

## EXECUTIVE SUMMARY

September results may have teased long-awaited equity rotations – with value topping growth, small-cap outperforming and signs of life observed in ex-US stocks – but 3Q overall evidenced the same themes and performance drivers from 2Q. Albeit more acute in 3Q, equity performance patterns were comparable; as shown in the below chart, markets opened each quarter on a positive note before selling off mid-period and ultimately bouncing back on continued accommodation by central banks.

US large cap, as measured by the S&P 500, led equity markets with a gain of 1.7% during the period, exhibiting an interesting mix of positive momentum in value and negative momentum in smaller names. Global equities posted a return of 0.1%, propped up entirely by the US as developed international stocks (as measured by the MSCI EAFE) shed one percentage point and emerging markets fell 4.1%, combining for a negative USD result outside the US. Global yields rose in September but with further easing and stimulus globally, bonds rose during the quarter overall (+0.7% for the Global Aggregate), besting stocks.

Following an overall positive result in a quiet July, August saw volatility uncorked and equity markets capitulate as the US-China Trade War escalated and investors connected the dots between worrying aspects of the global macro picture. The month's day-to-day progress seemed to reflect a mix of profit-taking and more decisive risk-off selling as investors weighed the adequacy of a Fed-led global monetary pivot against mounting pressure from various trade skirmishes and structural headwinds globally. Bonds rallied and the US 30-year Treasury notched an all-time closing low, dipping below 2%. The Treasury trade retraced a bit in mid-September, posting a technical correction as equities strengthened over several sessions, but the 10-year yield ultimately closed the quarter down around 30 basis points.

As shown in the below chart, from a trading perspective August's result was less of a gradual slide than it was a ping-pong match between short-term support and resistance; 11 of the month's 22 trading sessions closed up or down 1% or greater (16 saw intra-day moves greater than 1%), and the S&P averaged (in absolute terms) a daily move of 1.11%. The CBOE VIX Index – or so-called "Fear Index" – on August 5<sup>th</sup> hit 25, roughly the level seen in an October 2018 sell-off that preceded a more comprehensive meltdown in December. September, by contrast, saw just two sessions with moves greater than 1% and averaged (in absolute terms) a daily move around 40 basis points, while the VIX traded in much more modest range.

Results were mixed at the global sector level, clearly articulating pain points relative to the US-China Trade War (strong September rallies couldn't undo August's damage in the Industrials, Materials and Energy sectors). Health Care, which fell 2.2% during the quarter, was the only sector to post negative returns in each month (including an August sell-off where other defensive industries posted gains); the sector has struggled with US politics-driven pressure on the outlook.

US stocks fared better than ex-US peers, with a long-disfavored value factor driving excess upside in the two positive months (but underperforming growth significantly in August). The equal-weight S&P 500 index (+0.8%) lagged the cap-weighted index, as did mid-caps (+0.5%); small caps (-2.4%) declined outright. All said, disaggregated US equity performance clearly articulated a rotation to pure value characteristics; case in point, in September the S&P 500 Pure Value Index (a concentrated index with stricter value criteria) gained 6.1% vs. 3.7% for the traditional value index.

Currency was a major driver of international equity performance in 3Q, blunting or reversing positive numbers, exacerbating losses and driving country-level dispersion (between USD & local returns) as wide as 850 basis points at a country level – such as was observed in Brazil. Ex-US stocks overall returned -1.7% during the quarter, faring substantially worse in dollar than in local currency terms (+0.9%) as the USD strengthened against most currencies, including a devalued Chinese renminbi, struggling Indian rupee, sliding Brazilian Real and free-falling Argentine peso. July's currency spread (favoring the dollar) was nearly 150 basis points for that index, while August tacked on another 90 basis points of currency-driven dispersion. Developed international stocks, as measured by the MSCI EAFE, posted -1.0% for 3Q in USD terms but +1.8% in local terms, as Japanese Yen appreciation hedged some of the drag. While Hong Kong, roughly 4% of the EAFE index, felt only modest headwinds from USD strengthening, that country fell nearly 12% during a quarter marked by at times-convulsive pro-democracy protests. Currency impacts deepened modest losses in China, India and Brazil (each down around 5% USD), and the MSCI Emerging Markets Index fell around 4.1% USD (-1.9% local) for the quarter.

### Comparative Index Returns (%)

	1 Mo.	3 Mo.	YTD	1 Yr.
S&P 500 Index	1.9	1.7	20.6	4.3
S&P 500 Equal-Weight Index	3.1	0.8	20.1	3.4
S&P 500 Growth Index	0.3	0.7	21.1	3.2
S&P 500 Value Index	3.7	2.8	20.0	5.6
Russell Mid Cap Index	2.0	0.5	21.9	3.2
Russell 2000 Index	2.1	-2.4	14.2	-8.9
MSCI EAFE Index	2.9	-1.0	13.3	-0.8
MSCI Emerging Markets Index	1.9	-4.1	6.2	-1.6
MSCI All Country World Index	2.2	0.1	16.7	1.9
MSCI ACWI ex-US Index	2.6	-1.7	12.1	-0.7
BBg Barc US Aggregate Bond Index	-0.5	2.3	8.5	10.3
BBg Barc US Corporate High Yield Index	0.4	1.3	11.4	6.4
60% MSCI ACWI/ 40% BBg Barc US Agg Bond	1.1	1.0	13.6	5.6

### S&P Global BMI Sector Returns (%)

	1 Mo.	3 Mo.	YTD	1 Yr.
Consumer Discretionary	1.6	0.0	17.0	-0.7
Consumer Staples	0.8	3.4	17.7	9.7
Energy	4.7	-5.8	6.2	-16.7
Financials	4.8	-1.0	13.4	0.0
Health Care	-0.6	-2.2	8.2	-3.8
Industrials	3.0	-1.0	17.0	-1.7
Information Technology	1.8	2.2	28.4	6.6
Materials	2.5	-4.2	9.7	-5.5
Communication Services	0.2	0.1	15.3	1.7
Utilities	3.0	5.4	19.2	19.9
Global Property	2.3	3.5	19.0	13.0
MLP	2.7	6.0	23.2	16.4

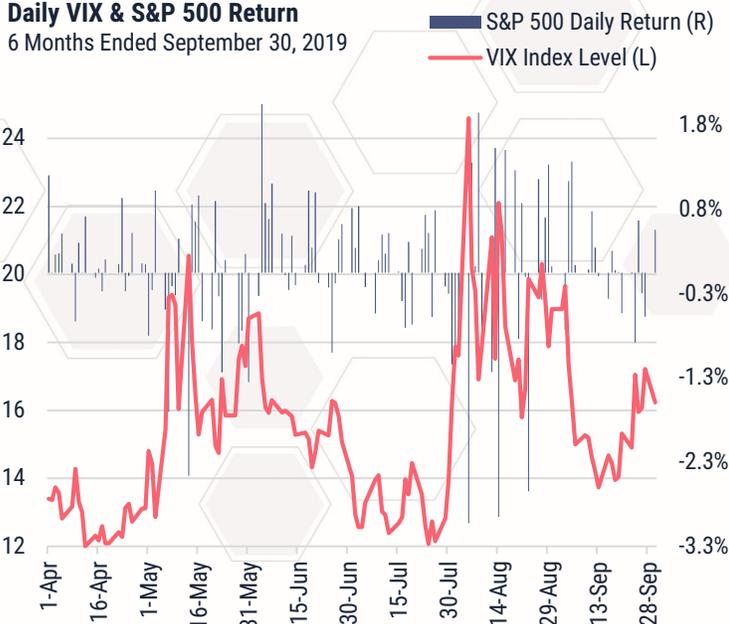
### Key Indicators

	Current	1 Mo. Change	3 Mo. Change	YTD Change	1 Yr. Change
US 10-Year Tsy Yield (%) / bps	1.68%	+18	-32	-101	-138
SPDR Gold Trust Price (\$)	\$139	-\$5	+\$6	+\$18	+\$26
WTI (\$/ bb)	\$54	-\$1	-\$4	+\$9	-\$19
VIX (Level) / % Change	16.24	-14%	+8%	-36%	+34%

Source: FactSet for all index and market data, with all index returns shown in US dollars in table as of September 30, 2019. Please see notes & disclosures.

### Daily VIX & S&P 500 Return

6 Months Ended September 30, 2019



## PERFORMANCE & POSITIONING

In 3Q 2019 the Sector Select Risk-Managed (SSRM) composite added 0.54% gross (0.25% net) versus an S&P 500 Index up 1.70% and a S&P 500 Trend Allocator Index up 1.19%. Year to date, SSRM has returned 3.15% gross (2.29% net) versus 20.55% for S&P 500 and 7.26% for the S&P 500 Trend Allocator.

SSRM opened 3Q just as it closed the prior quarter – in a moderate-growth investment posture, with roughly 78% in equity and the balance in a mix of gold, short-term investment grade and Treasuries and intermediate Treasuries. The strategy's sector composition (a 48% overweight to Consumer Staples, with 10% each in Health Care, Industrials and Utilities) reflected the model's desire to participate in the late-2Q equity market rally while tilting defensively within that exposure. The model closed July by swapping Industrials and Health Care for Materials and Financials, retaining the Utilities position and the Consumer Staples overweight.

Just three sessions into a highly volatile August, however, SSRM dropped Consumer Staples, bringing equity exposure to just 30% while adding to short- and intermediate Treasuries and short corporates. August ended with a rotation from Financials into Technology, and the model's final change (to end the quarter) was the exit of Materials and the pickup of Consumer Staples at 10%. Quarter-end positioning was roughly 30% in equity (Utilities, Consumer Staples & Technology), 5% in gold, a modest cash position and the balance in a bond mix tilted towards shorter duration and Treasuries.

Relative results speak to the cumulative opportunity cost of risk management in an environment where US equity investors evidence fragile confidence even as they push indices to new highs. As shown in the below chart, the equal-weight index has struggled to carry its own high, and its intermittent retreats have – in combination with strength in US bond markets – undermined our risk-managed model's conviction in the sustainability of upward momentum.

## Annualized Returns

as of September 30, 2019

	3Q '19	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
<b>SSRM Composite (Gross)</b>	0.54	3.15	-6.61	3.69	3.35	7.32
<b>SSRM Composite (Net)</b>	0.25	2.29	-7.59	2.55	2.13	6.15
<b>S&amp;P 500 Index</b>	1.70	20.55	4.25	13.39	10.84	13.81
<b>S&amp;P 500 Trend Allocator Index</b>	1.19	7.26	-0.87	10.05	5.64	9.89

## ATTRIBUTION

Versus the S&P 500, relative performance effects from SSRM's positioning – i.e., the impacts of asset class selection and sector selection, within equity – varied month-to-month but were overall negative. Security selection effects (i.e., the impact of holding equity-weight versus market-weight sector exposure) were mainly positive on a sector basis during respective holding periods.

### Positioning

The primary driver of relative performance was the strategy's asset class positioning – i.e., its underweight exposure to equity throughout the quarter but particularly in August. Invested at around 78% in July, SSRM posted roughly half of the S&P 500 Index return, with Consumer Staples (then-overweight at 48%) outperforming while the remaining sectors lagged. In August, after defensively repositioning during the first week of the month, the strategy outperformed by roughly 60 basis points a retracing S&P 500, with Consumer Staples and Utilities posting positive returns (while the newly added Materials and Financials positioned underperformed the market). September steepened the relative performance lag, however, as equity markets rallied. Although each of the sector holdings (Utilities, Financials and Materials) outperformed the market by over 300 basis points, contributions from the roughly 30% equity position were insufficient to outdo the nearly 200 basis point return for the S&P 500.

Throughout the quarter, an average of 51% of assets were invested instead in 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. While contributions from this segment (and in particular gold) were positive the allocation overall detracted from relative results stronger returns in equity.

### Security Selection

As the overweight position for all of July and part of August, Consumer Staples was the primary driver of absolute performance within equity; the equal-weight sector did outperform the broader S&P during the quarter, but cap-weight Staples outperformed equal-weight during the holding period. Utilities, at 10% for the entire quarter, outperformed the broader S&P 500 but detracted slightly on the basis of security selection as equal-weight underperformed by roughly 50 basis points. During the shared holding period (July), equal-weight Health Care outperformed while equal-weight Industrials underperformed.

Within the risk-off segment all holdings contributed positively on an absolute basis but, with the exception of gold, ultimately underperformed equity markets.

### S&P 500 Equal-Weight Index

Daily levels, 5 years ended September 30, 2019



## Index Returns – all shown in US dollars

All returns shown trailing 9/30/2019 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.

## 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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