Portfolio Commentary

Navigator® MultiStrategy

Portfolio Manager

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Inflation and Ukraine Crisis Leave Commodities and Cash as the Only Safe Havens

Market Review

Markets rallied into the end of 2021 even as investors knew that the Fed was entering upon a new rate hike cycle. However, fear took over when 2022 began as dramatic inflation caused interest rates to spike higher in January. As a result, interest rate sensitive growth stocks were hammered, while value stocks finally saw a relative strength breakout within broader market weakness.

Markets took a further turn for the worst in February as tensions ratcheted up in Ukraine, which led to the invasion on February 24th. As the world condemned Russia's actions, oil prices, which had already risen to $93 per barrel on February 24th, spiked up to $120 by mid-March.

As the Ukraine crisis spooked markets, it was not just oil prices that spiked on supply and inflation fears. At their peak on March 8th, agricultural prices were up 18% year to date, and broad commodities were up 35%. The broad Energy sector had risen by 35%, but most other equity sectors plunged. At its bottom, the NASDAQ 100 fell into a bear market, falling more than 20%. While equities made what looked like an important bottom in mid-March, the S&P 500 rallied by 8% before quarter end; however, U.S. Treasuries, investors' favorite safe haven, suffered their worst quarter since 1980, finishing down 6.5%.

While both stocks and bonds suffered through an awful quarter, investor selling was not prompted by vulnerabilities within the U.S. economy or corporate America's health. Rather, it was inflation, rising interest rates, and the sense that the Fed was behind the curve that drove weakness. While 2021 featured leadership by large-cap growth and Technology, those same names fell the most during the decline, since they are very interest rate sensitive. At the bottom in mid-March, large-cap value (SPYV) stocks had outperformed large-cap growth (SPYG) by 13% year to date, although by the end of the quarter that gap had narrowed to 8%. Low quality, speculative small-cap growth stocks with little to no earnings were punished the most.

First Quarter Performance Highlights

For the quarter, the S&P 500 Index declined by 4.6%, while large-cap value was down just 0.2% and large-cap growth lost 8.5%. Small-cap value (IJS) was down 1.7%, while small-cap growth (IJT) was the laggard, falling 9.7%. Among factors or themes, high dividend was the clear leader, up 6.6%, while high beta and minimum volatility modestly outperformed. Buybacks, momentum, and quality all trailed, given their biases towards large-cap Technology.

- Fixed income really took it on the chin, and pain was deep and across the board, with the Barclays Aggregate Bond Index down 5.9%, its biggest loss in 42 years. Broad U.S. Treasuries were down even more at 6.5%, and longer duration 20+ year Treasuries fell 10.6%. The high yield bond ETF (HYG) declined 4.7%, outperforming U.S. Treasuries, indicating that market stresses were focused almost entirely on interest rates and not corporate credit. Our tactical fixed income products moved towards favoring cash during the quarter, and thus took on

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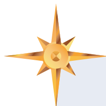

reduced losses.

- In late March, we diversified the fixed income portion of the MultiStrategy portfolio by adding the Navigator® Tactical Investment Grade Bond Fund (NTIIX) into the allocation mix. NTIIX employs a similar philosophy and quantitative engine as the Navigator® Tactical Fixed Income Fund (NTBIX), but rotates between investment grade bonds, U.S. Treasuries, and cash. MultiStrategy now devotes two-thirds of its fixed income exposure to tactical high yield and one-third to tactical investment grade.

Positioning and Outlook

Coming into 2022, the equity portion of MultiStrategy favored large-caps and the S&P 500 Index, with a modest growth tilt. As interest rates spiked higher and large-cap growth began to suffer in January, growth stocks plummeted in our rankings. By the third week of January, we had completely exited large-cap growth and moved into large-cap value, which had exposure to Financials, REITs, and Energy, all of which were winners under the new inflationary regime.

In February, we added mid-cap value (MDYV) to the equity mix. Later in March, we added S&P 500 value and high dividend equity stocks, which were thriving as oil prices and energy spiked. Value's outperformance versus growth was dramatic for the first 2.5 months of the quarter, as through March 14th, large-cap value (SPYV) was down 5.3% while the NASDAQ fell into bear market territory with a 20% decline. However, the month ended in a sharp upwards reversal, with the S&P 500 rallying 8% in the last two weeks.

Growth stocks (SPYG) rebounded strongly, outperforming value (SPYV) by 5%. Our models began to recognize the quick and sharp trends towards growth, and we introduced large-cap growth into the portfolio and reduced our exposure to small-caps and high dividend stocks. Given growth's strong rebound, we judge markets to be without clear leadership, and we expect the equity portion of the portfolio to become more neutral.

As mentioned above, the fixed income portion of the MultiStrategy portfolio now allocates two-thirds to the Navigator® Tactical Fixed Income Fund (NTBIX) and one-third to the Navigator® Tactical Investment Grade Bond Fund (NTIIX). NTBIX had favored high yield since July of 2020, but it turned partially defensive on January 31st, moving to a 50% high yield and 50% cash allocation.

This risk reduction was different from many of our other defensive trades, as it was driven by rising interest rates and not by investor concerns surrounding high yield credit itself. The real weakness was in U.S. Treasuries, as markets judged the Fed to be too far behind the curve in fighting inflation. The 2-year Treasury yield began the quarter at 0.73% and ended at 2.34%, which signaled that investors priced in nine 25 basis point Fed rate increases over the next two years.

Our models emphatically recommend avoiding U.S. Treasuries given their weakness and the macro backdrop. Thus, our preferred defensive vehicle has become cash equivalents, and we maintain a position in high yield, as it has outperformed Treasuries, continuing its record of strong relative performance during Fed rate hike cycles. Introducing defensive cash into the portfolio has been helpful, since from January 31st through the end of the quarter, a short-term T-Bill ETF proved to be a safe haven, down only 0.2%, high yield was down 2.1%, and broad U.S Treasuries fell 4.0%.

As the quarter ended, both NTBIX and NTIIX fund allocated 50% towards risk on credit (high yield and investment grade, respectively) and 50% towards cash. The mixed allocation reflects an environment in which the U.S. economy and corporate balance sheets are solid, but the hawkish Fed presents risks to fixed income and long duration assets in general. Our models are prepared to turn 100% defensive if necessary, but currently we see no storm clouds on the horizon.

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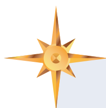

MultiStrategy 25-75 Top Contributors as of March 31, 2021

Company Name	Average Weight (%)	Contribution to Return (%)
SPDR S&P 400 Mid Cap Value ETF	2.36	0.18
SPDR Portfolio S&P 500 Value ETF	0.72	0.17
Navigator Tactical Investment Grade Bond Fund Class I	2.98	0.10

MultiStrategy 25-75 Top Detractors as of March 31, 2021

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Fixed Income Fund Class I	69.24	-2.12
iShares Core S&P 500 ETF	8.18	-1.28
SPDR Portfolio S&P 500 Growth ETF	1.42	-0.60

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 March 31, 2021

Company Name	Average Weight (%)	Contribution to Return (%)
SPDR S&P 400 Mid Cap Value ETF	4.71	0.37
SPDR Portfolio S&P 500 Value ETF	1.18	0.29
iShares Core High Dividend ETF	1.16	0.11

MultiStrategy 50-50 Top Detractors as of March 31, 2021

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	15.49	-2.44
Navigator Tactical Fixed Income Fund Class I	45.20	-1.38
SPDR Portfolio S&P 500 Growth ETF	2.74	-1.15

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MultiStrategy 75-25 Top Contributors as of March 31, 2021

Company Name	Average Weight (%)	Contribution to Return (%)
SPDR S&P 400 Mid Cap Value ETF	7.05	0.56
SPDR Portfolio S&P 500 Value ETF	2.11	0.52
iShares Core High Dividend ETF	1.73	0.17

MultiStrategy 75-25 Top Detractors as of March 31, 2021

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	24.04	-3.81
SPDR Portfolio S&P 500 Growth ETF	3.97	-1.67
Navigator Tactical Fixed Income Fund Class I	21.52	-0.66

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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.

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 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 S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The Nasdaq-100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock market.

The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollardenominated, fixed-rate taxable bond market.

The S&P 500 Value measures value stocks using three factors: the ratios of book value, earnings, and sales to price.

The 20-Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 20 years.

The 2 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 2 years.

Investing involves risk, including loss of principal.

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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