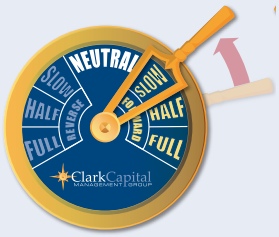
ClarkCapital MANAGEMENT GROUP

Market Moves

Charting Our Strategies

Economic Gauges

Economy



Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Major U.S. equity indices rallied in March, with large-cap stocks outperforming small-caps and the U.S. outperforming broad international indices. Persistently high inflation, driven mostly from energy and food prices, prompted the Federal Reserve to begin a new interest rate hike cycle with a 0.25% hike in the federal funds rate. As the month progressed, the hawkish tone of the Fed was magnified. The 10-year Treasury Note yield surged to 2.49%, before settling the month at 2.33%. The middle of the yield curve flattened and the 2-year to 10-year U.S. Treasury Note spread inverted as the month ended.

In our bottom-up portfolios, we are adjusting both U.S. and international equity strategies to reflect that a growing portion of the consumer wallet will be absorbed by higher food and energy expenses. Historically, stock returns moderate during a tightening cycle, which can provide an attractive scenario for dividend growers as real interest rates remain negative despite a rise in nominal rates.

The High Dividend Equity portfolio continues to invest in dividend growers providing a rising income stream, sustainable free cash flow, and profitability. The credit markets have become increasingly volatile with higher yields. The common theme among the bottom-up fixed income portfolios was a continued selling of bonds that were upgraded, which were replaced with shorter duration, higher yielding bonds.

Below are strategy updates from March:

All Cap Core U.S. Equity

- Navigator® All Cap is positioned with approximately 66.7% in large-cap stocks with the remainder in mid/small-cap companies and cash.
- During the month, we added a pharmaceutical company, a global market infrastructure company, a networking hardware company, a home construction company, a variety store company, and a manufacturing company that produces consumer goods packaging.
- We exited an alternative investment management company, a technology and specialty materials company, a footwear designer and distributor, a high-tech recreational vehicle product company, a financial services company, and a local television and media company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 22.3%.

High Dividend Equity

- March portfolio changes focused on increased positioning in late cycle companies with consistent earnings growth. Sales focused on companies with negative inflation exposure. We continued to realize gains in our Financial holdings with the sale of three financial services companies.
- Financials remain the largest sector weight in the portfolio at 19.3%, which is below the benchmark at 21.7%. Following Financials, the largest exposure is Healthcare at 17.3%.
- Technology remains overweight the benchmark at 12.3%, down 20% in 2022, with positive returns on equity and positive earnings revisions. The

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portfolio continues to be overweight the Energy sector as global demand continues to outpace supply.

- Top contributing sectors during the month included Healthcare, Industrials, and Technology versus detractors Basic Materials, Financials, and Consumer Staples.

International Equity ADR

- The strategy is positioned with 16.1% in emerging markets and the balance in developed economies and cash. Britain, France, and Japan are the strategy's largest country weights, all ranging between 10% and 14%.
- During the month, we added a Canadian fertilizer company, an Australian bank, a Swedish networking and telecommunications company, a Chinese internet company, a Brazilian bank, and a Canadian oil company.
- We exited a Russian oil company, a biopharmaceutical company, a Japanese agriculture machinery company, a French commercial banking company, and a French multinational tire company.
- Financials, Healthcare, Industrials, and Information Technology remain our largest sector weights.

Taxable Fixed Income

- Within the portfolio, we continued to sell bonds as they were upgraded and bought shorter duration, higher yielding bonds.
- We continued to sell out of our position in an oil and gas company as spreads continued to tighten and the company began trading at tighter spreads compared to similar higher rated companies.
- We bought shorter bonds like a pipeline transportation of crude oil company to not only take advantage of the shorter duration, higher yielding concept, but to also remain invested in solid Energy names as oil prices remained high.
- We also added to our position in a multinational food company on the news that they would be upgraded into the investment grade index at month end.
- Overall, the best performing holdings in the portfolio remained in banks. Building materials were the worst performers as increased inflation expectations began to weigh more heavily on their margins and overall profitability.

Tax-Free Fixed Income

- With over $1.7 billion in average weekly redemptions from muni funds this month, an excessively large forward calendar, a record wave of institutional selling, and an enduring bear flattening trade in Treasuries, munis faced a negative month not seen since the COVID outbreak.
- There was no safe haven on the yield curve. The depth of the sell-off and the resulting impressive relative value to Treasuries would normally indicate oversold conditions, but issuers continue to line up to sell new issues.
- We believe the market needs selling to abate to form a base from which it can move forward. In the meantime, we will invest primarily in high coupons at what we believe are attractive percentages to taxable debt in an effort to drive tax exempt income.

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- We will consider lower coupon, shorter bonds if they serve to balance duration and portfolio soundness. If history is an indicator, we believe the muni curve should continue to flatten with Treasuries.

Clark Capital's Top-Down, Quantitative Strategies

The recovery in March for equities provided a much-needed relief for weary investors. In last month's commentary we said, "A lot of bad news has been priced into that market, potentially setting up a trading rally." Investor sentiment hit extreme levels of pessimism, which argued for a rebound rally.

Our tactically allocated portfolios continue to be active in managing risk and adjusting to new trends as they emerge such as adding a large-cap growth position to the Style Opportunity portfolio. Meanwhile, the Fixed Income Total Return and Global Tactical strategies remain defensively positioned with 50% of the portfolios holding cash equivalents.

Below are strategy updates from March:

Alternative

- First quarter gains were driven by positive performance from managed futures funds, which make up 20% of the portfolio and have the flexibility to be long commodities and short interest rates.
- As gains in commodities grew in magnitude and broad equities sold off, we reduced our exposure to agricultural and commodity equity, while increasing equities in an attempt to mirror private equity returns.

Fixed Income Total Return

- We reduced risk in late January, moving to a 50% high yield and 50% cash position.
- During the worst of the mid-March selloff, corporate credit fared well, as inflation and interest rates – not the U.S. economy and corporate health – are chief areas of concern.
- High yield spreads surged back in late March reaching levels seen in November. Our 50-50 position appears stable, but we believe our models are clear on one thing: U.S. Treasuries, and their duration and interest rate risk, rank last and are to be avoided.

Global Tactical

- In late January, the portfolio reduced its fully risk-on position to 50% equity and 50% cash, as the pressures from rising interest rates began to bite.
- For many years, U.S. Treasuries had been our defensive vehicle of choice, but that has changed during this Fed tightening cycle, and cash is showing its value for maximum capital preservation.
- Since our risk reduction, our credit-based models have been relatively stable, and thus our 50% position in equity appears stable, as rising rates have not yet damaged the U.S. economy or corporate health.

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Sector Opportunity

- During the quarter, the portfolio sold banks, but added insurance within Financials.
- A major focus has been in the commodity equity area, including metals and mining, gold miners, agribusiness, and copper mining.
- Technology, and particularly Consumer Discretionary, rank lowest and are to be avoided.

Style Opportunity

- The strategy focused on large-cap and mid-cap value for most of February and March, and the portfolio remains focused there.
- The portfolio briefly moved into small-caps and high dividend stocks, but their relative performance has faded.
- As markets rallied after the mid-March selloff, we added a position in large-cap growth. As large-cap growth has rallied back, leadership trends – and thus the Style portfolio – have become more neutral.

U.S. Strategic Beta

- In January, the portfolio moved to favor value over growth, as rising rates began to punish growth stocks and their longer durations.
- As the Ukraine war began and market selloffs and sentiment began to accelerate, in late February we reduced value and bought more growth, moving to a neutral position.

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Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

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