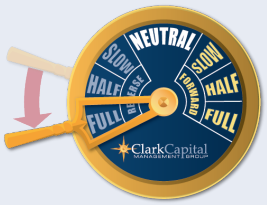
ClarkCapital MANAGEMENT GROUP

Monthly Moves

Charting Our Strategies

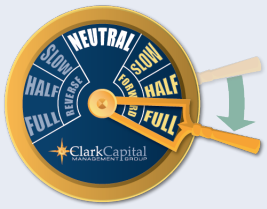
Economic Gauges

Economy



Monetary Policy

Valuations



Investor Sentiment

Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

The Federal Reserve maintained their hawkish stance with a third 75-basis point rate hike, pushing the 10-year U.S. Treasury yield over 4.0% for the first time in 10 years. In September, the S&P 500 Index declined the most since March 2020, down -9.2%. Since July, persistent signs of peak inflation and weakening consumer demand continued with declining home sales, lower used car prices, and declining U.S. shipping orders. Additionally, the U.S. manufacturing sector expanded at the lowest rate since the pandemic recovery with September manufacturing PMI declining to 50.9 vs. 52.8 in August.

The High Dividend Equity portfolio continues to invest in what we believe are dividend growers in cyclical and growth sectors. In the current declining earnings growth environment, we believe dividend growers are better positioned to contribute positive relative performance.

The All Cap, Small Cap and International ADR portfolios continue to find what we believe are undervalued, high quality companies to invest in. International and small-cap market P/E ratios have collapsed to what we believe are attractive valuations, especially if we think that long-term inflation will match market expectations of near 3%. Within the fixed income portfolios, the emphasis has been on seeking to own shorter duration, higher quality names, which continued throughout the month. Due to the inversion in the interest rates curve, the portfolios were able to reduce duration without giving up yield.

Below are strategy updates from September:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 69.6% 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 believe will continue to see strong business momentum despite rising inflation and tight labor market conditions.
- To this end, we added an energy company and an insurance company to the portfolio. We exited a consulting 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 20.1%.
- The top three contributors to absolute portfolio return in the quarter for the All Cap portfolio were a technology company, a car manufacturer, and an e-commerce company. The top three detractors for absolute portfolio return were a telecommunications company, a shipping and freight company, and an energy company.

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High Dividend Equity

- Navigator® High Dividend Equity holds 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 4.4% and Switzerland at 2.3%. 89.6% of the portfolio is large-cap, 8.0% of the portfolio is mid-cap, 0.9% is small-cap, and the remainder is in cash.
- Financials represent the largest sector weight at 19.8%, which is slightly below the benchmark weight of 20.0%. The next two largest portfolio weights are Healthcare and Information Technology at 19.0% and 10.6%, respectively.
- In September, we increased holdings with positive earnings growth momentum such as a manufacturing company, a pharmaceutical company, a renewable energy company, a media company, a medical technologies company, a retail chain, and a semiconductor company. Companies with lower earnings estimates such as an automobile manufacturer, a financial technology company, and a pharmaceutical company were reduced.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 13.9% 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 8% and 20%.
- ADR continues to seek what we believe are undervalued, high quality companies in both developed and emerging markets to add to the portfolio. During the month we added a Chinese technology company to the portfolio. We exited a Japanese electronics company.
- ADR has begun to reduce its underweight position in China as initial signs of improving business and regulatory conditions appear.
- Consumer Discretionary, Consumer Staples, Financials, Industrials, and Information Technology remain our largest sector weights.
- The top three contributors to absolute portfolio return in the quarter for the ADR portfolio were an Irish manufacturing company, a Brazilian bank, and a Canadian transport and logistics company. The top three detractors for absolute portfolio return were a British manufacturing company, a Chinese e-commerce company, and a French pharmaceutical company.

Taxable Fixed Income

- The Investment Grade markets saw spreads widen 19 bps, hitting an option adjusted spread (OAS) of 164 bps late in the month before closing the month at 159 bps, which is the widest level this year. This widening in spreads coupled with the move higher in interest rates resulted in the worst monthly returns for the index this year.
- Within the portfolio, the emphasis on shorter duration, higher quality names continued throughout the month.
- Due to the inversion in the interest rates curve, the portfolio was able to reduce duration without giving up yield.
- Overall, the portfolio yield to worst increased to 5.50% with the current yield eclipsing 4%, at 4.15%. These are both levels that haven't been seen in the bond market in 10-15 years.

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- Our focus on higher yielding shorter bonds coupled with higher quality longer bonds will continue provided the market continues to be volatile heading towards the end of the year.

Tax-Free Fixed Income

- Tax-exempt issuance for the month was lower than the previous: $26.0 billion in September, down 24% from August. YTD long-term issuance is approximately 12% 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).
- Flows, as reported by ICI, were overall negative for the month. Investors withdrew $6.8 billion from the asset class during September (as of 09/21/2022) as a tightening Fed and another 75-bps rate increase this month weighed on investors' minds. Institutional selling remained heavy and was perpetuated in a market plagued by weaker liquidity and difficult price discovery.
- We remain opportunistic, using general weakness to consolidate positions for better economies of scale, increasing block size 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.
- Weakness also afforded 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

Markets peaked in mid-August and declined relentlessly, with many equity and fixed income indices making new yearly lows. The declines were widespread as inflation fears remained persistent, and the Fed said they are committed to hiking rates aggressively through year-end. Our tactical strategies, such as Fixed Income Total Return and Global Tactical, were defensively positioned throughout the month as our credit-based risk management models have been risk off.

For the first time on record, there were three consecutive quarters of declines for both the S&P 500 and Bloomberg Barclays Aggregate Bond Indices. It is also only the second time that the Barclays Agg has been down three quarters in a row; the last time was Q3 1979 – Q1 1980. The silver lining is that investor sentiment is very pessimistic, and seasonality has historically turned positive through year-end, especially in mid-term election years.

Below are strategy updates from September:

Alternative

- The core of the portfolio has been led by managed futures, which can short both interest rates and equities.
- We have also added to merger arbitrage, which now looks more attractive because its premium above and beyond higher short-term rates suggests that it should exceed fixed income.

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- As markets approached new lows in late September, we tax loss sold some equity holdings.
- With pessimism reaching extremes last seen at 2020 lows, we purchased private equity and will potentially look to increase our risk stance soon.

Fixed Income Total Return

- The portfolio switched to cash equivalent vehicles at the end of August, and the Fed again for the 3rd straight time raised rates by 75 basis points in November.
- Both U.S. Treasuries and high yield bonds have been going down together. In late September high yield began to underperform, but cash remains king.
- Markets have become extremely pessimistic, and while our cash position ranks highly, a trend turnaround might be forthcoming. However, it would need considerable magnitude to change our position.

Global Tactical

- The portfolio sold equities and moved into cash at the end of August, and as markets made new lows and stocks sold off along with bonds, cash has proven its mettle.
- Extremely pessimistic sentiment and deeply oversold technicals mean that a market bounce is likely in our opinion.
- Credit, however, weakened notably at the end of September. We would need to see a real turnaround set in (possibly an easing of the Fed's stance) before our models would move towards favoring risk.

Sector Opportunity

- Very few sectors are making new relative strength highs, and thus the portfolio has moved to a 30% indexed position.
- Solar, lithium and battery, biotech, and banks stand near the top of our rankings, and Energy continues to hang in there despite oil price volatility. Technology is again making new relative lows and is least favored.

Style Opportunity

- As markets have declined, we have largely indexed our portfolio in the S&P 500, as there is no discernable leadership.
- We have a small position in minimum volatility, but we may soon exit that position and become 100% indexed because we do not expect to know leadership trends until after a bottom appears.

U.S. Strategic Beta

- The portfolio has maintained a position in minimum volatility that has held up well during the September downturn.
- We expect to soon exit minimum volatility and increase mid and small-caps, as extreme pessimism and oversold conditions should soon present attractive conditions for risk taking.

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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).

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors. 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 S&P 500 Index is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

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 Russell 3000 Index is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S stock market.

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 Manufacturing Purchasing Managers' Index (PMI) measures the activity level of purchasing managers in the manufacturing sector.

The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS).

The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option.

International Securities means securities listed on a foreign stock exchange and includes, but is not limited to stocks, shares, bonds, debentures or other debt securities, notes, rights, units, options and any other instruments representing rights to receive, purchase or subscribe for same.

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