Clark Capital Management Group

Portfolio Commentary

Navigator® All Cap Core U.S. Equity

Portfolio Manager

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Co-Head of Equity

Top Contributors as of March 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
Meta Platforms Inc. Class A	2.70	1.54
Apple Inc.	4.42	1.08
Microsoft Corporation	3.93	0.78

Top Detractors as of March 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
Charles Schwab Corp	1.53	-0.55
AMN Healthcare Services, Inc.	1.46	-0.32
UnitedHealth Group Incorporated	2.56	-0.31

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 and the last 12 months., contact: PortfolioAnalytics@ccmg.com.

The Bullish Rate Hike

Market Review

The collapse of Silicon Valley Bank (SVB) last month likely serves as a financial history watershed moment for both economic expectations and the Fed's policy reaction to it moving forward. SVB's quick implosion, coupled with accelerated disintermediation across the banking sector, was the first tangible evidence that the aggressive 12-month 5% Fed policy tightening could inspire depositors to demand higher interest rates and highlight the contractionary effects of an inverted yield curve.

Just as the low inflation and interest rate environment of the 10-year period ending 2021 helped large-cap growth stocks at the expense of value, March and year-to-date performance have favored these longer duration, higher quality assets. Large-cap growth's nearly 7% gain in March and 14% gain year to date have been supported by both a 0.40% decline in 10-year Treasury rates this quarter and increased profit margin efforts by the big growers in a slowing economic environment. Lifting their sustainable margins, Apple, Microsoft, Google, Amazon, Meta, and other companies use slowdowns to "trim the fat" and bear markets to pursue accretive merger transactions.

While large-cap growth rallied 14% this quarter in the month, large-cap value barely budged up only 1% and the lower quality, less economically flexible and financing dependent small-caps rallied 3%. Foreign stocks continue to benefit from their relative value opportunity and strong business momentum, gaining 7% for the quarter. As current P/E ratios for SMID-cap and international equities are 5 turns below large-caps, the near end of this Fed tightening regime provides support for these asset classes moving forward.

First Quarter Portfolio Highlights

- Navigator® All Cap is positioned with approximately 68.2% in large-cap stocks and the remainder in mid/small-cap companies and cash.
- The portfolio continues to balance portfolio holdings between dominant large-cap growth companies and those anti-fragile large, small, and mid-cap companies which we believe continue to see strong business momentum despite sticky services inflation.
- To this end, the three most recent adds to the portfolio were Adobe Systems Inc., Interpublic Group, and Middleby Corp. The three most recent exits were Charles Schwab, Nexstar Broadcasting Group, and Texas Instruments Inc.
- Our current weighting in the big six free cash flow margin monopolies - Microsoft, Apple, Google, Amazon, Meta, and Tesla is 17.3% vs. approximately 19.3% in the Russell 3000.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 20.5%.
- Our positioning in Communication Services and Industrials helped relative performance while our positioning in Consumer Discretionary and Information Technology acted as a drag.

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

- The top three contributors to absolute portfolio return in the quarter were Meta Platforms Inc., Apple Inc., and Microsoft Corp. The top three detractors to absolute portfolio return in the quarter were The Charles Schwab Corp., AMN Healthcare Services Inc., and UnitedHealth Group Inc.

Positioning and Outlook

A sharply inverted yield curve and its implications for future economic growth swayed portfolio positioning in the first quarter and shed light on the likely path of earnings and economic growth through the rest of 2023. Although recessionary economic growth and lower inflation on the surface appear to threaten earnings in all sectors, we are beginning to tilt portfolios more towards growth and higher duration sectors.

Just as Technology and Consumer Discretionary stocks suffered in 2022 in anticipation of lower earnings in 2023, the likely near end to Fed tightening provides confidence in these now attractively priced sectors. We have slightly "upped our beta" - modestly shifting from Consumer Staples to Discretionary, increasing our overall exposure to Technology and Communication and reducing exposure to Financials dependent on deposit stickiness and those Industrials overly exposed to commercial real estate.

Markets look forward; thus, we believe equity investors should not be dissuaded by forthcoming poor earnings reports as they reflect the effects of 5% of interest rate increases and tight labor conditions. We anticipate that both headwinds to the next few earnings reports will dissipate as companies adjust. Just as we have seen the largest antifragile tech companies begin cost-cutting initiatives to sustain margins in an economic downturn, we anticipate that this behavior will spread as the slowdown rolls across economic sectors.

The Russell 3000 Index is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market.

The 10-year Treasury yield is the yield that the government pays investors that purchase the specific security. Purchase of the 10-year note is essentially a loan made to the U.S. government.

The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

Antifragile companies are those which possess a large majority of strong balance sheet, income statement and other metrics such as debt-to-equity, gross margins, earnings variability - which have shown to demonstrate less stock price volatility on a going forward basis. Companies with poor credit metrics, high financial and operating leverage high historically been more fragile to adverse changes in economic and earnings conditions.

Foreign markets are any markets outside of a company's own country. Selling in foreign markets involves dealing with different languages, cultures, laws, rules, regulations and requirements.