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 September 30, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
EMCOR Group, Inc.	2.76	0.41
Halliburton Company	1.41	0.38
Alphabet Inc. Class A	4.58	0.32

Top Detractors as of September 30, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
Apple Inc.	4.99	-0.59
Microsoft Corporation	5.47	-0.39
NextEra Energy, Inc.	1.17	-0.28

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.

Fitch Downgrade Pushes Bonds and Stocks Lower, but Economy Remains Mostly Unfazed

Market Review

Fitch downgraded the U.S.'s Long-Term Foreign Currency Issuer Default rating from AAA to AA+ on August 1st, citing concerns about poor governance and a rising debt burden. This led to an abrupt rise in real interest rates and a decline in equity prices over the quarter.

Despite August's decline in Core PCE inflation to 3.9% year-over-year, real interest rates, as described by TIPs yields, increased about 1% to 2.40%. The Russell 2000 experienced a 12% correction during the quarter, while broad equity indices only fell between 3-5%. Low-coupon long-dated U.S. Treasuries fell about 14%.

In the previous bull market, equity earnings yields exceeded bond yields and inflation, which made stocks the only attractive asset class (TINA, or There Is No Alternative). However, Fitch's downgrade flipped the script on August 1st, as rising yields were accompanied by rising P/E ratios (lower earnings yields).

Thus far, the U.S. economy has remained largely unfazed by either the 525 basis point rise in the fed funds rate or the dramatic lift in real rates. Unemployment rests at 3.8%, which is just 0.4% above the full-employment low. Job openings remain robust and estimates for Q3 GDP exceed 4%. Calls for a 2023 recession may be wrong or premature.

With Fed policy is largely known for their dual mandate, we believe that fiscal policy remains the larger wildcard for rates, the economy, and stock prices moving forward. Additional inability to reach a responsible budget could lead to further credit downgrades and capital market disruption despite a backdrop of declining inflation and a strong labor market.

Third Quarter Portfolio Highlights

- Navigator® All Cap is fully invested with approximately 73.4% 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 that continue to see strong business momentum despite sticky services inflation.
- During the quarter, to benefit from improving business fundamentals, the three most recent additions to the portfolio were T-Mobile US Inc., Unum Group, and Fiserv Inc. The three most recent exits were Tractor Supply Co., Dick's Sporting Goods Inc., and Federated Hermes Inc.
- Albeit underweight to the benchmark, Information Technology remains the largest sector weight in the strategy at 23.3%.
- Our positioning in Industrials and Information Technology helped relative

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performance while our positioning in Healthcare and Materials acted as a drag.

- The top three contributors to absolute portfolio return in the month were EMCOR Group Inc., Halliburton Co., and Alphabet Inc. The top three detractors to absolute portfolio return in the month were Apple Inc., Microsoft Corp., and NextEra Energy Inc.

Positioning and Outlook

Changes in consumer preferences and the response of consumer companies to these preferences and inflation had a meaningful impact on our portfolio positioning in the third quarter. Declining business momentum inspired us to remove some Consumer Staples and Discretionary companies from our U.S.-focused portfolios, and luxury-focused international companies hurt performance in our ADR strategy.

We continue to find what we believe are undervalued, high-quality/antifragile companies with improving business momentum in the U.S. and internationally, across most sectors and all market capitalizations. While the yield curve becomes less inverted, causing less stress on the Financials sector, we remain underweight in this sector as deposit outflow risk and the realization of held-to-maturity losses persist. Financials and bond surrogates will have their day in the sun, but we have not shifted portfolios in their favor yet.

Our focus on those companies with antifragile business models helped performance during the quarter as high-quality companies outperformed. This bias tends to outperform when junk yields rise, as financing/re-financing opportunities for fragile companies become scarce.

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Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

The Russell 2000 index is a market index comprised of 2,000 small-cap companies.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The Core Personal Consumption Expenditure (PCE) Price Index measures the changes in the price of goods and services purchased by consumers for the purpose of consumption, excluding food and energy.

Price to earnings (P/E) ratio is a way to value a company by comparing the price of a stock to its earnings.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period by a country or countries.

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.

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