Clark Capital Management Group

Portfolio Commentary

Navigator® High Dividend Equity

Portfolio Manager

Maira Thompson
Co-Head of Equity

Top Contributors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
ConocoPhillip	1.34	0.15
Charles Schwab Corp.	1.38	0.14
Automatic Data Processing, Inc	1.11	0.07

Top Detractors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
AT&T, Inc.	1.10	-0.30
Verizon Comm., Inc.	1.10	-0.29
Comcast Corp.	1.10	-0.25

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.

Dividend Stocks Continue to Play Defense

Market Review

U.S. equities declined for a third straight quarter as the Federal Reserve tightening cycle continued. The dollar index spiked over 7%, its fifth straight quarterly gain and the largest since the first quarter of 2015. Following a strong first half of the year, dividend stocks lagged in July when the market moved sharply higher on hopes of a Fed pivot, only to regain momentum in August and September as rate hike expectations increased volatility. In the third quarter, growth outperformed value across all market caps, but year to date, value is ahead by a wide margin. Rising rates prompted a rotation out of the highest yielding equities into dividend growers and non-dividend paying stocks in anticipation of a growth rally when the Fed eventually pauses. The number of S&P 500 Index dividend stocks yielding above the 10-Year Treasury shrunk dramatically from 78% in March 2020 to below 20%.

At this stage of the economic cycle, we continue to focus on dividend growers versus the highest yielders in both cyclical and growth sectors. Although second quarter earnings were better than anticipated, we believe third quarter consensus estimates appear too high given the combination of margin pressure, slowing consumer demand and a strong dollar. In a declining earnings growth environment, we believe dividend growers possess characteristics that may contribute to positive relative performance such as lower beta, return on equity (ROE), and earnings per share (EPS) growth and less exposure to negative factors like high beta, negative earnings, and long-term volatility. Entering the fourth quarter, positive developments for the market may include peak inflation combined with lower equity valuations versus January 2022.

Third Quarter Portfolio Highlights

Navigator® High Dividend Equity holds approximately 98.4% in developed countries with the remainder in cash. The United States is the largest country weight at 89.7%, followed by The United Kingdom at 4.4% and Switzerland at 2.3%. 89.6% of the portfolio is in large-caps, 8.0% of the portfolio is in mid-caps, 0.9% is in small-caps, and the remainder is in cash. Financials represent the largest sector weight at 19.8% and slightly below the benchmark 20.0%. The next two largest portfolio weights are Healthcare and Information Technology at 19.0% and 10.6% respectively. Largest contributors to Q3 performance were Financials, Real Estate and Utilities versus detractors Consumer Staples, Technology and Consumer Discretionary. Individual contributors were ConocoPhillips, Charles Schwab Corp and Automatic Data Processing, Inc. versus detractors AT&T, Inc., Verizon Communications, Inc., and Comcast Corp.

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

Positioning and Outlook

In Q3, we increased exposure in Communications, Technology and Healthcare sectors, with additions to Omnicom Group, Inc., Applied Materials, Inc., Texas Instruments, Inc., Thermo Fisher Scientific, Inc., and Eli Lilly and Co. S&P Global, Inc., a data analytics company that we believe has strong long-term earnings momentum and a 5-year dividend growth rate of 16% was purchased as an initial holding. We reduced Fidelity National Information Services Inc., Johnson & Johnson and Garmin, Ltd. Tyson Foods, Inc. was sold due to weaker margins and the economic slowdown in China. Despite rising risks of a recession, higher quality consumer stocks continue to report better-than-expected sales and profits. The portfolio is underweight rate "sensitive" sectors such as Utilities and Real Estate, which normally carry higher debt loads and are often vulnerable to higher financing rates, versus Financials which we believe could benefit from stronger net interest income.

Sources: Bloomberg, Morgan Stanley, and NDR