ClarkCapital MANAGEMENT GROUP

Monthly Moves

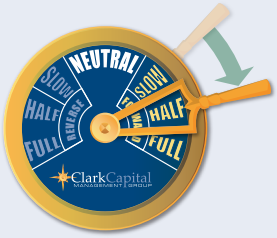
Charting Our Strategies

Economic Gauges

Economy

Monetary Policy

Valuations



Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

The July rally ended in August with low volume and persistent selling pressure spurred by Powell's hawkish comments at Jackson Hole and expectations for a longer stretch of monetary tightening well into 2023. Chairman Powell's "keep at it until the job is done" commentary leaves Treasury yields close to resistance, with the 10-Year Treasury yield back above 3.0%. Longer duration stocks weakened as evidenced by the Russell 1000 Growth versus the Russell 1000 Value ratio retreating, indicating a shift to value outperformance ahead.

Although earnings have come in better than expected, fears of flatter earnings could fuel more volatility into September, a historically bad month for the market. We continue to invest the High Dividend Equity portfolio in dividend growers at what we believe are reasonable prices with exposure to both cyclical and growth sectors. We also see opportunity in international markets, with valuations about one-third less than U.S. benchmarks. International ADR continues to seek out what we believe are undervalued, high quality companies in both developed and emerging markets to add to the portfolio. In our fixed income portfolios, we continue to shift into higher quality, more liquid holdings in anticipation of wider spreads going into the large amount of new issue supply in September.

Below are strategy updates from August:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 65.0% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- 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 believed will continue to see strong business momentum despite rising inflation and tight labor market conditions.
- During August, we added a drug wholesale company, a telecommunications and media company, a food company, a financial technology company, and a technology company to the portfolio. We exited an e-commerce company, a pharmaceutical company, a financial services company, an advertising company, a technology company, and a digital media company.
- Our current weighting in the big five free cash flow margin monopolies is 15.8% vs. approximately 18.8% in the Russell 3000.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 19.3%.

High Dividend Equity

- Navigator® High Dividend Equity has approximately 98.4% in developed countries with the remainder in cash.
- The United States is the largest country weight at 89.7%, followed by The United Kingdom at 4.3% and Switzerland at 2.2%.
- 90.0% of the portfolio is large-cap, 7.4% of the portfolio is mid-cap, 1.0% is small-cap, and the remainder is in cash.
- Financials represent the largest sector weight at 19.5%, slightly below the benchmark weight of 19.8%. The next two largest portfolio weights are

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Healthcare and Information Technology at 17.7% and 12.0%, respectively.

- During the month of August, we purchased a data analytics company with strong long-term growth and a 5-year dividend growth rate of 16%.
- We exited a food company, due to continued inflationary pressure and impact from the economic slowdown in China.
- Top sector contributors were Financials, Real Estate, and Communication Services, while detractors included Information Technology, Consumer Staples, and Materials.

International Equity ADR

- Navigator® International Equity ADR is positioned with 13.8% in emerging markets with the balance in developed economies and cash.
- The United Kingdom, Canada, and Japan are the strategy's largest country weights, all ranging between 9% and 20%.
- ADR has begun to reduce its underweight position in China as initial signs of improving business momentum have materialized.
- During the month we added a British tobacco company, a professional services company domiciled in Bermuda, a global bank, a Swiss semiconductor manufacturer, a Chinese E-commerce company, and a British insurance advisor to the portfolio. We exited positions in a British healthcare company, an Irish biopharmaceutical company, an Indian information technology company, a Swiss food company, and a Chinese internet technology company.
- Consumer Staples, Consumer Discretionary, Financials, Industrials, and Information Technology remain our largest sector weights.

Taxable Fixed Income

- The U.S. investment grade market saw spreads tighten 4 bps on the month, however they had tightened as much as 13 bps during August before reversing in the last 2 weeks of the month. This widening in spreads was driven by a combination of a more hawkish Fed, coupled with supply in the investment grade market that was almost double expectations.
- The small tightening in spreads during the month was overshadowed by the move higher in interest rates as the Bloomberg Barclays U.S. Investment Grade Index returned -2.93% during August. The Bloomberg Barclays Intermediate Corporate Index performed better, returning -2.06% as front-end spreads outperformed longer bonds.
- Within the portfolio, the spread tightening was used to continue the process of reshaping the portfolio into a higher quality, more liquid portfolio in anticipation of wider spreads and a large amount of new issue supply in September. Due to the move in the interest rates curve and the continued inversion, trades were executed to shorten the duration and reduce interest rate risk while maintaining the same yield.
- We purchased bonds with the same yield-to-worst while increasing current income and decreasing interest rate risk. The other theme for the month was the continued buying of short high yielding bonds at 4.25-4.50% yields for bonds that mature in less than 2 years.
- Overall, the portfolio has reduced longer, lower credit exposure while increasing higher quality intermediate exposure at comparable all-in yields.

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Tax-Free Fixed Income

- If we consider a 10-year lookback, the index's August 2022 performance is the weakest August recorded (Bloomberg data). The month's weakness affected the whole yield curve, with one to five years nearly inverting on several days.
- Issuance for the month was higher than the previous — $35 billion in August, up 34% from July. YTD issuance is approximately 13% lower than 2021. Higher rates are keeping issuers at bay, although inflationary pressures may increase forward issuance as projected costs inflate capital needs (Bloomberg data).
- We remain opportunistic, using general weakness to consolidate positions for better economies of scale, blocking up where possible for an enhanced liquidity profile, aggressively managing duration and extension risk, and taking advantage of illiquidity to purchase attractive names at wider-than-usual spreads and percentages of Treasuries.
- General weakness also afforded us the opportunity to add corporate-backed munis at wider-than-normal credit spreads, with yields that compare favorably to their taxable counterparts.

Clark Capital's Top-Down, Quantitative Strategies

Federal Reserve Chairman Jerome Powell reiterated his commitment to quashing inflation expectations and acknowledged the potential economic pain of lifting short-term rates. The Fed is now set to double the pace of quantitative tightening or balance sheet reduction, and is expected to increase the Fed Funds rate by another 0.50% - 0.75% in September. After a brief 2-month rally from mid-June to mid-August, volatility increased with the market giving back some of its gains into month-end. Risk assets across the board came under pressure following Powell's comments and high-yield credit spreads widened but remain well below their early-July peak.

September has historically been a seasonally weak month, especially in midterm election years, so we anticipate some additional volatility over the coming weeks. Some of our tactical strategies turned defensive with the Fixed Income Total Return and Global Tactical portfolios reallocating into a risk-off position as the month ended.

Below are strategy updates from August:

Alternative

- Managed futures continue to provide the strongest performance within the portfolio's mutual fund core, with event-driven equity recently showing life.
- Alternative credit and market-neutral are laggards, which is not surprising during this tightening cycle.
- The portfolio owns small positions in a cryptocurrency, agriculture, master limited partnerships, and growth stocks.
- We have been sellers of gold, silver, and gold miners, and have reduced equities in general, taking a defensive stance in short-term investment grade corporates.

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Fixed Income Total Return

- Our buyback into high-yield on July 20th saw modest success into mid-August as credit produced gains.
- However, the buildup to and aftermath from Powell's hawkish speech at Jackson Hole drove interest rates higher, and credit suffered as investors worried that a hostile Fed would dampen the economy, the consumer, and jobs markets.
- Our models sold out of high-yield at the end of August, as cash equivalents have become the defensive vehicle of choice in today's rising rate environment.

Global Tactical

- The portfolio moved back into equities and a risk-on position on July 20th, and this position produced moderate gains through mid-August, when interest rate concerns re-emerged.
- After Powell's Jackson Hole speech, concerns about Fed hawkishness drove rates higher, and credit began to decline.
- On August 30th, we de-risked and moved to cash equivalents. Markets have declined further so far in September.

Sector Opportunity

- Despite a hawkish Fed, inflation, and rising interest rates, Utilities stand alone as the strongest performing sector — a very unexpected development.
- Industrials and solar and battery technology also rank highly and have solid relative strength.
- Newer positions in Energy and Consumer Discretionary remain tenuous. We are underweighting Information Technology and Healthcare.

Style Opportunity

- Following a broad market rally in late June, a sizeable retracement in mid-August has left markets without standout leadership.
- Mid-caps, both value and growth, stand at the top of our ranks — however, their performance is only equal to the S&P 500 Index itself.
- Our current portfolio is roughly evenly split between mid-caps, the S&P 500 Index, and large-cap growth.

U.S. Strategic Beta

- The portfolio maintains a fairly balanced stance, with a modest tilt towards growth offset by a position in minimum volatility.
- Mid- and small-caps remain underweights.
- We are waiting for a panic selloff and extreme pessimism before increasing portfolio beta.

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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value of an investment), credit, payment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations. Looked at another way, the Treasury yield is the effective interest rate that the U.S. government pays to borrow money for different lengths of time

The Bloomberg Global Investment Grade Corporate Bond Index is a rules-based market-value-weighted index engineered to measure the investment-grade, fixed rate, global corporate bond market.

The Bloomberg Barclays US Intermediate Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers that have between 1 and up to, but not including, 10 years to maturity.

The S&P 500 Index is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States.

Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability.

A municipal bond is a debt security issued by a state, municipality, or county to finance its capital expenditures, including the construction of highways, bridges, or schools. They can be thought of as loans that investors make to local governments.

The 10 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 year. The 10 year treasury yield is included on the longer end of the yield curve. Many analysts will use the 10 year yield as the "risk free" rate when valuing the markets or an individual security.

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.

EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value.

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.

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