ClarkCapital MANAGEMENT GROUP

NavigatorInsights

K. Sean Clark, CFA
Chief Investment Officer

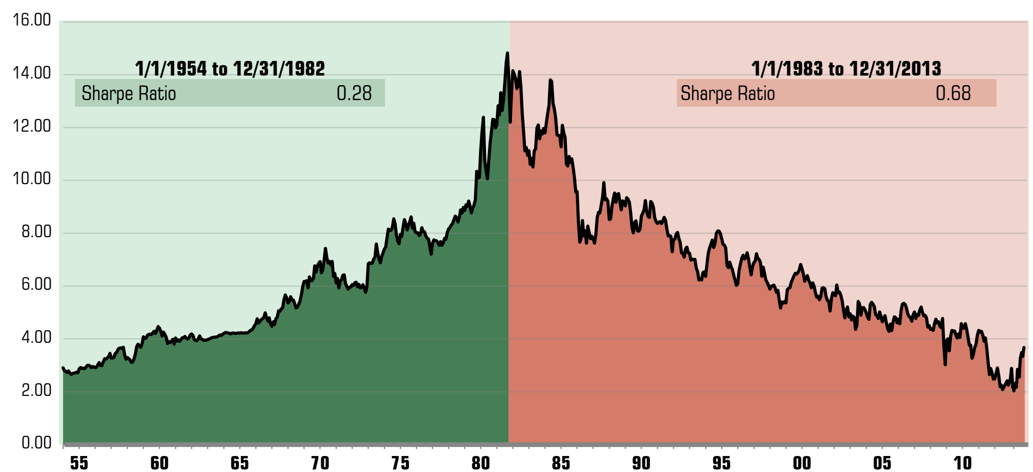
As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Management Committee and the Board of Directors. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean has been quoted in a number of articles in nationally distributed business journals and newspapers.

Spotlight on Sharpe Ratio:
Risk/Return Profiles in Declining and Rising Rate Environments

Fixed income has traditionally had two primary roles in portfolio construction: income generation and volatility management. With yields hovering at historic lows, bond portfolios could decline if interest rates rise. Income is often a critical component of investors' financial needs and a rise in rates could dramatically affect the fixed income allocation in a portfolio. On a risk-adjusted basis, traditional fixed income may have dramatically different return characteristics over the next market cycle mitigating its use as a volatility management tool.

Take for instance, the Sharpe ratio of a 60/40 portfolio during a rising interest rate environment and during a declining interest rate environment:

- A 60/40 portfolio from 1954-1982 (rising interest rate) – Sharpe ratio of .28
- A 60/40 portfolio from 1983-2013 (declining interest rate) – Sharpe ratio of .68



Source: St. Louis Federal Reserve Bank, Morningstar

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The Sharpe ratio measures risk-adjusted performance. It is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. Standard deviation is a measure of a portfolio's volatility.

In short, the higher the Sharpe ratio, the better the returns on a risk-adjusted basis. A portfolio may have high returns, but if it takes on a lot of risk, it may have a similar Sharpe ratio to a portfolio with lower returns and less volatility or inherent risk. In addition, a portfolio that takes a lot of risk to gain incremental returns is likely to have the additional risk negatively affect its return.

Historically, in a declining interest rate environment, there is a more favorable risk/return profile (higher Sharpe ratio) than in a rising rate environment.

If and when we move into a period of rising interest rates, traditional fixed income may not offer both risk management and capital appreciation. At certain periods, it might offer neither. By incorporating nontraditional fixed income strategies into a portfolio, clients can build a portfolio with appropriate risk characteristics.

Clark Capital believes investors will benefit from a nontraditional, flexible approach that targets opportunities and manages risk in fixed income. Historically, in a rising rate environment, high yield/lower quality debt outperforms high quality debt. Clark Capital emphasizes a tactical approach to managing credit exposure, and believes that investors are rewarded for moving into lower credit fixed income sectors during a rising interest rate environment as long as risk is being managed.

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CCM-757