Portfolio Commentary

Navigator® MultiStrategy

Portfolio Manager

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Economic Cycles Versus Market Cycles

Market Review

The S&P 500 was able to deliver another quarterly gain above 10%, marking its best start since 2019 and the 14th best since 1926. While growth, Technology, and A.I. stocks produced the strongest gains, value and small-cap stocks rebounded late, with breadth improving as the quarter developed. The results were especially strong given rising interest rates, as the 10-year Treasury yield had risen over 40 basis points into early April, driving the Aggregate Bond Index to a 0.8% loss.

When stocks have outperformed bonds by over 10% during the first quarter, stocks have outperformed two out of three times for the remainder of the year – but only by 3.4%, which is positive, but below the long-term median of 4.4%. This statistic reinforces the fact that stocks are substantially overbought from a technical and investor sentiment perspective – and that is the worst thing that could be said about this market.

We should emphasize that this only argues that any intermediate-term correction should be viewed as buyable, as monetary, earnings, credit, and long-term technicals all signal a bullish background for risk assets. Volatility has been muted, and the S&P 500 has gone over a year since it produced an over 2% daily decline.

While stocks were strong during the quarter, commodities returned to prominence as well, as the broad GSCI Commodity Index gained 8.7% and gold was up 7.5%, ending the quarter at a record high. 10 of the 11 major sectors produced gains, with Technology, Communications Services, and Energy (after a strong March rally) leading the way, while Utilities and Real Estate were laggards.

First Quarter Portfolio Highlights

- Mid-cap growth was the strongest equity style for the quarter, gaining 15.5%. Large-cap growth also displayed strength, up 12.6%, while large-cap value gained 8.0%. In contrast, the S&P 500 was up 10.4%. Small-caps trailed, as the broad small-cap ETF gained only 2.4%. Momentum was the strongest factor, surging by 19.5% as its largest holding was Nvidia. Quality also outperformed, posting a 12.0% gain. Remarkably, despite a mega-cap Technology surge, the NASDAQ 100 underperformed with only an 8.6% gain.
- By the end of 2023, investors had jumped all in on the Fed delivering substantial cuts in 2024 – and they were proven to be offsides. Markets had priced in six rate cuts for 2024 at the end of the year, but strong earnings, corporate balance sheets, and very little job weakness drove interest rates to grind higher. As a result, market leadership changed with fourth quarter winners small-caps and value stalling while Technology and A.I.-driven large-cap growth were resurgent. By the end of March, only three Fed rates hikes were anticipated for 2024.
- We came into 2024 with substantial allocations to small-caps and value, and those large allocations caused the portfolio to lag, particularly through January. Our rankings and holdings shifted to favoring top 200 growth, momentum, and eventually mid-cap momentum and mid-cap quality. In March, the portfolio added six new ETFs to its equity ranking universe.

Positioning and Outlook

Navigator® MultiStrategy devotes two-thirds of its fixed income exposure to Tactical High Yield (NTBIX) and one-third towards Tactical Investment Grade (NTIIX). Within high yield credit, the portfolio moved to favoring high yield in early November 2023. Since then, high yield has outperformed Treasuries and cash, particularly during the 1st quarter, as the broad High Yield ETF gained 1.5% while the 7 to 10-year Treasury ETF declined by 1.3%.

Credit spreads narrowed steadily during the quarter and fell below 3% at the end of March, which puts spreads in the bottom 10% of their historical range. We know that it can remain at these low levels for some time before reversing in the long run. CCC-rated bonds were the strongest performers, indicating the underlying strength of the market.

Our model made many new highs during the quarter, and our position in high yield appears to be stable heading into the second quarter. Within NTIIX, we turned positive on investment grade on November 6th and while investment grade initially staged a large rally, higher interest rates began to negatively impact investment grade corporates, which are longer duration and more interest rate sensitive.

In mid-February, the portfolio sold out of investment grade and moved into defensive cash. While we are not anticipating a sustained spike of the 10-year Treasury yield above 4.5%, we are aware that the risk vs. reward equation in Treasuries and investment grade credit is dubious. Short-term investment grade corporate bonds yield 5.3%, which is approximately the same as T-Bills. Long-term corporate bonds yield 5.6%, which, in our opinion, is not very much compensation for taking on duration risk. Under these circumstances, when our models recommend cash, we are glad to at least have a tool that will enable us to preserve capital if interest rates and inflation surge beyond expectations.

Diversification has been the enemy of investors often since 2009, as U.S. stocks, and large-caps in particular, have outperformed the rest of the world and the rest of the U.S. market. That outperformance has one major driver: Technology/Telecommunication stocks. So, it should be worthwhile to undergo a deeper dive into Technology stocks and their future potential. The primary reason to be positive proves to be simple (but is too often ignored): in our opinion, Technology stocks are profitable. According to a report by JP Morgan, Technology and interactive media stocks have three times the free cash flow profit margins versus the rest of the market. As a result, Technology stocks are not only profitable, but they can generate real free cash flow for investors.

Technology stocks have capitalized on major societal trends including the rise of cell phones, the internet, and most recently, A.I. To bet against these trends has meant missing out on potential opportunities. Nevertheless, valuations have become quite stretched, and are near their 2021 highs even when using forward expected earnings.

The hurdle rate for future Technology investments has become quite high, and expected returns in the space could well be muted as they were when higher interest rates came in 2022. In the end, JP Morgan estimates that the likelihood that Technology stocks have entered a bubble is quite low, and they state that we have not had a spike in the market cap of unprofitable companies. This marks a major difference from the early 2000s when many internet companies soared dramatically higher without the sales or earnings to sustain their valuations. At this time, we believe Technology stocks remain profit and cash flow generating machines, and while they are quite richly valued, their fundamentals are strong. The MultiStrategy portfolio has made a considerable effort to be able to overweight Technology when it is surging, adding the NASDAQ 100 and Top 200 Growth ETFs into our mix. When Technology loses leadership in our quantitative rankings, we have a healthy variety of value and defensive ETF choices where we believe we can find opportunities.

MultiStrategy 25-75 Top Contributors as of March 31, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Fixed Income Fund Class I	48.08	1.05
iShares Core S&P 500 ETF	6.01	0.72
iShares Russell Top 200 Growth ETF	6.01	0.56

MultiStrategy 25-75 Top Detractors as of March 31, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
Navigator Tactical Investment Grade Bond Fund - Class I	24.10	-0.61
iShares S&P Small-Cap 600 Value ETF	1.07	-0.23
iShares Core S&P Small Cap ETF	1.76	-0.16

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.

MultiStrategy 50-50 Top Contributors as of March 31, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	13.62	1.60
iShares Russell Top 200 Growth ETF	12.28	1.17
Invesco NASDAQ 100 ETF	7.52	0.74

MultiStrategy 50-50 Top Detractors as of December 31, 2023

Company Name	Average Weight (%)	Contribution to Return (%)
iShares S&P Small-Cap 600 Value ETF	2.14	-0.46
Navigator Tactical Investment Grade Bond Fund - Class I	15.83	-0.41
iShares Core S&P Small Cap ETF	3.43	-0.29

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.

MultiStrategy 75-25 Top Contributors as of March 31, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
iShares Core S&P 500 ETF	18.92	2.26
iShares Russell Top 200 Growth ETF	18.24	1.77
Invesco NASDAQ 100 ETF	11.32	1.16

MultiStrategy 75-25 Top Detractors as of March 31, 2024

Company Name	Average Weight (%)	Contribution to Return (%)
iShares S&P Small-Cap 600 Value ETF	3.20	-0.71
iShares Core S&P Small Cap ETF	5.24	-0.50
SPDR S&P 400 Mid Cap Value ETF	3.72	-0.36

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.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

The manager utilizes a proprietary investment model to assist with the construction of the strategy and to assist the manager with making investment decisions. Investments selected using this process may perform differently than expected as a result of the factors used in the model, the weight placed on each factor, and changes from the factors' historical trends. There is no guarantee that Clark Capital's use of a model will result in effective investment decisions.

Nasdaq is a global electronic marketplace for buying and selling securities.

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

The S&P SmallCap 600 Index is a stock market index established by S&P Global Ratings. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index.

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The Nasdaq-100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange. It is a modified capitalization-weighted index.

The Russell Top 200 Growth Index offers measures the performance of the especially large cap segment of the US equity universe represented by stocks in the largest 200 by market cap.

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

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

The S&P GSCI is a composite index of commodities that measures the performance of the commodities market. The index often serves as a benchmark for commodities investments.

The Invesco BuyBack Achievers™ ETF (Fund) is based on the Nasdaq US BuyBack Achievers™ Index (Index). The Fund will normally invest at least 90% of its total assets in common stocks that comprise the Index.

The iShares Core S&P 500 ETF index measures the performance of the large-capitalization sector of the U.S. equity market, as determined by SPDJI.

A leading economic indicator (LEI) is economic data that may correspond with a future movement or change in the economy. Leading economic indicators can help to predict an occurrence or forecast the timing of events and trends in business, markets, and the economy.

Investing involves risk, including loss of principal.

The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

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