Clark Capital Management Group

Portfolio Commentary

Navigator® High Dividend Equity

Portfolio Manager

Maira Thompson
Senior Portfolio Manager

Top Contributors as of December 31, 2020

Company Name	Avg. Weight (%)	Contribution to Return (%)
Morgan Stanley	2.24	0.84
JPMorgan Chase & Co.	2.61	0.80
BlackRock, Inc.	1.88	0.53

Top Detractors as of December 31, 2020

Company Name	Avg. Weight (%)	Contribution to Return (%)
Kimberly-Clark Corporation	0.86	-0.12
Digital Realty Trust, Inc.	0.69	-0.11
Phillips 66	0.22	-0.10

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.

Economic Reopening Sets Stage for Cyclicals

Market Review

Since the COVID-19 vaccine announcement, consumer cyclicals have outperformed with expectations of increased economic activity in 2021. This positive momentum was further reinforced by Congress approving a $900 billion COVID-19 relief package and the Fed's guidance regarding its purchases of Treasuries by linking the program to economic conditions.

Historically, dividend growers are the best performers within the dividend universe. In 2020, quality dividend growers, which consistently increase their dividend, underperformed companies that reduced, suspended, or eliminated dividends. After the initial U.S. lockdowns, companies in the hardest hit industries such as airlines, retail, restaurants, and cruise lines adjusted dividend policies to preserve cash flow.

For the year, S&P 500 Index companies with the highest dividend yields (which often carry higher debt levels), posted a negative return of -17.0%. Dividend growers returned -0.6% and the lowest yielding companies were up +21.6%. When the market recovered in the second half of the year, dividend increases resumed, with 37% of S&P 500 companies raising their dividend, while 49% maintained their 2019 payout. In Q4, dividend net changes for U.S. common stocks increased $9.5 billion compared to a gain of $10.6 billion in Q4 2019. We expect dividend increases and share buybacks to strengthen in 2021.

Fourth Quarter Performance Highlights

- The U.S. presidential election results and positive vaccine developments propelled the market higher with value stocks experiencing their best month since 1987, as represented by the Dow Jones Industrial Average.
- While momentum stocks outperformed all year, beta stocks rallied in the final quarter posting the strongest performance.
- The Russell 1000 Value Index climbed +16.2% versus the S&P 500 Index +12.1%, resulting in the P/E spread between value and growth recovering halfway from its most recent low to its long-term median.
- Top sector contributors were Basic Materials, Utilities and Healthcare while detractors were Consumer Discretionary, Industrials and REITs.
- Portfolio contributors were Morgan Stanley (+0.84), J.P. Morgan Chase & Co. (+0.80) and Blackrock, Inc. (+0.80). Detractors included Kimberly-Clark (-0.12), Digital Realty Trust, Inc. (-0.10), and Phillips 66 (-0.10).

Positioning and Outlook

We view the cyclical sectors as direct beneficiaries of the economy reopening as consumer spending increases for transportation, oil and discretionary items. Although the stimulus bill was just passed in late December, the expectation is that the Democrats

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

will call for another round of stimulus as well as infrastructure spending.

Big banks should benefit from a steeper yield curve and strengthening credit outlook versus the REIT sector, which tends to underperform as yields rise. We maintained our REIT underweight, but reallocated exposure from Prologis to UDR, Inc., an undervalued apartment management company.

The economically sensitive Industrial sector should benefit from a potential infrastructure bill as well as increased manufacturing activity. The portfolio is overweight Financials, Industrials, Consumer Discretionary and Technology, while maintaining underweights in Healthcare and Staples and REITs. We increased exposure to what we believe are undervalued, cyclical companies by purchasing Wells Fargo Bank, Equitable Life Holdings, Interpublic Group, Tyson Foods and Darden Restaurants. Sales during the quarter included companies with higher valuations, which benefitted from the stay-at-home rally, including Kimberly Clark and Progressive Insurance.