ClarkCapital MANAGEMENT GROUP

# Monthly Moves

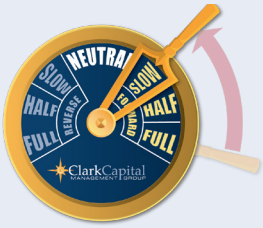
## Charting Our Strategies

### Economic Gauges


Economy


Monetary Policy


Valuations




Investor Sentiment


Interest Rates

### Clark Capital's Bottom-Up, Fundamental Strategies

December market performance capped off a tough year for the equity and bond markets. Equity markets resumed their decline in December as relative performance amongst the indices continued in rank order. As 10-year U.S. Treasury yields advanced from 0.27% to 3.88%, it was not surprising that U.S. large-cap value and international equity declined less than U.S. large-cap growth and small-caps, which fell the most.

The U.S. central bank's lifting of the Fed Funds Target Rate lower bound by "just" 0.50% to 4.25% did little to assuage equity investors as higher rates provided meaningful competition to equites and reduced the net present value of future cash flows. For perspective, a year earlier, the lower bound was 0% and 10-year Treasuries yielded just 1.63%.

Across our bottom-up equity strategies, we continue to balance portfolio holdings between the dominant large-cap growth companies and those anti-fragile large, small, and mid-cap companies that we believe will continue to see strong business momentum despite rising inflation and tight labor market conditions.

We believe our focus on higher quality and more antifragile companies has helped the portfolios mitigate exposure to the extreme declines associated with expensive or low-quality company indices.

In the Tax-Free Fixed Income portfolio, we have been aggressively managing duration and extension risk; taking advantage of illiquidity to purchase what we believe are attractive names at wider than usual spreads and percentages of Treasuries. In the Taxable Fixed Income portfolio, we continued to focus on improving the overall credit quality of the portfolio while increasing the overall coupon and current yield. The portfolio also continued to add newer higher-quality names in the 10-year part of the curve while selling those same names that were shorter, lower yielding and had lower coupons.

Below are strategy updates from December:

#### All Cap Core U.S. Equity

- Navigator® All Cap is positioned with 68.7% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, we added a technology company focusing on e-commerce, an American multinational semiconductor company, a multinational telecommunications company, a consumer lending company, and a home improvement chain to the portfolio.
- We exited our positions in a telecommunications and mass media company, a bank holding company, a home improvement chain, and a multinational automotive and clean energy company.

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- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 18.7%.

### High Dividend Equity

- The United States is the largest country weight in the portfolio at 89.9%, followed by Britain at 4.7% and Switzerland at 2.1%.
- Financials are the largest sector weight at 18.7% and below the benchmark at 20.1%. The next two largest portfolio weights are Healthcare and Information Technology at 18.4% and 11.0%, respectively.
- For the month, the top relative sector performers were Healthcare, Consumer Discretionary and Financials. Bottom sectors were Information Technology, Real Estate, and Energy.
- December sales focused on realizing a tax loss in companies with weak business momentum. New positions included an American video game holding company, a REIT and an owner and operator of wireless and broadcast communications, and a multinational semiconductor company.

### International Equity ADR

- Navigator® International Equity/ADR is positioned with 18.6% in emerging markets with the balance in developed economies and cash.
- Britain, Canada, China, Japan, and Switzerland are the strategy's largest country weights, all ranging between 7% and 15%.
- During the month, we added a Japanese multinational automotive manufacturer to the portfolio and exited our position in an English beverage company.
- Since quarter end, the portfolio ADR has nearly doubled its exposure to China as prices represent extreme value on a price-to-sales basis and COVID lockdown riots pressure their government for a response.
- Consumer Discretionary, Financials, Industrials and Information Technology are the portfolio's largest sector weights.

### Taxable Fixed Income

- During the month, the focus continued to be on improving the overall credit quality of the portfolio while increasing the overall coupon and current yield.
- The current yield on the portfolio continued to climb and closed the year just below 4.40%, a 0.75% increase on the year.
- The portfolio continued to add newer higher quality names, while selling those same names that were shorter, lower yielding and lower coupons.
- Higher quality Energy names were also added as that sector continues to look on the cheaper side versus the rest of the

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market. The market continues to overvalue the lower coupon, lower dollar bonds, and the portfolio will continue to transition to these higher coupon, par priced issues.

### Tax-Free Fixed Income

- Flows into municipal bonds, as reported by ICI, were negative for the month as continued Fed tightening and tax planning factored into investor redemptions.
- Institutional selling remained heavy and was perpetuated in a market plagued by weaker liquidity and difficult price discovery.
- During the prior month, the strategy continued to consolidate positions, increase block size, manage duration and extension risk, and take advantage of illiquidity.
- As bonds continued to rally during December, we secured what we believe are attractive exit points for our tactical long convexity trade and locked in attractive gains from these positions.

## Clark Capital's Top-Down, Quantitative Strategies

December did not provide the normal seasonal rally into year-end known as the Santa Claus Rally. Markets struggled under the weight of an additional Fed rate hike and hawkish speech coming from Fed officials. In addition, tax-loss selling likely contributed to the losses across both the bond and equity markets into year end.

A silver lining to the recent weakness is that credit proved to be resilient in the face of selling pressure. High yield bonds posted recovery gains in the fourth quarter, with the Bloomberg Barclays High Yield Index gaining 4.17%. For the month of December, high yield bonds lost 0.62% while the S&P 500 declined 5.77%. Our tactical strategies, including Fixed Income Total Return and Global Tactical, remain risk-on, invested in high yield and global equity, respectively. The credit-based risk management models that drive those allocations remained favorably positioned on risk as the year ended.

Below are strategy updates from December:

### Alternative

- The core portion of the portfolio was driven by managed futures in 2022, with its ability to short currencies, own commodities, and short interest rates.
- The tactical portion of the portfolio maintains a risk-facing stance, holding commodity equity, listed private equity, biotech, and broad U.S. equities.
- The tactical fixed income slice of the portfolio has moved to favor investment grade over Treasuries or high yield.

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### Fixed Income Total Return

- The portfolio continues to favor high yield credit over Treasuries and cash, though our credit models have lost a good amount of steam.
- We cannot take much more spread widening in high yield before the portfolio would become defensive.
- The defensive vehicle of choice remains open to question, and cash or Treasuries could be employed depending upon the direction of rates early in 2023.

### Global Tactical

- Since we bought into equities in late October, U.S. equities have vacillated between gains and losses (currently they are down 1% to 3% since entry).
- However, our two international ETF holdings, broad international and international small-cap, are up 10.5% and 8.3%, respectively.
- We believe international equities still provide compelling valuations, and these trends could continue into 2023.

### Sector Opportunity

- The portfolio's largest sector weight is now Healthcare via broad healthcare and biotech holdings.
- Industrials and aerospace holdings along with Materials also stand out as overweights.
- The Technology and Consumer Discretionary sectors rank lowest and are being avoided in the portfolio.

### Style Opportunity

- Our rankings matrix has shifted the portfolio towards value (primarily large-cap value) via the S&P 500 Value and buybacks.
- Mid-cap value and high dividend securities also are holdings.
- Large-cap growth stands by itself at the bottom of our rankings, where it stood for all of the fourth quarter.

### U.S. Strategic Beta

- The portfolio experienced gains on its value positions before the election, shifting a portion of value towards growth.
- Overall, the portfolio is roughly neutral regarding value vs. growth. A larger bias towards mid-cap and small-cap stocks continues, and market breadth has been largely supportive of that stance.
- Large-cap growth, a laggard for most of 2022, has stabilized, but has made new relative lows again as rates have risen.

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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

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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 S&P 500 Value Index stocks are classified as companies that are currently trading below what they are really worth and will thus provide a superior return.

The Bloomberg USD High-Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

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.

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