Navigator® Global Equity ETF Hedged

K. Sean Clark, CFA® — Chief Investment Officer

Fourth Quarter 2013 - Commentary & Perspective

Executive Summary

U.S. Equities: U.S. stocks enjoyed another quarter of stellar gains during the fourth quarter, with the S&P 500 and large cap stocks leading the way.

International Equities: International equity markets have displayed unusual concentration in their relative strength recently. The U.S. continues to lead global markets along with Europe, and only China can even try to come close to keeping pace with the two regions.

Commodities: Commodities performed poorly with the S&P GSCI Index down 2.21%. Gold declined 28.3%, its first losing year in 13 years and its worst percentage loss in more than 30 years.

Optimism Reigns

The global equity markets experienced a year to remember in 2013 with the major developed markets gaining more than 20 percent. The global equity markets were led higher by the U.S. and Japan. The S&P 500 gained 32.36% and the MSCI Japan Index in dollars gained 27.16%. Reflecting European markets, the MSCI Europe Index in dollars was up 25.23%. Among the laggards in 2013 were the emerging markets, whose performance in our opinion suffered greatly due to currency weakness and rising interest rates. The MSCI Emerging Markets Index in dollars was down 2.60%. Fixed income also suffered losses with the Barclays Aggregate Bond Index down 2.02%. It was the biggest yearly loss for the bond market since 1994! Treasuries yielded losses across the yield curve with the Barclays 7-10 Year Treasury Index down 6.04% and the Barclays 20+ Year Treasury Index down 13.88%. The bright spot among the fixed income asset class was below investment grade credit, with the Barclays High Yield Index posting a solid 7.44% gain. Commodities performed poorly with the S&P GSCI Index down 2.21%. Gold declined 28.3%, its first losing year in 13 years and its worst percentage loss in more than 30 years. Industrial metals also suffered losses with the S&P GSCI Industrial Metals Index down 9.3%. Oil was the only major commodity to post gains, up 7.5%. By this brief summary of performance, it is apparent that equities did best, and the usual asset classes used to build robust diversified portfolios detracted from performance.

We feel the major drivers of returns for the market in 2013 were an improving economy and continued stimulus from the Federal Reserve. The U.S. economy gained momentum throughout the year and allowed the market to rally in the face of taper concerns. In fact, the economy accelerated in each quarter from the fourth quarter of 2012 through the third quarter of 2013. In the fourth quarter of 2012 the economy stalled and grew at just 0.1% before accelerating to 1.1%, 2.5%, and 4.1% for the next three quarters. The 4.1% growth in the third quarter of 2013 was the second highest quarterly reading since the expansion began in 2009.

Q4 Portfolio Analysis & Performance

U.S. Style Opportunity

Top Contributors

- iShares S&P 500 Growth Index

Top Detractors

- iShares Russell Midcap Growth

Globally, U.S. equities have been the best spot to be for any equity investor. The S&P 500 enjoyed a banner year in 2013, and the strength was such that any corrections that occurred were both small and uniform. There has been very little difference between large, mid, and small cap stocks' performance during declines. One cannot help but look at this development as intermediate-term bullish, as normally small caps underperform before and during a market decline. We have seen very little evidence of small cap weakness so far, only a flattening of their relative strength. While any further weakness may produce some changes in our models, right now the strength of the trend favors small caps. The portfolio's latest trades changed the portfolio's emphasis entirely towards growth stocks, which are heavily weighted in Technology, Consumer Staples, and Health Care. The portfolio remains fully invested, as cash is down to only 3%.

U.S. Sector Opportunity

Top Contributors

- iShares Dow Jones U.S. Broker Dealers
- S&P Regional Banking SPDR

Top Detractors

- PowerShares Dynamic Entertainment & Leisure
- S&P Retail SPDR

The Sector Opportunity portfolio continues to be positioned heavily in economically sensitive sectors such as Financials, Consumer Discretionary, Industrials, and Technology. Recent additions to the portfolio include Industrials (XLI), Transportation (IYT), Pharmaceuticals (IHE), Insurance (KIE), and Medical Devices (IHI). We also added to our NASDAQ 100 (QQQ) and Broker Dealers (IAI) positions. Our relative strength rankings show persistent strength in the Consumer

Discretionary sector; the relative strength trend has been impressively smooth and consistent. With the onset of Fed tapering in December, we are watching the sector closely for a breakdown, but one has yet to even begin. Technology's relative strength is also recently on the rise, reaching its highest point since May. We continue to like the Internet and NASDAQ 100 ETFs within technology, and we are avoiding semiconductors. We continue to avoid defensive and interest rate sensitive sectors such as Utilities, Telecommunications, and Consumer Staples. Basic Materials appear to be making a relative strength base, so they could be an addition in the coming weeks. The portfolio's current sector weightings are as follows: Technology 24.0%, Financials 24.0%, Consumer Discretionary 20.0%, Health Care 15.0%, Industrials 14.0%, and Cash 3.0%.

International Opportunity (Developed, Emerging & Frontier)

Top Contributors

- iShares MSCI Spain
- iShares MSCI Germany

Top Detractors

- S&P China SPDR
- Guggenheim China Small Cap ETF

International equity markets have displayed unusual concentration in their relative strength recently. The U.S. continues to lead global markets along with Europe, and only China can even try to come close to keeping pace with the two regions. Changes to our portfolios reflect this. Our portfolio gives Europe an impressive 62.0% weight, and the U.S. garners another 20.0%. As the maximum weight that the U.S. can hold in our international portfolios is 25%, we are already near a maximum. A strong and resurgent dollar along with a remarkable weakness in emerging markets has made international investing treacherous in recent months, so our positioning is largely defensive in this area. At this time, we don't see any changes to these relative strength trends on the horizon. We look forward to a brighter day for international equities, but we see no light as of yet.

The portfolio's current regional weightings are as follows: Europe 62.0%, U.S. 20.0%, Asia Emerging Markets 13.0%, and Cash 5.0%.

Sentry Strategy (Hedge/Volatility)

Clark Capital's Investment Committee continues to maintain a modestly bullish stance on equity markets and, as a result, our equity hedge is as focused on containing costs as it is on protecting against the downside. With the S&P 500 gaining over 30% in 2013, hedging was a difficult and costly proposition. Hedging produced sizeable losses on the year and, as a result, in December 2013 we engaged in tax-loss selling within the hedged portion of our portfolios. We sold the S&P 500 Dynamic VIX ETN (XVZ) and also the 2x inverse UltraShort S&P 500 ETF (SDS). The losses from these positions should help offset some of 2013's sizeable taxable gains. Looking into 2014, we may to increase our equity hedge sometime in the first or second quarter, and for much of the middle of the year to be fully hedged, as we expect market turbulence during the second and third quarters. We do believe a year-end rally during 2014 is possible, so we would expect to reduce our hedges at that time. As always, our real-time indicators and market analysis will determine our investment decisions throughout the year.

Outlook

We believe we are in the early stages of a new secular bull market in stocks. Relative valuations and comparisons to other secular advances support the case for higher stock performance over the long-term. From a fundamental viewpoint, we see a strengthening economy providing a solid measure of support for stocks and, consequently, this bull market deserves the benefit of doubt even as concerns grow about its technical strength. Trends throughout developed equity markets remain strong, cyclical stocks are outpacing defensive stocks, credit spreads remain tight, with yields and the curve discounting improving economic prospects. Our baseline expectation for 2014 is for the market to post additional gains but not without a long overdue correction, which we think has the potential to be quite sharp.

History suggests that good years tend to follow great years. On average the S&P 500 rose 10.0% in the year following a 20% or greater advance (versus an average gain of 8.7% for all years since 1945) and increased in price nearly 80% of the time versus the more normal 70%. So, this suggests that the strong momentum experienced in 2013 may carry over to 2014. In addition, the S&P 500 posted a 10.50% gain in the fourth quarter, one of its best fourth quarter performances of the past 85 years. A big question many are asking as we enter 2014 is if the strong momentum will carry through to the new year or if a first quarter pullback is in order. History suggests that momentum should be respected. Following the top twenty fourth quarters since 1928 (return of 8% or greater), markets have rallied well in excess of the longer-term averages to start the new year, with median returns of 3.6% and 5.9% in January and the first quarter respectively. Simply using history and momentum as a guide suggests the markets will likely have additional upside early in 2014.

Even though the economy is accelerating as we turn the calendar to the new year and the market has a tremendous amount of momentum behind it, there is no shortage of concerns that cause us to expect a sizeable correction in 2014. 2014 is a mid-term election year and they tend to follow a very reliable pattern of returns. Some of the concerns we have are raised by the Ned Davis Research (NDR) Cycle Composite, that warns of some weakness in the second and third quarters, the longevity of the current bull run, a new Fed chairman, overly optimistic investor sentiment, stretched valuations, cash in money market funds that has slipped to levels that may suggest a lot of bull market fuel has been expended, record earnings and expectations that we believe are a little too robust, and record high profit margins. It is our view that none of these concerns by themselves are enough to stall the market, but taken together they suggest the market may be vulnerable to a valuation and sentiment driven correction to relieve the excesses.

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The Dow Jones Industrial Average is a stock market index that shows how 30 large publicly owned companies based in the U.S. have traded during a standard trading session in the stock market.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI Emerging Markets Index is a freefloat-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The Barclays U.S. Government and Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related, and investment grade U.S. corporate securities that have a remaining maturity of greater than 1 year. In addition, the securities have $250 million or more of outstanding face value, and must be fixed rate and non-convertible.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Barclays 30-Year U.S. Treasury Bellwethers Index is a universe of Treasury bonds, and used as a benchmark against the market for long-term maturity fixed-income securities. The index assumes reinvestment of all distributions and interest payments.

The Barclays 10-Year U.S. Treasury Bellwethers Index is a universe of Treasury bonds, and used as a benchmark against the market for long-term maturity fixed-income securities. The index assumes reinvestment of all distributions and interest payments.

The Barclays 5-Year Municipal Bond Index is the 5 Year (4-6) component of the Municipal Bond index. It is a rules-based, market-value-weighted index engineered for the tax-exempt bond market. The index tracks general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds rated Baa3/BBB- or higher by at least two of the ratings agencies.

The Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The B of A Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Barclays 7-10 Year Treasury Index tracks the investment results of an index comp
rised of the U.S. Treasury bonds with remaining maturities between seven and ten years.

The Barclays 20+ Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities greater than twenty years.
The Barclays Long-Term Year Treasury Index tracks the performance of the long-term U.S. government bond market.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices and which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk. 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.

Past performance is not indicative of future results.

*Allocations will vary according to client account guidelines and restrictions.

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

The Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S. The Barclays Capital Aggregate Bond Index is an intermediate term index.

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.

Returns are presented gross of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. For example, a 0.50% annual fee deducted quarterly (.125%) from an account with a ten year annualized growth rate of 5% will produce a net result of 4.4%. Actual performance results will vary from this example. The Firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

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