Clark Capital MANAGEMENT GROUP

Portfolio Commentary

Navigator® High Dividend Equity

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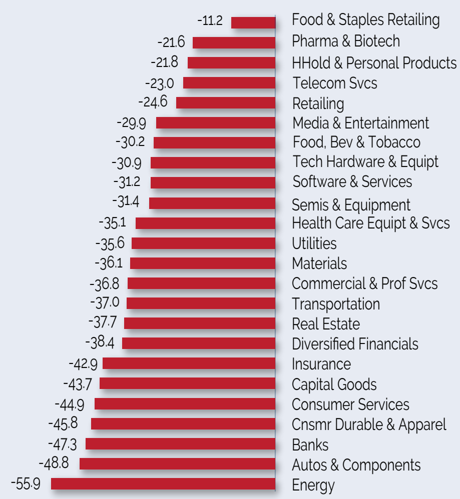
Navigate Your Future. Enjoy the Journey.

Dividend Stocks Reset Expectations

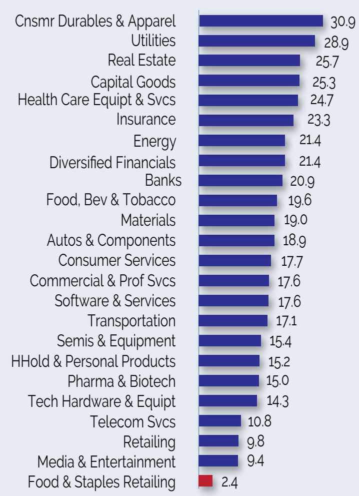
The reality of an economic fallout from the coronavirus hit the U.S. market with full force. A swift government response included massive fiscal and monetary measures to lessen the impact on a U.S. economy that was virtually shut down in 30 days. Despite a huge mid-month rally, the S&P 500 Index and the Dow Jones Industrial suffered their worst month since 2008.

The chart below highlights sector performance from the February 19th market high to the March 23rd low and the subsequent rally into month end. The worst performing sectors include those directly impacted on a fundamental basis such as: Energy, Consumer Discretionary, Materials and Financials. In March, the Navigator High Dividend Equity portfolio added 135 basis points of alpha by sector positioning in Technology, Health Care, Consumer Staples.

S&P 500 Industry Group Performance
(February 19 to March 23, S&P 500 -33.8%)



S&P 500 Industry Group Performance
(March 23 to Current, S&P 500 +17.4%)



Source: Wolfe Research

Despite a massive reset to earnings occurring over the next few quarters, the portfolio objective remains the same—investing in high quality, well-capitalized companies with a strong cash balance and lower debt-to-asset ratio. We believe conserving cash is critical as revenue growth in some market segments has been temporarily reduced to zero.

Elimination of stock buybacks and dividend cuts will initially be concentrated in the most vulnerable sectors of Energy, Consumer Discretionary and Materials. The number of companies announcing the suspension of buybacks is rising, including recent announcements from Hilton, AT&T, Carnival & J.P. Morgan. We anticipate buybacks to slow dramatically until discretionary spending resumes with improved market visibility.

Source: Ned Davis, Ed Yardeni
Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Dividend cuts, suspensions and eliminations will likely surpass the 2008-2009 period. We believe buyback elimination can be positive with the assumption the funds will be redeployed to employee increases or enhanced technology. A dividend cut, elimination or suspension is often negatively perceived as a fundamental weakness. Contrary to this common theory, the current market environment may warrant dividend cuts in vulnerable market segments, such as retail, to preserve cash.

In 2020, a majority of companies have announced dividend suspensions versus dividend cuts, which is the opposite of what occurred during the financial crisis. The highest yielding stocks with above average debt and high dividend payout ratios are likely candidates for a dividend change. Over 75% of our dividend portfolio consists of dividend growers, and not the highest yielders. We continue to evaluate any dividend changes in the portfolio on a case-by-case basis.

Following our February trades in which we reduced our exposure to Energy and increased Consumer Staples and Healthcare, we continued to sell/reduce vulnerable sectors/subsectors such as Energy (Valero, OKE, Inc.), Financials (Manulife, Banc America), and Real Estate (Welltower). Over the quarter, we purchased Waste Management, T.J. Maxx, Blackrock and made dollar-cost additions into Progressive, Prologis, Truist Corp, J.P. Morgan and Southern Company.

Sectors with the strongest attribution over the quarter included Technology, Healthcare, Industrials, and Energy versus the worst performing sectors, which were Consumer Discretionary, Communications, Consumer Staples (slight underweight, but only down 5.2%), and Financials. The portfolio's forward dividend yield is 3.4% with month-end cash of 5.5%. Current underweight sectors are; Energy, Financials, Materials, REITs, and Utilities and overweight Technology, Healthcare.

Ticker	Quarter Ending March 31, 2020	Average Weight (%)	Contribution to Return (%)
Top 5 Contributors			
PLD	Prologis, Inc.	0.12	0.16
MSFT	Microsoft Corporation	1.70	0.08
RHHBY	Roche Holding Ltd Sponsored ADR	1.70	0.03
NEE	NextEra Energy, Inc.	1.64	-0.01
COST	Costco Wholesale Corporation	0.18	-0.01
Top 5 Detractors			
EAT	Brinker International, Inc.	1.15	-1.23
OKE	ONEOK, Inc.	1.41	-1.10
CFG	Citizens Financial Group, Inc.	2.00	-0.92
BAC	Bank of America Corp	2.42	-0.88
MFC	Manulife Financial Corporation	1.57	-0.86

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

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.

Beta measures volatility, or systematic risk, of an individual stock in comparison to the unsystematic risk of the entire market. In statistical terms, beta represents the slope of the line through a regression of data points from an individual stock's returns against those of the market.

The price-earnings ratio, also known as P/E ratio or P/E, is the ratio of a company's share price to the company's earnings per share.