Portfolio Commentary

Navigator® All Cap Core U.S. Equity

Portfolio Manager

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Co-Head of Equity

Top Contributors as of December 31, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
Merck & Co., Inc.	2.86	0.74
EMCOR Group, Inc.	2.71	0.67
Broadcom Inc.	2.70	0.65

Top Detractors as of December 31, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
Tesla Inc	0.96	-0.65
PayPal Holdings, Inc.	1.28	-0.23
Apple Inc.	4.41	-0.22

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.

December's Equity Losses Typify 2022's Weak Year

Market Review

Equity markets resumed their decline in December as relative performance amongst the indices continued in rank order. As 10-year U.S. Treasury yields advanced from 0.27% to 3.88%, it was not surprising that the Russell 1000 Value and MSCI ACWI Ex-US declined less (-4.1% and -2.0%, respectively) while the Russell 1000 Growth and Russell 2000 fell the most (-7.7% and -6.5%, respectively). The U.S. central bank's lifting of the Fed Funds Target Rate lower bound by "just" 0.50% to 4.25% did little to assuage equity investors as higher rates provide meaningful competition to equites and reduce the net present value of future cash flows. For perspective, a year earlier, the lower bound was 0% and 10-year Treasuries yielded just 1.63%.

For the year, the Russell 1000 Growth Index declined 29.14%, dragged down by large companies in the Communications, Consumer Discretionary, and Information Technology sectors. Despite the rapid increase in interest rates throughout the year, U.S. large-cap value's decline of just 7.6% speaks to its relative value at the beginning of the year, the steadiness of its earnings growth, and its lower duration characteristics. More of its value is in the "here and now" and not in the distant future.

Although the Navigator® equity portfolios all experienced losses during 2022, their focus on what we believe are higher quality and more antifragile companies helped mitigate the extreme declines associated with high-flying/expensive or low-quality company indices.

Surprisingly, the decline in the Core PCE in November to 4.7% did little to alter the Fed's spoken resolve to slow or soften the rate or level of forthcoming interest rate hikes. Chairman Jerome Powell appears hellbent – insistently sticking to his 2% inflation target as tight labor markets hover near full employment.

Recognizing that goods inflation has clearly peaked and also acknowledging that current housing services inflation clearly lags the decline in new rent trends, my hope is that the Fed will not fixate on the other services inflation dominated by wage trends. As Fed policy does little or nothing to alter labor supply, continuing to focus on the level of wage growth may potentially lead them to a hiking regime that produces an undesired hard landing.

Fourth Quarter Portfolio Highlights

- The Navigator® All Cap strategy is positioned with approximately 68.7% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- The portfolio continues to balance portfolio holdings between the dominant large-cap growth companies and those anti-fragile large, small, and mid-cap companies, which we believe will continue to see strong business momentum despite rising inflation and tight labor market conditions.
- To this end, the three most recent adds to the portfolio were Comcast, Amazon, and Analog Devices. The three most recent exits were Charter Communications, East West Bancorp, and Lowes.

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 current weighting in the big five free cash flow margin monopolies - Microsoft, Apple, Google, Amazon, and Tesla is 11.0% vs. approximately 15.4% in the Russell 3000.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 18.7%.
- Our positioning in Consumer Discretionary and Information Technology helped relative performance while our positioning in Energy and Utilities acted as a drag.
- The top three contributors to absolute portfolio return in the quarter were Merck, EMCOR, and Broadcom. The top three detractors were Tesla, PayPal, and Apple.

Positioning and Outlook

While portfolios began the quarter defensively positioned to withstand the impact of higher interest rates, continued Fed tightening, and slowing earnings growth, each strategy outperformed their respective benchmarks in a strong equity market.

International equity performance advanced as dollar strength earlier in the year combined with extreme relative valuations enhanced their attractiveness. As inflation begins to recede and Fed tightening intensity wanes, portfolios will need to take a more aggressive stance – focusing on those companies which can withstand a decline in earnings growth rates and higher financing rates and then thrive in the upcoming recovery and Fed pause.

Thus far, the earnings recession has "rolled" from large ticket consumer discretionary to software and then to hardware and semiconductors. Industries dependent on financing or the financing of customer projects have also been harmed such as drug discovery, housing, and materials. As Staples, steady Healthcare providers, and Energy have successfully navigated the slowdown, we believe their relative price gains now make them vulnerable to a drop-off in demand, profit margin deterioration, or a shift to depressed sectors beginning their cyclical rebound.

Although our focus on more antifragile companies helped portfolios both decline less in Q3 and advance more in Q4, we acknowledge a need to adjust portfolios later in the year as earnings declines trough and Fed determination to contain inflation potentially shifts back to full employment. As noted last quarter, the decline in P/E ratios for our Small Cap, SMID Cap and ADR/International Equity strategies to near 12 and thus offer earnings yields (a historically important component of long-term returns) over 8%, gives us confidence that returns from 2022Q3 forward will approximate those of a typical market cycle.