Clark Capital MANAGEMENT GROUP

Portfolio Commentary

Navigator® International Equity/ADR

Portfolio Manager

Tony Soslow, CFA®
Co-Head of Equity

Top Contributors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
TFI International Inc.	2.68	0.26
Fabrinet	1.68	0.21
Banco do Brasil S.A Sponsored ADR	1.82	0.15

Top Detractors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
GlaxoSmithKline (GSK) plc Sponsored ADR	2.39	-0.71
Sanofi Sponsored ADR	2.86	-0.65
Alibaba Group Holding Ltd. Sponsored ADR	1.44	-0.41

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.

Fed's Inflation Focus and Earnings Downdraft Drive Equities Lower

Market Review

The global equity bear market resumed in uniformity in September as most broad indices declined nearly 9%. Continuing their fight against headline inflation, the U.S. Central Bank lifted the federal funds rate 0.75% for the 3rd consecutive meeting to 3.00-3.25%. Markets anticipate continued tightening into Q1 2023 as the battle to drive high headline inflation back down to 2.00% remains the U.S. Central Bank's stated singular purpose. Just as Mike Tyson famously said – "Everyone has a plan until they get punched in the mouth," We anticipate that the Fed's plan may again get interrupted by changes in economic or credit conditions. To this end, Vice Chairwoman Lael Brainard said last week (potentially in reaction to either rumored Credit Suisse solvency issues and/or U.K. pound weakness) – "the risks may be getting more balanced."

Profit Margin Cycle Interrupted

After expanding for nearly ten years on the back of declining interest rates, lower tax rates, and cost benefits from offshoring and trade, Institutional Brokers' Estimate System (IBES) earnings data suggest that S&P 500 profit margins peaked in Q2 2021. With interest rates higher, credit spreads wider, labor market tightness, Russian-Ukraine supply constraints, and U.S.-China trade relations weakened, can we expect profit margins to resume their prior uptrend? We believe profit margin expectations in both the current earnings slowdown and future recovery will meaningfully determine ending Price to Earnings ("P/E") and P/Cash Flow ratios and thus impact how we value equities and their cycle returns moving forward. At first glance, the current low international, small, and mid-cap P/E ratio of 12.5 appears to be a great potential starting point for long-term investors, especially if long-term inflation matches market expectations and recent history of near 3%.

Third Quarter Portfolio Highlights

- Navigator® International Equity/ADR is positioned with 13.9% in emerging markets with the balance in developed economies and cash.
- The United Kingdom, Canada, and Japan are the strategy's largest country weights, all ranging between 8% and 20%.
- ADR continues to find what we believe are undervalued, high quality companies in both developed and emerging markets to add to the portfolio. During the quarter our three most recent additions were Baidu, Vipshop, and British American Tobacco. The three most recent exits were Tokyo Electron, NetEase, and Nestle.
- ADR has begun to reduce its underweight position in China as initial signs of improving business and regulatory conditions appear.
- Consumer Discretionary, Consumer Staples, Financials, Industrials, and Information Technology remain our largest sector weights.

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

- Our positioning in Industrials helped relative performance while positioning in Healthcare acted as a drag.
- From a country perspective, the portfolio benefited from our positioning in Thailand and Brazil while performance was hurt by our positioning in The United Kingdom and China.
- The top three contributors to absolute portfolio return in the quarter for the ADR portfolio were Trane Technologies, TFI International, and Fabrinet. The top three detractors for absolute portfolio return were GSK, Sanofi, and Alibaba.

Positioning and Outlook

Portfolios began the quarter well-positioned for rising corporate finance rates, a consumer constrained by higher food and energy costs, and continued Fed tightening. Our focus on anti-fragile companies helped portfolios decline less than their benchmarks, however, our Small and SMID Cap strategies could not overcome a surge in biotech early in the quarter. As the Fed remains determined to contain inflation, we continue to anticipate additional tightening, slower economic growth, growing inventories, and a continuation of the negative earnings revision cycle. As prices have declined and both the Fed tightening and earnings revision cycle are maturing, we have growing confidence that equity investors could expect typical equity market cycle returns from this point forward. P/E ratios for our Small Cap, SMID Cap and ADR/International Equity strategies near 12 and thus offer earnings yields – a historically important component of long-term returns – over 8%. As upward changes in finance rates tends to hurt both high duration and fragile companies the most – and we don't know the precise end and impact of Fed tightening – we are continuing to prefer companies with more consistent and less cyclical cashflows.