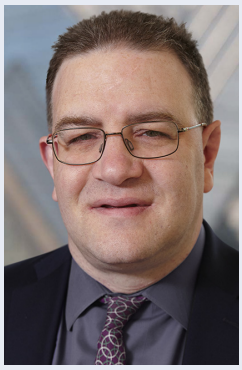
ClarkCapital MANAGEMENT GROUP

Portfolio Commentary

Navigator® MultiStrategy

Portfolio Manager



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Supply-Driven Concerns Dampen Third Quarter

Market Review

The third quarter of 2020 delivered small gains for the S&P 500 Index, but under the surface, market breadth and small-cap participation trailed behind. Market action over the last year has been defined by two distinct six-month periods. The fourth quarter of 2020 began with election-related worries, but in November, the election's conclusion combined with the approval of a COVID vaccine prompted a furious cyclical risk-on rally; over the next two quarters, small-caps gained 55% and outperformed the S&P 500 by 36%.

As the second and third quarters developed, the COVID-19 Delta strain, supply chain disruptions, a looming Fed taper, surging energy prices, and inflation fears, proved to be obstacles for the economy returning to its maximum potential. It has often been commented that small-cap and value stocks need the economy to reach escape velocity in order to be recognized by investors.

The economy's escape velocity fizzled as large-caps, the leader for many prior years, reasserted itself, and the NASDAQ 100 outperformed small-caps by 10%. While stocks underwent a substantial change in relative leadership, the underlying fundamentals of credit markets have been rock solid, and as of late September, high yield spreads were near their lowest levels since the 2008 crisis.

At its September 22nd meeting, the Fed moved up is schedule to begin tapering purchases, prompting a 20 basis point spike in the 10-year Treasury yield. Small-caps and value stocks, led a rally into quarter end. During September, investor sentiment hit its lowest levels since the March/April 2020 selloff, and since our indicators point towards a solid economy and strong credit backdrop, we view the recent weakness as a buying opportunity.

The third quarter was replete with supply-driven concerns such as auto production slowdowns due to a semiconductor shortage, a natural gas supply crunch in Europe, a surge in shipping and trucking prices (driven by a shortfall of drivers), and energy and agricultural prices cruising higher.

The latest Producer Price Index showed prices increasing 10.5% year over year. We have even seen considerable upward pressure on wages. While for many months we have heard of scarcity of lower wage workers, professional level employees are finding themselves empowered to ask for more money or find higher pay elsewhere in a phenomenon labeled, "The Great Resignation." Many investors were quite befuddled that while this was happening, the 10-Year Treasury yield fell over 50 basis points between March and early August.

So far, investors believe the Fed's assertions that the inflation were are seeing is supply driven and will be transitory. While price and inflation pressures have reached their highest point in years, corporate profit margins, outside of energy sensitive transports, have held up surprisingly well given cost pressures. Whether that can continue will be a major story for the 4th quarter and 2022.

Third Quarter Performance Highlights

- For the quarter, the S&P 500 Index gained 0.6%, while S&P 500 Large-Cap Value (SPYV) lost 0.9% and Large-Cap Growth (SPYG) gained 1.8%. Small-caps were laggards, with S&P Small-Cap 600 Value (IJS) losing 4.0% and Small-Cap Growth (IJT) down 1.7%. Year to date, small-cap value leads among equity style, based solely on its huge first quarter. Small-cap value is up 25.2%, while small-cap growth has gained 14.5%. Large-cap value is up 15.3%, while large-cap growth is up 16.4%. The S&P 500 has gained 15.9%. Among factors or themes, buybacks and high beta were leaders while minimum volatility and momentum were laggards.
- On the quarter, high yield bonds and Treasuries were both largely flat, but year to date, the high yield bond ETF (HYG) is up 3.0%, while 7-10 Year Treasuries (IEF) have declined 3.4%. Treasuries lost over 1.5% in the last week of the quarter after the Fed announced a possible speeding up of its tapering plans.
- After the Fed's announcement on September 22nd, the end of the quarter brought a 20 basis points spike higher in interest rates and a change in style and factor leadership, with small-cap value gaining 2.1% and large-cap growth falling 3.3%. Our models already have moved us into the Momentum ETF, and while we need to see more, it will not take too long to increase our stance towards small-caps, value, and risk (and away from exclusively large-caps) if interest rates continue to rise.

Positioning and Outlook

Large-cap growth and quality maintained their positions as top holdings for most of the 3rd quarter, with buybacks coming in and out of the portfolio but unable to overtake the S&P 500 Index. As the quarter came to a close, we added the Momentum ETF (MTUM) to the portfolio. While for many years it featured mega-cap Technology and growth, MTUM now has its largest overweight in Financials, which surprisingly were the top performing sector on the quarter.

Currently, the portfolio is equally weighted between large-cap growth, the S&P 500 Index, and momentum. small-caps and value score lowest in our ETF rankings, and we are watching closely to see if their strength after the Fed meeting will prove sustainable. Minimum volatility and high dividend ETFs have been persistent laggards, and while we believe they will not enter the portfolio anytime soon, they are in our universe for the times when fear and risk-off forces reign supreme amidst market stress.

On a tactical basis, we are pleased to see markets bouncing from their first 5% correction in over 11 months, and our credit and economic research point towards equities being buyable and oversold but in an uptrend. The tendency for cyclical and higher beta stocks to perform well in the fourth quarter is encouraging, particularly since we have seen them lead since the mid-September bottom. Thus, we are bullish on equities for the coming weeks and months. We are conscious, however, of the evidence pointing to the stock and high yield bond market rally being in the later innings. 2022 will present markets with a length list of obstacles to confront, including:

- Historically, S&P 500 returns are subpar when earnings are decelerating. The factors that drove large upward revisions in earnings growth and record earnings beat ratios are unlikely to repeat, and we will be faced with a slowdown in year over year sales and earnings growth. The potential tax hikes being discussed in Washington could also sting.
- The Federal Reserve and central banks on a global basis will be generally tightening (or at least reducing their asset purchases), thus generally taking liquidity out of markets.
- The one year forward P/E ratio of stocks has reached its high level since 1998 and 1999. While valuations are not a good short-term timing tool, they do indicate that long-term returns should be muted, and substantial volatility likely lies ahead in future years.
- Corporate margins could come under fire given inflation in input costs, surging shipping costs, and rising wages (both at the low end and professional levels).

While the above list is disquieting, we also could argue that the economy has not yet returned to its late 2019 potential, and the re-opening boom that many have anticipated has been stop and start at best. How can markets and the economy be overheated and in a bubble if the economy is not even functioning at full potential?

Many cyclical industries have been beaten down for many years and were crushed by COVID, and perhaps their recent ability to have some pricing power will be bullish for this segment of the market. After all, inflation when it comes is not necessarily bad for stocks, but it does change market and sector leadership.

While we do think 2022 will bring more volatility and a strong possibility that defense will be required, we cannot be sure when. In baseball terms, we may be in the later but not final innings. Thus, we are prepared and willing to take

substantial defensive measures, but will do so only after our models signal that a trend change may be underway— no such change appears in the cards yet. Regarding equity risks, we believe our relative strength-based equity factor and style rotation models are designed to shift into factors and equity styles that are leading markets. So far, economically sensitive and relatively aggressive factors hold sway.

Within fixed income, high yield bond valuations and record low spreads are equally as concerning as stocks, but the segment's fundamental and technical trends actually measure as stronger than stocks, which is a bullish sign. We continue to favor high yield credit, and our models' recent new highs indicate no changes coming in that stance.

The record levels of valuation in credit do, however, provide an unmistakable and loud message that risk and volatility will confront investors in the coming years. We believe that our models stand prepared and were designed to move towards risk-off and into Treasuries or cash if and when credit markets falter. We are closely watching for changes in underlying conditions, but for now equities and credit are favoring and rewarding a risk facing stance.

MultiStrategy 25-75 Top Contributors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 Growth ETF	12.05	0.83
Navigator Tactical Fixed Income Fund Class I	70.79	0.45
iShares MSCI USA Quality Factor ETF	5.33	0.39

MultiStrategy 25-75 Top Detractors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares S&P Small-Cap 600 Value ETF	0.86	-0.18
iShares Core S&P 500 ETF	3.12	0.12
Invesco Buyback Achievers ETF	3.82	0.07

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.

MultiStrategy 50-50 Top Contributors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 Growth ETF	24.23	1.70
iShares MSCI USA Quality Factor ETF	11.27	0.81
Navigator Tactical Fixed Income Fund Class I	45.75	0.29

MultiStrategy 50-50 Top Detractors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares S&P Small-Cap 600 Value ETF	1.86	-0.41
Invesco Buyback Achievers ETF	7.08	0.10
SPDR S&P 400 Mid Cap Value ETF	0.02	0.01

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.

MultiStrategy 75-25 Top Contributors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 Growth ETF	36.56	2.62
iShares MSCI USA Quality Factor ETF	16.27	1.18
iShares Core S&P 500 ETF	8.93	0.35

MultiStrategy 75-25 Top Detractors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
iShares S&P Small-Cap 600 Value ETF	2.58	-0.58
Meeder Moderate Allocation Fund - Institutional Class	0.00	0.00
Meeder Balanced Fund - Institutional Class	0.00	0.00

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.

Past performance is not indicative of future results.
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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards, and political and economic risks. These risks are enhanced in emerging markets countries.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

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. The S&P SmallCap 600 seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

The Nasdaq-100 is a stock market index made up of 102 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock market. It is a modified capitalization-weighted index.

The 10 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 10 year. The 10 year treasury yield is included on the longer end of the yield curve. Many analysts will use the 10 year yield as the "risk free" rate when valuing the markets or an individual security.

The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices. Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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