Portfolio Commentary

Navigator® MultiStrategy

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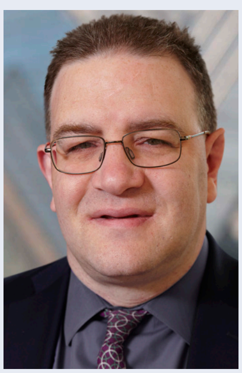

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Range of Outcomes as Wide as Ever—but Be Sure to Include a Continuing Bull Market

What a turnaround it has been for markets over the last six months. December saw a fierce decline driven by fears that the Fed was tightening too much and causing a global slowdown. As we head into July, global central banks have become the most accommodative in years, and markets have followed their lead higher.

The S&P 500 is up over 18%, its best start in over twenty years. While stocks have surged, even more remarkable has been the flow of money into bonds as global yields continue to head lower and lower. "Lower for longer" is now the base case for interest rates, yet the bullish monetary conditions that drove markets higher were despite the fact that global economic activity is weakening. In Europe and now China many PMIs (Purchasing Manager Indexes) are below 50, indicating economic contraction. In addition, in the U.S. the yield curve has inverted (the 3-month T-Bill – 10-year Treasury yield is now negative), and it has remained negative since May 23rd.

Bonds' dramatic and dovish turn lies in direct contrast with the stock market's surge, expecting an economic rebound. Which will prove to be right? We are all watching the key factor—the trade war between the U.S. and China as the two sides' tariffs now begin to really bite economic activity.

Thinking bigger picture, investors have been rewarded by the continual bull market that began in 2009. In fact, in July, this bull market became the longest bull market on record. What's more, the evidence pointing towards a coming economic downturn is the strongest it's been in years. Valuations, labor markets, the profit cycle, and an inverted yield curve show that the economy is in the late cycle stages.

After such a long economic run, should investors run to safety? We believe it's worth being watchful, but not worried, as the arguments for a bullish case are just as strong as a bearish case. The Fed has completely changed its tone and is expected to cut rates, and inflation is nowhere close to being an issue, even if growth improves considerably.

The mixed set of loud bullish and bearish indications is something new for the U.S. economy and investors, and it is a tough environment to operate in. Warning signals that show increased risks on the horizon should be taken seriously, but markets can move higher if those signals prove false. During the late stages of a bull market, breadth can narrow and small caps can lag, making top-line index gains harder to match for the diversified investor.

At Clark Capital, we continue to believe that a focus on risk management will pay off in the long run, as a bear market and weak economy, when they come, will present opportunities to first preserve capital and then later be tactically opportunistic.

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

U.S. Equity—Large-Cap and Growth Stocks are the Quarter's Top Performers

The U.S. equity portion of the Multi-Strategy 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. The portfolio focused on large-caps throughout the quarter, as small-caps lost the brief momentum that they had gained after the December bottom. Growth was favored over value, as it has been for many quarters and years.

In the table below, you can see that large-cap growth stocks have outperformed large-cap value by over 6.5% per year over the last three years–a huge gap. Small-cap growth has also outperformed small-cap value by 3.5% per year.

Index Name	2019 YTD	3-Year Annualized Gain (%)	Index Forward P/E as of 1/26/18 Peak	Index Forward P/E as of 6/30/19
SPDR S&P 500 Value ETF (SPYV)	16.58%	10.60%	16.18	14.40
SPDR S&P 500 Growth ETF (SPYG)	20.02%	17.13%	21.59	22.18
iShares S&P 600 Small Cap Value ETF (IJS)	13.56%	9.99%	18.36	16.18
iShares S&P 600 Small Cap Growth ETF (IJT)	13.59%	13.48%	23.95	22.84

Source: Bloomberg. For illustrative purposes only.

The Multi-Strategy portfolio has largely avoided value stocks, as their momentum has been poor. However, we recognize that the value factor will eventually provide an outsized chance for relative gains that we will be more than happy to jump into once a trend develops.

The following were other developments in the portfolio during the quarter:

- For the quarter, large-cap value (SPYV) gained 3.98%, while large-cap growth (SPYG) rose by 4.48%. Small-cap value (IJS) was up 1.10%, while small-cap growth (IJT) gained 4.22%. Momentum (MTUM) stocks rose by 5.54%, while minimum volatility (USMV) led with a 6.13% gain. High Beta (SPHB) gained 3.45%. The S&P 500 (IVV) was up 4.22%.
- Among all of the stock selection strategies highlighted by Ned Davis Research, the most effective in the second quarter was mean reversion. Relative strength–the guiding philosophy behind our strategy, was the least effective strategy. As a result, our methodology faced headwinds, though of less magnitude. Our models did not show any standout leaders, as trends reversed sharply from May to June. As a result, the portfolio has owned the S&P 500 Index itself, and our large cap ETFs that are highly correlated to it.
- Currently, our models favor large-cap over small-cap, and growth over value, with large-cap over small-cap the more noticeable effect in 2019. The fact that small-caps greatly trailed during the second quarter's rally is a concern, as poor market breadth is a sign of being in a later stage of the market cycle.
- The top contributors to the portfolio during the quarter were the iShares S&P 500 ETF (IVV) and the SPDR S&P 500 Growth ETF (SPYG). The top detractors were the Invesco Buybacks ETF (PKW) and the iShares Edge MSCI Quality Factor ETF (QUAL).

Ticker		Quarter Ending June 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors				
SPYG		SPDR Portfolio S&P 500 Growth ETF	35.10	2.03
IVV		iShares Core S&P 500 ETF	20.00	1.23
USMV		iShares Edge MSCI Min Vol USA ETF	13.46	1.08

Ticker	Quarter Ending June 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Detractors			
QUAL	iShares Edge MSCI USA Quality Factor ETF	10.83	-1.25
PKW	Invesco Buyback Achievers ETF	4.74	-1.17
SPHB	Invesco S&P 500 High Beta ETF	8.56	0.00

Source: Factset. For illustrative purposes only. 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 during the period, contact: PortfolioAnalytics@ccmg.com.

Fixed Income—A Turn to U.S. Treasuries

The fixed income portion of the Multi-Strategy 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 the Multi-Strategy portfolio purchased high yield bonds on January 10th and held them until June 3rd, when the portfolio moved into U.S. Treasuries.

The move was precipitated more by the relative strength shown in U.S. Treasuries more so than the weakness of high yield bonds. Markets quickly turned around after the trade as credit rebounded upon numerous dovish Fed comments and high yield credit enjoyed solid June gains. What has been remarkable is that Treasuries have continued to provide gains at the same time as markets price in further rate cuts.

Ultimately, we believe de-risking the portfolio can provide a smoother risk-adjusted ride through the credit markets. The following were other developments in the portfolio during the quarter:

- Over 50% of the U.S. Investment Grade corporate market is now rated BBB, with the next downgrade moving them into the high yield category. With low interest rates, this is not an immediate cause for concern. However, the next time that we see a recession or major credit downgrade cycle, the price pressure on lower quality investment grade and high yield credit will be huge, and it will provide opportunities to play defense and then become a tactical buyer as sentiment turns.
- On the quarter, the top performing holdings were the Navigator Tactical Fixed Income Fund (NTBIX) and the iShares 7-10 Year Treasury ETF (IEF). Detractors included the Bloomberg Barclays High Yield Bond SPDR (JNK) and the iShares iBoxx High Yield Corporate Bond ETF (HYG).

Outlook

Looking forward, our view on markets is constructive, we believe that the first half of the year's rally will continue, but will come with more volatility surrounding Fed action and progress or lack thereof in the trade talks. 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.

While we remain cautiously bullish amidst mixed economic data and headline risks, we are acutely aware we are in the late stages of this market cycle and believe that risk management will become increasingly more important.

Ticker	Quarter Ending June 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors			
NTBIX	Navigator Tactical Fixed Income Fund Class I	49.92	0.19
IEF	iShares 7-10 Year Treasury Bond ETF	7.14	0.18
ITE	SPDR Bloomberg Barclays Intermediate Term Treasury ETF	4.76	0.09
LAHYX	Lord Abbett Investment Trust High Yield Fund Class I	2.10	0.03
AGDYX	AB High Income Fund, Inc. - Advisor Class	2.08	0.02

Ticker	Quarter Ending June 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Detractors			
HYG	iShares iBoxx $ High Yield Corporate Bond ETF	6.28	-0.07
JNK	SPDR Bloomberg Barclays High Yield Bond ETF	5.63	-0.07
HYS	PIMCO 0-5 Year High Yield Corporate Bond Index ETF	1.38	-0.01
SJNK	SPDR Bloomberg Barclays Short Term High Yield Bond ETF	1.38	-0.01
HYLB	Xtrackers USD High Yield Corporate Bond ETF	1.39	-0.01

Source: Factset. For illustrative purposes only. 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 during the period, contact: PortfolioAnalytics@ccmg.com.

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