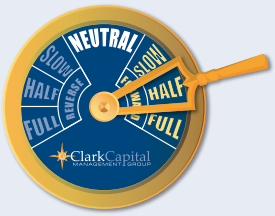
ClarkCapital MANAGEMENT GROUP

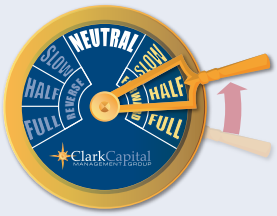
Market Moves

Charting Our Strategies

Economic Gauges



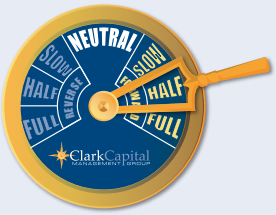
Economy



Monetary Policy

Valuations

Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Despite rapidly declining COVID cases, rising inflation expectations, stable Treasury yields and poor earnings reports from Facebook, Apple and Amazon, large-cap growth stocks surprisingly out-rallied large-cap value, small-caps and international equities in October.

Supply chain disruptions, rising energy prices, and labor shortages continue to present headwinds for corporate management. Those headwinds conspired to restrain economic growth in the third quarter, with Q3 GDP only growing at a 2.0% annualized rate in the quarter, which is the slowest growth rate since the COVID meltdown in 2020.

We do expect growth to pick up again as the Delta wave recedes. Thematically across the equity portfolios, we continue to balance holdings between the dominant large-cap growth theme with high-quality companies and those that we believe will benefit from an earnings snap-back associated with the continuing economic re-opening. The fixed income portfolios are playing a little defense as rates have risen with the yield curve flattening, and are managing duration exposure and credit risk.

Below are strategy updates from October:

All Cap Core U.S. Equity

- Navigator® All Cap is fully invested with approximately 68.7% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- During the month, we added a bank, a clinical laboratory network, and a pharmaceutical company to the portfolio. We exited our positions in a software company, a pharmaceutical company, a scientific instrumentation company, and a hospital and healthcare services company.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 20.5%.

High Dividend Equity

- In October, portfolio changes included increasing our exposure to a bank holding, which was driven by their return to loan growth and rising credit card volume. After significant price appreciation this year, we took partial profits in two other stellar performers in the Financial sector.
- We increased our position in a private equity firm that is demonstrating solid business trends in alternative asset investing. Positions in two Healthcare companies were also increased due to improving business momentum and new COVID antiviral drug prospects.
- Financials remain the largest sector weight at 21.4%, which is inline versus the benchmark. The next two largest weights are Healthcare at 16.8% and Technology at 10.6%, which surpassed Industrial weight of 9.8%.
- Energy is a slight overweight of 6.9% versus the benchmark weight of 5.3%. In the Energy sector, we purchased a provider of drilling operations in oil and gas basins and increased our position in an energy infrastructure company. In the Consumer Discretionary sector, we sold our remaining position in a manufacturer of motorcycles, snowmobiles, ATVs, and

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neighborhood electric vehicles as estimates decline due to supply chain issues.

International Equity ADR

- Navigator® International Equity/ADR is positioned with 20.5% in emerging markets with the balance in developed economies and cash.
- Britain, Ireland, and Japan are the strategy's largest country weights, all ranging between 10% and 16%.
- During the month, we added a Brazilian electric utilities company, a biopharmaceutical company, a Chinese internet technology company, an Irish low-cost airline, an oilfield services company, and a provider of specialty memory solutions to the portfolio due to improving business momentum and attractive valuations.
- We removed a Japanese optical products company, a global insurance provider, a multinational power management company, a multinational electronics contract manufacturer, a manufacturer of application-specific fluid power and power transmission solutions, and a German car manufacturer from the portfolio.
- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology remain our largest sector weights. While U.S. economic growth currently exceeds most other countries and regions globally, we anticipate non-U.S. economies to also have accelerating recoveries.

Taxable Fixed Income

- Called bonds continue to lead to price stability in the portfolio.
- During the month, we sold positions in an airline company and a REIT. Both positions were bought as part of the re-opening trade and appeared to have maxed out on their returns.
- On the buy side, we added to an American car manufacturer and discount store company in 2023. We continue to add to our holdings in Materials and identify material and commodity companies to add to opportunistically.
- It appears that the street may be poised to implement a barbell strategy. This is a strategy we employed in 2016 for 2 years, and it may be prudent again.
- Cash levels are in the 3-5% range and we are keeping duration around 3.8 years. Cash levels may creep higher in the portfolio's as we deem necessary.
- We did sell some higher-grade credits during the month, but overall average credit quality remains at BBB- in the portfolio.

Tax-Free Fixed Income

- The robust $1B+ inflows into munis dried to a trickle, with October's last week closing at $397 million as per Lipper.
- The Ides of Fall are still playing out as the Tax-Free strategy booked another month of negative performance.
- Though the tailwind of a lighter supply pipeline was in effect, munis could not shake off a negative tone amid a bearish Treasury market and the

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seemingly unending uncertainty of passage of muni-specific legislation in Washington.

- We are not abandoning our thesis for a flatter muni curve, but we are being defensive, buying higher coupon callable bonds with attractive current yield and manageable duration.

Clark Capital's Top-Down, Quantitative Strategies

October was a strong month for the markets following a brief correction in September, with most major indices posting new all-time highs. High yield credit declined marginally while the Bloomberg Barclays 7-10 Year Treasury index lost 0.44% as rates moved higher.

Our credit-based risk management models remained firmly entrenched in risk-on, and as such, our tactical portfolios participated in the advance. We believe the market right now has a tailwind of being in the strongest season period of the year.

As we head into November, there are only 42 trading days left in the year. Goldman Sachs research recently highlighted that since 1928, there have been 15 times that the S&P 500 was up 20% or more through October. The median return for the rest of the year (last two months only) was 5.92%, with an 80% hit rate. Seasonal trends are favorable for the rest of the year.

Below are strategy updates from October:

Alternative

- We favor commodities (agriculture, broad commodities, and gold), along with commodity equities (natural resources, timber, copper miners, agribusiness) over fixed income, where only own preferred stock.
- We recently added to our holdings in Cryptocurrency.

Fixed Income Total Return

- We feel our models remain solid, though off their highs, mainly due to the modest damage done to high yield from rising rates.
- Since our 07/30/20 buy into high yield, the asset class continues to outperform the 7-10 Year Treasury, which is down 5.6%.

Global Tactical

- We believe that our position in equities looks stable for the foreseeable future, even if our models are off their highs.
- U.S. stocks continue to outperform International; for this to change, we think we would have to see U.S. large-cap Technology stocks begin to struggle.

Sector Opportunity

- The portfolio favors Financials (broker dealers, banks, broad Financials), Energy (exploration and production, natural gas, broad Energy), and

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Technology (software, broad Technology, battery tech).

- We are avoiding Industrials (hit hard by inflation and higher input costs), along with defensive sectors like Healthcare, Utilities, and Staples.

Style Opportunity

- The portfolio favors large-caps via the Momentum ETF and large-cap growth along with a position in the S&P 500 itself.
- A brief move into small-cap value after the Fed's announcement of plans to taper in late September failed and has been reversed.
- We recently added mid-cap growth to the portfolio, and see growth again outpacing value.

U.S. Strategic Beta

- In late September, the portfolio increased its risk profile, buying back into small-caps and increasing mid-caps.
- The portfolio modestly favors growth over value, and for now is avoiding minimum volatility given that we see markets in a cyclical uptrend.

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