SmartTrust®
Innovative, Independent & UIT Focused

Identifying the Leaders of the New American Economy

Kevin D. Mahn
Chief Investment Officer
September 2020

At SmartTrust®, we look to provide for diversified income and total return opportunities through innovative investment strategies. We use a bottoms-up approach to develop our Unit Investment Trust (UIT) product strategies, based in large part on the input received from the many investment professionals we are fortunate to work with across the country. In so doing, we look only to bring products to the market when the strategy has value in the market and demand from the marketplace. The majority of SmartTrust® UITs offer diversified income opportunities, as well as the potential for total return, and have incorporated underlying investment product types such as individual taxable and tax-free bonds, individual stocks, preferred securities, business development companies (BDCs), closed-end funds (CEFs), real estate investment trusts (REITs), American depository receipts (ADRs), master limited partnerships (MLPs) and exchange-traded funds (ETFs).

This particular report will focus on our attempt to identify the leaders of the new American economy likely to emerge from the pandemic caused by the novel form of coronavirus first detected in 2019 ("COVID-19"). The way in which humans and businesses operate and interact continues to evolve, and that rate of change has never been quicker than it is right now. This evolution has occurred in areas including technology, commerce, and health care. Furthermore, we believe that the COVID-19 pandemic has triggered a societal and economic paradigm shift that may last for decades. We contend that the already rapid evolution taking place, combined with the force of change brought on by the COVID-19 pandemic, will form the basis of the new American economy.

Let's discuss the three areas likely to lead our economy and markets forward, starting with technology. Since the onset of the COVID-19 pandemic, and the accompanying business shutdowns and stay-at-home orders that were issued by State Governors across our country, many Americans have increasingly been shopping and working remotely from the comfort and safety of their own homes. To this end, Gallup conducted a poll in late April 2020 asking employed adults whether, in order to avoid catching or spreading the coronavirus, they were "always, sometimes or never" working remotely. In the first two weeks of their polling, they found that a combined 70% of workers, on average, said they were always (52%) or sometimes (18%) working remotely. Another 31% reported never working remotely.

Picture Source: *Microsoft.com*

While it is not known, at this time, how much of this remote behavior will cease once the COVID-19 pandemic has ended, it is becoming more and more apparent that working and shopping remotelywill be a large part of the American economy for the foreseeable future. As a relates to working from home, Gallup also found that just 25% of remote workers want to return to the workplace once COVID-19 related restrictions are lifted, with half of these remote workers citing their preference for working at home as the primary reason for not wanting to return to their workplace. This shift will place more demands on technology to meet the needs of the growing remote workforce. At a minimum, technology is required to allow for;

- fast and efficient internet connectivity,
- access to workplace networks and office computers,
- the ability to communicate effectively in writing, verbally and visually,
- the secure transmission and storage of sensitive information,
- hygienic processing of foods and food products, and
- the contactless-delivery of goods and services consistent with current health guidelines.

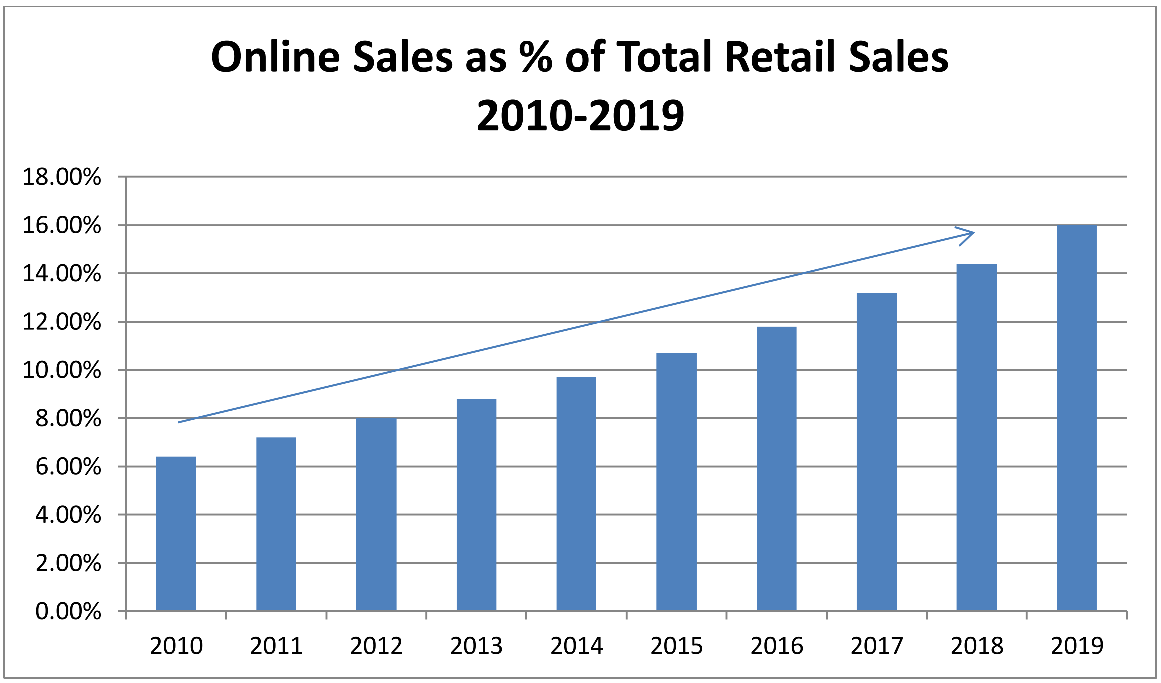
As a result, traditional areas of technology such as semiconductors, hardware, and software, in addition to the following non-traditional areas of technology will be of increased importance:

- **Artificial Intelligence** - *companies whose technologies are focused on automation of cognitive processes such as speech recognition, deep learning, and visual navigation*.
- **Blockchain** - *companies that are directly involved in the development or use of blockchain technologies.*
- **Cybersecurity** - *companies whose technologies protect computers, servers, or networks against unauthorized access or attack.*
- **Financial Technology (FinTech)** - *companies whose technologies support banking, investment, and related services.*
- **Internet of Things (IoT)** - *companies whose technologies involve the internet of computing devices embedded in everyday objects.*
- **Robotics** - *companies whose technologies are focused on automation of physical processes such as manufacturing, surgery, and transportation.*

- **5G** – *companies whose technologies enable fifth-generation (5G) cellular network communication*.

Those companies that are principally engaged in or that derive revenues from business associated with all of these described technologies should be leaders in the new American economy.

As it relates to E-commerce, the transition from traditional, in-person retail sales to online sales was well underway before the COVID-19 pandemic due, in large part, to the speed and convenience of shopping online. Consider that, according to Digital Commerce 360, consumers spent over $601 billion online with U.S. retailers in 2019, up nearly 15% from the $524 billion spent online the prior year. The 15% growth rate was higher than the 13.6% online sales growth rate achieved in 2018. Additionally, online sales accounted for 16% of total retail sales in 2019 – the highest relative proportion on record. To put this in perspective, just nine years ago, online sales only accounted for 6.4% of total retail sales.



Source: *Digital Commerce 360. Total retail sales exclude items not typically purchased online, such as spending at restaurants, bars, auto dealers, gas stations, and fuel dealers.*

The stay-at-home orders that were issued across the country to help limit the spread of COVID-19, in addition to the general health concerns felt by some as it relates to shopping in-person, have only accelerated the penetration of E-Commerce sales into total retail sales. In April alone, according to data from Adobe's Digital Economy Index, U.S. E-Commerce sales experienced a 49% increase in daily sales. Increases in daily online sales were realized across areas such as groceries, electronics, alcohol, and books, to name a few. As a result of the acceleration in E-Commerce sales throughout the COVID-19 pandemic, eMarketer forecasts that E-Commerce will set another growth record of 18% in 2020. eMarketer also noted in their article entitled, "*US Ecommerce Will Rise 18% in 2020 amid the Pandemic*" that the gains in 2020 will reflect the pandemic's impact on new buyers joining the online retail space, including 12.2% growth for those ages 65 and older.

Picture Source: *Medium.com, "Importance of E-Commerce and online shopping and why to sell Online."*

At SmartTrust®, we contend that online sales activity will continue to increase relative to in-store, "brick and mortar" purchases amidst continued COVID-19 safety guidelines and for years to come once the COVID-19 pandemic has subsided. However, when looking for investment opportunities to take advantage of the growth trend in E-Commerce, we would recommend that investors do not limit themselves only to online retailers (or traditional retailers with a strong online presence). Instead, consider all industries, and companies within those industries, that stand to benefit from an increase in online sales. To do this, one should consider the full lifecycle of an online purchase. This lifecycle starts from the viewpoint of a consumer who may:

- use some form of electronic communications equipment to access the internet (*e.g., mobile phone or desktop computer*),
- search for an online retailer or specific item,
- select the item(s) they want to purchase,
- enter information related to how they intend to purchase the item, and
- submit the order.

From here, the lifecycle continues from the viewpoint of the merchant who may:

- receive the order,
- locate the product,
- obtain the product from their inventory (*in locations such as a warehouse or distribution center*),
- ship the order to the consumer, and
- collect payment.

With this full lifecycle in mind, one can see how many different types of companies, and potential leaders of the new American economy, are available within the overall E-Commerce industry.

The last area that we believe will help propel the new American economy forward is healthcare. The COVID-19 pandemic has served as a painful reminder of the need for innovative healthcare solutions across the world. As it relates to COVID-19, scientists and doctors are engaged in a critical race to develop successful therapeutics and vaccines as quickly as possible. In fact, as I write this whitepaper, 177 different COVID-19 vaccine candidates are being tracked by the World Health Organization with the following Federal Drug Administration (FDA) pipeline approval status as of July 23, 2020:

- # in Pre-Clinical (e.g., vaccines not yet in human trials): 142
- # in Phase 1 (e.g., vaccines in small-scale safety trials): 17
- # in Phase 2 (e.g., vaccines in expanded safety trials): 13
- # in Phase 3 (e.g., vaccines in large scale efficacy trials): 5
- # Approved (e.g., vaccines approved for general use): 0

However, innovations in healthcare have been needed, and have been taking place at an increasingly rapid rate, before the onset of the COVID-19 pandemic. Consider the following demographic factors that have been driving the demand for innovative and effective healthcare solutions:

- An overall increase in life expectancies with the life expectancy in the United States currently averaging 79.1 years and 73.2 years across the world.
- An aging population with more than 1.4 billion people expected to be over the age of 60 by the year 2030.
- Timing of necessary healthcare expenditures with half of all lifetime healthcare expenditures estimated to occur from the age of 65 and upwards.
- An increase in the rate of chronic illnesses globally as the World Health Organization projected that, by 2020, chronic diseases would account for almost three-quarters of all deaths worldwide.

Picture Source: *Reznor.com, "Pharmaceutical and Biotech Solutions."*

To identify potential investment opportunities associated with the healthcare revolution taking place across the planet, we would suggest including both large-cap pharmaceutical companies ("big pharma") and smaller cap biotechnology ("biotech") companies in the selection process. We have seen several big pharma entries into the race to find a cure for the coronavirus in 2020, including Johnson & Johnson and

Pfizer (through their partnership with BioNTech). However, we have also seen entries from biotech names such as Moderna and Novavax offer vaccine candidates as well. Beyond COVID-19, it is typically biotechs that have been working on treatments, and, in some cases, cures for many of the other chronic diseases plaguing society. Some examples of the innovative nature of the drugs and treatments that certain biotech companies are working on include gene therapies, antibody-based drugs and immunotherapies. While many large pharmaceutical companies do not have any drugs in their pipelines to combat the proliferation of chronic disease, and, in some instances, may no longer have any focus on research & development (R&D), many biotech companies devote their attention exclusively to R&D and already have potentially groundbreaking drugs in the FDA approval pipeline.

Given the information above, some combination of big pharma and biotech companies should provide leadership to the new American economy that emerges from the COVID-19 pandemic as society becomes more and more focused on healthcare overall.

SmartTrust® UIT Strategy for the New American Economy

At SmartTrust®, we approached the idea of building an investment portfolio consisting of common stocks of companies with the potential to thrive in the previously described new American economy very methodically. In so doing, we looked to identify U.S. companies within the thematic areas of health care, technology, and E-Commerce. We also endeavored to find quality companies that are proven innovators and those that will most likely continue that trend of innovation and best adapt to the requirements of the new American economy.

Picture Source: *thefinancialexpress.com, "Wall Street and the American economy."*

Specifically, the **SmartTrust®, New American Economy Trust** seeks total return potential through capital appreciation and dividend income by investing in a portfolio of equity securities of companies that we believe will be leaders of the new American economy. Our selection process starts by looking at companies:

- That had equity securities actively traded on a U.S. exchange;
- Were incorporated or domiciled in the U.S.;
- Had equity securities with an average daily trading volume of $500,000 or greater; and

- Were within the thematic areas of health care, technology, or E-Commerce.

As it relates to the last bullet point, we identify health care and technology companies by those companies categorized under the health care and information technology Global Industry Classification Standard (GICS) sectors. The identification of E-Commerce companies is a little bit more involved as there is no one specific GICS sector that captures all of the potential companies (and industries) that stand to benefit from the continued growth of E-Commerce sales. As a result, E-Commerce companies are defined, for these purposes, within certain GICS sub-industries per the following hierarchy:

- Communication Services — Media & Entertainment — Interactive Media & Services — Interactive Media & Services;
- Consumer Discretionary — Retailing — Internet & Direct Marketing Retail — Internet & Direct Marketing Retail;
- Consumer Discretionary — Retailing — Multiline Retail — General Merchandise Stores GICS Sub-Industry that the sponsor has determined are actively involved in the cycle of buying and selling goods and services electronically;
- Consumer Discretionary — Retailing — Specialty Retail — Home Improvement Retail GICS Sub-Industry that the sponsor has determined are actively involved in the cycle of buying and selling goods and services electronically;
- Consumer Staples — Food & Staples Retailing — Food & Staples Retailing — Hypermarkets & Super Centers GICS Sub-Industry that the sponsor has determined are actively involved in the cycle of buying and selling goods and services electronically;
- Industrials — Transportation — Air Freight & Logistics — Air Freight & Logistics;
- Information Technology — Software & Services — IT Services — Internet Services & Infrastructure;
- Information Technology — Software & Services — IT Services — Data Processing & Outsourced Services;
- Information Technology — Technology Hardware & Equipment — Technology Hardware, Storage & Peripherals — Technology Hardware, Storage & Peripherals; and
- Real Estate — Real Estate — Equity Real Estate Investment Trusts (REITs) — Industrial REITs.

From the securities meeting the above criteria, we then look to select the 30 securities that most closely meet the following criteria:

- Had analyst coverage, with more than one analyst providing coverage;
- Had a high analyst consensus rating that equates to a consensus “Buy” or better;
- Had a positive twelve-month price target gain percentage; and
- Had an Altman Z-Score of 3 or greater - Altman’s Z-Score is a formula published in 1968 by Edward I. Altman, who was, at the time, an Assistant Professor of Finance at New York University. The formula is designed to be used to predict the probability that a firm will go into bankruptcy within two years. The Altman Z-Score is a composite score based on five financial ratios that are found on a company’s annual 10-K report. These ratios are used to evaluate a

company's profitability, leverage, solvency, and activity in an effort to predict whether a company has a high probability of being insolvent. The five ratios used are:

- working capital/total assets;
- retained earnings/total assets;
- earnings before interest and taxes ("EBIT")/total assets;
- market value of equity/total liabilities; and
- sales/total assets.

According to this formula, the higher the Z-Score, the lower the predicted probability of bankruptcy with a score below 1.8, indicating bankruptcy is predicted to be imminent and a score above 3 indicating that bankruptcy is predicted to be unlikely.

We also considered factors such as valuation, financial strength, earnings, profitability, and dividends when selecting the final securities for this portfolio of quality and innovative companies that we believe are likely to be leaders in the new American economy within the areas of technology, E-Commerce, and health care. Former Apple CEO and co-founder Steve Jobs once said, "*Innovation distinguishes between a leader and a follower*." We believe that the innovative nature of the companies selected for this Trust strategy, along with the thematic areas that they operate within, should allow them to be leaders, as opposed to followers, in the new American economy.

Risk Factors

It is important to remember that investors can lose money by investing in this Trust. An investment in units of the Trust should be made with an understanding of the risks related to the Trust, which can be found in the Prospectus.

While no selection process can guarantee a positive total return, we believe that the security selection approach employed at SmartTrust®, as described throughout this whitepaper, can be helpful in creating a portfolio strategy that seeks to provide total return potential during the life of each Trust series.

If you are interested in learning more about this particular Trust strategy, or any of our other innovative UIT portfolio strategies, please contact your Financial Advisor or visit www.smarttrustuit.com.
