4Q 2019 | Credit Select Risk-Managed Review

WST CAPITAL MANAGEMENT

PERFORMANCE & POSITIONING

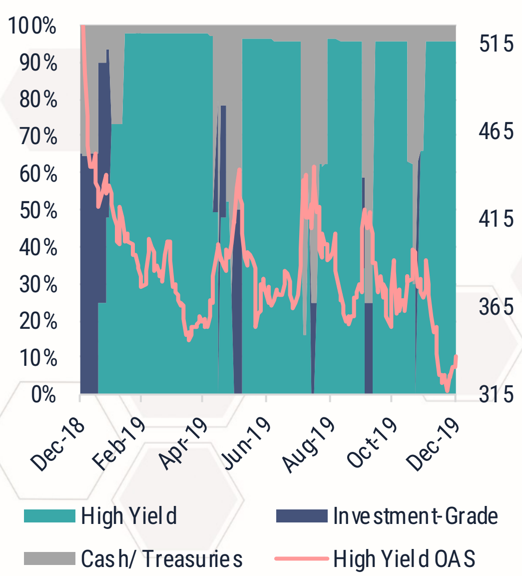
In 4Q 2019 the Credit Select Risk-Managed (CSRM) strategy returned 1.10% gross (0.86% net) versus a Bloomberg Barclays US Corporate High Yield Index that added 2.61% and a Bloomberg Barclays US Aggregate Bond Index that added 0.18%. CSRM wrapped 2019 with a gain of 5.86% gross (4.86% net) versus the high yield index up 14.32% and the US Aggregate up 8.72%.

4Q opened with US-China Trade headlines driving volatility in equities and riskier credit, widening spreads to levels last observed during the turbulent month of August. Having closed the prior quarter fully allocated, the strategy trimmed then fully eliminated high yield exposure through three trades in the first few sessions of October. CSRM re-entered high yield through two trades in the second week of that month and then was fully allocated until a mid-November risk flare-up prompted successive trims and, for one session, a full exit of high yield. The strategy re-risked again in the first December session; this positioning held for the month, seeing through a strong risk-asset finish to 4Q and 2019.

When allocated to high yield CSRM held its typical combination of "core" high yield ETFs – namely those larger, liquid names that best address the short-term market moves we aim to capture with short-term trading. That exposure is rounded out with more strategic beta with duration tilts or fundamental/ quality plays; those themes are expressed through, for example, an ETF focused on the "fallen angels" (issues recently downgraded from investment-grade status).

When out of high yield in 4Q, CSRM primarily held cash and front-end Treasuries, but in November there was a modest extension of duration through the use of rates products with 3-7 and 7-10 year maturity. These bets were balanced with ultra-short investment-grade and cash.

CSRM Allocations vs. High Yield OAS
Daily, Calendar Year 2019



Annualized Returns
as of December 31, 2019

	4Q '19	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incep
CSRM Strategy (Gross)	1.10	5.86	2.77	3.76	5.50	8.18
CSRM Strategy (Net)	0.86	4.86	1.78	2.70	4.15	6.76
BBg Barc US Corp HY Index	2.61	14.32	6.37	6.13	7.57	7.45
BBg Barc US Agg Bond Index	0.18	8.72	4.03	3.05	3.75	4.40

OBSERVATIONS & OUTLOOK

Investors wrapped the year - and indeed the decade - with a risk-on flourish that in our view conveyed equal parts relief and optimism: relief in what did not go wrong in 2019 and optimism around what may go right in 2020. Both perspectives are rooted in the swift actions throughout the year of central banks and fiscal policymakers to course-correct global fundamentals through coordinated monetary easing and fiscal stimulus.

Despite a busy trading environment for credit (high yield in particular, and high yield ETFs especially) these assets enjoyed unique advantages in the various environments of 2019. Supply/ demand dynamics in the current rate environment seem to have compressed the trading range for high yield even in risk sell-offs, while the category rallied just as robustly in the late-year economic upside surprise. For an asset class known for nasty, abrupt drawdowns, high yield in 2019 was a story of asymmetric upside that unfolded through fits and starts and busy trading behavior. Simply put, our underperformance in 2019 (and the three-year period) relative to the high yield index represents the cumulative opportunity costs of risk management in an asset class that has offered a relatively thin risk premium and in 2019 traded uneasily at times. Meanwhile the US aggregate was driven for most of the year by a major rally in Treasuries (roughly 45% of the index), steady results in securitized sectors and contributions from credit. Given the Fed pivot, duration proved a tremendous trade but scarcely available in high yield, where the benchmark sits at roughly half the duration of the aggregate index (around 7.9).

While 2019 was a tale of episodic volatility and range-bound trading for much of the year, December was a breakout month that may propose a direction for the next stretch of the cycle. With monetary policy setting the stage for a "lower-for-longer" trend-set across growth, rates and inflation, assets with real positive rates and decent carry will likely continue to bob within this range on the basis of structural forces (institutional demand, need for yield) and constructive fundamentals. With equity markets at all-time highs and investors still starved for yield despite some softening in core bond markets, major rotation away from high yield may be unlikely. Thus, as with last quarter but perhaps with more conviction, we believe a reasonable base case involves steady or modestly narrower spreads assuming stable Treasury rates.

We balance our constructive fundamental outlook with the reality that at press-time (mid-January) US junk spreads are roughly 10 basis points above the 10-year low achieved in October 2018 and roughly 80 basis points above the all-time low for index spreads, observed in 2007. The asset class features limited upside as a function of negative convexity, reflecting that a substantial share of issues are pricing at or above their next call price.

As a systematic strategy with roots in trend-following, however, Credit Select Risk-Managed is designed to allocate not based on our fundamental views but based on behavior of the space the strategy occupies and the assets it invests in. As we often explain and as it relates to expectations for strategy behavior in a low-premium, tight-spread environment, the "quant" mechanics of our approach are based off a proprietary market trend series focused on trading patterns in a universe of high yield ETFs and mutual funds. 2019 was a transformative year for bond ETFs, which saw record inflows and drove day-to-day fund volatility that is less apparent in the index, which captures a lower-churn population of issues that are bought and held by institutional investors. Secondly, the trend-driven decision is "calibrated" by spread conditions that, again, remain very tight. Taking into account these strategy mechanics and as evidenced in periods such as August and November, our risk-adjusted trend signal has been essentially on a knife-edge, with some allocation changes decided by single-digit spread moves. Should it occur, a permanent shift in the junk spread regime will be absorbed over time into the data-driven framework of our model and the model may trade at a different cadence; in the meantime, we would expect the model to remain sensitive to risks implied by even modest change in spreads.

Overall we do observe an alignment of at least a few stars for high yield, which is likely to do well in a pro-cyclical, rotational environment backed by improving fundamentals and low inflation. Buy-and-hold high yield is rarely a strategy for the faint-hearted investor, however, and as such we maintain conviction in the value of a risk-managed solution in the asset class – especially now. We appreciate your confidence in our strategy and welcome questions.

Source: WST, Orion, FactSet. The Credit Select Risk-Managed strategy has an inception date of March 31, 2006.

4Q 2019 | Fixed Income Market Review

WST CAPITAL MANAGEMENT

EXECUTIVE SUMMARY

With the global "risk-on" switch flipped by early signs of improvement in economic data and corporate performance, 4Q was overall positive for global bonds but pumped the brakes on the major rates-market rally of 2019. The Bloomberg Barclays Global Aggregate Bond Index added 49 basis points during the quarter, wrapping the year with a total return of 6.81%.

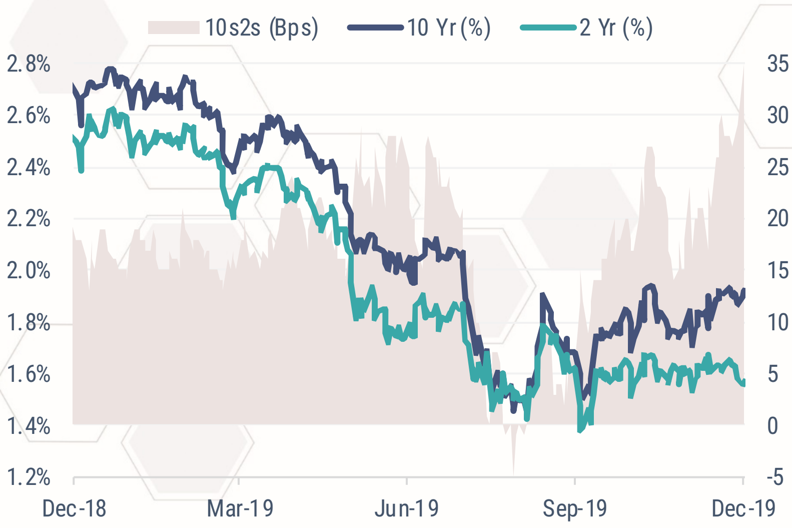
The retreat in US Treasuries occurred basically through two shifts in market dynamic. First, in November, against a backdrop of easing trade tensions, modest upward revision of 3Q GDP growth and a slight pickup in domestic manufacturing data, Federal Reserve Chair Powell characterized current monetary policy as "likely to remain appropriate," leading bond markets to reprice based on expectations of just one additional cut, in 2020. Having edged in October into "normal position" as measured by the 10s2s, the yield curve shifted up slightly but flattened overall during November. In December, however, continued runoff (mostly a function of a pro-risk shift thanks to mounting positives in the outlook for equities and riskier credit) was sufficient to shift up and steepen the curve. The 10s2s – which in August was, briefly and modestly, negative for the first time since 2007 – ended the quarter at 35 basis points, roughly a quarter of its 40-year average.

Retracement further out on the curve set back US aggregate bond performance, which shook out at just 18 basis points on the quarter (thanks largely to a continued drift up in corporates and securitized sectors). The index finished the year up a solid 8.68%, however; even after 4Q's technical correction the 30-year still rallied 15.67% during 2019, while the 10-year was up 8.68%. Investment-grade corporates – roughly a quarter of the index – saw momentum lost in the highest-quality issues during 4Q but overall contributed generously to US market results, posting total returns of 1.18% in 4Q and 14.48% for the full year. Also roughly a quarter of the index, mortgage-backed securities added 71 basis points in 4Q and 6.33% in 2019.

Developed ex-US sovereigns (a segment of bonds issued in local currency by Japan, Australia, Canada and various European countries) gave back 2% during the quarter, reducing by around 30% the share of global negative-yielding debt from its August peak ($16.8 trillion). While their currencies strengthened vs the dollar, Japan, Germany and the UK saw the biggest upward shifts in yield as improved economic outlook nudged investors out of safe-haven assets and into the arguably underbought equity markets in those countries.

Emerging market sovereigns were the biggest winners globally in 4Q, adding 3.55% and closing out the year up 8.09%. With yields above 5% for both USD-denominated and local-currency issues alike, emerging markets debt was an unsurprising beneficiary in the risk-on mood at the end of the quarter, and local debt benefitted additionally from US dollar weakening.

10s2s: Tight But Trended Wider in 4Q 2019
Treasury Yields & Spread



Index Total Returns (%)	1 Mo.	3 Mo.	1 Yr.	3 Yr.
BBg Barc Global Aggregate	0.58	0.49	6.81	4.26
BBg Barc Global Aggregate ex-US	1.09	0.67	5.07	4.34
BBg Barc US Aggregate	-0.07	0.18	8.68	4.02
BBg Barc US Intermediate Aggregate	0.17	0.47	6.64	3.25
S&P Global Dev. Sov. ex-US Bond Index	-0.70	-2.01	4.00	1.83
S&P Eurozone Dev. Sovereign Bond	0.88	0.17	4.19	4.51
S&P Pan-Europe Dev. Sovereign Bond	0.94	0.74	5.37	4.60
ICE BofAML Emerging Markets Sov. Bond	2.10	3.55	8.09	5.67
S&P U.S. Current 2-Year Tsy Bond Index	0.19	0.41	3.28	1.61
S&P U.S. Current 10-Year Tsy Bond Index	-1.15	-1.87	8.68	3.61
S&P U.S. Current 30-Year Tsy Bond Index	-3.70	-5.21	15.67	7.31
BBg Barc US Floating Rate Notes (<5 Yr)	0.24	0.79	4.01	2.66
S&P US Treasury TIPS	0.41	0.64	8.11	3.26
BBg Barc Municipal Bond Index	0.31	0.74	7.51	4.71
BBg Barc Global Aggregate - Corporate	0.86	1.79	11.47	5.45
BBg Barc US Investment Grade Corporate	0.32	1.18	14.48	5.90
BBg Barc US Corporate (AA)	-0.08	0.20	10.49	4.77
BBg Barc US Corporate (BBB)	0.18	0.93	13.60	-
BBg Barc US Corporate High Yield	2.00	2.61	14.26	6.35
S&P/LSTA Leveraged Loan	1.69	2.25	10.61	4.33
BBg Barc Global Agg Securitized - US MBS	0.28	0.71	6.33	3.24
BBg Barc Global Agg Securitized - US ABS	0.11	0.39	4.51	2.60

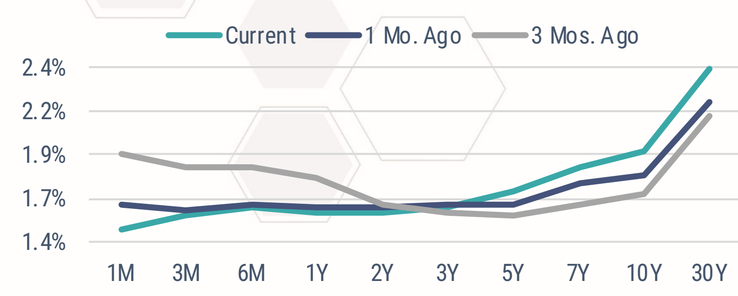
Key Rates (%/ bps)	Current	1 Mo. Change	3 Mo. Change	1 Yr. Change	3 Yr. Change
US 3 Month	1.55	-3	-27	-90	+109
US 2 Year	1.57	-3	-4	-93	+37
US 5 Year	1.69	+7	+14	-82	-32
US 10 Year	1.92	+14	+24	-77	-56
US 30 Year	2.39	+19	+27	-63	-69
1 Month USD LIBOR	1.76	+7	-25	-74	+99
3 Month USD LIBOR	1.91	+0	-18	-90	+91
6 Month USD LIBOR	1.91	+2	-14	-96	+59
12 Month USD LIBOR	2.00	+4	-4	-101	+31

Credit Spreads (bps)	Current	1 Mo. Change	3 Mo. Change	1 Yr. Change	3 Yr. Change
US Corporate OAS	48	-6	-9	-35	-28
US Corp. High Yield OAS	336	-34	-37	-190	-73

Key Indicators	Current	1 Mo. Change	3 Mo. Change	1 Yr. Change	3 Yr. Change
10 Yr-2-Yr Tsy Spread (bps)	35	+17	+28	+16	-72
WTI ($/ bb)	$61.14	+$3.02	+$7.05	+$15.99	+$7.39
Core CPI	266	+.6	+1	+6	+16
Brk. Inflation: 5 Yr %/ bps	1.62%	+7	+23	+1	-20
Brk. Inflation: 10 Yr %/ bps	1.72%	+8	+14	-11	-22

Source for above: FactSet for all index and market data, shown in USD as of December 31, 2019 except for Core CPI (shown as of 11/30/2019).

Shifts in US Treasury Yield Curve



Notes & Disclosures

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Index Returns – *all shown in US dollars*
All returns shown trailing 12/31/2019 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 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 ICE BofAML Emerging Markets Sovereign Bond Index is a subset of The BofA Merrill Lynch World Sovereign Bond Index excluding all securities with a country of risk that is a member of the FX G10, all Western European countries, and territories of the U.S. and Western European countries. The FX G10 includes all Euro members, the U.S., Japan, the U.K., Canada, Australia, New Zealand, Switzerland, Norway, and Sweden.
- The Bloomberg Barclays Global Aggregate Index, which measures global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
- The S&P Global Developed Sovereign Bond index includes local-currency denominated debt publicly issued by governments in their domestic markets.
- S&P Eurozone Developed Sovereign Bond - seeks to measure the performance of Eurozone government bonds.
- The S&P Pan-Europe Developed Sovereign Bond Index is a comprehensive, market-value-weighted index designed to track the performance of local currency-denominated securities publicly issued by Denmark, Norway, Sweden, Switzerland, the U.K. and developed countries in the Eurozone for their domestic markets.
- ICE BofAML Emerging Markets Sovereign Bond - tracks the performance of US dollar (USD) and Euro denominated emerging markets non-sovereign debt publicly issued within the major domestic and Eurobond markets.
- The Bloomberg Barclay's US Corporate Bond Index (AA), which measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- Bloomberg Barclay's Global Aggregate Securitized- US Mortgage-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and measures investment grade mortgage backed pass-through securities of GNMA, FNMA, and FHLMC.
- Bloomberg Barclay's Global Aggregate Securitized- US Asset-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and includes the pass-throughs, bullets, and controlled amortization structures of only the senior class of ABS issues.
- The Blomberg Barclay's US Floating Rate Notes (<5 Yr) Index, measures the performance of U.S dollar-dominated, investment grade floating rate notes with maturities less than 5 years.
- The Bloomberg Barclay's Municipal Bond Index, which measures investment grade, tax-exempt bonds with a maturity of at least one year.
- The S&P/ LSTA Leveraged Loan Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

Key Rates & Indicators
Key Rates are shown for US Treasurys and London Interbank Offered Rate (LIBOR), the interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market. LIBOR is a key benchmark rate that reflects how much it costs banks to borrow from each other. "Current" refers to the percentage rate as of 6/30/2018, while the rates of change are stated in basis points. Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to fixed income markets.

- 2s10s (bps)/ 10 Yr vs 2 Yr Treasury Spread, which measures the difference between yields on 10-Year Treasury Constant Maturity Securities and 2-Year Treasury Constant Maturity Securities.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange's oil futures contract.
- Core Consumer Price Index, which measures the consumer price index excluding food and energy prices. Shown as of the prior month-end.
- Breakeven Inflation: 5 Yr %/ bps, which uses 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation–Indexed Constant Maturity Securities to derive expected inflation.
- Breakeven Inflation: 10 Yr %/ bps, which uses 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation–Indexed Constant Maturity Securities to derive expected inflation.

Credit Select Risk-Managed: Strategy Definition & Disclosure
The Credit Select Risk-Managed Strategy has an inception date of March 31, 2006 and consists of fee-paying, fully discretionary accounts under active management at WST that adhere to the Credit Select Risk-Managed strategy. The strategy has the flexibility to invest in any combination of high yield bonds, intermediate U.S. Government securities, and short-term treasuries, or 100% in short-term treasuries. This strategy is generally implemented through the trading of mutual funds or exchange-traded funds. Prior to January 1, 2011 accounts that used exchange traded funds were excluded from the strategy group of accounts, only accounts that traded open end mutual funds were included. Beginning January 1, 2011, the strategy group of accounts includes accounts using open end mutual funds and exchange traded funds. Eligible accounts are included in the strategy group of accounts in the month following the month of account inception. Closed accounts are included through the completion of the last full month. Prior to December 31, 2016, the Credit Select Risk-Managed strategy was known as WST Asset Manager – U.S. Bond. Prior to December, 2009, the Credit Select Risk-Managed Strategy was referred to by WST as the DAA High Yield Strategy, from December 2009 to December, 2012, it was referred to by WST as the WST Dynamic Total Return Strategy, and from December 2012 to May, 2013, as the Dynamic Portfolio Manager – Total Return Bond Strategy. Results portrayed reflect the reinvestment of dividends, capital gains and other earnings when appropriate. During the period(s) shown, there were no material market or economic conditions which affected the results portrayed. With the exception of several market corrections during the period(s), the overall market as measured by the S&P 500 was generally rising. If such trends are broken, the clients may experience real capital losses in their managed accounts. The performance results portrayed during the period: 3/31/2006 (strategy inception)-12/31/2010 relate only to a limited group of the adviser's clients selected based on suitability and risk tolerance. This factor would not have a material effect on performance but could lead to the termination of the strategy group of accounts in the event of significant outflows.

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