DOLLAR STRENGTH DERAILS GLOBAL ADVANCE

The global markets put in a sloppy performance during the third quarter as economic growth concerns and geopolitical events weighed on stocks and buoyed government bonds. The bright spot in the global economy is the U.S. as Europe flirts with outright recession and the Japanese economy has contracted in two out of the past three quarters. U.S. growth appears to be accelerating as the year progresses. First quarter growth contracted 2.1%, much of it explained away as weather related, while second quarter economic activity surged 4.6%. Labor market conditions remain solid as the economy has averaged 220,000 new jobs per month so far in 2014 and the unemployment rate dropped to 5.9% in September, a six-year low. All told, third quarter GDP is tracking near 3.5%, a respectable pace after 4.6% growth in the second quarter.*

Executive Summary

The U.S. Continues to Be a Bright Spot: Over the last three and five year periods, international stocks have been disappointing laggards compared to their U.S. equity counterparts. The third quarter was no exception.

Risk-off in High Yields: Volatility in the credit markets during the third quarter resulted in quality outperforming and credit suffering losses. High yields declined for the first time in five quarters.

Interest Rates Remain Low: Global rates remain very low, even negative across many European markets' short term bonds markets. This has helped buoy U.S. treasuries and strengthen the dollar.

The widening growth disparity between the U.S. and the rest of the developed world resulted in quite a bit of dispersion in global market performance during the third quarter as assets flowed into the U.S. For example, for the quarter the S&P 500 gained 1.13%. The MSCI All Country World Index lost 2.16%, the MSCI All Country World ex-U.S. declined 5.27%, MSCI EAFE lost 5.88%, and the MSCI Emerging Markets index lost 3.49%. Even in the U.S. there was a large performance gap with a quality bias as leadership narrowed. Small cap stocks were particularly hard hit with the Russell 2000 Index down 7.36% for the quarter.

The U.S. and Europe are now following different road maps with the U.S. Federal Reserve scheduled to cease their bond buying program in October while the European ECB is trying to stimulate a stagnating economy. In the U.S., the debate has turned to when the Federal Reserve will hike overnight interest rates. A growing consensus among economists is that the FOMC will begin to raise the fed funds rate sometime in the latter half of 2015. Historically, the Federal Reserve has begun hiking rates about twelve months following the end of an easing campaign. However, given the current growth trajectory of the U.S. economy, the rate hike could come sooner and we expect it to happen possibly as early as March 2015, and probably June 2015 at the latest. Even if the FOMC has the urgency to pull the trigger before mid-2015, we believe the earlier schedule would be largely immaterial to the economic environment.

Interest rates have remained very low globally. Short-term rates across many European markets did the unthinkable, with two year rates going negative during the quarter in many countries.

**Source: Bloomberg; Renaissance Macro Research.*

Past performance is not indicative of future results.

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

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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 Board of Directors, the Investment Committee and the Management Committee. 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 featured in a number of articles in nationally distributed business journals and newspapers.

Even European 10-year rates have plunged as Europe's economy falters. German and French 10-year rates hit record lows and all of major Europe, and even the peripheral European counties of Spain and Italy, have lower 10-year rates than U.S. Treasuries. Treasury bonds remain buoyed by growth concerns in Europe and demand for U.S. bonds abroad, resulting in U.S. dollar strength. The trade weighted U.S. dollar has risen for 12 straight weeks and was up 7.72% for the quarter. The rising dollar makes U.S. based investments more attractive to foreign investors.

There was a lot of volatility in the credit markets during the third quarter with quality outperforming and credit suffering losses. For the quarter, the Barclays 7-10 Year Treasury index gained 0.47%, the Barclays Aggregate Bond index gained just 0.17%, and the Barclays High Yield index lost 1.87%. High yield bonds have performed very well over the past several years and the decline was the first quarterly loss in five quarters. In fact, it was only the second quarterly loss in three years. Credit spreads remain very tight historically and longer-term credit fundamentals remain well supported with a friendly Fed and a strengthening economy. There was a risk-off environment for high yield bonds as retail investors fled on the first hint of weakness, resulting in record outflows from high yield mutual funds and ETFs. However, so far institutions proved willing to buy high yield bonds as retail investors fled.

Q3 Portfolio Analysis & Performance

U.S. Style Opportunity

Top Contributor

- iShares S&P 100 Index
- iShares S&P 500 Growth

Top Detractors

- iShares Russell Midcap Value
- PowerShares S&P 500 High Beta

It is a difficult, nearly impossible task to keep up with the S&P 500 when a narrow concentration of gains among exclusively large cap stocks takes over markets. While the S&P 500 gained 1.1% during the third quarter, the S&P 400 Mid Cap Index fell 4.0%, and the Russell 2000 fell 7.4%. One had to have an exclusively large cap orientation to avoid losses, and by the second half of the third quarter the Style Opportunity portfolio was indeed 100% allocated toward large caps, as it remains today. Large Cap Growth (IVW) and the mega-cap S&P 100 (OEF) make up the majority of the portfolio, with the remainder in the S&P 500 High Beta ETF (SPHB). The first three quarters of 2014 have been dominated by large caps. While the S&P 500 is up 8.3%, the small cap Russell 2000 is down 4.4%. The 1200 basis points gap between large and small caps has at least put an end to frothy small cap valuations relative to large caps. However, small cap valuations remain high in the absolute, as do all U.S. equity valuations. With valuations making U.S. equities higher risk overall, we may still be facing further small cap underperformance in the coming weeks. In the longer run, we are awaiting a chance to re-enter small caps, as we believe their higher beta provides an excellent chance to add alpha over time. However, small cap relative strength remains only a distant vision in our relative strength rankings at this point.

U.S. Sector Opportunity

Top Contributors

- iShares NASDAQ Biotechnology
- PowerShares QQQ

Top Detractors

- S&P Oil & Gas Exploration & Production SPDR
- First Trust ISE Revere Natural Gas ETF

Among broad market indexes both here in the U.S. and abroad, the S&P 500 has been very difficult to beat. To a remarkable extent, this has also been true within the domestic U.S. Sector ETF sphere. The S&P 500 Index itself ranks extremely high in our Sector ETF ranks, so much so that we have a 20% position in the Index itself. Only two broad sectors, Technology and Health Care, rank higher than the S&P 500. A concentrated, narrow market this has been, indeed. Selected allocations to Transportation (IYT) and, recently, Financials (XLF) have been the only other bright spots that we could find. Most of the other broad equity sectors are weak and underperforming, including Industrials, Materials, Consumer Discretionary, Energy, and Utilities. Technology and Health Care appear to be unaffected by the slow growth world that we have entered, as their persistent leadership in relative strength can attest. Biotechnology (IBB) and the NASDAQ 100 (QQQ) were the portfolio's biggest contributors while Oil & Gas Exploration (XOP) and Natural Gas (FCG) were the biggest detractors.

International Opportunity *(Developed, Emerging & Frontier)*

Top Contributors

- iShares MSCI Thailand
- iShares MSCI Frontier 100

Top Detractors

- Market Vectors India Small Cap ETF
- iShares MSCI Turkey

Finance theory states that international equities provide valuable diversification for a U.S. equity investor. However, over the last three and five year periods, international stocks have been disappointing laggards. Over a three year period (through 09/30), the S&P 500

(SPY) has gained 22.8% per year, while the developed markets EAFE (EFA) is up 14.0% and Emerging Markets (EEM) has gained 7.8%. Over 5 years, the S&P 500 has gained 15.0% per year, while EAFE is up only 6.5% and Emerging Markets has gained 3.2%. The best thing that a U.S. based investor could have done over the past number of years was to just avoid international markets entirely. We cannot do that in the International Opportunity portfolio, of course. However, we do include the U.S. as a country for purchase. Not surprisingly, U.S. equities rank higher than almost all other nations, and as a result we have allocated 20% to the S&P 500 (SPY). The powerful deflationary forces that haunt Europe and commodity-oriented nations have led to stock market and particularly, currency weakness. Extremely poor relative strength has pointed us away from these areas. The current portfolio includes a number of smaller, selected countries that have displayed relative strength versus the rest of the world, including Taiwan (EWT), the Philippines (EPHE), Canada (EWC), and India (EPI). China's strong economy and stable currency have also led us towards a broad China ETF (GXC). Thailand (THD) and the Frontier Markets (FM), two markets not particularly correlated to the global economy, were the portfolio's top contributors; India Small-Cap (SCIF) and Turkey (TUR) were the portfolio's largest detractors.

Sentry Strategy *(Hedge/Volatility)*

Despite substantial weakness for small and mid cap stocks during the third quarter, the S&P 500 still has not seen a 10% correction since 2011 – a three year period. The market's recent weakness created a lot of noise, but the correction was under 5%. 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.

Within the Sentry Managed Volatility Fund, during the third quarter we did increase the fund's protection from loss. On September 10th (when the S&P 500 was at 2000), we moved up the strike price on our S&P 500 puts from 1750 to 1900. These puts represent about 25% of the fund's portfolio. Since then markets have undergone a modest correction, and the put protection has gained over 20%. Profits in puts and shorting volatility are very fleeting, so we would expect to sometime very soon take profits in our put protection positions and roll the protection lower. The portfolio also initiated some new volatility strategies during the quarter in the form of swaps. In this case, the swaps can go long or short volatility depending upon its trend. Historically, we have seen this strategy provide a dynamic downside protection for investors that at the same time does not produce as much of a drag on returns during major market rallies.

Outlook

The global markets have been in correction mode since peaking in early July. The stronger markets have gone sideways while weaker markets have experienced mid-single digit declines. This year has been an atypical mid-term election year as the markets haven't experienced as much volatility as is historically normal in a mid-term year. For example, the U.S. has only had one correction of greater than 5% and three other declines in the 3% range. That is mild compared to other mid-term election years in recent memory. Now we are entering into the most favorable seasonal period of the 16 quarters in the Presidential Cycle. The fourth quarter of the mid-term year is the strongest of the 16 quarters, with the S&P 500 averaging a 7.5% gain since 1941. The catalyst to kick off this seasonal strength is the midterm elections, November 4th this year. Since 1982, the 30 calendar days leading into the midterm elections have all been positive. Over a longer-term horizon, the next four quarters are also the strongest four quarters historically of the 16 in the Presidential Election Cycle.

Based on the strength of the U.S. economy and macroeconomic research, U.S. interest rates could justifiably be 100 basis points higher than they are today. Evidently they have been held lower by a number of factors including foreign inflows, the low rates globally, Federal Reserve bond buying program, and geopolitical turmoil. The U.S. economy is certainly doing well enough to suggest higher interest rates lie ahead. With quantitative easing ending in the U.S. this month and the U.S. Federal Reserve preparing investors for a higher federal funds rate in 2015, the stage is set for U.S. interest rates to move higher. That seems to be the consensus call, so we will be alert to what may be wrong about that scenario as we move forward.

We know the Fed is preparing the market for higher interest rates. Higher rates have not been a major detriment to the market in the past, at least initially. The S&P 500 has posted strong gains the year before tightening cycles have begun, rising a median of 16.3% versus the long-term average of 8%. After the initial hike, the market has continued to rise but at a slower 5% median gain one year after the first hike. So, even in the face of higher rates in 2015, we look for the market to post continued gains.

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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 Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

The MSCI ACWI stands for All Country World Index. A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

The MSCI All Country World ex USA Total Return (MSCI ACWI), market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

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 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 U.S. dollar 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 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.

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 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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