Portfolio Commentary

Navigator® Global Tactical

Portfolio Manager

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Portfolio Manager

Top Contributors as of December 31, 2020

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares Core S&P Small Cap ETF	21.43	6.25
SPDR Portfolio S&P 500 ETF	47.04	5.91
iShares Core MSCI Total International Stock ETF	19.36	3.19

Top Detractors as of December 31, 2020

Company Name	Avg. Weight (%)	Contribution to Return (%)
Vanguard FTSE All-World ex-US Small-Cap ETF	8.84	1.53

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.

Valuations Point Towards 2021 Risks, But Credit Trends Remain Supportive

Market Review

The fourth quarter of 2020 began with a turbulent and corrective market in October as investors anxiously worried about a contested election and surges in coronavirus cases as the cold weather began. The extent of investor fear was demonstrated by the VIX Market Volatility Index, which rose to over 40 in late October–a level normally associated with major bear market bottoms. The market endured only a modest 7% correction.

Market fears before a presidential election are par for the course, but to have those fears reach bear market bottom levels (and without the associated decline) indicated the potential for major market upside. More importantly for our Global Tactical investors, our credit-based risk models barely budged, and never got close to a cautionary indication.

As a result, the strategy remained fully invested during October's anxiety. When a resolution to the election and two coronavirus vaccine approvals sparked a huge November rally, our clients were fully invested and enjoyed market gains. Markets rallied through the end of the year and as 2021 begins, we continue to be bullish on equities for the intermediate term, with a strong credit backdrop as our primary guide.

Fourth Quarter Performance Highlights

- The portfolio currently owns two U.S. and two international equity ETFs. Their returns and weighting during the quarter were as follows: S&P 500 Index ETF (SPLG – 48% weight; up 12.2%); Small Cap ETF (IJR – 21% weight; up 31.2%); broad International Ex-U.S. ETF (IXUS – 20% weight; up 16.4%); and International Small Cap ETF (VSS – 9% weight; up 17.6%).
- The S&P Small Cap 600 ETF (IJR), driven by a 31% gain, was the portfolio's top contributor, despite being less than half the portfolio weight of the S&P 500 ETF (SPLG), which was the second largest contributor. The two international ETFs, despite outperforming the S&P 500, were detractors, due to their smaller portfolio weights.
- When in risk-on mode, the portfolio allocates 70% to U.S. equity and 30% to international equity. In each region, it allocates a 70% weight to large-caps and 30% to small-caps. The resulting portfolio is very broad with a global reach, and a miniscule 0.055% aggregate expense ratio.

Positioning and Outlook

The Global Tactical portfolio enters risk-on positions when its credit-driven models favor risk-on. When the models indicate negative broad credit trends, the strategy sells its equity exposure and moves into Treasuries or cash. In 2020, the portfolio entered

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

the year favoring equities, but reduced its positions in late February and early March as the pandemic-driven crash took hold.

On March 27th, just four days after the market bottom, our credit models turned positive and we re-entered equities, owning them until late June, when we exited after our models indicated caution. Markets immediately turned around and headed upwards, and only a month later on July 30th, we re-entered equities. Since then, we have been risk-on, owning equities as our credit-based models remain strong and have been making new highs.

Looking forward, we are watching our credit-based models for any signs of weakness in the broader financial economy, and we have seen zero signs of that yet. While we are bullish on equity prospects for 2021, contradictory indications between our indicators point towards a more volatile ride.

Valuations and investor sentiment are at extremely high levels, with the S&P 500 one year forward P/E ratio at 27. We believe this presents a risk if the economy does not fully re-open, or if earnings otherwise falter. Technicals, momentum, and breadth are strong, indicating that inevitable and overdue corrective activity should be viewed as buyable.

More than ever, though, we are mindful that all of these factors are driven by the eight-hundred-pound gorilla in the room, a determined and overwhelmingly accommodative Federal Reserve. By some indications, we are at the point in the credit and economic cycle that the Fed might want to begin to tighten, but in response to these unusual times, the Fed has declared that it is ready to let inflation run hot. That may help this bull market last longer and have more magnitude.

As always, our credit-driven models will be our primary guide in allocating risk. We are tactical and able to turn risk-off in order to avoid serious, capital-destroying bear markets, like the pandemic-driven decline we saw in March.