Navigator® High Dividend Equity
Maira F. Thompson, Senior Portfolio Manager

First Quarter 2018 — Portfolio Commentary

DIVIDEND GROWERS OVER THE LONG RUN

Maira F. Thompson
Senior Portfolio Manager

Maira is responsible for management of High Dividend Equity and customized portfolios in the Premier Portfolios group and is a member of the Clark Capital Investment Committee. Her more than thirty years of investment experience included the position of Vice President and head of the Philadelphia Investment Group for Meridian Asset Management. After Delaware Trust became part of Meridian, Maira managed their Trust Investment Group in Wilmington, Delaware. In the 1980s Maira managed assets for high net worth clients and co-managed a small cap fund for Fidelity Bank in Philadelphia. She began her career as a trader with Prudential Bache Securities and a licensed broker for Legg Mason Wood Walker. Maira is a graduate of Ohio Wesleyan University and undertook additional studies in economics at the London School of Economics. She joined Clark Capital in 1997.

First Quarter 2018

Growth continued to outperform value as higher interest rates, inflation worries and tough tariff talk from Washington marked the return of market volatility. Simultaneous to the S&P 500 Index entering its first 10% correction since 2016, estimated earnings growth continued to climb higher. FactSet Research commented, “The first quarter of 2018 marked the largest increase in the bottom-up earnings per share estimates for the S&P 500 Index since they began tracking the data the second quarter of 2002.” The bottom-up estimates rose 5.4% beating the previous record increase of 4.8% in the second quarter of 2004. If the estimated growth rate of 17.3% is achieved, it will compare with earnings rates not seen since the first quarter of 2011 of 19.5%. A decrease in corporate tax rates due to the new tax law is a factor in the improving estimates although the full effect won’t be realized until second quarter accounting as employers continue to adjust payroll deductions. Other factors contributing to rising estimates are climbing interest rates which are positively correlated to Financials while higher oil prices boosted Energy estimates.

Bond yields increased with the ten-year Treasury peaking at 2.95%, its highest level since January 2014. Historically, the top quartile of dividend yielders is negatively correlated to rising rates. The yielders or “bond proxy” stocks are overweight in sectors such as Utilities, Telecom and Staples. Some investors associate outperformance with investing in the highest yielding stocks which historically is not the case. The S&P 500 Index illustration demonstrates the flaws in that assumption by plotting 46 years of total returns based on dividend yields. From March 31, 1972 to March 31, 2018, the highest yielding stocks represented in quartile four rose 13.39% annually, underperforming quartile three which increased 14.40%. Quartile three stocks are also considered to have above average dividend payouts but are not ranked in the top quartile of yielders. Why is this significant? A large portion of dividend “growers,” possessing the strongest fundamentals and dividend payout, are represented in quartile three. As a result, dividend growers have historically provided a superior total return versus the highest yielders (see chart on next page).

The High Dividend Equity portfolio focuses on companies e believe possess the ability to increase their dividend faster than the rate of inflation versus a fixed income coupon which can be impacted by duration risk. In a rising rate scenario, we feel that owning “growers” is the best way to drive income growth if bond prices enter a bear market. In 2017, dividend increases grew over 7.0%, a pace well below the 2012 rate of 18.2% seen as many companies sought to either reinstate or raise their dividend

Sources: FactSet, Ned Davis Research

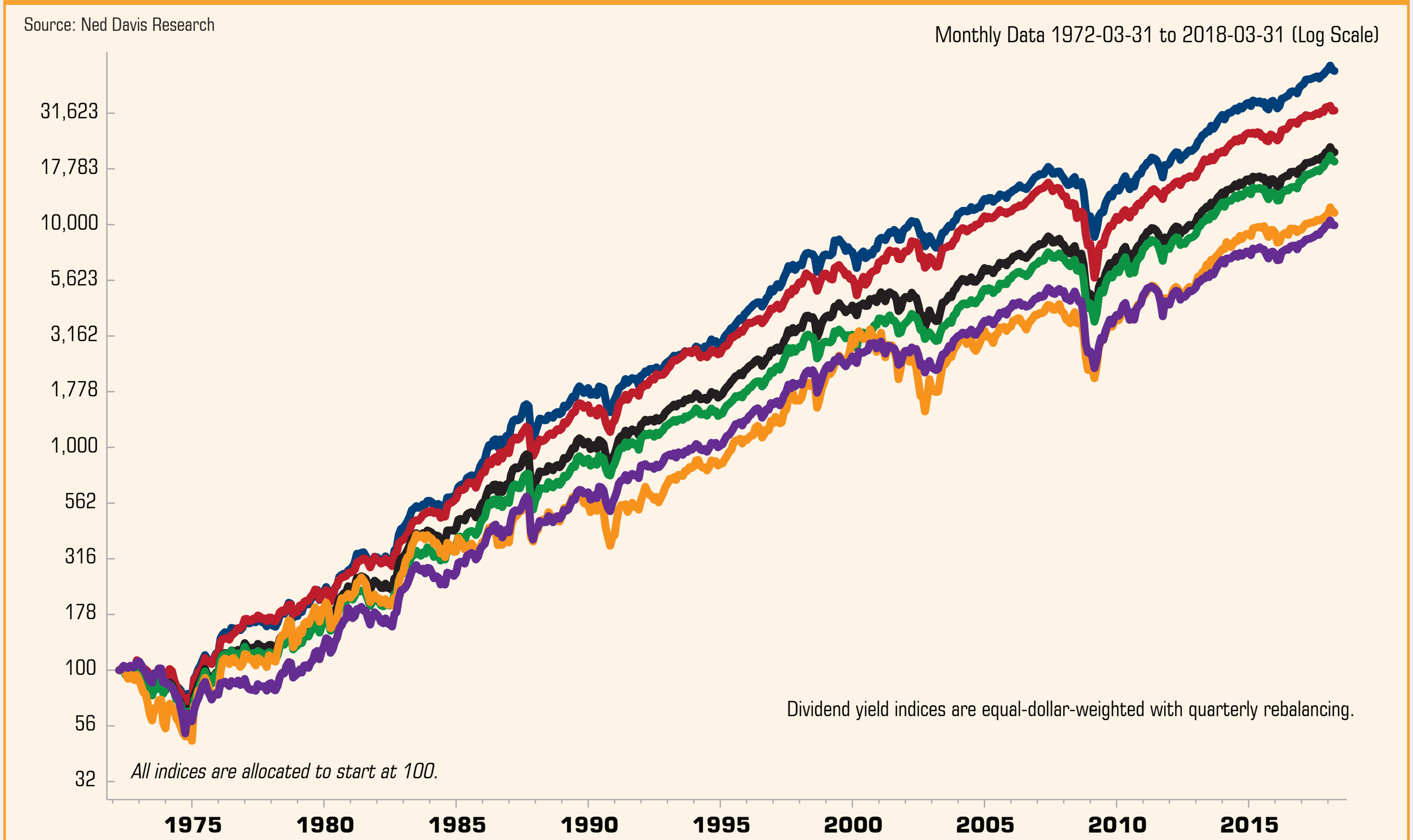
after the Great Recession of 2008-2010. If the economy continues to improve, we expect higher dividend payouts due to the tax law changes, increased business spending, accelerated earnings and buybacks.

Sectors

For the quarter, the High Dividend Equity portfolio weightings in Information Technology, Utility, and Energy added relative performance while the Real Estate Investment Trusts, Telecom, and Staples sectors detracted from performance. We are currently underweight REITs and Telecom and Utilities. Our top performing companies were Raytheon Corp, Oneok, Inc. and Lukoil PJSC ADR while the weakest included Invesco Ltd, Principal Financial Group and Comcast Corp.

Sources: FactSet, Ned Davis Research

Returns of S&P 500 Stocks by Dividend Yield



Strategy	GPA (%)	Sharpe Ratio	Max Draw Down (%)	Downside Deviation (%)	Standard Deviation (%)	% Monthly Returns > 0	Last Month's Return (%)
Quartile 3	14.40	0.58	-51.54	10.02	16.54	63.41	-1.27
Quartile 4 (Highest Yielders)	13.39	0.54	-62.59	9.59	15.88	64.49	0.15
S&P 500 Equal-Weighted Total Return Index	12.33	0.44	-54.88	10.60	17.03	61.59	-0.93
Quartile 2	12.10	0.42	-51.21	10.69	17.12	59.96	-1.71
Non-Dividend-Paying Stocks	10.81	0.25	-57.20	14.82	24.00	57.43	-1.81
Quartile 1 (Lowest Yielders)	10.51	0.31	-56.34	11.82	18.28	59.96	-0.48

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ClarkCapital MANAGEMENT GROUP

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The Dow Jones Industrial Average is a stock market index that shows how 30 large publicly owned companies based in the U.S. have traded during a standard trading session in the stock market.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

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Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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