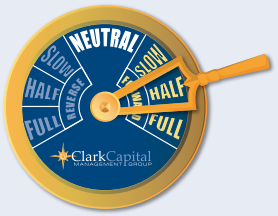
ClarkCapital MANAGEMENT GROUP

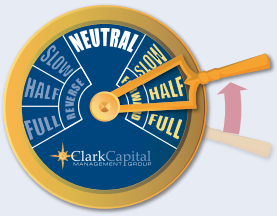
Market Moves

Charting Our Strategies

Economic Gauges



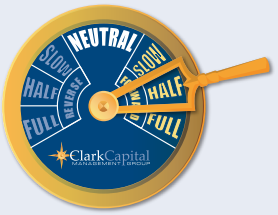
Economy



Monetary Policy

Valuations

Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

The markets finished 2021 with a bang, as investors looked past the surge in the highly contagious Omicron variant and focused on the variant's lower virulence, driving risk assets to new highs. All major equity indices rallied during the month as the page turns on a record year for stocks.

Risk appetites remain elevated with expectations of continued economic and earnings growth in 2022, albeit at slower pace than the beginning of the post-pandemic period. Although value outperformed growth for the month, large-cap growth has outperformed large-cap value for the fourth consecutive year and has outpaced U.S. small-caps and foreign markets.

Record negative real rates continue to sustain the credit cycle and inventories remain low across most sectors. The common theme across the bottom-up equity and fixed income portfolios during the month was the market's ability to digest the Fed's plan to end tapering sooner, with rate hikes expected soon thereafter.

Below are strategy updates from December:

All Cap Core U.S. Equity

- Navigator® All Cap is positioned with approximately 66.1% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, we added an industrial products company, a management consulting company, a subscription streaming service, and a retail superstore chain to the portfolio.
- We exited our positions in a telecommunications conglomerate, a variety store chain, and a pharmaceutical company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 20.5%.

High Dividend Equity

- In December, the portfolio increased its positions in three Financial companies and eliminated a position in a consumer financial services company.
- We increased our Healthcare exposure with the purchase of a pharmaceutical company, which we believe has improved business momentum and higher earnings growth potential over the next 3-5 years.
- Financials remain the largest sector weight at 20.0%, which is slightly below the benchmark at 20.8%. The next two largest portfolio weights are Healthcare and Information Technology at 16.0% and 12.2%, respectively.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 17.1% in emerging markets with the balance in developed economies and cash.
- Britain, France, Ireland, and Japan are the strategy's largest country weights, all ranging between 8% and 18%.
- During the month, we added an English beverage company, a Dutch

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brewing company, a Japanese homebuilder, and an Italian oil company to the portfolio. We removed two pharmaceutical companies, a Brazilian electric utility company, and a Chinese internet technology company.

- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology remain our largest sector weights.

Taxable Fixed Income

- New holdings this month included a REIT, a multinational food company, and an insurance company. We continued to add exposure to our existing holdings in a digital financial services company, an e-commerce company, a telecommunications conglomerate and money center banks.
- Our holding in an American mining company was upgraded by Moody's to Baa3. We had been adding to our position in the company since Q1 anticipating credit upgrades as commodity prices rallied all year.
- Laggards in performance for the month included our position in a cloud computing company, which is rumored to be a target of a private equity firm, causing spreads to widen. There was also a surprise bid for our holding in a healthcare solutions provider. Spreads widened on the news.

Tax-Free Fixed Income

- Despite a volatile month for Treasuries, munis held their own and even with a large headline supply event, did not sell off.
- While the Fed's exit from quantitative easing may pressure the rates markets for a steeper curve, we believe longer term the flattening associated with tighter fiscal policy should create a flattening event.
- We believe the biggest risk is a steeper curve, but we are trading to our hypothesis that the bigger move will be a flatter muni curve in the second half of 2022, and patience is best.
- We will continue to buy weighted barbells and cushion callables to manage duration, with the short leg very short as we believe the percentage to Treasuries is compelling.

Clark Capital's Top-Down, Quantitative Strategies

Normal year-end seasonal strength came right on schedule with the equity markets pushing higher from mid-month on. Risk was well bid across both equity and credit markets with major equity indices and high yield credit hitting new highs during the month.

From an asset allocation standpoint, our tactical portfolios favor large-cap over small-cap equities, U.S. over international holdings, and credit over duration. Our credit-based risk management models continue to show no signs of credit deterioration, which we believe bodes well for additional market gains as we head into the New Year.

Navigate Your Future. Enjoy the Journey.

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Alternative

- We recently sold our positions in cryptocurrency and added positions in silver and private equity debt.
- We continue to own equities, commodity equity, and precious metals, but all positions have stops in place as we are later in the market cycle and expect volatility in 2022.

Fixed Income Total Return

- Credit markets endured some weakness after the Fed took a more hawkish stance in late November, but they rebounded in late December. As 2021 came to an end, our model made new highs.
- We remain positive on high yield and our position is stable.

Global Tactical

- The credit-based models that drive Global Tactical are making new highs at the end of 2022, and we expect to own equities over the intermediate-term.
- Since our July 2020 purchase of equities, small-caps are ahead of the S&P 500 Index, but overall U.S. equities have trounced international stocks.

Sector Opportunity

- The portfolio owns Technology, homebuilders, and Real Estate, but a large portion of the portfolio is indexed to the S&P 500, as it ranks second in our sector/industry rankings, behind only Technology.
- We are avoiding Industrials, Staples, Healthcare, Financials, Energy, and Materials sectors.

Style Opportunity

- The portfolio's two largest positions are the S&P 500 Index itself, along with large-cap growth and a smaller position in large-cap value.
- We are positive on equities, and favor large-cap over small-cap. We have a large indexed position because the S&P 500 ranks second among style and factor ETFs, and there is no trend leader ahead of the S&P 500 as 2021 comes to a close.

U.S. Strategic Beta

- The portfolio favors growth and mid-cap growth, while avoiding minimum volatility.
- As 2022 develops, we expect a more volatile environment, and would anticipate defensive stocks to take on a larger portion of the portfolio.

Author

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