October 2019

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Clark Capital's Bottom-Up, Fundamental Strategies

The market moved higher with U.S. equities back in record-high territory around increased optimism of potential signing of a "phase one" trade deal and better than expected Q3 earnings. Growth outperformed Value aided by a strong showing in Technology. The Healthcare and Communication sectors also rallied versus lagging bond-proxy sectors such as Utilities, Staples and REITs. So far in Q3, 57% of S&P 500 companies have reported with 71% beating 3Q earnings and 56% surpassing revenue estimates.

We believe ultra-low interest rates will continue to drive demand for dividend stocks into 2020 although higher P/E sectors such as Utilities remain at risk for a correction. Momentum stocks, which have been the darling of the markets during the first eight months of 2019, have continued to suffer over the last two months underperforming both the Russell 2000 and Russell Large Value by 5% since the end of August.

The market shift away from momentum and more toward value, cyclical and small cap stocks has benefited our fundamentally driven equity portfolios. Internationally, the International ADR portfolio has larger than typical weight of 20.7% in emerging and frontier market companies as lower interest rates and firm energy prices tend to favor less developed economies.

Below are strategy updates from October:

All Cap Core U.S. Equity

- Healthcare is now the largest sector weight at 19.1%, which is 5.3% more than the benchmark
- Although the strategy is underweight Technology relative to the benchmark, it remains the second largest sector weight in the portfolio at 17.0%
- During the month, we removed a few insurance companies from the portfolio and added a diverse group of companies in the Financial sector

High Dividend Equity

- Month to date, the High Dividend Equity portfolio outperformed its benchmark the Russell 1000 Value with the strongest sector contribution from Energy and Healthcare
- The biggest sector detractors during the month were Industrials and Communications
- We believe ultra-low interest rates will continue to drive demand for dividend stocks into 2020 although higher P/E sectors such as Utilities remain at risk for a correction

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

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ClarkCapital MANAGEMENT GROUP

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Navigate Your Future. Enjoy the Journey.

International Equity ADR

- Navigator® International Equity ADR has larger than typical weight of 20.7% in emerging and frontier market companies as lower interest rates and firm energy prices tend to favor less developed economies
- While safer, higher quality countries like Canada and Japan represent our largest country allocations, and we are beginning to find for antifragile companies in developed countries in recession that we believe may present opportunities
- During the month, we increased our exposure to France, which is now the portfolio's third largest country weight
- While underweight relative to the benchmark, Financials represent the portfolio's largest sector weight at 17.46%

Small Cap Core U.S. Equity

- 20.5% of the portfolio is positioned in Industrial companies and 17.8% in Consumer Discretionary companies
- We added a semiconductor company to the portfolio during the month
- The portfolio's positioning in Technology is 15.3%, which is overweight relative to the benchmark

SMID Cap Core U.S. Equity

- 53% of the portfolio is invested in small-cap companies with the remainder of the portfolio invested in mid-cap stocks and cash
- At 21.1%, Industrials represent the portfolio's largest sector weight
- We added to our position in Consumer Discretionary during the month, bringing the sector's allocation to 16.4%

Taxable Fixed Income

- High yield represents approximately 15% of holdings
- Credit risk slightly reduced in high yield due to BB bonds that were called and one credit upgrade to investment grade
- 27% of the portfolio is positioned in less that 2 years duration
- 30% of the portfolio's holdings are in 6 to 10-year duration
- Cash levels, which are usually around 1%, are at 3-6% as we look for opportunities

Tax-Free Fixed Income

- Half of our top 15 holdings are in California
- The portfolio is overweight 5 to 5.99-year duration bucket versus the benchmark and underweight 4 to 4.99-year duration bucket versus the benchmark
- The steepening of the yield curve caused longer dated bonds to underperform

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Clark Capital's Top-Down, Quantitative Strategies

Risk appetites pushed the markets higher into new high territory for the S&P 500. The markets rallied on better than expected economic news and an appearance of trade tensions cooling. Smaller capitalization companies and international markets outperformed.

We have witnessed a shift in our relative strength models towards slightly favoring value and international equities. In many of our tactical oriented portfolios, we increased exposure to value, mid-cap stocks, and international equities.

On the fixed income side, both Treasuries and high yield advanced marginally, with high yield bonds hitting a new all-time high. The Fixed Income Total Return portfolio remains fully allocated to high yield bonds.

Below are strategy updates from October:

Alternatives

- In the core portion of the Alternative strategy, we hold core liquid alternatives (49%), fixed income (10%), commodities (9%), tactical global equity (31%) and 4% cash
- In the tactical portion of the Alternative strategy, we sold our position in global natural resources and added to emerging markets and European Financials, which have demonstrated a nice relative strength breakout
- We believe we have seen the first signs of international taking on market leadership vs. the U.S.

Fixed Income Total Return

- After buying back into high yield on September 13th, the model weakened, and we came relatively close to de-risking again. However, the models have recovered very nicely, and the main high yield vs. Treasury model is near making a new high
- The Fixed Income Total Return strategy remains fully allocated to high yield bonds

Style Opportunity

- The portfolio continues to add to its position in value stocks, and now owns large-cap value (33%) and mid-cap value (15%) along with the S&P 500 itself (50%)
- The portfolio now has a modest value-oriented tilt, but we are waiting for a clearer trend to develop

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The S&P 500 Index is a stock market index that tracks the stocks of 500 large-cap U.S. companies.

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

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