2Q 2020 | Credit Select Risk-Managed Review

WST CAPITAL MANAGEMENT

PERFORMANCE & POSITIONING

The liquidity issues that emerged across fixed income assets in late 1Q led to an extreme credit spread widening and sell-offs among most of the fixed income universe. These market conditions led Credit Select Risk-Managed to hold a fully defensive posture to begin the second quarter – allocated across U.S. Treasuries and cash equivalents. This allocation held for only a few trading days as the model began to leg back into high yield credit amid the monetary support from the Fed helping to drive down credit spreads. Additional reinforcement came when the Fed announced they would include high yield ETFs, in conjunction with investment grade and fallen angel bonds, in their basket of eligible securities for purchase – further bolstering the junk bond market. This Fed announcement led to one of the largest single day gains for the JNK SPDR Bloomberg Barclays High Yield ETF – rallying +6.71% on April 9th. While volatility still remained elevated, Credit Select Risk-Managed allocated ~33% of assets to high yield with the remaining exposure in short- and intermediate-term U.S. Treasuries. In early May, the strategy went fully invested allocating between passive and specialty high yield securities across the maturity spectrum. A brief intra-month rotation saw the model add U.S. core aggregate bonds and U.S. T-bills before shortly reverting back to full risk-on, an allocation that held to end the month. To finish out the quarter, Credit Select Risk-Managed once again de-risked while eliminating high yield credit exposure – driven by some spread widening and downward pressure in the broader junk market to close 2Q. The defensive posturing of the strategy to end the quarter gave way to a ~66% allocation to short-term U.S. Treasuries with the remaining assets in short-duration bond funds and cash equivalents. The strategy's inherent risk-management framework helps to navigate such periods of increased market volatility helping to avoid the majority of the high yield market's 20% drawdown in 2020. The swift allocation changes in Credit Select Risk-Managed are a function of the tactical, rules-based model that drives allocation decisions within the strategy.

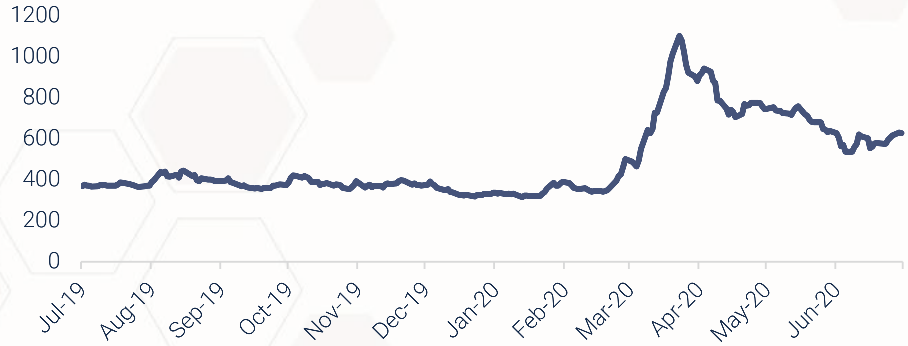
Annualized Returns
as of June 30, 2020

	2Q '20	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incep
CSRM Strategy (Gross)	0.37	0.38	1.49	3.56	5.01	7.81
CSRM Strategy (Net)	0.14	-0.55	0.54	2.54	3.71	6.41
BBg Barc US Corp HY Index	10.18	0.03	3.33	4.79	6.68	6.88
BBg Barc US Agg Bond Index	2.90	8.74	5.32	4.30	3.82	4.68

Risk Analysis
as of June 30, 2020 (annualized since inception)

	Annualized Return	Annualized Std Dev	Beta	Alpha	Sharpe Ratio	Max Draw-down
CSRM Strategy (Gross)	7.81	4.73	0.30	5.64	1.39	-4.90
CSRM Strategy (Net)	6.41	4.65	0.29	4.32	1.12	-5.40
BBg Barc US Corp HY Index	6.88	9.84	1.00	-	0.58	-33.31

High Yield OAS
One-Year Ended June 30, 2020

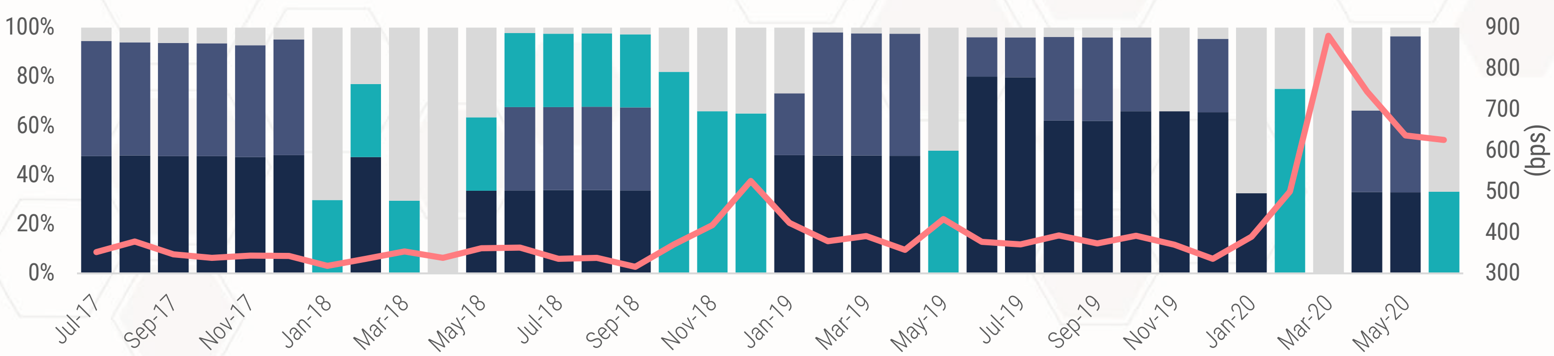


Source: Factset. Daily option-adjusted spread over treasuries for the Bloomberg Barclays US High Yield Corporate index, for the period July 1, 2019 to June 30, 2020.

Due in large part to the Fed's intervention, the second quarter's rebound was a near mirror image of the first quarters steep decline. Although markets have rebounded substantially off the March low, risk still remains prevalent in the high yield sector due to rising default rates. Fitch Ratings reports that the U.S. high yield trailing twelve-month default rate could reach 5.5% by the end of July which would be the highest level since May of 2010.

As demonstrated in the above graph, high yield credit spreads have yet to return to pre-pandemic levels as uncertainty continues to loom on the horizon. With that said, spreads still have room for additional tightening at current levels potentially sending high yield bond prices higher. Investors will be closely monitoring default rates among corporate borrowers going forward as changes in forward-looking default assumptions will ultimately drive changes in spreads. In addition, market participants will watch for further purchases from the Fed, corporate debt issuance and developments surrounding Covid-19.

CSRM Allocations vs High Yield OAS
Three Years Ended June 30, 2020



Source: WST, Factset. Monthly Credit Select Risk-Managed model allocations and the monthly option-adjusted spread over treasuries for the Bloomberg Barclays US High Yield Corporate index, for the period three years ended June 30, 2020.

Notes & Disclosures

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 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.

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 Rates & Indicators
Key Rates are shown for US Treasury's 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.

General Disclosure
Wilbanks, Smith & Thomas Asset Management, LLC (WST) is an investment adviser registered under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or training. The information presented in the material is general in nature and is not designed to address your investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from a professional regarding whether any particular transaction is relevant or appropriate to your individual circumstances. This material is not intended to replace the advice of a qualified tax advisor, attorney, or accountant. Consultation with the appropriate professional should be done before any financial commitments regarding the issues related to the situation are made.
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