

## PERFORMANCE & POSITIONING

In 4Q 2019 the Sector Select Risk-Managed (SSRM) composite added 1.94% gross (1.65% net) versus an S&P 500 Index up 9.07% and a S&P 500 Trend Allocator Index also up 9.07%. SSRM returned 5.15% gross (3.99% net) for the calendar-year period versus 31.5% for S&P 500 and 18.42% for the S&P 500 Trend Allocator.

Having de-risked in mid-August from a broader equity position, SSRM opened 4Q allocated conservatively, with roughly 30% in equity evenly across Utilities, Consumer Staples and Technology. The Alternate Segment held 5% in gold alongside a modest cash position and the balance in a bond mix tilted towards short and intermediate Treasuries, plus a credit-focused short-duration product. There were no trades during the quarter.

Relative results in 4Q and 2019 overall speak to the cumulative opportunity cost of top-down risk management in an environment where US equity investors have evidenced fragile confidence even as they push indices to new highs, and where fixed income offered relatively muted return but far more attractive technicals, considering risk patterns in equity coming out of late 2018. We note that 1Q '19 delivered roughly half of the S&P 500's calendar-year cumulative return simply by reversing the 4Q '18 fire sale; this movement occurred mainly over a ten-session period in January and extended throughout a quarter where volatility (as measured by the VIX) crumbled, closing just 20% above its all-time low.

4Q's 9% push in the S&P 500 represented a breakthrough in otherwise indecisive direction and major episodic volatility throughout the year. As shown in the chart at below right, up until 4Q the equal-weight index had struggled to carry its own high throughout 2019, and its intermittent retreats had – in combination with strength in US bond markets – undermined our risk-managed model's conviction in the sustainability of upward momentum. SSRM averaged just 40% in equity for the full-year period.

## Annualized Returns

as of December 31, 2019

	4Q '19	1 Yr	3 Yrs	5 Yrs	7 Yrs	Since Incep
<b>SSRM Composite (Gross)</b>	1.94	5.15	4.77	2.33	6.89	7.35
<b>SSRM Composite (Net)</b>	1.65	3.99	3.65	1.12	5.71	6.17
<b>S&amp;P 500 Index</b>	9.07	31.49	15.27	11.70	14.73	14.69
<b>S&amp;P 500 Trend Allocator Index</b>	9.07	18.42	13.85	8.23	11.70	11.70

## 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 – posed a substantial headwind to relative performance overall. Security selection effects (i.e., the impact of holding equity-weight versus market-weight sector exposure) were mainly negative 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. Invested at roughly 30% in equity throughout the period, SSRM underperformed materially as stocks surged and growth sectors, in particular, carried the day. On a sector-by-sector basis, results were mixed; while Technology outperformed the market and was supportive to absolute results, the 10% allocation constituted an underweight to a sector that accounts for 25% of the S&P 500. Consumer Staples and Utilities – both defensive sectors – lagged in a growth-driven environment and further set back the portfolio on the basis of overweights relative to the benchmark.

Throughout the quarter, an average of 70% 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

Technology was the primary driver of S&P 500 performance overall, and also of absolute SSRM performance within equity. With comparatively less exposure to mega-cap names accounting for most of the sector return, equal-weight Technology substantially underperformed (i.e., by a margin of 550 basis points) the market-weight sector and thus detracted from SSRM on the basis of security selection. Utilities, at 10% for the entire quarter, lagged the broader S&P 500 and detracted slightly on the basis of security selection as equal-weight underperformed by roughly 80 basis points. Consumer Staples underperformed the broader index but equal-weight outperformed cap-weighted exposure by approximately 110 basis points.

Within the risk-off segment all holdings contributed positively on an absolute basis but underperformed equity markets.

### S&P 500 Equal-Weight Index

Daily price level, CY 2019



## EXECUTIVE SUMMARY

Equity investors closed the books on 2019 – and the “teens” as a whole – in a decidedly bullish mood as global fundamentals showed early evidence of a year’s worth of coordinated monetary easing and fiscal stimulus. There was modest relief in US and Eurozone manufacturing and service sector data, while corporate performance brightened overall as it digested the impacts of rate cuts that began early in the year. Outlook rallied further on apparent progress in US-China trade talks and a markets-friendly election outcome in the UK. Key stock indices tacked on anywhere from 7% to 12% during the quarter, ending the technical ping-pong match in play throughout most of 2019 and ultimately delivering a stellar year for global shares.

Global equities, as measured by the MSCI ACWI, added 9.1% for the quarter, finishing the year up 27.3%. The S&P 500 also added 9.1% for the quarter, advancing 31.5% for the year; mid-caps lagged (+7.1%) for the period but added 30.5% during the year, while small caps enjoyed a modest advantage in 4Q (+9.9%) but underperformed the S&P 500 by a full 600 basis points for the trailing twelve months. Consistent with the advantage to larger names in 4Q, the S&P 500 Equal-Weight Index was up just 7.6%, ending the year up 29.2%. Headed into 4Q the S&P 500 Value had not led the S&P 500 Growth on a 12-month basis since April 2017; October served to close that gap, as value (+9.9% for the quarter vs. +8.3% for growth) finished the year up 31.9%, a 90-basis point advantage that may hint at a long-awaited style rotation.

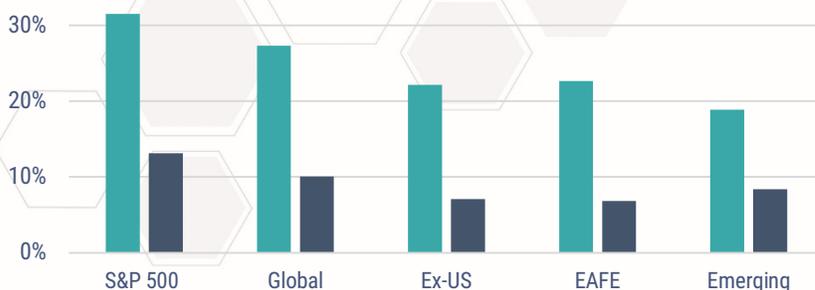
Global sectors were uniformly positive during the quarter and year. Technology market leadership – for both 4Q and 2019 overall – reflected the heavy footprint of US tech companies, which were up over 14% for the quarter and a remarkable 50% for the year; it was a US-centric story also in Health Care, the quarter’s second-best performer. Sectors where US share is smaller, at around 50% or less – Energy, Industrials, Utilities, Consumer Staples, Materials – saw positive returns driven by value’s rebound and improvement in the outlook for pro-cyclical companies. The US accounts for just 30% of the global Materials sector, which was December’s second-best performer behind an Energy sector up 6% on rising oil prices and a weakening dollar.

International equities posted a return of 9.0% for the quarter (+22.1% for the year), with currency impacts providing a roughly 250-basis point boost in 4Q and roughly 100 basis points in support for the year. Developed ex-US stocks gained 8.2% during the quarter, marking positive (if comparatively modest) moves in large index constituents such as Japan, Switzerland, France and Germany. Buoyed by election results, the UK kept pace with the US in 4Q.

After a solid 2018, emerging markets spent essentially all of 2019 at the mercy of US-China trade headlines and a stubborn US dollar; in 4Q the stars aligned, at least in the short term, for the segment. Guided by positive movement on US-China trade, a brighter global economic outlook and the related lift to non-USD currencies, investors dove back in during 4Q and delivered a market-leading return of 11.9% (+9.63% local). Unsurprisingly given the improvement in trade headlines there were robust bounces in mainland China (+14.7%) and key export-heavy Asian economies such as Korea (+13.2%) and Taiwan (+18.1%); these countries together comprise nearly 60% of the index. Indian equities participated in the trade-related tide but quarterly gains (+5.3%) were relatively muted by signs of slowing expansion for an economy that, a year ago, was set to surpass China in GDP growth rate. There were big winners outside of the trade theme; Brazil rallied 14.4%, while Russia advanced 17.1% on rising oil prices and supportive currency movement. South Africa added 13.2% in USD terms, deriving nearly 900 basis points of return from a surge in the high-yielding rand.

### A Banner Year for Equities

2019 vs. 10-Year Ann. Return, 2008-2018



### Comparative Index Returns (%)

	1 Mo.	3 Mo.	1 Yr.	3 Yr.
S&P 500 Index	3.0	9.1	31.5	15.3
S&P 500 Equal-Weight Index	2.8	7.6	29.2	12.4
S&P 500 Growth Index	2.9	8.3	31.1	18.7
S&P 500 Value Index	3.1	9.9	31.9	11.5
Russell Mid Cap Index	2.3	7.1	30.5	12.1
Russell 2000 Index	2.9	9.9	25.5	8.6
MSCI EAFE Index	3.3	8.2	22.7	10.1
MSCI Emerging Markets Index	7.5	11.9	18.9	12.0
MSCI All Country World Index	3.6	9.1	27.3	13.0
MSCI ACWI ex-US Index	4.4	9.0	22.1	10.4
BBg Barc US Aggregate Bond Index	-0.1	0.2	8.7	4.0
BBg Barc US Corporate High Yield Index	2.0	2.6	14.3	6.4
60% MSCI ACWI/ 40% BBg Barc US Agg Bond	2.1	5.5	19.8	9.5

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

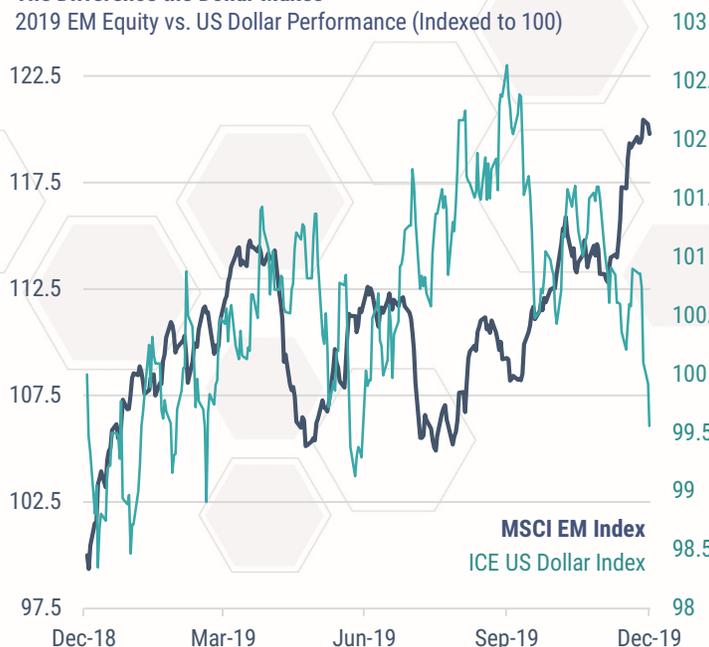
	1 Mo.	3 Mo.	1 Yr.	3 Yr.
Consumer Discretionary	3.6	8.5	27.0	12.6
Consumer Staples	2.3	3.0	21.2	9.1
Energy	6.0	6.4	13.0	0.9
Financials	3.6	8.9	23.5	9.3
Health Care	3.5	14.1	23.5	15.5
Industrials	1.8	8.2	26.6	10.8
Information Technology	4.7	14.1	46.6	24.9
Materials	5.3	9.7	20.4	9.1
Communication Services	3.0	8.3	24.9	5.2
Utilities	4.2	2.8	22.6	13.1
Global Property	1.7	3.4	23.0	9.9

### Key Indicators

	Current	1 Mo. Change	3 Mo. Change	1 Yr. Change	3 Yr. Change
US 10-Year Tsy Yield (%) / bps	1.92%	+14	+24	-77	-56
SPDR Gold Trust Price (\$)	\$143	+\$5	+\$4	+\$22	-\$1
WTI (\$/ bb)	\$61	+\$3	+\$7	+\$16	-\$0
VIX (Level) / % Change	13.78	+9%	-15%	-46%	-2%

Source: FactSet for all index and market data, with all index returns shown in US dollars in table as of December 31, 2019. Please see notes & disclosures.

### The Difference the Dollar Makes



## 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 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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