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Clark Capital's Bottom-Up, Fundamental Strategies

The market re-evaluated the slow pace of the inflationary decline and potentially higher rates into 2024. Despite the S&P 500's -2.6% decline, early cycle stocks continued to lead the way. Despite their lower mathematical sensitivity to raising interest rates and inflation, large-cap value and international equities were the big losers each declining more than 3.5%.

So far, the Q4 2022 earnings season has shown that the profits for corporate America are not bottoming, and the U.S. economy remains strong, although forward earnings expectations are expected to continue to decline, spelling potential short-term volatility for the market. We expect market leadership to continue to be in early cyclical sectors including Industrials, Financials, Technology and Consumer Discretionary versus defensive sectors like Consumer Staples and Healthcare.

Below are strategy updates from February:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 68.5% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month to benefit from improving business fundamentals, we added a network equipment company, a home healthcare services company, and an American multinational confectionery, food, and beverage company.
- We exited our positions in a commercial banking company and an aerospace and defense corporation.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 21.0%.

High Dividend Equity

- Financials represent the largest sector weight at 19.6%, but below the benchmark of 20.8%. The next two largest portfolio weights are Healthcare and Information Technology at 14.9% and 12.2%, respectively.
- On a relative basis, the top sector contributors were Industrials and Information Technology versus detractors Financials and Energy.
- We sold out of our positions in a construction machinery and equipment company and an energy company engaged in hydrocarbon exploration in the United States.
- New positions were initiated in a water treatment company and a U.S. automotive manufacturer.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

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International Equity ADR

- Navigator® International Equity/ADR is positioned with 18.8% in emerging markets with the balance in developed economies and cash.
- Britain, Canada, France, Japan and Switzerland are the strategy's largest country weights, all ranging between 7% and 11%.
- During the month, the strategy added an agribusiness and food company, a French international banking group, an Israel-based global provider of energy-based, minimally-invasive surgical medical treatment solutions, and a financial services company based in Indonesia.
- We exited our positions in a German multinational pharmaceutical and biotechnology company, a British multinational company that manufactures tobacco products, and a British-American multinational company providing insurance services.
- The strategy's exposure to China is now 7%, which is slightly below its weighting in the MSCI ACWI ex-US benchmark.
- Communication Services, Consumer Discretionary, Financials, Industrials and Information Technology are our largest sector weights.

Taxable Fixed Income

- Within the portfolio, the main priority was once again improving liquidity and yield by moving into the newest, highest coupon bonds that companies have issued.
- The portfolio also continued to add shorter duration, higher yielding names to take advantage of the inverted yield curve.
- We added two very short duration names coupled with the higher quality longer bonds in the portfolio, which resulted in the overall yield of the portfolio rising approximately 65 basis points on the month.

Tax-Free Fixed Income

- Despite strong market technicals and rich muni valuations benefitting issuers, issuance continued to remain extremely light. Market volatility, higher rates, and uncertainty have made underwriters cautious about tapping the primary markets.
- Flows, as reported by Investment Company Institute, remained positive for the month. Investors added over $4.5 billion into the municipal bond asset class as of 02/15/2023.
- Investment activity remained steadfast: consolidation of positions for better economies of scale, increasing block size for an enhanced liquidity profile, and nominalizing extension and duration risk.

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- Since late December, we have been repositioning portfolio exposures to be more in line with benchmark weightings and we will remain on this path. This includes adding to maturities inside 4-6 years.
- We remain neutral weight in the 1 to 3-year maturity buckets, and continue opportunistically hold excess cash, as the municipal bond market enters a period of seasonal weakness.

Clark Capital's Top-Down, Quantitative Strategies

Just when equity investors optimistically pushed stock prices higher in January on the expectation of a Fed tightening regime moving to the late innings, higher reported January inflation reversed much of those stock price gains as the Fed's tightening path moved into extras innings!

The Fed's message was higher for longer, which weighed on asset prices. This rhetoric from the Fed coupled with all inflation metrics being higher than expectations resulted in the market repricing the Fed's rate hike path and the overall interest rate market in general. The 10-year Treasury rose from 3.51% to start the month to 3.92% at the end of February. As a result, our tactical strategies, such as Fixed Income Total Return and Global Tactical, shifted to a risk-off bias favoring cash equivalents in late February.

Below are strategy updates from February:

Alternative

- We believe options-based and market neutral income were the strongest performers within the mutual fund core.
- Within the tactical fixed income portion of the portfolio, we have short-term Treasuries, bank loans, and floating rate loans.
- As the strong rally in January came to an end, we reduced our exposure to Materials, private equity, and growth stocks, and increased cash.
- We believe long duration assets generally are to be avoided compared to cash, particularly given the large inversions in the yield curve.

Fixed Income Total Return

- The portfolio reduced risk in late February, moving entirely into short-term cash-based vehicles.
- The move to defensive vehicles originated from concerns about the Fed and the risks to long duration assets rather than real stresses in corporate credit.
- As a result, if the interest rate backdrop improves, it would not take too much to turn us risk-on.

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Author

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Executive Vice President
Chief Investment Officer

Global Tactical

- The portfolio sold out of equities in late February, and moved into cash vehicles.
- Our credit-based models saw stresses from the macro interest rate environment instead of directly in credit.
- Corporate credit itself remains strong, so it will not take too much to move us back into equities.
- In our opinion cash stands out as the preferred defensive vehicle given the inverted yield curve and its higher yield than even the 10-year Treasury.

Sector Opportunity

- The portfolio favors Industrials, Aerospace, Robotics, Semiconductors, and Broker Dealers, along with a 28% position in the S&P 500 itself.
- We are avoiding Utilities, Staples, Healthcare, and Consumer Discretionary.

Style Opportunity

- The portfolio continues to give roughly equal weight to large-cap value and mid-cap and small-cap value.
- Oddly at the same time, Technology and large-cap growth has risen in the ranks and earned a small position in the portfolio.
- Large-cap growth, high dividend, and low volatility are featured at the bottom of our rankings, and we believe are to be avoided for now.

U.S. Strategic Beta

- The portfolio continues to overweight mid-caps and small-caps, while also tilting slightly towards large-cap growth.
- If the rally continues into the second quarter, as we expect, we would look to possibly get more defensive if measures indicate that the rally has become frothy.

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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

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.

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 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,206 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

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