Clark Capital MANAGEMENT GROUP

Portfolio Commentary

Navigator® International Equity/ADR

Portfolio Manager

Tony Soslow, CFA®
Co-Head of Equity

Top Contributors as of June 30, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
nVent Electric plc	2.56	0.54
NXP Semiconductors NV	1.29	0.51
Mitsui & Co.,Ltd Sponsored ADR	2.26	0.45

Top Detractors as of June 30, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
Fabrinet	0.68	-0.44
Deutsche Telekom AG Sponsored ADR	1.69	-0.33
Baidu Inc Sponsored ADR Class A	1.85	-0.33

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.

Bull Market Defies Recession Absence

Market Review

Sometimes, we focus on the trees and forget about the forest. As we wait for reported GDP growth to turn negative after 14 consecutive months of declining Leading Economic Indicators, we blindly ignore that broad U.S. equity indices have climbed higher – forcing us to characterize the current 24+% advance in the Russell 3000 as a bull market, which began on October 12, 2022. This is a strange confluence of events as it's rare for a new bull market to begin PRIOR to the start of the recession that the prior bear market anticipated.

Bears cry "foul" as the current advance lacks market breadth and is concentrated in the big growth companies, which we believe have benefitted from both profit margin efficiency and renewed demand. While the Russell Large Cap Value and the Russell 2000 Small Cap indices have, in fact, failed to eclipse the defining 20% standard, their 6.6% and 8.1% gains in June tease that the large-cap led bull market is broadening out to a wider swath of companies.

Just as rising inflation pressured tighter Fed policy in 2022, declining inflation has provided opportunity for the Fed to pause and reflect on the impact on their 14-month/5% tightening regime. Milton Friedman's often repeated, "…monetary policy works with long and variable lags…" serves as a cautionary and opaque backdrop for monetary decision making. The big lift in rates should, theoretically, slow economic growth and suppress inflation; however, we just don't know when and by how much.

The post-pandemic recovery just rolls along as sector-specific recessions (Housing, big ticket Consumer, Semiconductors, Technology, etc.) never gain enough momentum to push overall GDP negative and ultimately, transitions to sector-specific recoveries that keep GDP healthy.

We believe tightening policy and supply chain normalization have pushed nearly all broad measures of inflation lower. Core Personal Consumption Expenditures (PCE) has declined down to 4.6% and softening goods and housing components of the Consumer Price Index (CPI) should push that metric below 4% for the foreseeable future. Sadly, it appears that the Fed's patience will be short-lived as 0.50% of additional hikes are expected before we can conclude if the accumulated 5% tightening in a 4% inflation environment is "sufficiently restrictive" to suppress wage strength and push Core PCE closer to the Fed's 2% objective.

Second Quarter Portfolio Highlights

- Navigator® International Equity/ADR is positioned with 13.6% in emerging markets with the balance in developed economies and cash.
- Britain, France, Japan, and Switzerland are the strategy's largest country weights, all ranging between 8% and 13%.
- During the quarter, the three most recent additions to the portfolio were Check Point Software Technologies Ltd., NetEase Inc., and Compagnie Financière Richemont SA. The three most recent exits were Deutsche Telekom AG, Gildan Activewear Inc., and ASE Technology Holding Co. Ltd.
- ADR's exposure to China is now ~7% slightly below the ~7.5% weighting in the All-Country World less US benchmark.

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

- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology are our largest sector weights.
- Our positioning in Industrials and Materials helped relative performance while our positioning in Financials and Communication Services acted as a drag.
- From a country perspective, the portfolio benefited from our relative positioning in the United Kingdom and Ireland while performance was hurt by our positioning in Thailand and China.
- The top three contributors to absolute portfolio return in the quarter were nVent Electric Plc, NXP Semiconductors NV, and Mitsui & Co. Ltd. The top three detractors to absolute portfolio return in the quarter were Fabrinet, Deutsche Telekom AG, and Baidu Inc.

Positioning and Outlook

Positioning in the second quarter focused primarily on removing underperforming companies across various sectors and replacing each with what we believe to be undervalued, high-quality companies with improving business momentum.

A sharply inverted yield curve continues to threaten bank business models and as intermediate-term U.S. Treasuries approach 4%, our concern shifts back to what we consider to be lesser quality companies that are dependent on financing. While many sub-sectors have experienced recessions and have adjusted their business models for their new realities, others like some Consumer Discretionary and Consumer Staples companies are beginning to experience less demand without a corresponding decline in expenses. Less demand is also appearing in some of the more cyclical sectors of the economy just as Technology is rebounding from and expected demand trough.

While forward large-cap growth earnings appeared to have bottomed and are gathering momentum, there are now signs that either renewed demand and/or corporate efficiency is starting to roll into mid and small-cap earnings as well. Starting from a more advantageous point, we expect second half performance to potentially shift to these companies as they have a chance to benefit from both earnings gains and multiple expansion.