

PERFORMANCE & POSITIONING

Sector Select Risk-Managed (SSRM) began the quarter defensively positioned with a ~30% sector allocation following the global equity sell-off that rattled markets in late 1Q. This sector exposure and overall defensive posture held for the month of April as equity volatility remained elevated – as measured by the CBOE Volatility Index (VIX or “Fear Index”). In response to the equity rally off the market bottom, the model added Industrials, Materials and Technology exposure in early May while eliminating some defensive sector positioning. These shifts were reflective of the risk-on sentiment returning to capital markets as well as falling levels of expected volatility but continued virus, political and economic uncertainty still warrants exposure to defensive sectors. Late in the quarter, the model shifted back to less economically sensitive sectors and reduced its sector allocation to ~30%.

Throughout 2Q the model held ~5% in its precious metals allocation serving as a structural hedge to other asset classes. Other defensive positioning within Sector Select Risk-Managed during the quarter was reflected by allocations to short-duration bonds, U.S. treasuries and cash equivalents. These assets are historically uncorrelated with U.S. equities and serve to diversify the model’s risk exposures. The inherent risk-management framework of the strategy seeks to minimize drawdowns, as seen during the global equity rout earlier this year. Amid the sell-off in 1Q, SSRM experienced a maximum drawdown of -5% vs -34% for the S&P 500 Index. The strategy’s flexibility to rapidly de-risk through tactical allocations helped SSRM to limit the downside risk earlier in the year.

In 2Q 2020 the Sector Select Risk-Managed composite returned 5.84% gross (+5.57% net) versus a S&P 500 Index up 20.54% and a S&P 500 Trend Allocator Index returning 0.77%. Over this same period, the S&P 500 Equal Weighted Index added 21.73% as larger allocations to Energy and Materials drove outperformance vs the market cap weighted index. Since inception, SSRM has added 6.99% gross (+5.82% net) versus 13.19% for S&P 500 and 7.26% for the S&P 500 Trend Allocator.

Annualized Returns as of June 30, 2020

	2Q '20	1 Yr	3 Yrs	5 Yrs	7 Yrs	Since Incep
SSRM Composite (Gross)	5.84	3.53	3.28	2.12	5.09	6.99
SSRM Composite (Net)	5.57	2.38	2.22	0.94	3.89	5.82
S&P 500 Index	20.54	7.51	10.73	10.73	12.13	13.19
S&P 500 Trend Allocator Index	0.77	-13.82	-1.60	2.66	5.77	7.26

3 Yr Risk Analysis as of June 30, 2020

	Annualized Std Dev	Beta	Alpha	Sharpe Ratio	Max Draw-down
SSRM Composite (Gross)	8.76	0.41	-1.12	0.18	-9.59
SSRM Composite (Net)	8.68	0.40	-2.05	0.06	-10.71
S&P 500 Index	16.71	1.00	-	0.54	-19.60
S&P 500 Trend Allocator Index	14.56	0.68	-5.05	-0.01	-22.90

Source: Factset, monthly data for the composite and indices shown.

S&P 500 Equal Weighted Sectors Returns as of June 30, 2020

	2Q '20	1 Yr	3 Yrs	5 Yrs	7 Yrs	Since Incep
Consumer Discretionary	33.0%	-13.4%	0.6%	1.6%	5.8%	8.1%
Consumer Staples	10.1%	4.0%	5.6%	7.7%	10.2%	11.8%
Energy	41.5%	-40.2%	-16.6%	-13.1%	-10.3%	-8.1%
Financials	19.6%	-11.6%	0.6%	6.4%	8.7%	11.3%
Health Care	17.6%	10.7%	9.6%	7.8%	14.1%	15.9%
Industrials	22.1%	-3.1%	5.5%	8.6%	10.8%	12.1%
Information Technology	25.6%	14.4%	18.7%	19.0%	19.5%	20.9%
Materials	25.2%	-4.7%	3.7%	5.8%	8.8%	8.9%
Real Estate	14.5%	-9.0%	2.6%	-	-	-
Communication Services	22.2%	-1.3%	3.7%	1.8%	4.0%	4.4%
Utilities	3.6%	-4.8%	5.8%	10.3%	10.2%	10.8%

Index Returns – all shown in US dollars

All returns shown trailing 6/30/2020 for the period indicated. “YTD” refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The S&P 500 index is comprised of large capitalized companies across many sectors and is generally regarded as representative of US stock market and is provided in this presentation in that regard only.
- The S&P 500 Trend Allocator index is designed to track the performance of a systematic trend-dependent strategy allocating between the S&P 500 and cash, based on price trends

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance to certain asset classes. Index performance used throughout is intended to illustrate historical market trends and performance. Indexes are managed and do not incur investment management fees. An investor is unable to invest in an index. Their performance does not reflect the expenses associated with the management of an actual portfolio. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk including loss of principal. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market. Past performance is no guarantee of future results.

Key Indicators

Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to equity markets.

- The US 10-Year Treasury Yield (%)/bps, is the return on investment for the U.S. government’s 10-year debt obligation and serves as a signal for investor confidence.
- SPDR Gold Trust Price (\$), is an investment fund that reflects the performance on the price of a gold bullion, less the Trust’s expenses.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange’s oil futures contract.
- CBOE Volatility Index (Level)/% Change, which uses price options on the S&P 500 to estimate the market’s expectation of 30-day volatility.

Sector Select Risk-Managed: Composite Definition & Disclosure

The Sector Select Risk-Managed Composite has an inception date of November 30, 2012 and consists of all fee-paying, fully discretionary accounts under active management at WST that adhere to the Sector Select Risk-Managed strategy. The strategy seeks to deliver the returns of the WSTCM Sector Select Risk-Managed Index (WSTE – Bloomberg Symbol), a public index published by Bloomberg and calculated by Standard & Poor’s Custom Indices. WSTE index is comprised of the “Sector Segment” made up of any combination of the primary sectors of the S&P 500® Index represented by the Guggenheim Equal Weighted S&P 500 sector ETF’s and the “Alternate Segment” composed of U.S. Treasury Inflation Protected Notes, PIMCO Total Return (an actively managed bond fund), gold, and Investment Grade Floating Rate Notes. The portfolio may represent any combination of the two segments or 100% of the “Alternate Segment.” This strategy is generally implemented through the trading of mutual funds or exchange-traded funds. Prior to December 31, 2016, the Sector Select Risk-Managed strategy was referred to by WST as the WST Asset Manager – U.S. Equity strategy. The composite was created October 2016. The composite is measured against the S&P 500 Index and has the S&P 500 Trend Allocator Index as a secondary benchmark. The S&P 500 Index is a market capitalization weighted index, including reinvestment of dividends and capital gains distributions that is generally considered representative of U.S. stock market. The S&P 500 Trend Allocator Index is designed to track the performance of a systematic trend-dependent strategy allocating between the S&P 500 and cash, based on price trends. If the S&P 500 is observed to be in a positive trend, then the index is allocated to the S&P 500, otherwise, it is allocated to cash.

General Disclosure

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