

# Portfolio Commentary

## Navigator® International Equity/ADR

### Author



**Tony Soslow, CFA®**  
Senior Portfolio Manager

Navigate  
Your Future.  
Enjoy the  
Journey.

## Survival Requires Change

The global equity bear market made significant negative progress in 2020's 1st quarter as the COVID-19 virus spread exponentially from China through Europe and to the U.S. Global infections neared 900,000 by quarter-end (they are up to 1.5 million now), with the U.S. leading the way with nearly 200,000 cases (400,000 now). Global economic expectations have been devastated with many expecting Q2 2020 U.S. GDP declines in excess of -15%. Q1 2020 GDP growth may also be reported as negative as many states and large cities began "shelter-in-place" restrictions in mid-March.

Drastically lower economic growth expectations spread quickly to credit and equity markets. Uncertainty and fear spiked the S&P 500 Volatility Index to a record 82.89 coincident with the expansion in the high-yield corporate bond spread to 10.62%. From their highs to the March 23, 2020 low, the S&P 500 and the Russell 2000 declined 34% and 44%, respectively.

### Flatten the Curve

For the greater societal good, humans worldwide have either voluntarily or have been forced to engage in isolation measures thus enduring economic, social, physical and mental suffering to fight the COVID-19 virus. Our coordinated efforts of social distance, shelter-in-place and work-from-home have appeared to "flatten the curve" of new infections/day. Hopefully, our coordinated sacrifice will both reduce the stress on the healthcare system and bide time for virologists to discover and manufacture a vaccine.

For many introverts, social distancing has been a life-long practice and thus the current social regime is not so burdensome. For extroverts starved for frequent human interaction however, new societal behaviors can be painful or stressful. While for most of us, any change in our daily routines is difficult, my biggest concern is for those who suffered job loss. Unfortunately, the March Employment Report confirmed that a recession began in March as nonfarm payrolls fell by 701,000, or the most since March 2009.

As many non-essential businesses have shuttered their doors during the preponderance of current shelter-in-place restrictions, employers will continue their effort to control labor costs. Efforts have included temporary layoffs, shortened work weeks, and the conversion of full-time workers to part-time employees. The personal and familial damage associated with unemployment can be extraordinary, and thus a quick and forceful countercyclical/counter pandemic response is critical.

### Trillions and Trillions

Fortunately, the coronavirus pandemic has been met with quick and forceful global monetary and fiscal policy responses. All of the world's major central banks have committed to providing the liquidity needed to ensure smoothly functioning credit

*Past performance is not indicative of future results.  
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.*



markets by executing open-ended asset purchases and by driving short-term lending rates to zero.

On February 16th, the U.S. Fed, for instance, lowered the federal funds rate to 0-0.25% and then committed to increasing its balance sheet by more than \$1.1 trillion in just two weeks. Global fiscal stimulus is also providing a needed economic backstop to combat the virus as Germany intends to provide programs representing of about 5% of GDP. Japan approved a nearly \$1 trillion plan or 20% of GDP and the US \$2+ trillion CARES act should be 10% of GDP.

Enormous global stimulus combined with social constraints and their initial impact on new infection rates is beginning to give equity investors much needed visibility as the length and depth of the current virus crisis and its impact on economic growth.

## International Equity's Lower Risk Profile Shines

The Navigator® International Equity/ADR strategy delivered annualized gains of 0.22% gross (-2.74% net) vs. the loss of -0.64% for the MSCI All Country World ex-USA Index over five years ending March 2020. For the first quarter of 2020, the strategy had a loss of -21.18% gross (-21.82% net) versus the -23.36% loss in the MSCI All Country World ex-USA Index. For the 10 years ending December 2019, International Equity/ADR is in the top 3% of Morningstar peer group managers in the Foreign Large Blend category.

Our positioning in Consumer Discretionary and Utilities helped relative performance while positioning in Consumer Staples and Industrials acted as a drag. Our holdings in Veolia Environnement SA and Vipshop Holdings helped performance in the quarter while positions in Essent Group and Sun Life Financial dampened performance.

From a country perspective, the portfolio benefited from our positioning in the United Kingdom and Netherlands while positioning in Ireland and India hurt performance. The value characteristics of the strategy remain more compelling than both its U.S. and international benchmarks as the current P/E of 14.4 is less than that of the S&P 500 (16.6) and EAFE (14.8) with similar quality and business growth characteristics.

Ticker	Quarter Ending March 31, 2020	Average Weight (%)	Contribution to Return (%)
<b>Top 5 Contributors</b>			
VEOEY	Veolia Environnement SA Sponsored ADR	0.42	0.12
VIPS	Vipshop Holdings Ltd Sponsored ADR	1.83	0.09
RHHBY	Roche Holding Ltd Sponsored ADR	2.05	0.03
NICE	NICE Ltd Sponsored ADR	1.83	0.02
OAOFY	TATNEFT PJSC Sponsored ADR	0.05	0.02
<b>Top 5 Detractors</b>			
ESNT	Essent Group Ltd.	2.20	-1.22
SLF	Sun Life Financial Inc.	2.27	-1.00
CPA	Copa Holdings, S.A. Class A	1.87	-0.96
BBVA	Banco Bilbao Vizcaya Argentaria, S.A. Sponsored ADR	0.90	-0.95
LUKOY	Oil company LUKOIL PJSC Sponsored ADR	2.27	-0.91

*Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.*

*Past performance is not indicative of future results.*

*This is not a recommendation to buy or sell a particular security. Please see attached disclosures.*

*Returns are presented gross and net of investment advisory fees and include the reinvestment of all income.*



The views expressed are those of the author(s) and do not necessarily reflect the views of Clark Capital Management Group. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

This document may contain certain information that constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as "may," "expect," "will," "hope," "forecast," "intend," "target," "believe," and/or comparable terminology (or the negative thereof). Forward looking statements cannot be guaranteed. No assurance, representation, or warranty is made by any person that any of Clark Capital's assumptions, expectations, objectives, and/or goals will be achieved. Nothing contained in this document may be relied upon as a guarantee, promise, assurance, or representation as to the future.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75 of U.S. equities.

The MSCI All Country World is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.

The VIX Index is a volatility index derived from S&P 500 options, with the price of each option representing the market's expectation of 30-day forward-looking volatility. The resulting VIX index formulation provides a measure of expected market volatility on which expectations of further stock market volatility in the near future might be based.

Morningstar is the largest independent research organization serving more than 5.2 million individual investors, 210,000 Financial Advisors, and 1,700 institutional clients around the world.

For each separate account with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a separate account's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of separate accounts in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a separate account is derived from a weighted average of the performance figures associated with its three-, five- and ten-year Morningstar Rating metrics.

© 2019 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment.

Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security, sector or industry. There is no assurance that any securities, sectors or industries discussed herein will be included in an account's portfolio. Asset allocation will vary and the samples shown may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request. CCM-671