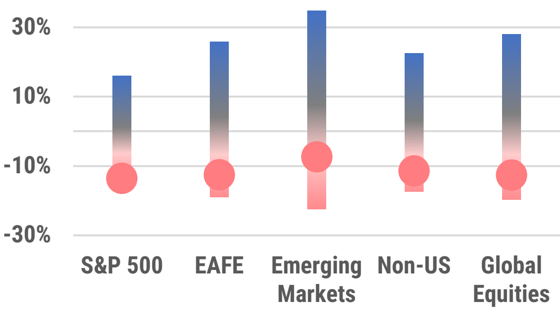
4Q 2018 | Global Equity Markets Review

WST CAPITAL MANAGEMENT

Executive Summary

The fourth quarter saw global stocks suffer their worst result since 2011, and their second-worst result since the current bull market began in March 2009. US shareholders were harshly reacquainted with volatility, which had essentially dissolved during 3Q as markets pushed past highs achieved earlier in the year. Ultimately 4Q was the most dramatic chapter thus far in a story that has plagued investors with varying intensity throughout 2018: increasing signs of global economic slowdown, the impact of shifts in US monetary policy and the US-China Trade War. Global stocks fell 12.7% in the quarter, closing out 2018 down 8.9%.

Quarterly Returns: Best, Worst & 4Q
10 Years Ended December 31, 2018

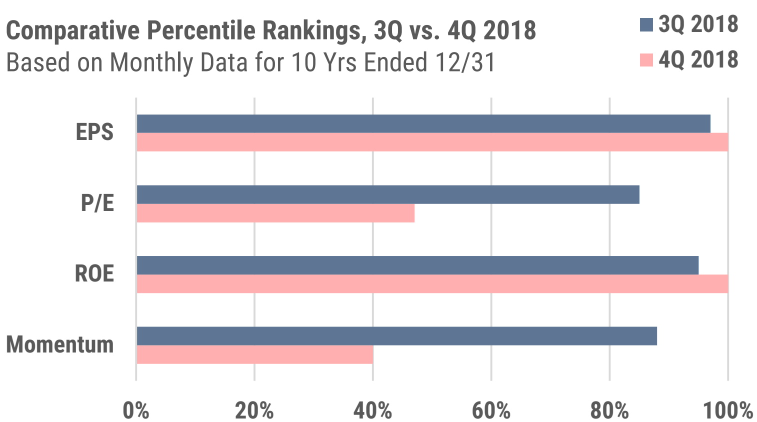


The US led equities lower as the S&P 500 – suffering its worst monthly return since February 2008 – fell 9.0% in December to end the quarter down 13.5% and the year down 4.4%. The sell-off gained in severity further down the capitalization spectrum, and the equal-weight S&P underperformed. From a sector perspective only equal-weight Technology and Communication Services outperformed, reflecting heavy losses among the exact names that headlined much of the upside earlier in the year: Apple, Facebook, Google and Microsoft saw double-digit losses and cost the S&P a combined 240 basis points. The Russell 2000 fell 11.9% in December alone, correcting substantially over the quarter and ending the year down 11%.

As shown in the percentiles chart at right, sentiment (i.e., anxiety) and not fundamentals seem to drive such negative outcomes in US equity. Measured by percentile relative to the prior 10 years of monthly data, S&P 500 EPS and ROE improved, in fact, between 3Q and 4Q. P/Es contracted sharply and price momentum dissolved in short order, however.

Developed ex-US markets, as measured by the MSCI EAFE, fell approximately 12.5% during the quarter, reflecting fragile confidence in Eurozone economic prospects as well as political instability.

Comparative Percentile Rankings, 3Q vs. 4Q 2018
Based on Monthly Data for 10 Yrs Ended 12/31



Emerging market shares, as measured by the MSCI Emerging Markets Index, interestingly were spared much of the pain and fell just 7.6% despite a -10.7% return for China, which represents just less than a third of the index. Headed into 4Q emerging stocks lagged the S&P by over 18% on both a year-to-date and 1-year basis - that deficit was cut nearly in half in the course of a quarter, with emerging steadily gaining in relative strength as global markets fumbled. Disaggregating MSCI EM Index performance in December – the strongest relative showing during the quarter - shows losses of less than 2% in Korea, Taiwan and Brazil (together a third of the index), while India and South Africa – together around 15% - were only modestly negative. Outside of China and other Asian countries caught in the trade war cross-fire, emerging economies appear to be benefitting from a combination of inflection points, better-performing local currencies and a moderated guidance by the US Fed.

Comparative Index Returns (%)	1 Mo.	3 Mo.	1 Yr.
S&P 500 Index	-9.0	-13.5	-4.4
S&P 500 Equal-Weight Index	-9.7	-13.9	-7.6
S&P 500 Growth Index	-8.6	-14.7	0.0
S&P 500 Value Index	-9.5	-12.0	-9.0
Russell Mid Cap Index	-9.9	-15.4	-9.1
Russell 2000 Index	-11.9	-20.2	-11.0
S&P MLP Index	-9.0	-17.8	-11.7
MSCI EAFE Index	-4.8	-12.5	-13.4
MSCI Emerging Markets Index	-2.6	-7.4	-14.2
MSCI All Country World Index	-7.0	-12.7	-8.9
MSCI ACWI ex-US Index	-4.5	-11.4	-13.8
BBg Barc US Aggregate Bond Index	1.8	1.6	0.0
BBg Barc US Corporate High Yield Index	-2.1	-4.5	-2.1
60% MSCI ACWI/ 40% BBg Barc US Agg Bond	-3.5	-7.0	-5.2

S&P Global BMI Sector Returns (%)	1 Mo.	3 Mo.	1 Yr.
Consumer Discretionary	-7.1	-15.2	-10.4
Consumer Staples	-6.1	-6.8	-10.0
Energy	-9.5	-21.6	-14.5
Financials	-7.9	-11.8	-14.7
Health Care	-8.4	-11.1	1.6
Industrials	-8.1	-16.0	-15.0
Information Technology	-7.7	-17.0	-5.9
Materials	-3.8	-13.9	-16.8
Communication Services	-6.2	-11.8	-14.6
Utilities	-2.0	0.6	1.7
Global Property	-4.7	-5.1	-7.0

Key Indicators	Current	1 Mo. Change	YTD Change
US 10-Year Tsy Yield (%)/ bps	2.68%	-33	+25
SPDR Gold Trust Price ($)	$121	+$6	-$2
WTI ($/ bb)	$45	-$5	-$15
VIX (Level)/ % Change	25.42	+41%	+130%

Source: FactSet for all index and market data, with all index returns shown in US dollars in table as of December 31, 2018. For index and key indicators definitions, please see notes & disclosures. Chart source: FactSet, showing the S&P 500 EPS (LTM), P/E (LTM), ROE, and price momentum (an average of the 3-, 6-, 12-, 36 and 72-month price change) statistics as of 12/31/2018 as a percentile relative to the previous 10 years' worth of monthly data.

4Q 2018 | Sector Select Risk-Managed Review

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Performance & Positioning Recap

In 4Q18 the Sector Select Risk-Managed (SSRM) composite returned -9.5% gross (-9.7% net), versus an S&P 500 Index that fell 13.5% and an S&P 500 Trend Allocator Index down 7.6%. For the full year, the strategy declined 4.8% gross (-5.7% net), roughly in line with the -4.4% return for the S&P 500 and lagging the S&P 500 Trend Allocator Index's 0.72% return.

Consistent with positioning throughout the prior quarter, SSRM opened 4Q invested moderately from an asset-class perspective, with just 70% in equities across a 48% Energy overweight and 10% in Health Care and Technology. We note that during this time the Alternate Segment held a significant proportion in floating-rate fixed income and only the minimum aggregate 10% across core bonds and gold. Such an allocation allows the strategy to allocate away from US equity without either adding significant duration or simply holding cash.

At the end of October - in response to deteriorating momentum trends - the strategy rotated within equity, overweighting Consumer Staples, allocating to Utilities and retaining Health Care exposure at 10%. This positioning held until an intra-month rotation in the final days of November, whereby the 48% Consumer Staples position gave way to floating-rate fixed income, bringing equity exposure to just 20% (across Utilities and Health Care). The model subsequently swapped Utilities exposure for Technology with the month-end rotation.

SSRM held roughly 68% in floating-rate fixed income, 5% in aggregate fixed income, 5% in gold and 10% each in Technology and Health Care throughout December and until the final two sessions of 4Q, at which time the model rotated into a completely defensive posture (i.e., 100% bonds, cash and gold) and adjusted within the risk-off segment, eliminating floating rate and extending duration in response to a rally in core bonds.

Attribution

In 4Q versus the S&P 500, effects from SSRM's positioning – i.e., the impacts of asset class selection and sector selection, within equity – were mixed. Security selection effects were negative due primarily to equal-weight exposure in equity.

--- Positioning

The principal driver from a positioning perspective was the Alternate Segment, a "risk-off" allocation intended to provide a simple hedge against equity market movement, as it comprises assets that exhibit historically low or inverse correlation to the S&P 500. With the S&P 500 down substantially during the quarter, the impact of positioning in non-equity securities (i.e., a gold fund, core and floating-rate bond funds and cash) was a significant contributor. Within equity, positioning impacts were mixed but overall bore the negative impact of the Energy overweight held in October as the sector collapsed. Although the Consumer Staples and Utilities exposures were positive during the strategy holding periods, overweights were not constructive. An underweight to Health Care and lack of exposure to Real Estate, Materials and Financials – all outperforming sectors – detracted. The strategy received support from its Technology underweight and lack of exposure to Industrials and Consumer Discretionary, which underperformed.

--- Security selection

In a comparison of the market-weight and equal-weight indices, equal-weight exposure was a headwind in 4Q with the notable exceptions of Technology and Communication Services, which had outsized exposure to especially painful losses for Apple and Facebook. Equal-weight Technology did, however, detract nominally from SSRM relative performance during its specific holding period. In Energy and Health Care, the impact of hard-hit smaller names was especially pronounced and the two sectors detracted on the basis of security selection. Utilities and Consumer Staples moderately outperformed. Security selection in the Alternate Segment was supportive overall, as cash, gold, core bonds and floating-rate fixed income outperformed equity markets.

Source for all performance and attribution information: FactSet, S&P, as of December 31, 2018. Attribution analysis performed on an account that has been designated as the representative account for the SSRM composite, and was selected on the basis of non-performance factors such as longevity, stability, minimal flows and adherence to the model. Please see notes & disclosures for composite definition and other important information.

Notes & disclosures

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Index Returns – *all shown in US dollars*

All returns shown trailing 12/31/2018 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® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The S&P 500 equal-weight index (S&P 500 EWI) series imposes equal weights on the index constituents included in the S&P 500 that are classified in the respective GICS® sector.
- The S&P 500 Growth Index is comprised of equities from the S&P 500 that exhibit strong growth characteristics and is weighted by market-capitalization.
- The S&P 500 Value Index is a market-capitalization weighted index comprising of equities from the S&P 500 that exhibit strong value characteristics such as book value to price ratio, cash flow to price ratio, sales to price ratio, and dividend yield.
- The Russell 3000 Index tracks the performance of 3000 U.S. corporations, determined by market-capitalization, and represents 98% of the investable equity market in the United States.
- The Russell Mid Cap Index measures the mid-cap segment performance of the U.S. equity market and is comprised of approximately 800 of the smallest securities based on current index membership and their market capitalization.
- The Russell Micro Cap Index is a market-capitalization weighted index that measures the performance of 2000 small-cap and mid-cap securities. The index was formulated to give investors an unbiased collection of the smallest tradable equities still meeting exchange listing requirements.
- The MSCI All Country World Index provides a measure of performance for the equity market throughout the world and is a free float-adjusted market capitalization weighted index.
- The MSCI EAFE Index is a market-capitalization weighted index and tracks the performance of small to large-cap equities in developed markets of Europe, Australasia, and the Far East.
- The MSCI Emerging Markets Index is a float-adjusted market-capitalization index that measures equity market performance in global emerging markets and cannot be purchased directly by investors.
- The S&P Global BMI sector indices are into sectors as defined by the widely used Global Industry Classification Standards (GICS) classifications. Each sector index comprises those companies included in the S&P Global BMI that are classified as members of respective GICS® sector. The S&P Global BMI Indices were introduced to provide a comprehensive benchmarking system for global equity investors. The S&P Global BMI is comprised of the S&P Emerging BMI and the S&P Developed BMI. It covers approximately 10,000 companies in 46 countries. To be considered for inclusion in the index, all listed stocks within the constituent country must have a float market capitalization of at least $100 million. For a country to be admitted, it must be politically stable and have legal property rights and procedures, among other criteria.
- The Barclay's US Aggregate Index, a broad based unmanaged bond index that is generally considered to be representative of the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

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.

Notes & disclosures (Continued)

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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.

Valuations are computed and performance is reported in U.S. dollars. Returns are presented gross and net of management fees and include the reinvestment of all income and dividends. Net of fee performance was calculated using actual management fees. Some accounts in the composite pay a "wrap fee" which is an all-inclusive or bundled fee based on a percentage of assets under management and may include investment management services, transaction costs/brokerage commissions, portfolio monitoring, consulting services, and custodial services. Gross performance results for wrap accounts in the composite are gross of the entire wrap fee as transaction expenses have not been deducted. Past performance is not a guarantee of future results. Market indices are unmanaged and do not reflect the deduction of fees or expenses. You cannot invest directly in an index such as these and the performance of an index does not represent the performance of any specific investment strategy. We consider an index to be a portfolio of securities whose composition and proportions are derived from a rules based model. Investment advisory fees are described in Wilbanks Smith & Thomas Asset Management, LLC's Form ADV 2A. To illustrate the possible effect of fees on the total return of an account, what follows is an illustration: A client investing in the comparative index S&P 500 over the last 10 years (as of December 31, 2015) would have earned 7.31% return on an annualized basis. With the effect of fees at 2.00% per year, this client can then expect their net return to be 5.16% per year compounded over the same time period.

This commentary also includes performance figures for the SPDR Gold Trust (GLD), which is held in the SSRM model but in this case is used as a proxy for the performance of the asset class, given the security's prominence as a means of accessing exposure to the asset class. We believe use of this proxy is appropriate in the context of providing our clients and Advisors with relevant information about markets. We consider an index to be a portfolio of securities whose composition and proportions are derived from a rules-based model. See the appropriate disclosures regarding models, indices and the related performance. You cannot invest directly in an index and the performance of an index does not represent the performance of any specific investment. Some of the information enclosed may represent opinions of WST and are subject to change from time to time and do not constitute a recommendation to purchase and sale any security nor to engage in any particular investment strategy.

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