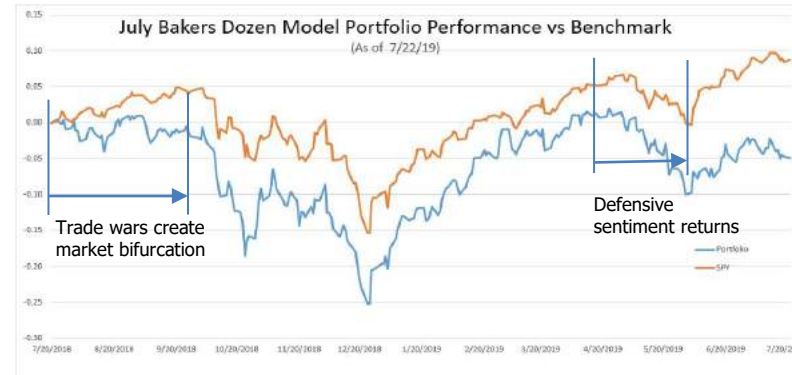4. **Small Cap Growth** – 50-stock GARP portfolio, all under $3.7B cap, quarterly

Sabrient®

Jun–Aug 2018 *Baker's Dozens*
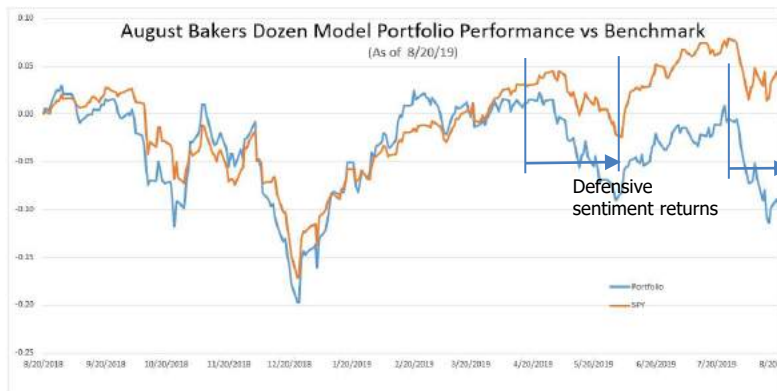## Performance hurt by two major risk-off rotations

June Bakers Dozen Model Portfolio Performance vs Benchmark (As of 6/20/19)

Trade wars create market bifurcation

Defensive sentiment returns

Total Returns

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

July Bakers Dozen Model Portfolio Performance vs Benchmark (As of 7/22/19)

Trade wars create market bifurcation

Defensive sentiment returns

Total Returns

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

August Bakers Dozen Model Portfolio Performance vs Benchmark (As of 8/20/19)

Defensive sentiment returns

Total Returns

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.

Sabrient®

Sep–Nov 2018 *Baker's Dozens*

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

September Bakers Dozen Model Portfolio Performance vs Benchmark (As of 9/20/19)
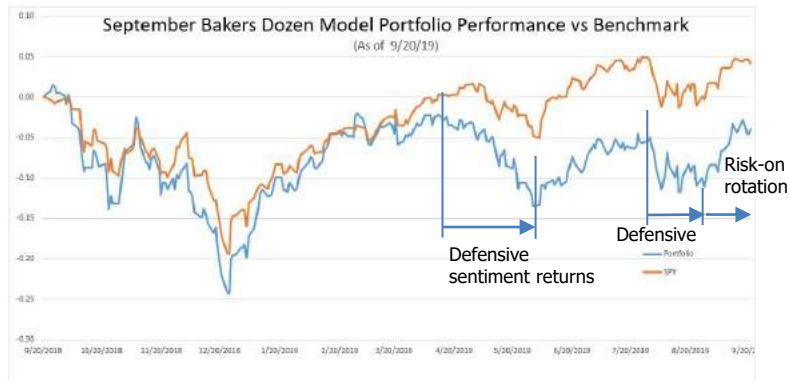
Total Returns

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

October Bakers Dozen Model Portfolio Performance vs Benchmark (As of 10/21/2019)
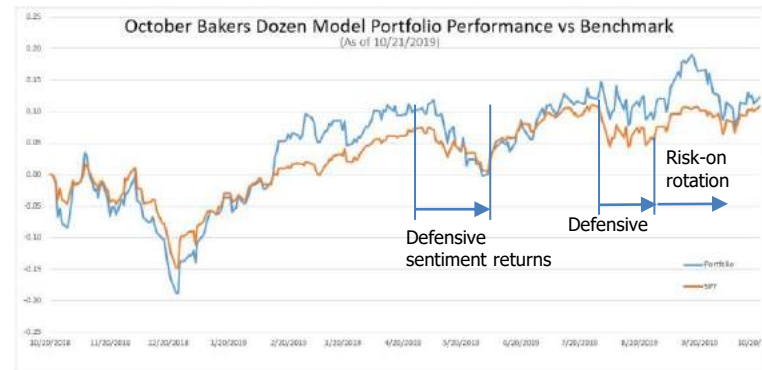
Total Returns

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

November Bakers Dozen Model Portfolio Performance vs Benchmark (As of 11/20/2019)
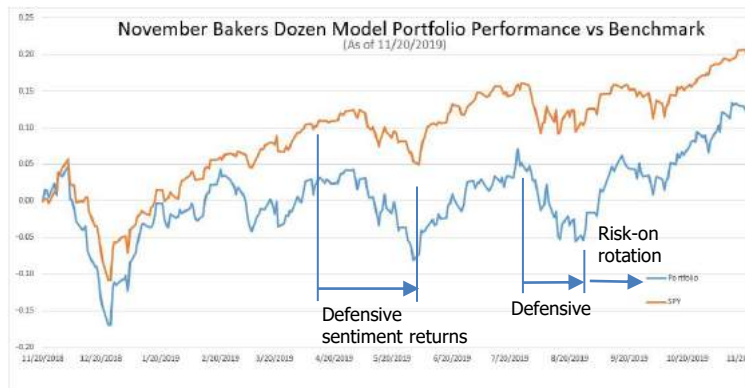
Total Returns

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

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.

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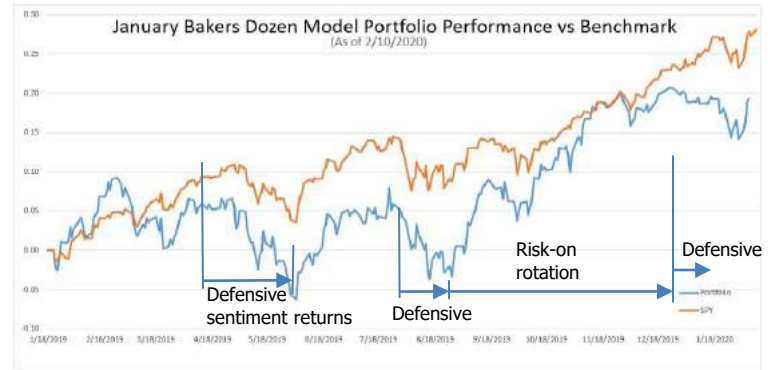
Sabrient®

Dec 2018 – Feb 2019 *Baker's Dozens*

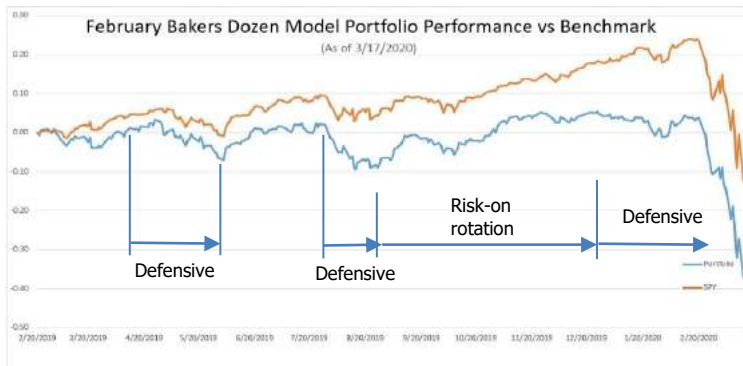Defensive sentiment gives way to risk-on optimism, until COVID-19 rears its ugly head

December Bakers Dozen Model Portfolio Performance vs Benchmark (As of 12/20/2019)
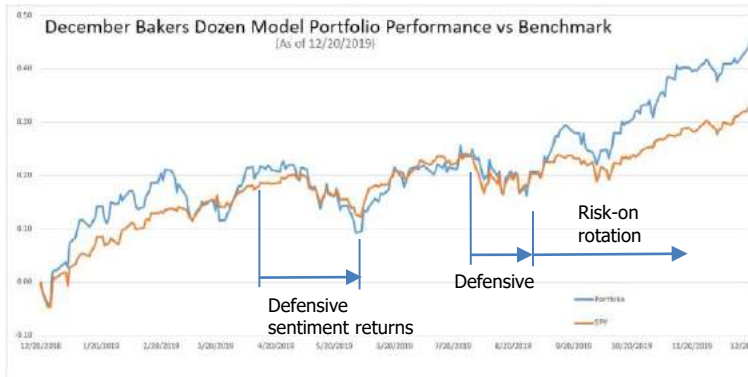
Total Returns

Event	Date	Portfolio	SPY
Launch	12/20/2018	45.41%	33.21%

January Bakers Dozen Model Portfolio Performance vs Benchmark (As of 2/10/2020)

Total Returns

Event	Date	Portfolio	SPY
Launch	1/18/2019	19.26%	27.88%

February Bakers Dozen Model Portfolio Performance vs Benchmark (As of 3/17/2020)

Total Returns

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	2/20/2019	-35.11%	-7.20%	-17.94%	-38.46%

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.

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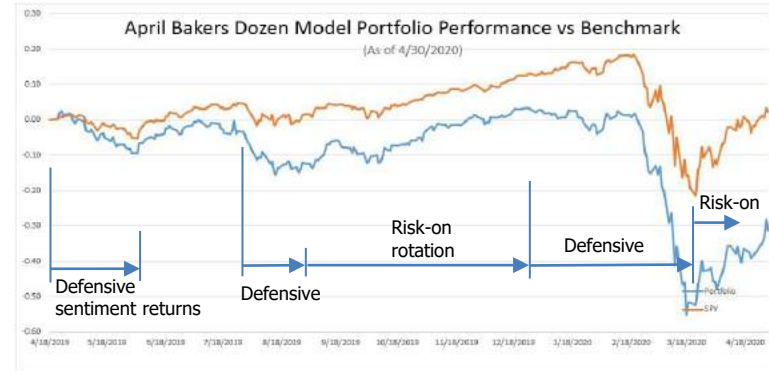
Sabrient®

Mar–May 2019 *Baker's Dozens*

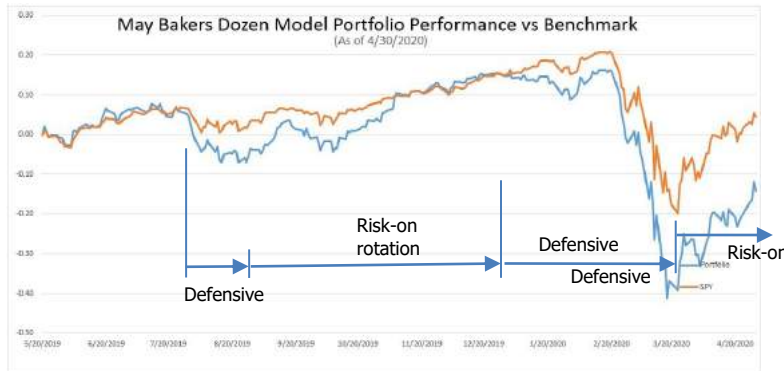## Defensive sentiment gives way to risk-on optimism, until COVID-19 rears its ugly head

March Bakers Dozen Model Portfolio Performance vs Benchmark
(As of 3/31/2020)

Labels: Defensive — Defensive — Risk-on rotation — Defensive

Total Returns

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	3/20/2019	-36.53%	-6.60%	-16.93%	-33.61%

April Bakers Dozen Model Portfolio Performance vs Benchmark
(As of 4/30/2020)

Labels: Defensive sentiment returns — Defensive — Risk-on rotation — Defensive — Risk-on

Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	4/18/2019	-31.29%	2.30%	-8.15%	-21.23%

May Bakers Dozen Model Portfolio Performance vs Benchmark
(As of 4/30/2020)

Labels: Defensive — Risk-on rotation — Defensive — Defensive — Risk-on

Total Returns Thru Current

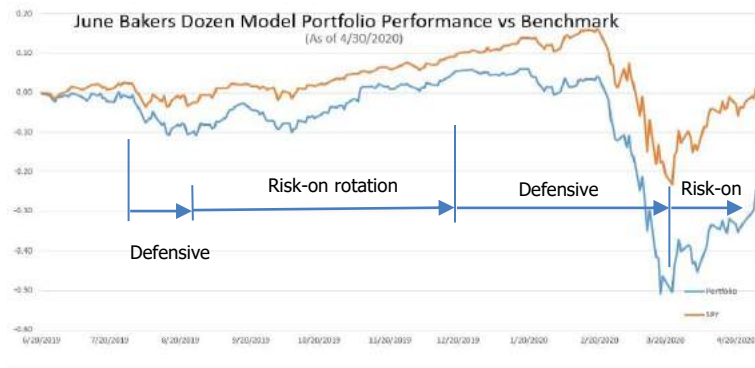| Event	Date	Portfolio	SPY	RSP	EWSC
Launch	5/20/2019	-14.26%	4.43%	-5.44%	-17.68%

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.

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

Sabrient®

Jun–Aug 2019 *Baker's Dozens*

## Defensive sentiment gives way to risk-on optimism, until COVID-19 rears its ugly head

June Bakers Dozen Model Portfolio Performance vs Benchmark (As of 4/30/2020)

Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	6/20/2019	-26.84%	0.22%	-9.05%	-18.32%

July Bakers Dozen Model Portfolio Performance vs Benchmark (As of 4/30/2020)
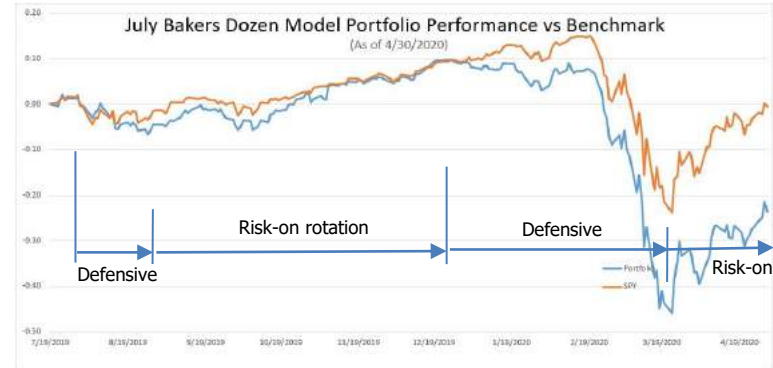
Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	7/19/2019	-23.64%	-0.66%	-9.71%	-17.78%

August Bakers Dozen Model Portfolio Performance vs Benchmark (As of 4/30/2020)
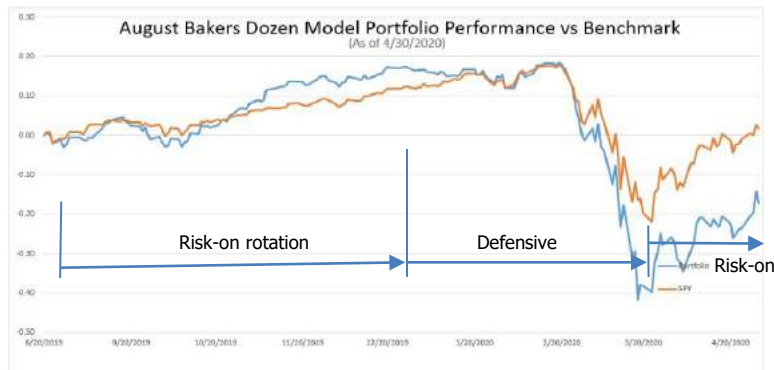
Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	8/20/2019	-17.26%	1.74%	-6.22%	-14.95%

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.

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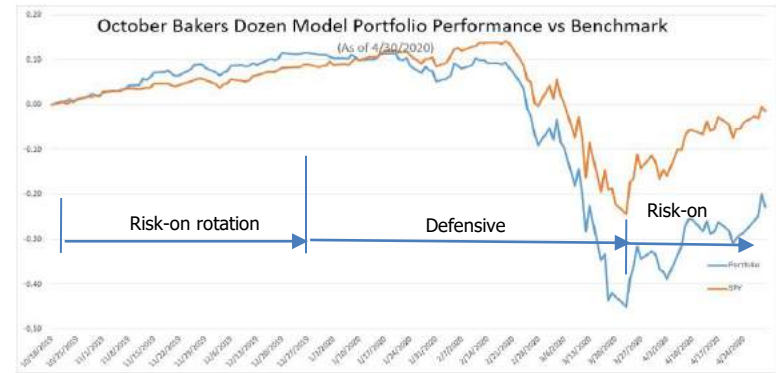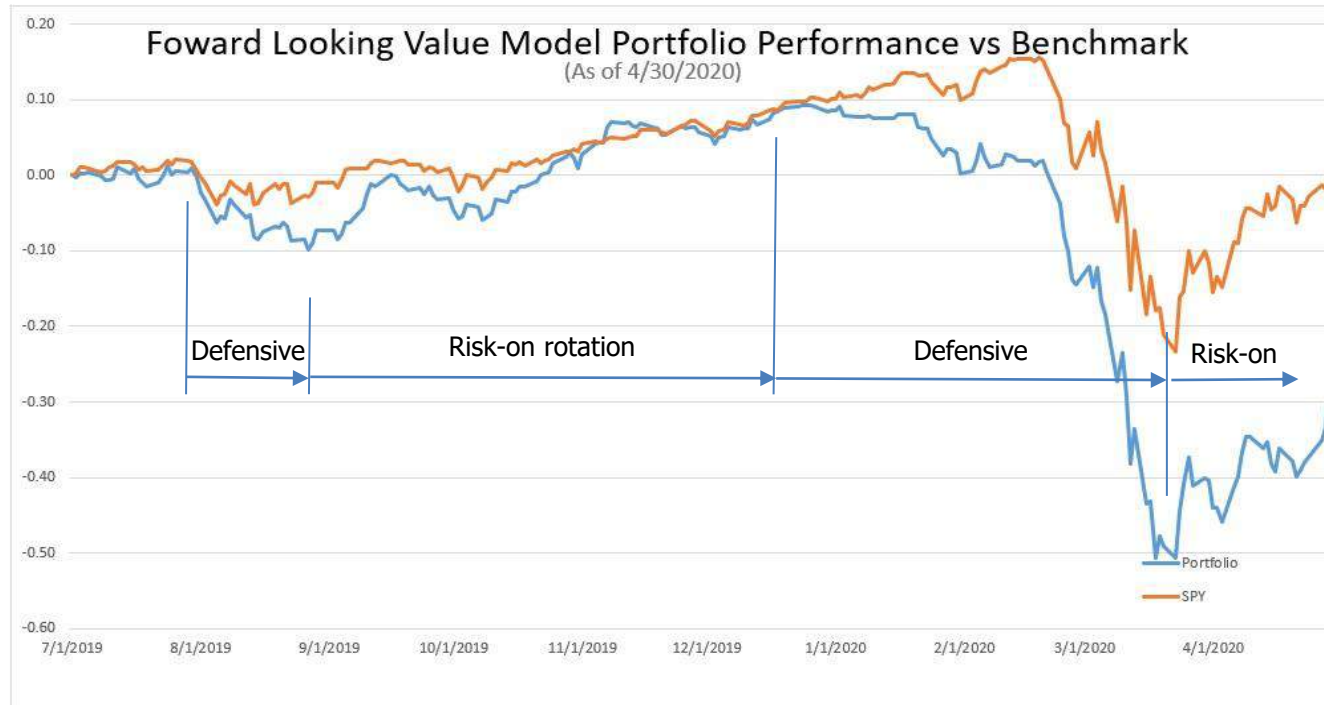
Sabrient®

23

Sep–Oct 2019 *Baker's Dozens*

Risk-on optimism takes control, until COVID-19 rears its ugly head

September Bakers Dozen Model Portfolio Performance vs Benchmark (As of 4/30/2020)

Risk-on rotation | Defensive | Risk-on
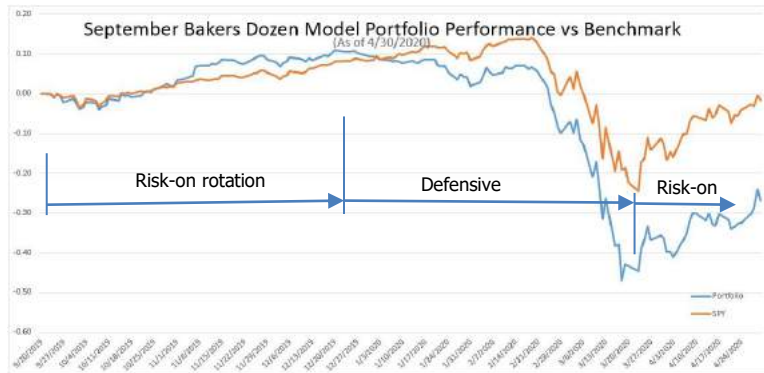
Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	9/20/2019	-26.79%	-1.54%	-10.04%	-20.27%

October Bakers Dozen Model Portfolio Performance vs Benchmark (As of 4/30/2020)

Risk-on rotation | Defensive | Risk-on

Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	10/18/2019	-22.72%	-1.47%	-9.61%	-18.75%

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.

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

Sabrient®

June 2019 Forward Looking Value
Defensive sentiment gives way to risk-on optimism, until COVID-19 rears its ugly head

Foward Looking Value Model Portfolio Performance vs Benchmark
(As of 4/30/2020)

Defensive — Risk-on rotation — Defensive — Risk-on

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 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.

Total Returns Thru Current

Event	Date	Portfolio	SPY	RSP	EWSC
Launch	7/1/2019	-30.84%	-0.15%	-9.78%	-19.38%

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

Sabrient®

April 2019 Baker's Dozen Model Portfolio

Launch date (4/18/2019) compared to current (4/30/2020)

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
PCRX	Pacira BioSciences, Inc.	12.2%	24.9	23.3	41.5%	60.6%
URI	United Rentals, Inc.	-5.5%	6.5	9.8	18.0%	17.3%
CMC	Commercial Metals Company	-7.0%	7.5	8.6	52.0%	72.3%
SSNC	SS&C Technologies Holdings, Inc.	-13.4%	16.9	14.2	30.9%	20.8%
VAC	Marriott Vacations Worldwide Corpo	-19.2%	13.6	17.5	30.7%	33.1%
TRV	The Travelers Companies, Inc.	-25.4%	12.3	10.4	23.6%	0.9%
CVLT	Commvault Systems, Inc.	-30.3%	27.7	27.5	37.7%	0.6%
CF	CF Industries Holdings, Inc.	-37.4%	20.1	17.8	92.1%	66.6%
BYD	Boyd Gaming Corporation	-43.6%	17.1	NE	31.3%	-2.2%
DIN	Dine Brands Global, Inc.	-46.2%	12.2	34.4	33.2%	5.4%
NMIH	NMI Holdings, Inc.	-49.0%	12.1	5.3	35.0%	57.2%
GLOG	GasLog Ltd.	-68.8%	17.3	20.9	64.8%	-49.1%
SAVE	Spirit Airlines, Inc.	-73.3%	9.1	NE	38.7%	15.7%
	Average	**-31.3%**	**15.2**	**17.2**	**40.7%**	**23.0%**
SPY	SPDR S&P 500 ETF Trust	2.2%				
RSP	S&P 500 equal-weighted index	-8.2%				
EWSC	S&P 600 equal-weighted index	-21.2%				

Portfolio was hindered by exposure tilts to small caps, value, and cyclicals (especially travel, entertainment, housing, energy, materials)

Sabrient®

May 2019 Baker's Dozen Model Portfolio

Launch date (5/20/2019) compared to current (4/30/2020)

Ticker	Company Name	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
AIZ	Assurant, Inc.	12.8%	10.6	11.0	44.3%	41.2%
CMC	Commercial Metals Company	9.3%	6.5	8.6	53.6%	72.3%
ANTM	Anthem, Inc.	6.8%	13.0	11.8	23.3%	20.2%
URI	United Rentals, Inc.	3.6%	6.5	9.8	16.6%	17.3%
SSNC	SS&C Technologies Holdings, Inc.	-3.6%	15.0	14.3	19.8%	20.8%
PCRX	Pacira BioSciences, Inc.	-4.7%	26.1	23.3	35.3%	41.0%
GDDY	GoDaddy Inc.	-6.4%	22.2	18.8	56.2%	34.3%
VAC	Marriott Vacations Worldwide Corpo	-11.2%	12.0	17.4	35.3%	28.4%
AXTA	Axalta Coating Systems Ltd.	-20.2%	14.4	15.2	31.1%	29.1%
MCY	Mercury General Corporation	-22.7%	15.0	16.1	50.7%	22.2%
BYD	Boyd Gaming Corporation	-35.2%	14.1	NE	36.1%	-2.2%
NMIH	NMI Holdings, Inc.	-51.3%	11.1	5.3	31.1%	47.4%
BOOM	DMC Global Inc.	-62.4%	20.0	117.5	37.8%	17.6%
	Average	**-14.3%**	**14.3**	**22.4**	**36.2%**	**30.0%**
SPY	SPDR S&P 500 ETF Trust	4.4%				
RSP	S&P 500 equal-weighted index	-5.4%				
EWSC	S&P 600 equal-weighted index	-17.7%				

Portfolio was hindered by exposure tilts to small caps, value, and cyclicals (especially travel, entertainment, housing, energy, materials)

Market Outlook (implicit in our rankings)

1. Economic and earnings forecasts highly uncertain given COVID-19 uncertainty

2. Gradual resurgence in global growth, US corporate earnings and CapEx

3. Massive monetary & fiscal stimulus offset by renewed trade war uncertainty

4. Low inflation and low interest rates persist; Supportive Federal Reserve & Congress

5. Equity valuations are elevated but appropriate given growing optimism, massive liquidity, and low interest rates

6. Broad economic recovery may not come until 2021

7. Favors select cyclical growth, and high-quality secular growth and dividend payers

➢ **Major Risks:**

(1) Prolonged global economic slowdown due to resurgence in COVID-19 pandemic *(high risk)*
(2) Escalation in China trade war *(Phase 1 deal reduced risk, but COVID coverup may lead to new tariffs)*
(3) Geopolitical fallout from oil price meltdown *(elevated risk)*
(4) US dollar meltdown due to dysfunctional repo market & deficit spending *(low risk for now)*
(5) Election/political uncertainty *(low risk with choice between Trump & Biden)*
(6) Deleveraging a heavily-indebted global economy *(a rapidly growing but still longer-term issue)*

Sabrient®

Baker's Dozen Portfolio – 2Q2020

Statistics upon launch on 4/20/20

Ticker	Company Name	Sector	Industry	Mkt Cap ($B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield	EQR	GQR
ADSK	Autodesk	Information Technology	Application Software	39.7	50.0%	43.1	0.86	0.0%	5	10
AMD	Advanced Micro Devices	Information Technology	Semiconductors	66.3	72.1%	51.4	0.71	0.0%	5	10
AMZN	Amazon.com	Consumer Discretionary	Internet & Direct Marketing Retail	1182.4	22.2%	84.4	3.80	0.0%	3	10
BMY	Bistol-Myers Squibb	Health Care	Pharmaceuticals	137.1	29.7%	10.0	0.34	3.0%	5	10
CACI	CACI International	Information Technology	IT Consulting & Other Services	6.1	28.0%	18.3	0.65	0.0%	5	9
CAG	Conagra Brands	Consumer Staples	Packaged Foods & Meats	16.4	28.2%	13.9	0.49	2.5%	4	9
CHTR	Charter Communications	Communication Services	Cable & Satellite	116.2	76.0%	37.2	0.49	0.0%	3	7
HII	Huntington Ingalls Industries	Industrials	Aerospace & Defense	8.0	47.9%	9.5	0.20	2.1%	4	7
NBIX	Neurocrine Biosciences	Health Care	Biotechnology	9.2	978.3%	27.8	0.03	0.0%	5	8
NVDA	NVIDIA	Information Technology	Semiconductors	179.0	30.8%	38.6	1.25	0.2%	4	9
RNR	RenaissanceRe Holdings	Financials	Reinsurance	6.9	60.4%	10.7	0.18	0.9%	3	10
VRTX	Vertex Pharmaceuticals	Health Care	Biotechnology	70.1	43.5%	35.4	0.81	0.0%	5	10
VST	Vistra Energy	Utilities	Independent Power Producers	8.6	98.8%	7.5	0.08	3.4%	3	10
Average:				142.0	120.5%	29.8	0.25	0.9%	4.2	9.2
Median:				39.7	47.9%	27.8	0.58			

Portfolio notably has a large cap bias (and <u>no</u> small caps), a growth bias (rather than value), and several *secular* growth companies (to balance the *cyclical* growth names). EQR has quintile scale of 1-5 (5 is best), while GQR has decile scale of 1-10 (10 is best)

Sabrient®

Talking Points Summary

➢ Model-driven, bottom-up, *"quantamental"* GARP selection process with forensic accounting review => *Tends to outperform when fundamentals drive investor sentiment rather than the news*

➢ 11.25-year outperformance despite 5 big drawdowns: 1Q2009, 2Q2011, 2H2015, 2H2018, 1Q2020

➢ After the first 6-1/2 years of Baker's Dozen outperformance (2009-1H2015), the rise of *Populism* starting in mid-2015 followed by *escalation in Trade Wars* in 2018 led to persistent risk-off investor preference for bonds, defensive sectors, and secular-growth Tech (i.e., **"new normal"** conditions)

➢ Market indexes still rose despite persistently cautious investor sentiment creating *historically large relative valuation divergence* favoring momentum/low-volatility/defensive/large cap over value/high-beta/cyclical/small-mid cap => Thus, passive *market-cap-weighted indexes greatly outperformed equal-weighted indexes* and most actively-selected portfolios

➢ But cyclicals showed intermittent readiness for recovery given dovish Fed, China trade progress, and US economic strength led by strong consumer; indeed *8/27/19-12/31/19 had risk-on rotation* into small caps, value, and cyclicals => *boosting Sabrient portfolios* … until **COVID-19** took hold

➢ Historic rebound from 3/23/20 low, with *strong breadth led by risk-on cyclical sectors and smaller caps* – although may have been temporarily upended by threats of new tariffs to punish China

➢ In response to "new normal" market, **we enhanced our selection process** by implementing:
    (1) *Guardrails against extreme sector "tilts"* relative to the benchmark S&P 500's allocations
    (2) Our new *Growth Quality Rank (GQR)* as enhancement to GARP model *to boost all-weather performance*

➢ What can go wrong?
    (1) Consensus forward EPS estimates in our model are slashed **(COVID-19 has changed everything!!)**
    (2) Fickle investors ignore the fundamentals on which we based our rankings

Sabrient®

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

Sabrient®

Disclaimer

Sabrient®