ClarkCapital
MANAGEMENT GROUP

Navigator® U.S. SMID Cap

Tony Soslow, CFA® — Senior Portfolio Manager

March 31, 2014 - Commentary & Perspective

Executive Summary

Opportunity in Quality: As of March 31, 2014, the highest quality companies are now trading two standard deviations below their historic range relative to all companies.

Risk and Return Balance: The length of the bull market, the size of the advance and the price of stocks relative to their likely earnings and interest rates imply that expected returns and risks of most equity strategies are currently balanced.

Our focus remains on finding companies with a sustainable competitive advantage that are trading at reasonable prices.

It's Value Not Quality

U.S. large company and value stocks continued their advance in 2014's first quarter as moderate economic growth and a continuation of the Fed's responsible tapering policy provided a solid foundation for investor confidence. Companies with strong profit margins, high earnings yields and high dividend yields rotated to the top of the performance charts as high flying growth sectors and strong fourth quarter performers like biotech and internet stocks took a back seat. Quality companies – those with solid balance sheets and high returns on equity – continued to underperform. As of March 31, 2014, the highest quality companies are now trading two standard deviations below their historic range relative to all companies based on our price-to-value metric. Despite solid performance by many of our strategies, I believe our value proposition, which focuses on high quality companies, remains intact.

The Monetarists Claim Victory

With the passing of the Fed Chair baton from Ben Bernanke to Janet Yellen, the monetarists, that group of economists who believe controlling liquidity can impact economic outcomes, can claim victory. TARP and QE calmed the markets during the 2008-2009 crisis and the tapering of QE; or measured, deliberate and articulated reduction of monetary stimulus; is having no noticeable adverse impact on equity markets, interest rates or economic growth. Additionally, consumer confidence and the leading economic indicators (LEI) have reached new recovery highs. Since 1969, the lead time from a peak in the LEI to the start of a recession has been eight months or longer, which we believe virtually rules out the probability of a recession in 2014. To the extent critics of QE alarmed market participants about the "unintended consequences" of extraordinary monetary easing measures, none have yet surfaced. While we can't conclude that all monetary policy going forward will achieve its stated objective of full employment and low inflation, current success reinforces market participants' faith and confidence in our monetary authorities' ability to navigate stress in the system.

Optimistic by Nature, Cautious by Occupation

As an equity manager, my DNA is such that I almost always think that the value of each portfolio will rise over time (if not by the close!). While it's no different now, I recognize that the length of the bull market, the size of the advance and the price of stocks relative to their likely earnings and interest rates imply that expected returns and risks of most equity strategies are currently balanced. To say it another way, I see no reason to deviate from our fundamental risk management strategy to diversify across Russell sectors and balance the weighting of cyclicals versus non-cyclicals in the portfolio. At this late point in the economic cycle, our investment process would naturally push us away from staples and utilities as their respective business momentum weakens compared to late cycle industries. Fortunately, credit markets continue to provide little competition for reasonably priced, high quality stocks. Year to date, long term treasury yields have declined 0.4% to 3.56%, and credit spreads have remained extraordinarily tight indicating there is little likelihood of either credit stress or a coming recession. Investor sentiment remains a concern, however, as signs of excess bullishness emerge. So far this year, the median price-to-sales ratio of 2014 IPOs was 14.5, and margin debt at 2.5% of GDP exceeds market peaks of 2000 and 2006. In view of this and considering that European stocks are strong but emerging markets weak, I can't forecast a dramatic move. Our focus remains on finding those companies with a sustainable competitive advantage trading at reasonable prices.

SMID's Long-term Overnight Success!

The Navigator SMID Cap strategy gained approximately 2.72% (gross)/1.95% (net) for the first quarter and 29.56% (gross)/25.80% (net) for the 12 months ending March 31, 2014. As we have managed this strategy since 1998, we believe we have the necessary experience to find traditionally high quality companies when they are cheap and to avoid companies with high and unique risk. Over the last 12 months, Navigator SMID beat both the Russell 2000 (+24.90%) and Russell 2500 (+24.01%) by more than 4% on a gross basis over the last 12 months and on a net basis is a little better than even. Gross first

Past performance is not indicative of future results.

quarter performance of 2.72% follows suit compared to 1.12% for the Russell 2000 and 2.30% for the Russell 2500. Our focus on high quality, undervalued companies with improving business prospects continues to yield strong performance in our view. Holdings Brocade, Skyworks Solutions and Bank of the Ozarks each gained more than 15% for the quarter. Phone number portability company, Neustar lost about a third of its value as rumors that it may lose its monopoly gathered strength. Additionally CoreLogic, Hanger and Tidewater each lost over 14%. Navigator SMID Cap's high quality portfolio continues to have value metrics far below that of the S&P Small Cap Index with a current P/E of just 18.0 vs 25.0 for the index. I anticipate that the long term earnings growth rate of its portfolio holdings should exceed that of the S&P Small Cap Index.

The opinions expressed are those of Clark Capital Management Group Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

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.

Net returns are shown net of 3%, the highest fee that could potentially be charged including investment advisory fees, trading, custody, investment advisory fees and any other expenses that may be incurred in the management of the account. 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.

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 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 free float 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 CBOE Volatility Index (VIX) is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

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.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related & investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

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 comprised 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.

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 U.S. Treasury Bond Index is an issuances-weighted index measuring the performance of the U.S. Treasury bond market, one of the largest and most liquid government bond markets in the world.

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.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request.

CCM-14-03-672