Navigator®
Opportunity Update
Mason Wev, CFA®, CMT®, Portfolio Manager

Second Quarter — Portfolio Commentary

Mason Wev, CFA®, CMT®
Portfolio Manager

Mason joined Clark Capital Management Group, Inc. in 2005 as a Portfolio Manager He is a member of the Clark Capital Investment Committee, contributing to asset allocation policy and security selection. Mr. Wev has more than a decade of experience in the investment industry. He is responsible for quantitative investment analysis, security selection, and communicating the firm's investment policy to wealth advisors and consultants. He participates in the research and product development efforts of the Portfolio Team. A graduate of Dickinson College, Mason earned an M.B.A. in International Management from the Garvin School of Management at Thunderbird (the American Graduate School of International Management) and holds the CMT and CFA designations.

ADVANCES ACROSS THE MARKETS

Executive Summary

The Bull Marches On: Although small caps and growth stocks have underperformed since their relative strength peaked in March, the overall bullish trend in the market continues.

Don't Put the Brakes on Too Early: We expect markets to enjoy an up year but with more volatility than in 2013. Once the Fed ends its bond purchases in October, we will be ready to take protective measures if needed.

Equity markets began the second quarter of 2014 in a flattening pattern that turned out to be only a consolidation as markets began to break higher in late May and throughout June. Within equity styles there was more going on below the surface. Small caps and growth stocks have underperformed since their relative strength peaked in March. Nevertheless, the overall bullish trend in the market cannot be said to be broken.

Looking forward to the remainder of 2014, we expect markets to enjoy an up year but with much more volatility than in 2013. We have noted with interest that the traditional seasonal patterns usually seen during the year are so far this year not reliable, presumably due to the Fed's extreme intervention in the markets. With that in mind, while we have been expecting volatile markets, that volatility has just not appeared. We have (admittedly reluctantly) maintained an overall bullish and aggressive stance towards the markets, and thus we have not put the brakes on too early. We do expect volatility to pick up after the Fed ends its bond purchases in October and will be ready to take protective measures if our indicators flash warning signs.

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Sector Opportunity Portfolio

SECURITY	TICKER	WEIGHT
PowerShares QQQ	QQQ	16.50%
Energy Select Sector SPDR	XLE	12.00%
iShares Transportation Average	IYT	11.00%
iShares PHLX Semiconductor ETF	SOXX	10.00%
iShares U.S. Technology ETF	IYW	10.00%
First Trust ISE-Revere Natural Gas ETF	FCG	8.00%
iShares NASDAQ Biotechnology ETF	IBB	6.00%
iShares U.S. Basic Materials ETF	IYM	5.00%
iShares U.S. Pharmaceuticals ETF	IHE	5.00%
S&P Oil & Gas Exploration & Production SPDR	XOP	5.00%
Guggenheim Solar ETF	TAN	5.00%
iShares U.S. Health Care Providers ETF	IHF	3.50%
Cash		3.00%

During the second quarter, many of the biggest headlines came from the Middle East. What had been a relatively peaceful region spiked in violence as events in Iraq and Syria were likely contributors to additional volatility surrounding energy prices. While these events dominated the headlines and probably influenced some portfolio allocations, in our opinion the bigger picture of a slow and steady global economic recovery was more important. Our relative strength driven methodology continues to lead the Sector Opportunity portfolio towards cyclical sectors that would be likely to benefit from global growth returning. The portfolio has maintained a fairly longstanding overweight in the Technology sector, which continues to show relative strength in our rankings. Technology ETF holdings include the NASDAQ 100 (QQQ), broad technology (IYW), and Semiconductors (SOXX). The biggest new addition to the portfolio has been a large weighting to the Energy sector, which appears to have made a major base in relative strength early in 2014. Current Energy ETF holdings include broad Energy (XLE), Oil & Gas Exploration and Production (XOP), Natural Gas (FCG), and Solar Energy (TAN). Solar Energy in particular i the industry struggled with debt and profitability. Semiconductors and Biotechnology (IBB) were the portfolio's biggest contributors while Health Care (XLV) and Financials (IAI) were the biggest detractors. The portfolio's current sector weightings are as follows: Technology 36.5%, Energy 30.0%, Health Care 14.5%, Industrials 11.0%, Basic Materials 5.0%, and Cash 3.0%.

International Opportunity Portfolio

SECURITY	TICKER	WEIGHT
SPDR S&P 500 ETF	SPY	20.00%
iShares Italy	EWI	10.00%
iShares Spain	EWP	10.00%
iShares Brazil	EWZ	10.00%
iShares Taiwan	EWT	9.00%
iShares Turkey	TUR	8.00%
iShares Frontier 100	FM	8.00%
WisdomTree India Earnings ETF	EPI	7.00%
iShares Canada	EWC	5.00%
iShares South Africa	EZA	5.00%
Market Vectors India Small Cap ETF	SCIF	3.00%
Cash		5.00%

The International Opportunity portfolio shifted away from a multi-quarter emphasis on Europe during the second quarter. While Europe's relative strength has not particularly fallen, the momentum of that relative strength has faded. Thus the portfolio's position in Europe has been reduced to 20%, leaving only previously distressed Italy (EWI) and Spain (EWP) as holdings. In an odd dichotomy, both aggressive and volatile emerging markets and the defensive-oriented U.S. and Canada are now the majority of the portfolio's weight. Emerging markets appear to have made a major relative strength bottom in early March as current account financing concerns and the Ukraine crisis both eased at the same time. A resulting return in confidence in Emerging Markets appears to have caused the sector to quickly rise in our relative strength rankings. Brazil (EWZ), Turkey (TUR), Taiwan (EWT), and South Africa (EZA) have been added to the portfolio alongside the U.S. (SPY) a nd Canada (EWC). Anticipation of the election of a pro-business regime in India — followed by that regime's big electoral victory — helped make India (EPI) and India Small Cap (SCIF) top contributors. Italy (EWI) and Frontier Markets (FM) were the portfolio's largest detractors. The portfolio's current regional weightings are as follows: Emerging Markets 42.0%, United States and Canada 25.0%, Europe 20.0%, Frontier Markets 8.0%, and Cash 5.0%.

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Style Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares Russell Midcap Value	IWS	42.00%
PowerShares S&P 500 High Beta	SPHB	35.00%
Guggenheim S&P 500 Equal Weight	RSP	20.00%
Cash		3.00%

The Style Opportunity portfolio has undergone a shift in emphasis from mid and smaller capitalization growth companies towards stable, larger capitalization and value companies. After peaking in price and relative strength in early March, small cap stocks have fallen to the bottom of our relative strength rankings and hence out of the portfolio. Since then, our matrix that ranks the relative strength of style-box oriented U.S. equity ETFs has not changed much. The portfolio now particularly emphasizes mid and large cap value stocks in its top two holdings, the iShares Russell Mid Cap Value (IWS) and PowerShares S&P 500 High Beta (SPHB). The PowerShares S&P 500 High Beta ETF (SPHB) was the top contributor for the quarter, while the small cap iShares Russell 2000 Growth (IWO) was the biggest detractor. The portfolio remains fully invested, as cash is down to a minimal 3%.

Global Tactical Portfolio

SECURITY	TICKER	WEIGHT
SPDR S&P 500 ETF	SPY	40.00%
iShares Russell Midcap	IWR	32.00%
Vanguard Emerging Markets ETF	VWO	20.00%
iShares All Country Asia ex Japan	AAXJ	5.00%
Cash		3.00%

The philosophy of the Global Tactical portfolio is to use our proprietary matrix ranking the relative strength of various asset classes, and then allocate to those asset classes with the highest rankings. Stocks have occupied the top of our Global Tactical portfolio for well over a year now, and they can and have been 100% of the portfolio. Over the past year, U.S. equity has remained at the core of the portfolio with international equity the only other area of focus. Despite strong performance by fixed income so far in 2014, bonds have not been able to earn a place in the Global Tactical portfolio. Risk-on remains the market's mentality, and only a minor correction in the markets back in January provided any real concerns. Recently Emerging Markets replaced European equities as our international equity allocation because European relative strength has stalled. The U.S. still dominates the portfolio with a 72% weight.

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Alternative Opportunity

SECURITY	TICKER	WEIGHT
Neuberger Berman Absolute Return Multi-Manager	NABIX	10.00%
Neuberger Berman Long Short Inst'l	NLSIX	10.00%
BlackRock Global Credit Long / Short Credit Instl	BGCIX	10.00%
iShares S&P 100 Index ETF	OEF	7.00%
361 Managed Futures Fund I	AMFZX	6.00%
Energy Select Sector SPDR	XLE	5.00%
Vanguard Emerging Markets ETF	VWO	5.00%
Barclays Convertible Securities SPDR	CWB	4.00%
Barclays High Yield Bond SPDR	JNK	4.00%
iShares iBoxx $ High Yield Corporate Bond	HYG	4.00%
VelocityShares Inverse VIX Short-Term	XIV	4.00%
JPMorgan Alerian MLP ETN	AMJ	4.00%
iShares DJ U.S. Basic Materials	IYM	3.00%
Global X Copper Miners ETF	COPX	3.00%
iPath DJ-UBS Livestock ETN	COW	2.00%
iPath DJ-UBS Cocoa ETN	NIB	2.00%
iPath S&P GSCI Crude Oil ETN	OIL	2.00%
ETFS Physical Palladium Shares	PALL	2.00%
iPath DJ-UBS Copper ETN	JJC	2.00%
Cash		11.00%

The Alternative Opportunity portfolio contains a well-diversified mix of themes which breaks down as follows: Alternative-oriented Mutual Funds 36.0%, Tactical Global Equity 31.0%, Fixed Income 12.0%, Commodities 10.0%, and Cash 11.0%. The portfolio's mutual fund holdings are longer-term allocations that target experienced and respected managers who have disciplined approaches toward a number of areas: long/short U.S. equities, long/short global fixed income, alternative asset manager selection, and managed futures. Each of these managers are conscious of managing volatility and potential downside in their methodologies. Within the rest of the portfolio, we take a targeted and tactical approach to managing equity, fixed income, and commodity exposure. The portfolio continues to allocate towards equity and fixed income assets that are likely to benefit disproportionally from an economic recovery. Recently that has led us towards U.S. equity, particularly commodity-oriented equity, along with high yield and convertible bonds. Within commodities, we rely on our proprietary relative strength rankings along with others' technical trading models. Palladium (PALL), Livestock (COW), Cocoa (NIB), and Oil (OIL) highlight current commodity holdings. VelocityShares Inverse VIX Short-Term (XIV) and JPMorgan Alerian MLP ETN (AMJ) were top contributors during the quarter while Market Vectors Agribusiness (MOO) and 361 Capital Managed Futures (AMFZX) were the top detractors.

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Fixed Income Total Return

SECURITY	TICKER	WEIGHT
Barclays High Yield Bond SPDR	JNK	23.50%
iShares iBoxx $ High Yield Corporate Bond	HYG	23.50%
BlackRock High Yield Bond	BRHYX	10.00%
Pioneer High Yield Bond Y	TYHYX	10.00%
JPMorgan High Yield Fund Select	OHYFX	10.00%
Eaton Vance Income Fund of Boston	EIBIX	10.00%
Neuberger Berman High Income Inst'l	NHILX	10.00%
Cash		3.00%

The credit markets appear to have given investors a clear signal as to what to think about the report of first quarter GDP falling 2.9%: don't worry about it! One would think that such a negative report would perhaps foreshadow recession and cause investors to flee risky assets, but that has not been the case in stocks or in fixed income. High yield bonds continue to perform well, and in our view their positive price action may indicate that investors as a group are simply not very concerned about the global economy for the near term. Spikes of violence in Iraq and Syria and higher oil prices do not seem to have been a deterrent so far, either. It is amazing what can happen when central banks around the globe coordinate to keep interest rates and volatility low. The Fixed Income Total Return (FITR) portfolio moved to a 100% fully invested position in High Yield Bonds nearly a year ago on July 18, 2013. The portfolio's primary evaluation regarding which asset class to own involves comparing the relative strength of High Yield Bonds versus Treasuries. By that measure, High Yield Bonds remain very strong. From July 18, 2013 until June 30th of this year, High Yield Bonds as measured by the Barclays High Yield Bond SPDR (JNK) gained 8.13% while the iShares 7-10 Year U.S. Treasury ETF (IEF) gained 3.20%. The FITR model remains very close to new all-time highs. Our best forecast for the markets' path this year predicts a more volatile and turbulent third and early fourth quarter — but nothing close to a full blown bear market. As much as we believe in that forecast, the Fixed Income Total Return portfolio is not influenced by any forecast. It is only influenced by its model, which has been undeterred and very bullish. While we are always watchful for deterioration in credit conditions that might force us to become defensive, we see no evidence of any need to become cautious at this time.

Sentry Managed Volatility Portfolio

SECURITY	TICKER	WEIGHT
Navigator Sentry Managed Volatility Fund	NVXIX	95.00%
Cash		5.00%

To pay an "insurance" premium for the comfort of knowing that you have at least some protection from the worst happening in the markets can have a brutal effect on one's finances– particularly when the much feared "worst event" simply doesn't develop. The S&P 500 has not seen a 10% correction since 2011 – nearly a three year period now. Hedging one's equity exposure during such a bull market is difficult and ultimately a losing endeavor – all one can do is responsibly manage the cost of hedging while maintaining a minimal hedge required to safeguard client assets. Under these circumstances, the Sentry fund is a net loser in client portfolios, waiting for its day when protection will shine. Despite our forecast that the market might undergo weakness in the second quarter, when the seasonally rough period of May came our broad market indicators did not point towards any real weakness. As a result, we have not increased the size and scope of our hedge and we have kept the hedge losses as low as possible – which is not to say that they still were not there.

Within the Sentry Managed Volatility Fund, 15% of the portfolio remains invested in S&P 500 December 2014 puts with a strike of 1750. These puts have absorbed substantial losses and were the portfolio's biggest detractor by far. 10% of the portfolio owns the iPath S&P 500 Dynamic VIX ETN (XVZ), which is a cost effective way to hedge the S&P 500 that can go up to 30% short the VIX. Another 15% of the portfolio owns a combination of the VelocityShares Inverse VIX Short-Term (XIV) and the VelocityShares 2x VIX Short-Term (TVIX). For these two holdings we apply a strategy that gradually shifts the weights between the two positions according to the short-term trend of the VIX. This strategy has been net short volatility during the second quarter and has been a net contributor. The remaining roughly 60% of the portfolio is in cash. As the third quarter begins, the S&P 500 is surging towards 2000 — the top end of our target range for 2014. As we approach those price levels, we very much expect to increase our hedge position because in our view downside risk is becoming greater than upside potential.

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