Clark Capital Management Group

Navigator® High Dividend Equity

Maira F. Thompson, Senior Portfolio Manager

Third Quarter 2018 — Portfolio Commentary

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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.

THE U.S. GOLDILOCKS PERIOD CONTINUES...FOR NOW

After a synchronized global recovery during 2016-2017, U.S. markets have experienced a positive divergence from most world economies in 2018. The strengthening economy, increased earnings estimates and rising stock prices fueled U.S. markets while many global economies weakened. Following the enactment of the 2017 Tax Cut and Jobs Act, "strong" U.S. earnings became "stellar" earnings with the S&P 500 Index earnings growth estimate topping 20.0% versus the STOXX 600 Index of 9.0%.

The U.S. economy is now experiencing a Goldilocks period where growth isn't too hot to cause inflation, nor too cold to create a recession. With earnings near the highest point in the last decade, there is a strong possibility of a peak this year. Expectations are moderate for 2019, with projections of global earnings to be in line throughout the U.S., Europe and Asia with U.S. estimated growth of 10.3% and STOXX 600 Index growth of 8.1%.

Corporate earnings, while still impressive, are projected to slow in the third quarter from the breakneck pace in the first half of the year. According to FactSet, the S&P 500 Index quarterly estimated earnings growth is 19.3%, if achieved, will be the third highest growth rate since the first quarter 2011 rate of 19.5%, trailing only the two previous quarters this year.

Looking forward, estimates for the fourth quarter are slightly lower at 17.3% with revenue growth of 6.1%. For the calendar year, the U.S. is slated for GDP growth of 3.5%-4.0% combined with 20.4% year-over-year earnings increase and 8.1% revenue growth. After the previous market peak in January, increasing profit growth eased investor concerns that equities were overvalued, which propelled the market higher over the last few quarters.

While estimates remain strong for the balance of the year, several unknowns could dampen the market such as trade tensions, mid-term elections, wage pressure and higher interest rates. Over the course of a full market cycle, all good things eventually come to an end as analysts project a more temperate 2019 with the following S&P 500 Index estimates:

- Q1 2019 earnings growth 7.1%, revenue growth 6.3%
- Q2 2019 earnings growth 7.3%, revenue growth 4.5%
- CY 2019 earnings growth 10.3%, revenue growth 5.3%

Sources: FactSet, Ned Davis Research, Bloomberg

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

Sectors

For the quarter, Healthcare and Technology were the top performing sectors, rising 14.0% and 12.0% respectively. The Material and Energy sectors were the weakest, down slightly 0.14% and 0.11%. The High Dividend Equity portfolio's exposure to Consumer Discretionary, Healthcare and Technology contributed to outperformance versus the Russell 1000 Value Index on a net basis.

Our current outlook on the economy and interest rates resulted in a smaller percentage of the portfolio invested in underperforming sectors such as Energy, REITs and Materials. The major pharmaceutical companies rallied on higher profits posting their strongest performance in five years and trailing only Technology and Consumer Discretionary for the year.

Top performing stocks over the quarter included DSW, Inc. up 32.2%, Apple, Inc. rising 22.3%, and Progressive Corp. up higher by 20.1%. The worst performing stocks were Las Vegas Sands Corp. declining 21.3%, Huntsman Corp. down 12.8%, and Anglo American, PLC lower by 10.6%.

Sources: FactSet, Ned Davis, Bloomberg

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

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.

The MSCI Emerging Markets Index is a freefloat-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Bloomberg Barclays Capital U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

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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The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices and shows the market’s expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk. The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities. The Bloomberg Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury inflation-protected securities are excluded, due to tax treatment issues. The index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the U.S. The Bloomberg Barclays Capital Aggregate Bond Index is an intermediate term index.

The volatility (beta) of a client’s portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

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