Clark Capital Management Group

Portfolio Commentary

Navigator® All Cap Core U.S. Equity

Portfolio Manager

Tony Soslow, CFA®
Senior Portfolio Manager

Top Contributors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
Hill-Rom Holdings, Inc.	1.57	0.42
Jones Lang LaSalle Incorporated	1.46	0.40
Alphabet Inc. Class A	3.91	0.32

Top Detractors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
FedEx Corporation	1.49	-0.40
Skyworks Solutions, Inc.	1.96	-0.27
Lam Research Corporation	1.96	-0.25

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.

Transitioning, Not Transitory

Market Review

While last quarter's commentary dissected inflation's transitory and permanent components (while stressing the significance of permanent labor cost gains derived from labor supply shortages), this quarter, we focus on monetary policy action potentially TRANSITIONING from a TRANSITORY regime of excess liquidity.

For the better part of 50 years from 1960-2009, the Fed Fund's Rate (FF), or the inter-bank collateralized lending rate, primarily sat above the yearly inflation rate as depicted by the annual change in Personal Consumption Expenditures Deflator (PCE). The Fed's primary monetary policy tool was nearly always above the inflation rate (FF>PCE) such that the real interest rate was permanently positive except for those periods of recession induced extreme expansionary monetary easing. Policy, however, has reversed dramatically since the 2008-2009 Great Financial Crisis. For the last 13 years, FF has rested below the PCE, creating a negative real interest rate to stimulate borrowing and lending to drive inflation to the magical (and arbitrary) 2.00% Fed objective. With negative real rates at a record -4.2% (0.1%-4.3%), something must give.

It's Called Duration

I have often described equity market performance as growth-focused or value- driven or risk-on. Often, this description over-simplifies equity market performance attribution. For the 10-year period ending 2020, for instance, we and other market analysts describe that period as a large-cap growth market because the Russell Large Cap Growth Index outperformed value or Russell 2000 small-caps by 7% and 6%, respectively.

While it is true that growth outperformed value during this period, not all the excess return can be attributed to the revenue or earnings growth differences of each index's subcomponents. I believe some portion (maybe a third) can be attributed to the timing of the expected cash flows and how assets with different average time-weighted cash flows respond to changes in interest rates.

In bond parlance, the measure of time of weighted average cash flow is called duration. Again, to slothfully oversimplify, value stocks like Utilities and cyclicals tend to have a larger portion of their weighted average cash flows (think earnings and dividends) in the near future while growth stocks with higher P/E ratios have a greater portion of their expected future cash flows into the far future.

As inflation and interest rates have largely declined since 2008, companies with a greater portion of their expected future cash flows into the far future (high duration stocks) have outperformed. It's math. Per the "transitioning" paragraph above, we must be mindful that math works both ways and if Fed policy becomes more restrictive, short duration stocks should become relatively more attractive.

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

Third Quarter Performance Highlights

- For the third quarter of 2021, the Navigator® All Cap strategy had a return of -1.07% gross (-1.82% net) vs. a -0.10% loss in the Russell 3000 index.
- Year to date, the strategy has gained 19.09% gross (16.48% net) vs. 14.99% for the Russell 3000.
- Our positioning in Healthcare and Communication Services helped relative performance while our positioning in Information Technology and Industrials acted as a drag.
- Portfolio holdings in Hill-Rom Holdings and Jones Lang LaSalle helped relative performance while holdings in FedEx and Skyworks Solutions hurt performance.
- During the quarter, the strategy was positioned approximately 68% in large-cap companies with the balance in small-cap/mid-cap companies and cash.

Positioning and Outlook

Value, small-caps, and international equity declined in the third quarter as an increase in COVID (primarily the Delta variant) cases suppressed economic growth, earnings expectations and prolonged supply and labor shortages. During the quarter, we have attempted to balance our growth and value exposure while reducing portfolio risk and tracking error.

In Navigator® All Cap, we increased our exposure to Healthcare, Real Estate and Energy—three sectors in which we were underexposed relative to the benchmark that we believe have improving business momentum. Per our discipline, most strategy sales were of companies with deteriorating business momentum or demonstrating an inability to grow revenue more than rising costs. We believe that cost containment will become a critical management skill set during the foreseeable future as rising input costs ranging from labor shortages, supply chain disruptions, and logistical snafus all threaten current record profit margins.

One Liberty Place ✦ 1650 Market Street ✦ 53rd Floor ✦ Philadelphia, PA 19103 ✦ 800.766.2264 ✦ ccmg.com