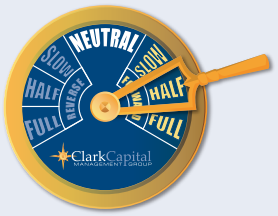
ClarkCapital MANAGEMENT GROUP

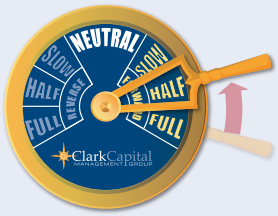
Market Moves

Charting Our Strategies

Economic Gauges



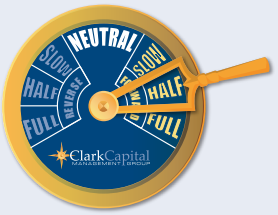
Economy



Monetary Policy

Valuations

Investor Sentiment



Interest Rates

Clark Capital's Bottom-Up, Fundamental Strategies

Apart from large-cap growth stocks, all other broad equity measures declined in November as markets came to terms with rising inflation expectations and a transition in Fed policy. Fed Chairman Powell finally retired the term "transitory" to describe inflation. This change in monetary policy objective from "full employment" is consistent with our prior comments that the labor market has made "substantial further progress" and that wage gains will likely persist as the ratio of job openings to job seekers pierces record levels.

While the new COVID strain – Omicron – appears to be more contagious than Delta, early studies of its virulence suggest that there will be few policy actions which will substantially constrain U.S. mobility and disrupt the underlying pro-cyclical policies of 2020 and 2021. Across our bottom-up portfolios, we continue to seek out those companies that we believe can successfully pass on rising costs to their customers without sacrificing margins.

Below are strategy updates from November:

All Cap Core U.S. Equity

- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 19.4%.
- To this end, we added a credit card services company, a temporary healthcare staffing company, and a home improvement retail chain to the portfolio.
- During the month, we exited our positions in an investment management company, a tobacco manufacturer, an online payments technology company, and a fast-food restaurant chain.

High Dividend Equity

- The portfolio's largest sector exposure is in Financials at 21.0%, which is slightly underweight the benchmark, followed by Healthcare at 15.4% and Technology at 12.4%.
- Top contributing sectors were Real Estate, Technology and Consumer Discretionary while detractors included Communications, Energy and Financials.
- In November, we increased existing positions in a human resources management software and services company, an investment management company, and two transport companies.
- We initiated positions in an information technology company, a consumer lawn, garden and pest control manufacturer (Class A).
- We sold a multinational healthcare and insurance company due to poor business momentum and increased risk to declining estimates.

International Equity ADR

- Britain, Ireland, and Japan are the strategy's largest country weights, all ranging between 10% and 15%.
- Consumer Discretionary, Financials, Health Care, Industrials, and Infor-

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mation Technology remain our largest sector weights. While U.S. economic growth currently exceeds most other countries and regions globally, we anticipate non-US economies to also have accelerating recoveries.

- During the month we added to the following positions in the portfolio – a specialty insurance company, a retail banking company, a biopharmaceutical company, and a South Korean steel-making company.
- We removed a Japanese automobile manufacturer and a manufacturer and distributor of interior and exterior doors from the portfolio. We reduced our positions in a pharmaceutical company and a Russian multinational energy corporation.

Taxable Fixed Income

- Called bonds continue to lead to price stability in the portfolio.
- During the month, we added an aerospace company as a post-COVID reopening trade. We also increased our exposure to banks by adding new holdings in three bank companies. Additionally, we continued to add to our existing positions in three Financial holdings.
- Laggards in performance during the month were in the BB portion of the portfolio.
- Our position in a private label packaged foods was quickly reversed and sold when the company announced it was exploring strategic alternatives. S&P quickly downgraded the stock and our premise for ownership changed.
- Year-end liquidity is drying up in line with typical seasonal trends. We believe caution and opportunity are the words to carry into December.

Tax-Free Fixed Income

- November issuance should finish at approximately $40 billion versus last year's $21 billion (keep in mind it was an election year). Year to date issuance is slightly behind last year: $424 billion versus $450 billion.
- Inflows began to increase in earnest, as flows into muni funds registered multiple weeks in excess of $1 billion, which was a welcome change from October's draught.
- The Infrastructure Act passed, and in its final form, had very little direct impact on the market's composition or dynamic. Indirectly, we believe its passage is a credit-positive for the market.
- The clearing political landscape, manageable issuance, and the return of inflows provided the backdrop we were hoping to see, allowing trading to resume at greater volumes and allowing the market tone to improve, despite the anxiety surrounding what the Fed may or may not do in the coming months.
- As we expected, the muni curve began to flatten. The key question will be if it remains flat through the New Year.

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Clark Capital's Top-Down, Quantitative Strategies

The month of November was largely a risk-off period with the market consolidating its gains. Leadership remained within large-cap growth as it outperformed and posted modest gains, while all other styles and major international indices posted monthly losses as fears of lockdowns across Europe, fears of Omicron, and the shift in the Fed's inflation narrative weighed on risk assets.

Credit markets were impacted by all of the above, which led to Treasury strength and the widest high yield spreads since March. However, credit has performed much better than equities on a relative basis. We believe the markets are now oversold in an uptrend and investor sentiment has turned cautious, which sets the table for a potential bullish resolution to the pullback as we enter the home stretch of 2021.

Below are strategy updates from November:

Alternative

- The portfolio continues to favor U.S. equity, commodities and commodity equity, and agribusiness, along with a 3% position in Crypto.
- Within the mutual fund core, we believe that managed futures are the strongest performers, while our positions in market neutral and event driven are lagging.
- November's market weakness drove us out of preferred stock, gold miners, and broad commodities, while we added BDC income (private equity middle market debt) and cannabis equity.

Fixed Income Total Return

- Credit markets were hit first by rising inflation and a more hawkish Fed (which had yield rising and looking to break out), and then by the Omicron variant, which led to Treasury strength and the widest high yield spreads since March.
- However, we believe credit has performed much better than equities on a relative basis, and while we are closer to becoming defensive, we believe the current distress will resolve itself bullishly.
- High yield spreads peaked on Black Friday and have come in since then.

Global Tactical

- The portfolio has owned equities since July 2020, and while we have moved closer to being defensive amidst November's weakness, we are encouraged by credit's solid price performance.
- We believe that the divergence between equity fear and relatively stable credit markets will resolve itself bullishly in credit's favor. U.S. markets and large-caps are leading vs. the rest of the world, which is simply underweight large-cap technology.

Sector Opportunity

- The portfolio favors Technology, Consumer Discretionary, and is sticking with Energy (though that may not last).

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- Recently, we sold broker-dealers, and added to Technology, semiconductors, and homebuilders.
- We are avoiding the Healthcare and Telecommunication Services sectors, which we believe are in strong downtrends.

Style Opportunity

- Large-cap growth has taken over market leadership, and among all factors and styles only large-cap growth is delivering outperformance vs. the S&P 500.
- In accordance, the Style portfolio has moved further into large-cap growth (now 50%) and the S&P 500.
- While we still own mid-cap growth and favor growth over value, we exited our position in small-caps (which had surged, looking to break out, but reversed in late November).

U.S. Strategic Beta

- The portfolio remains cyclically bullish, overweighting large-cap growth, mid-cap growth, and momentum, and underweighting volatility.
- Mid-cap and small-cap stocks took a hit due to the Omicron variant, but we continue to favor their higher beta and leverage to the economy.

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