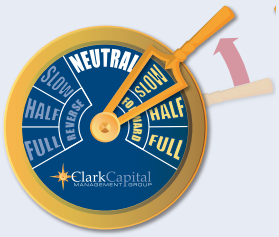
ClarkCapital MANAGEMENT GROUP

Market Moves

Charting Our Strategies

Economic Gauges

Economy



Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

The global equity markets came under increased selling pressure from the combination of a Federal Reserve that is turning hawkish, rising inflation prints, and the Russian invasion of Ukraine. Those pressures had the major indices extending year-to-date losses. The threat to democracy and freedom from Russia's invasion of Ukraine and the headwind of likely and persistent Fed tightening drove broad U.S. equities and international equities lower.

The S&P 500 declined 3.0% and the MSCI AXWI ex-US Index lost 1.98% in February. It is largely unknown how the collapse in Russian equities and their financial system imposed by U.S. and European sanctions will reverberate through the leveraged balance sheets of global financials.

The market focus has shifted from growth and defensive stocks to companies that are less labor intensive and demonstrate strong operational efficiencies such as low capex to sales and inventory to sales growth. In the fixed income markets, the environment has turned from yields rising based on inflation pressures to risk-off with Treasuries well-bid and the 10-year Treasury yield falling sharply to end the month.

Below are strategy updates from February:

All Cap Core U.S. Equity

- The portfolio continues to balance portfolio holdings between the dominant large-cap growth companies and those anti-fragile large, small and mid-cap companies, which we believe will continue to see strong business momentum despite rising inflation and tight labor market conditions.
- To this end, we added an information technology to the portfolio and exited our position in a healthcare focused REIT.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 21.1%.

High Dividend Equity

- Financials remain the largest sector weight at 20.6%, which is below the benchmark at 21.7%. The next two largest portfolio weights are Healthcare and Information Technology at 15.7% and 11.8%, respectively.
- In February, we increased exposure to Financials by adding two insurance companies.
- We purchased a position in a bank holding company as a beneficiary of the improving rate scenario for regional banks. As a result of strong fourth quarter earnings, we also increased our positions in a networking hardware company, an entertainment and media conglomerate, a financial technology company, and an aerospace company.
- During the month, we reduced our position in a medical device company and due to another product recall and reduced our position in an energy company on a valuation basis.
- Top contributing sectors were Communications, Energy and Healthcare versus detractors Consumer Discretionary, Technology and Basic Materials.

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International Equity ADR

- Britain, France, and Japan are the strategy's largest country weights, all ranging between 11% and 17%.
- During the month we added a semiconductor company, a Canadian freight railway company, a multinational fashion holding company, a Canadian activewear company, a Danish multinational company, a Dutch semiconductor manufacturer, and a French waste management and energy services company.
- We exited our positions in a Swiss GPS technology company, a global professional services firm, two investment management firms, a semiconductor company based in Singapore, a South Korean steelmaking company, a Swiss healthcare company, a Russian banking company, and an industrial technology company.
- Although our exposure to Russian equities has been reduced to less than 0.40%, portfolio positions in Russia harmed relative performance by approximately 2.00% this year.
- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology remain our largest sector weights.

Taxable Fixed Income

- Within the portfolio, positions continued to be added in U.S. banks, bringing the overall exposure to in line with the index.
- One of the main drivers of performance was a petrochemical manufacturing company. The company reported earnings during the month and also announced a $2.5bn tender for some of their higher coupon debt, which the portfolio held. These positions were sold into the tender offer, reducing the overall holdings by half and locked in a gain to performance.
- On the other side, the worst performing holdings in the portfolio were home builders. Higher interest rates continued to put pressure on these names as the market began to price in a slowdown to the growth that they've experienced over the last few years.

Tax-Free Fixed Income

- Municipal performance versus Treasuries offered mixed results during the month, and supply came in well below expectations at $26.3 billion. Deal volume should grow seasonally as early spring brings in new issues.
- Municipal flows were under pressure all month: on average outflows were $1.2 billion per week, with national funds and long-term funds bearing the brunt of the volume.
- The mass transit sector was under headline pressure for most of the month. We have been cautious in the sector and have favored toll roads and ports over mass transit. In fact, names we have been accumulating in the portfolio over the last 18 months, enjoyed credit upgrades.
- For much of the month, muni bond selling overpowered buying interest. The overwhelming selling bias has created opportunity in structure and state bond selection: bonds in high tax states are trading wider spreads to the benchmark than normal, and we have used that anomaly to add bonds in states such as NY, NJ, CA and CT.

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Clark Capital's Top-Down, Quantitative Strategies

Geopolitical tensions and inflation headlines roiled the market in February. The major indices have officially entered correction territory, coming off of January highs. After Russia's invasion of Ukraine, the markets quickly sank to new lows, before rallying sharply to finish the session higher.

History shows that markets sell off in advance of geopolitical events, but then rally once the news is out (sell the rumor, buy the news). So far, that appears to be the script this time too. We believe a lot of bad news has been priced into that market, potentially setting up a trading rally.

The war in the Ukraine will likely cause volatility to remain elevated in advance of the Federal Reserve's FOMC meeting on 3/16 where they are expected to hike overnight rates by 0.25%. We believe our tactically allocated portfolios have been active in managing risk over the past number of weeks. On January 31st, the Fixed Income Total Return and Global Tactical portfolios de-risked by allocating 50% of the portfolios into cash equivalents.

Below are strategy updates from February:

Alternative

- The portfolio added a third managed futures fund into the mix, managed futures have generally provided the greatest diversification benefits among liquid alternative segments.
- The portfolio began increasing equity in January, and allocates 13% to commodity equities (agribusiness, natural resources, farmland, and forestry).
- We recently added small-cap growth, micro-cap, and listed private equity in an attempt to mirror private equity returns.

Fixed Income Total Return

- The portfolio moved to 50% high yield and 50% cash equivalents on January 31st.
- Despite the dramatic invasion of Ukraine and surging energy prices, U.S. credit markets have generally held firm.
- Credit spreads remain tame and have not spiked as they would during a recession. Thus, we maintain a neutral "half risk-on" stance.
- So far, the market appears more concerned about rising interest rates and inflation than corporate credit fundamentals, and thus high yield remains half of the portfolio.

Global Tactical

- The portfolio moved to 50% equity and 50% cash position on January 31st, and our models have remained fairly stable.
- Despite surging energy prices and the invasion of Russia in Ukraine, our models, which allocate based on U.S. credit market activity, at this time, have held up well.

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- While markets could still turn south, given that credit has not broken we are optimistic. With pessimism now priced into markets, the probability has grown for a tactical equity rally.

Sector Opportunity

- The portfolio favors Financials, Energy, and most recently has added Materials and Consumer Staples.
- Technology and Consumer Discretionary are least favored and to be avoided.
- Recent purchases include an aerospace ETF, an agribusiness ETF, a metals & mining ETF, a copper miners ETF, and a gold miners ETF.

Style Opportunity

- The portfolio favored large-cap value and the S&P 500 during January and early February.
- As the decline deepened, we saw breadth holding up and mid-cap and small-cap stocks began to see relative strength.
- In recent weeks, we have added mid-cap value and small-caps. Large-cap growth remains least favored, though it may see a tactical bounce.

U.S. Strategic Beta

- On February 24th, the day the invasion in Ukraine began, we increased beta in the portfolio by reducing large-cap value, and adding to large-cap growth, mid-cap growth, and buying small-cap growth.
- The portfolio is now neutral regard to value vs. growth after overweighting value during January and February.

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