Navigator®
MultiStrategy Update

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First Quarter 2019 — Portfolio Commentary

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GROWING LATE CYCLE CONCERNS: V-SHAPED DECLINE AND RECOVERY

After a brief but stunning fourth quarter 2018 decline, markets staged a fierce comeback in the first quarter. It all started with Federal Reserve Chair Jay Powell's signaling on January 4th that the Fed would be ending its quantitative tightening program. Both equity and credit markets surged, and the rally continued unabated for most of the quarter.

Economic stimulus in China, along with optimism about a potential end to the trade war also contributed to the bullish sentiment. Not surprisingly, small cap and technology stocks, the worst performers in the fourth quarter, rebounded the most during the first quarter. In the table below, you can see a selection of indexes and how they performed during the first quarter of 2019, the fourth quarter of 2018, and since the end of 2017.

Index Name	1st Quarter 2019	4th Quarter 2018	12/31/17 to 03/31/19 (Annualized)
S&P 500 Index	13.7%	-13.5%	6.9%
Russell 2000 Index	14.6%	-20.2%	1.6%
NASDAQ Composite	16.5%	-17.5%	10.7%
BBg Barclays U.S. Treasury Bond Index	4.7%	2.57%	2.4%
BBg Barclays U.S. Corporate High Yield Index	7.3%	-4.5%	4.0%
S&P GSCI Commodity Index	15.0%	-22.9%	-0.7%
MSCI EAFE (Net)	10.0%	-12.5%	-4.2%
MSCI Emerging Markets (Net)	9.9%	-7.5%	-4.9%

Source: Bloomberg

The annualized numbers since 2017 may surprise some investors who may believe that the markets have surged to all-time highs and are presumably overvalued. Only U.S. stocks, particularly technology stocks, have produced meaningful gains since 2017, and neither are shockingly large. International stocks are down, and fixed income returns are quite modest. The forward P/E ratio of the S&P 500 is at 16.7, versus a 36 year mean of 14.8 – in our view, that puts valuations at the higher end of their normal range.

However, as the quarter came to an end, a new and important warning signal flashed—an inverted yield curve. An inverted yield curve occurs when (as in the present case) the interest rate on the 3-month T-Bill exceeds the rate on the 10-year U.S. Treasury. According to Ned Davis Research, going back to 1966, every time the yield curve has

Past performance is not indicative of future results.

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inverted there has been an equity bear market within two years. However, it's important to note that the markets often continue to rally after an inversion, and historically have peaked from eight to 21 months after an inversion first occurs. After the yield curve inverted in 2006, markets rallied another 29% before peaking in October 2007.

In addition, as the first few days on April and the second quarter develop, the inversion in the yield curve has reversed. If the inversion returns and sustains, we will view it as more of a concern. For more of our insights on the yield curve, you can read Chief Investment Officer Sean Clark's latest Market Update here.

While the inversion of the yield curve is an important warning sign, we believe it would be more serious if other indicators confirmed caution was in order. The economy is still growing solidly, and two other key indicators, the Leading Economic Indicators (LEI) and the unemployment rate, remain strong. We will be watching these two data points even more closely now. All in all, we take the brief yield curve inversion as another sign that we are late in this economic cycle. In fact, we are only a few months short of having the bull market that began in 2009 be the longest on record.

In late cycle stages, we expect large cap stocks to outperform, along with high quality companies with strong balance sheets. Right now, our quantitative models lean that way, and we will continue to follow their continuously adaptive guidance.

U.S. Equity — Fourth Quarter Losers Become First Quarter Winners

The U.S. equity portion of the MultiStrategy portfolios ranks a number of U.S. equity styles and factors using Clark Capital's relative strength-based ranking methodology, and then purchases those ETFs with higher rankings (and avoids those with lower rankings), assembling them into a broad-based portfolio that attempts to outperform the Russell 3000.

2018's fourth quarter losers were first quarter winners in 2019 as markets rallied back impressively, regaining much of the losses that occurred between early October and Christmas Eve. The portfolio began the quarter defensively positioned in high dividend (HDV) and minimum volatility (USMV) stocks, along with a large indexed S&P 500 (IVV) position.

We knew that our relative strength-driven strategy would most likely face headwinds in the period immediately after a market sell-off when the models signal maximum defensiveness, but markets reverse towards strongly risk-on holdings. In an attempt to mitigate some of the anticipated underperformance, we slowly increased our indexed position during the fourth quarter and by default increased our market beta.

As the quarter developed, we added large-cap growth (SPYG) and mid-cap and small-cap value ETFs (MDYV and IJS) to the portfolio. Mid-cap and small-cap value stocks did not maintain their trends, and were replaced by high beta (SPHB) and minimum volatility (USMV). The following were other developments in the portfolio during the quarter:

- Overall, the equity portion of the portfolio is overweight technology and underweight financials. The portfolio has a modest growth bias, and its P/E and price-to-cash flow ratios are about 10% over the benchmark.

Top Contributors

Holding	Ticker	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	IVV	43.13	6.30
SPDR Portfolio S&P 500 Growth ETF	SPYG	11.06	1.58
iShares Edge MSCI Min Vol USA ETF	USMV	9.25	1.14
SPDR Portfolio S&P 500 Value ETF	SPYV	3.58	0.69
iShares Core High Dividend ETF	HDV	5.98	0.68

Top Detractors

Holding	Ticker	Average Weight (%)	Contribution to Return (%)
iShares S&P Small-Cap 600 Value ETF	IJS	3.25	-0.72
SPDR S&P 400 Mid Cap Value ETF	MDYV	5.58	-0.61
Invesco S&P 500 High Beta ETF	SPHB	5.38	-0.05
Moneyfund	CASH_ISO	1.99	0.00

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Holding	Ticker	Average Weight (%)	Contribution to Return (%)
Invesco Buyback Achievers ETF	PKW	10.80	0.15

Source: FactSet as of 3/31/19 Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite performance during the period, contact PortfolioAnalytics@ccmg.com.

Fixed Income — High Yield Turns Around

The fixed income portion of the MultiStrategy portfolios engages in segment rotation within fixed income, owning high yield bonds, U.S. Treasuries, or cash, whichever our model determines has recent relative trends in its favor.

The fixed income portion of MultiStrategy sold out of high yield bonds in mid-November 2018, in an effort to avoid the volatility that hit markets during December. On January 2nd, the portfolio moved from owning cash equivalents to owning U.S. Treasury exposure, becoming more defensive. Credit conditions and market fears dropped dramatically when Fed Chair Jay Powell reversed course on January 4th. As a result, high yield bonds and U.S. Treasuries sharply changed directions, with high yield rising and U.S. Treasuries fading. On January 10th, we bought back into high yield as our models quickly turned around.

Both our models and high yield bonds have continually strengthened since January, despite persistent U.S. Treasury strength. Here are some additional developments during the quarter:

- All high yield sectors were up at least 4% on the quarter, with energy lagging despite a surge in oil prices and health care and telecommunications services leading.
- Over 50% of the current U.S. investment-grade corporate market is BBB, with the next downgrade moving them into the high yield category. Whenever the next serious economic downturn comes, there is likely to considerable turbulence in the credit and high yield markets as former investment grade bonds become "Fallen Angel" high yield bonds. We view these developments as another potential chance to be tactical within the credit sphere.

Top Contributors

Holding	Ticker	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Fixed Income Fund Class I	NTBIX	50.16	1.97
iShares iBoxx $ High Yield Corporate Bond ETF	HYG	7.86	0.33
SPDR Bloomberg Barclays High Yield Bond ETF	JNK	6.99	0.31
BlackRock High Yield Bond Portfolio - Class K	BRHYX	5.23	0.24
PIMCO Funds High Yield Fund Institutional Shares	PHIYX	4.37	0.22

Top Detractors

Holding	Ticker	Average Weight (%)	Contribution to Return (%)
SPDR Portfolio Long Term Treasury ETF	SPTL	0.75	-0.11
iShares 7-10 Year Treasury Bond ETF	IEF	1.59	-0.10
SPDR Bloomberg Barclays Intermediate Term Treasury ETF	ITE	1.50	-0.07
iShares U.S. Treasury Bond ETF	GOVT	0.65	-0.04
JPMorgan Ultra-Short Income ETF	JPST	0.13	-0.00

Source: FactSet as of 3/31/19 Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite performance during the period, contact PortfolioAnalytics@ccmg.com.

Outlook

Looking ahead, our view on the markets is constructive, and we have reason to believe the first quarter rally will continue at a more moderate pace. Historically, after quarterly rallies of this size, markets have continued to show gains in the future at a frequency greater than the historical average.

We can envision a bullish upside scenario in which a broad, comprehensive trade agreement with China is announced, causing investors to upgrade expected global economic growth. Additional reasons for optimism include strengthening credit

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markets and the potential for Asia and Europe to rebound and show even modest growth that may surprise on the upside.

While we remain bullish for the next quarter or two, we are very aware that we are in the late stages of this market cycle. A brief inversion of the yield curve and this rally being on the verge of the longest bull market in history are just two of many good reasons to be on our toes.

With additional volatility likely in the intermediate-term, we are focused on being nimble and tactical with our positions. Additionally, we can say that if we see signs of growing risks, the late cycle environment means that we will not be hesitant to take a defensive stance on risk assets.

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The MultiStrategy benchmark consists of an allocation to the Russell 3000 and an allocation to the BBgBarc US Corporate High Yield. The Russell 3000 Index measures the performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The BBgBarc 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 benchmark for this composite is based upon the approximate allocation of equities and fixed income in the MultiStrategy composite. The Russell 3000 is generally representative of broad based equities. The BBgBarc US Corporate High Yield is generally representative of broad based U.S. fixed income.

The volatility (beta) of an account may be more or less than its benchmark. It is not possible to invest directly in an index.

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