Navigator® U.S. All Cap Core
Navigator® U.S. Small Cap Core
Navigator® U.S. SMID Cap Core
Navigator® International Equity/ADR

A discussion with Tony Soslow, CFA, Senior Portfolio Manager

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Tony serves as a portfolio manager in the Premier Portfolios group and is a member of the Clark Capital Investment Committee. He has over 25 years of portfolio management experience utilizing both a quantitative and fundamental process. From 1997 to 2013 Tony was the President and Chief Investment Officer of Global Capital Management which he founded. He was cited as a Top Guns Manager in 2006 and 2007 and was named Manager of the Decade in 2011 by PSN. From 1986 through 1997, Tony was Director of Portfolio Management at RTE Asset Management where he was responsible for portfolio management across all asset classes. Tony is a graduate of the Wharton School of the University of Pennsylvania and holds the CFA designation.

What is Clark Capital's philosophy, process and approach to the equity markets in the strategies?

We believe that there are a number of different ways to add value to clients' portfolios by either adding return in excess of benchmarks or by providing diversification or applying other risk-reduction techniques to a client's assets. We believe using risk-reduction techniques will, in turn, enable investors to explore adding riskier assets to their portfolios in pursuit of greater returns.

In the case of the equity strategies which I manage, we conducted original research in 1990 to determine which factors influence equity risks and returns. Based on this study, which was revisited in 1998, 2003, 2008 and 2013, equity returns come from three primary factors — quality (or durable competitive advantage), value and business prospects.

What are the goals of the strategies you manage?

With each of the four strategies, All Cap, SMID Cap, Small Cap and International Equity/ADR, we seek to outperform their respective benchmarks with less risk over a market cycle.

In the case of the Navigator All Cap Strategy, approximately half of the companies in the Russell 3000 index have a durable competitive advantage in our opinion. They have balance-sheet and income-statement metrics which demonstrate that they are highly likely to survive the next few recessions and are likely to thrive on the recoveries which follow. Approximately 750 of those companies are relatively cheap based on a number of value metrics which we use, and we believe about 100 of these have accelerating business momentum.

What equity sectors are in the investable universe of each strategy?

Given the approximate 100 undervalued, high-quality, strong business-momentum companies described above for each of our four strategies, we construct portfolios which are diversified across the six major economic sectors — Consumer, Health Care, Finance, Technology, Energy and Materials, and Industrials. In our view, diversification reduces risk on a nominal basis and enables us to have performance which doesn't deviate overly from each strategy's respective benchmark comparison.

In our International Equity/ADR strategy, we diversify both across economic sectors and across regions worldwide — North America (non-U.S.), Latin America, Europe and Asia.

How do you think each portfolio will perform if interest rates begin to rise?

Initially, I think a rise in interest rates will reflect continued confidence in worldwide, economic growth and earnings, thus aiding stock prices. If 10-year Treasury rates rise to 3.5% (currently 2.35%), however, I think P/E ratios will begin to contract, damaging stock prices, as stock prices re-establish their close positive correlation to intermediate and long-term interest rates. In other words, initial rise — positive. Lengthy rise — negative.

Are these strategies appropriate in today's environment?

As most investors require returns in excess of current low risk, short-term interest rates (approximately 0-2%), they need to take risk to accomplish their retirement savings objectives. Historically, equity holders have earned 7 to 10% over long periods of time as equity investors derive returns from dividends, growth in company cash flow and changes in the P/E ratios between time of purchase and sale. Thus returns to investors have essentially been mimicking the growth in earnings over that period.

Since we are starting in a period of low interest rates and correspondingly higher-than-average P/E ratios, I expect long-term future returns in U.S. equities to be at the low end of their historical average but much higher than the returns offered by high-quality fixed income securities or other liquid assets. Additionally an allocation to equities should provide diversification benefits to most client portfolios.

Finally, it is our hope that our quantitative and disciplined investment process will continue to provide excess returns over the traditional equity benchmarks.

Where do these strategies fit in a diversified asset allocation?

As an example, as a higher-risk, experienced investor, I "eat my own cooking," investing approximately 90% of my liquid assets in these strategies. While everyone's asset allocation is unique based on their risk tolerance, experience, income needs, etc., I would think that these strategies are appropriate to some small extent for all long-term, investment-horizon investors.

Can the portfolios target a specific income requirement for clients?

No. However each of these portfolios earn a portion of their returns from investing in dividend-paying companies. Currently the range of dividend yields across strategies is between 1% (Small Cap) to 2% (International Equity/ADR). These yields will change as the underlying securities in each portfolio change and may be higher or lower in the future.

What is the portfolios' exposure to risk?

We attempt to have overall portfolio risk for each strategy, as measured by beta or volatility, less than or equal to its benchmark.

While we try to invest in companies with a durable competitive advantage, the portfolios are highly subject to economic and earnings risk. In times of stress, earnings may fall significantly in the more cyclical or leveraged companies in the portfolio.

We seek to invest in some of the most "blue chip" companies in the market. According to the New York Stock Exchange, a blue chip is stock in a corporation with a national reputation for quality, reliability, and the ability to operate profitably in good times and bad. Although we seek out blue chip companies, it is typical for equity portfolios to fall 20% or more during an economic cycle. Investors in these strategies should recognize that the strategies will experience downside participation in unfavorable economic conditions in order for them to be able to experience upside participation in favorable economic conditions.

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