September 2023

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Clark Capital's Bottom-Up, Fundamental Strategies

Equity markets continued their decline in September as both nominal and real interest rates reached multi-year highs despite August's decline in Core Personal Consumption Expenditures (PCE) inflation to 3.9% year over year. While broad indices of longer-duration equities like large-cap growth and small-caps underperformed shorter-duration indices like large-cap value and international equities, as measured by the All Country World less US Index, lower duration bond surrogates like Utilities performed poorly as well.

The equity portfolios continue to balance holdings between dominant large-cap growth companies and those anti-fragile large-cap, small-cap, and mid-cap companies that we believe continue to see strong business momentum despite sticky services inflation. Quality factors like free cash flow, return on equity, and debt coverage are outperforming cyclicals and defensives. Underperforming factors include negative earnings, beta, and capex to sales.

Within the Taxable Bond portfolio, the focus was to continue adding longer bonds (7-10 years to maturity) to take advantage of higher yields coupled with buying shorter (0-2 year) bonds, which won't be impacted significantly if longer rates continue to march higher.

In the Tax-Free portfolios we used the seasonal weakness to our advantage by securing outsized coupons of 6% or greater on new issues to bolster defense positions and adding to the current yield profile. Coupon income is a large component of overall performance. We remain focused on maximizing current yield, without sacrificing overall yield or credit quality.

Below are strategy updates from September:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 73.4% positioned in large-cap stocks and the remainder positioned in mid/small-cap companies and cash.
- During the month, to benefit from improving business fundamentals, we added a position in a multinational financial technology services company. We exited our positions in a sporting goods retail chain and an investment banking company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 23.3%.

High Dividend Equity

- 90.5% of the portfolio is positioned in large-cap, 7.3% is positioned in mid-cap, and the remainder is positioned in cash.
- Financials are the largest sector weight at 20.3% and slightly below the benchmark at 20.6%. The next three largest portfolio weights are Healthcare, Industrials, and Information Technology at 16.3%, 12.8%, and 11.0%, respectively.
- In September, we initiated new positions in a telecommunications company, an engine equipment manufacturing company, and a consumer retail company that sells kitchenware and home furnishings.

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

- Tax loss sales included positions in a media company, a chain of discount department stores, and an aerospace and defense company.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 13.2% in emerging markets with a balance in developed economies and cash. Britain, France, Japan, and Switzerland are the strategy's largest country weights, all ranging between 10% and 15%.
- During the month, to benefit from improving business fundamentals, we added an energy company, a Canadian manufacturing company of snowmobiles and recreational vehicles, and an Austrian financial service provider. We exited our positions in an Italian energy company and in a global manufacturer and supplier of steel pipes.
- ADR's exposure to China is now ~7.4% and is slightly below its weighting in the All-Country World less US benchmark.
- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology are our largest sector weights.

Taxable Fixed Income

- During the month, we focused on continuing to add longer bonds (7-10 years to maturity) to take advantage of higher yields. This was coupled with buying shorter (0-2 year) bonds that are yielding 6-6.5% and won't be impacted significantly if longer rates continue to march higher.
- To this end, we purchased two shorter bonds which yield between 6%-6.5% and limit the duration and interest rate risk in the portfolio.
- We also purchased a bond in the Telecommunications sector to take advantage of higher quality longer bonds that still yielded just under 6%.
- We believe that if rates rally, these bonds have the potential to outperform as the price appreciation on the bond will be significantly higher than the lower duration names.
- This barbell approach results in the portfolio maximizing short term yield and return while still allowing for price appreciation as rates stabilize.

Tax-Free Fixed Income

- September has traditionally been a challenging month for munis, with the index showing negative returns in 8 out of the last 10 years.
- During the month, we used seasonal weakness to our advantage, and secured outsized coupons of 6% or greater on new issues to bolster our defense and add to our current yield profile.
- As coupon income is a large component of overall muni performance, we remain focused on maximizing current yield, provided we do not have to sacrifice overall yield or credit quality.
- More recently, we've been selectively adding to credits in sectors with upgrade potential (airports, for example) and moving away from what we view to be troubled credits with higher downgrade risk (small hospitals and higher education systems).

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Clark Capital's Top-Down, Quantitative Strategies

The broad equity markets continued their correction that began on July 31st, with the major equity indices declining during the seasonally weakest time of the year. The market has a lot to contend with. Rising yields and oil prices have been two major headwinds to equity prices over the last two months. For the month of September, the S&P 500 lost 4.8% and small-caps and broad international stocks were down as well.

Bonds didn't fare much better with the Bloomberg Barclays Aggregate Bond Index down -2.5% along with 7-10 Year Treasuries and high yield bonds, which were down as well. The good news is that the markets are now oversold, investor pessimism is setting in, and as we move into the fourth quarter, seasonal headwinds should turn into tailwinds for the market.

The tactical portfolios, including Fixed Income Total Return and Global Tactical, remained risk-on throughout the month. We have noticed that rising yields are starting to bite with risk assets challenging or slightly breaking support levels. Within the Style Opportunity portfolio, growth is favored as defensive equities have suffered with rising rates.

Below are strategy updates from September:

Alternative

- Long-short equity, options-based, and event-driven equity have led the mutual fund liquid alternative core while alternative credit and long-short real estate have lagged.
- The portfolio has modestly reduced its equity and fixed income holdings.
- Our equity focus remains on precious metals and commodity equities.

Fixed Income Total Return

- High yield has performed well amidst a hostile and rising interest rate environment, as has often been the historical pattern.
- However, recent weakness in risk assets has forced the credit-based risk management models that drive the strategy's positioning to turn defensive.
- As a result, the Fixed Income Total Return strategy re-allocated to a defensive position in cash equivalents on October 4th where it remains at the time of this writing.

Global Tactical

- Recent weakness in risk assets has forced the credit-based risk management models that drive the strategy's positioning to turn defensive.
- As a result, the Global Tactical strategy re-allocated from a risk-on position in equity to a defensive position in cash equivalents on October 4th where it remains at the time of this writing.

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Sector Opportunity

- The portfolio favors Energy, broad Technology, Homebuilders, and recently added Insurance.
- Healthcare, Utilities, and Consumer Staples continue to make new relative lows, as defensive equities have lagged for most of 2023.

Style Opportunity

- The portfolio continues to favor large-cap growth, but over the intermediate-term, growth and value have both performed equally.
- Our other holding, buybacks, is more value-oriented, and it is on the verge of breaking out in relative strength.
- Small-caps are the weakest in our rankings are and are to be avoided.

U.S. Strategic Beta

- The portfolio continues to modestly favor value over growth, and while value is not outperforming, it has kept up with growth since June.
- We maintain a small defensive position in minimum volatility, but that could soon exit as markets look to be bottoming as September comes to a close.

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

The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most-followed stock market indices in the United States.

The Dow Jones Industrial Average, is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period by a country or countries.

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.

The iShares Russell Top 200 Growth ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities that exhibit growth characteristics.

The Bloomberg US Aggregate Bond Index, or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

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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