ClarkCapital MANAGEMENT GROUP

Navigator® Fixed Income

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Fourth Quarter 2013 - Commentary & Perspective

Executive Summary

2014 Interest Rate Indicators: The appointment of Janet Yellen as Fed Chairman and the Fed's December decision to begin tapering its bond buying could shape the future for the interest rate environment in 2014.

Leaders and Laggards: In the tax free space, Puerto Rico's credit problems weighed the muni market down in December. In the taxable space, high yield bonds continued to dominate.

A New Fed Chairman Is Announced

There were two key events in the fourth quarter of 2013 that we believe could shape the future of the interest rate environment in 2014. On October 8th President Obama made his decision to replace outgoing Fed Chairman Ben Bernacke with Janet Yellen. The new Chairman is viewed as "dovish" and will continue to be viewed as bond and equity market friendly.

The second event was the last Fed meeting of 2013 in December. With the economy improving and the unemployment rate dropping, the Fed decided to taper its bond purchases by $10 billion a month to $75 billion. The outgoing Fed chairman has given the 2014 Fed a strategy for exiting QE. The stock market responded with a move higher into year-end. The bond market made a fourth quarter low at 2.5% on October 23rd. Perhaps sensing a taper announcement was near, yields rose steadily from October 30th through the Fed announcement and closed the year at 3.03%.

Past performance is not indicative of future results.

Q4 Portfolio Analysis & Performance

Taxable Fixed Income

High yield bonds continue to dominate the investment theme for the taxable portfolios. The market continues to feel comfortable with Fed Policy so we are seeking opportunity to add companies that would benefit from an improving economy.

The Fed has also signaled their intention to keep the short term rates low for an extended period. A steeper yield curve helps the banks. Our strategy of constructing the portfolio remains the same: find bonds 6 -10 years to maturity that we can roll down the yield curve towards maturity. We welcome the possibility of higher interest rates and the prospects of increasing yield and cash flow in the individual bond portfolios.

Tax Free Fixed Income

Municipal Bonds were steady throughout the fourth quarter of 2013. We believe that as a source of tax free cash flow municipals still have a place in individual portfolios. However, with interest rates creeping higher there is still a constant outflow of money into the equity markets. With the 10-year treasury hovering in the 3% range, price appreciation is limited in munis, and clipping coupons the norm.

The credit problems of Puerto Rico seem to have weighed a bit on the market in the last couple weeks of December. Traditionally these weeks are characterized by low volume and low liquidity. Equity investors with capital gains sought to reduce their taxes by taking bond losses. The largest losses generally were in Puerto Rico credits and as traders tried to hit bids the market sank further on no particular news events. Prices are at a point which may attract buyers as the calendar turns to 2014. We shall see.

Portfolio construction remains the same: we continue to look for 4% plus coupons with shorter calls in the 5 to 10 year range and 5% coupons with 5 to 7 year calls in the 15 year range. Lastly, in the long end of the market we are looking to increase coupons to 5 ¼ or higher with 10-year calls.

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

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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.

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. 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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