**Tony Soslow, CFA®**
Senior Portfolio Manager

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.

*Top Guns Manager of the Decade is a recognition from Informa Investment Solutions PSN, an independent, national money manager database. This designation may not be representative of any one client's experience because the rating reflects an average of all, or a sample of all, the experiences of Mr. Soslow's GCM clients. This information does not reflect the experience of clients of Clark Capital Management Group, Inc. and is not indicative of future performance. For the periods when the designation was made, the recognition was for the GCM All Cap Core strategy managed by Mr. Soslow. Though the strategy was in the top ten, it was not ranked Second in the top ten category for each period.

# TO INFINITY AND BEYOND!

Around ten years ago on a trip to Disney World, I was the first in the family to earn the designation "Galactic Hero" on the Buzz Lightyear Space Ranger Spin scoring 999,999. Of course, my boys, as competitive video gamers, would not be outdone and insisted on using Magic Hours and every Fast Pass in an attempt to match their father's glorified and skilled status.

Fast forward to a recent trip to Disney World this past August with my goddaughter, where we came upon the Galactic Hero himself signing autographs for the other Zurg haters in attendance. Taking Buzz's motto to heart, the U.S. economy and large cap equity prices at quarter end also appeared headed "to infinity and beyond!" Second quarter Real Gross Domestic Product (GDP) grew by a robust 4.7% and the ISM Manufacturing Index, Consumer Confidence and Small Business Optimism have united to push the GDPNow estimates for the third quarter to similar levels.

Although we are far along into the economic recovery, third quarter S&P 500 revenue grew 10.3% year-over-year (the fastest pace since the third quarter of 2011), and earnings benefitted from record profit margins and lower taxes, soaring over 20%. Employment data corroborate overall economic strength as survey responses to "jobs hard to get" plunged to just 12.7% in August, the lowest since March 2001. The unemployment rate also dipped to 3.7% in September, reaching its lowest level in 49 years.

## Princesses and Galactic Heroes

All of this late cycle growth, especially when accompanied by little employment slack, has quietly begun to encourage the Evil-Emperor's nasty cousin — inflation. Hourly wage growth at 2.8% in September was near the cycle's high growth rate and the year-over-year change in the Consumer Price Index (CPI) at 2.9% is the fastest pace since December 2011.

Virtually none of this cyclicality and inflation occurred during the reign of our prior Federal Reserve Heroine, Princess Yellen, as her timely passing of responsibilities to our new Galactic Hero, Jerome Powell, places him in a difficult battle. Governor Powell's task of containing inflation while maintaining full employment is becoming exceedingly more difficult.

Given the growing level of inflation and lessening amount of slack in the economy, it's almost certain that the Federal Reserve will continue tightening beyond September's 0.25% raise in the Fed Fund's rate to 2.25%. This eighth rate increase in the short-term rate (its first foray above the magical target of 2% inflation rate) seems to denote the transition from "accommodative policy", where rates below inflation encourage investment, to "neutral or restrictive policy", where rates above inflation discourage investment. Monetary nuance aside, the Fed is no longer "Mickey Mouse-ing around." (Ok, that was the worst metaphor I have ever used in an Investment Perspective, but I had to do it!)

## Eating Around the World Showcase

No trip to Disney is complete without a sampling of food at Epcot, and we were fortunate enough to be there during the first day of the Epcot International Food and Wine Festival. Always up for a meaningless arbitrary Disney challenge, the four adults successfully ate their way around the World Showcase earning country stamps to fill in our Epcot Passport.

As a value and quality (and business momentum) investor and eater, I cannot help but compare U.S. equity opportunities with those found abroad. So far this year, investors have gobbled up large cap U.S. equities catapulting the S&P 500 up 9.4% through September versus the less appetizing foreign companies, which were down 2.7%.

The ongoing outperformance of U.S. equities has driven their relative price/earnings ratio (P/E) to a 12% premium to an MSCI index of 22 developed and 24 emerging markets. This gap, the largest since 2009, reflects both relative total return performance and evolving differences in the growth and quality components of each underlying index.

For instance, Facebook, Apple, Amazon and Google (FAANG) and other high growth technology companies have risen up the market capitalization charts here (and to a lesser extent in China) while virtually no high-tech companies have emerged in other developed equity markets.

Technology's weighting in the Russell 3000 at 20.7% is more than two times its weighting in the MSCI All World less US index. Thus, the cheapness of foreign stocks is not merely a reflection of their poor price performance, but also a reflection of U.S. companies' ability to outgrow in both revenue and earnings. Unfortunately, just shifting your asset allocation to International is not a simple, bulletproof decision.

## Small Cap's Quality Bias Provides Drag

For the five years ending September 30, 2018, the Navigator® Small Cap Core U.S. Equity strategy delivered annualized gains of 12.03% gross (8.74% net) versus 11.07% gains for the Russell 2000.

For the third quarter of 2018, the strategy gained 2.04% gross (1.28% net) vs a 3.58% gain for the Russell 2000 Index. Positioning in Information Technology and Industrials helped relative performance while positions in Consumer Discretionary and Financials sectors acted as a drag.

Our higher quality holdings such as Trex Company, Inc. and Syntel, Inc. helped performance during the quarter while positions in TRI Pointe Group, Inc. and Korn Ferry International hurt performance. The value characteristics of the strategy remain compelling. Its current P/E of 16.4 is far less than that of the S&P Small Cap (23.0) and Russell 2000 with superior quality characteristics.

ClarkCapital MANAGEMENT GROUP

# Navigator®
# Small Cap Core U.S. Equity

Tony Soslow, CFA®, Senior Portfolio Manager

## Third Quarter 2018 — Portfolio Commentary

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There is no assurance that any securities, sectors or industries discussed herein will be included in or excluded from an account's portfolio. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendation or decisions we make in the future will be profitable or equal to the investment performance of the securities discussed herein. All recommendations from the last 12 months are available upon request.

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 S&P SmallCap 600 measures the small cap segment of the U.S. equity market. The index is designed to be an investable portfolio of companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

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 free float adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The MSCI All Country World ex USA Total Return (MSCI ACWI) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International and is comprised of stocks from both developed and emerging markets.

The MSCI World ex US Index is a market capitalization-weighted index designed to measure equity performance in 22 global developed markets, excluding the United States. The MSCI World Ex US Net Index is generally representative of international equities. Index returns reflect the reinvestment of income and other earnings, are provided to represent the investment environment shown, and are not covered by the report of independent verifiers.

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.

The CBOE Volatility Index (VIX) is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. The index covers approximately 85% of the free float-adjusted market capitalization of the EMU.

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.

Bloomberg Barclays 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 Bloomberg Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The B of A Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Bloomberg Barclays 7-10 Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities between seven and ten years.

The Bloomberg Barclays 20+ Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities greater than twenty years.

The Bloomberg Barclays Long-Term Year Treasury Index tracks the performance of the long-term U.S. government bond market.

The Bloomberg Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays U.S. Treasury Bond Index is an issuances-weighted index measuring the performance of the U.S. Treasury bond market, one of the largest and most liquid government bond markets in the world.

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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For each separate account with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a separate account's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of separate accounts in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a separate account is derived from a weighted average of the performance figures associated with its three-, five- and ten-year Morningstar Rating metrics.



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