THE YIELD CURVE FLATTENS

Two and five year rates have risen as the economy is improving and the front end of the yield curve anticipates a future rate hike. However, 10 and 30 year interest rates continue to decline causing the yield curve to flatten. I don't believe the market response is what the Fed had anticipated. The Fed is model driven and the bond market is not. The Fed would like to see a steep yield curve. However, the market appears to believe low inflation and slow growth in a still leveraged society will keep interest rates down for an extended period of time.

Executive Summary

The Yield Curve Flattens: The market appears to believe low inflation and slow growth in a still leveraged society will keep interest rates down for an extended period of time.

Europe Is Still a Mess: Interest rates continue to fall in Europe causing the euro to drop in value against the dollar.

Taxable and Tax-Free Markets: It was a volatile quarter marked by selloffs in July and September in taxable bonds, and a quiet quarter in the municipal markets.

U.S. Treasury Interest Rates

	3/31/14	6/30/14	9/30/2014
2 year	0.42%	0.45%	0.57%
5 year	1.71%	1.63%	1.75%
7 year	2.30%	2.13%	2.20%
10 year	2.71%	2.53%	2.49%
30 year	3.55%	3.36%	3.16%

Source: Bloomberg

QE: "Gone with the Wind"

The Fed continued to pair back on QE II, reducing bond purchases again, and it is believed QE will be wound down to zero by October or November. And the market's response to this is?

"Frankly, my dear Janet, I don't give a damn about higher long term rates."

Jamie Mullen
Senior Portfolio Manager

As Senior Portfolio Manager, Jamie developed and manages the Navigator Global Opportunity portfolio and manages the Premier Fixed Income Strategies. In addition, Jamie manages covered call options deployed on individual stocks and exchange traded funds in the Premier Portfolio Group and implements collar strategies on individual blocks of stocks. He is a member of the Clark Capital Investment Committee. Jamie has over 25 years of experience with fixed income securities. He began in municipal credit research and worked in public finance before moving to a position in trading where his experience included trading municipal bonds and employing fixed income futures and futures options. He has extensive experience in dealing with mutual funds, and trust departments and money managers. He received his degree from St. Joseph's University.

Past performance is not indicative of future results.

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

ClarkCapital MANAGEMENT GROUP

Navigator® Fixed Income

Jamie Mullen, Senior Portfolio Manager

Third Quarter — Portfolio Commentary

Europe Is Still a Mess

Here is a snapshot of global interest rates at the end of the third quarter 2014:

Global Government Bonds as of 9/30/2014

	5 year		10 year	
	6/30	9/30	6/30	9/30
France	0.64%	0.33%	1.69%	1.28%
Germany	0.34%	0.14%	1.24%	0.94%
Italy	1.35%	1.02%	2.84%	2.33%
Spain	1.27%	0.89%	2.66%	2.13%
Portugal	2.36%	1.71%	3.64%	3.15%

Source: Bloomberg

Mario Draghi's Day Off

Not shown on this global interest rate chart is that German two year rates are negative. Europe is suffering from deflationary pressures and stagnant growth in the periphery countries of the euro. Mario Draghi is trying to begin a QE program in Europe that can replicate the results the U.S. Federal Reserve has produced. The result of his efforts has been that interest rates continue to fall in Europe causing the euro to drop in value against the dollar.

Central banks response to slowing economic conditions has been to debase their currency, which in theory increases exports. Will it take the euro reaching parity with the dollar to start an economic recovery?

Mario?…..Mario?……Anyone? ……Anyone??

The Taxable Portfolios

The U.S. Dollar Index bottomed on July 1st and began a 12 week move up. The result was increased bond market volatility in high yield bonds. A high yield sell-off in July was followed by a snap-back rally in August. Another round of high yield selling occurred in September, breaking the July lows to end the quarter.

The higher dollar has caused commodity prices to drop across the board. Oil, copper, nickel, iron ore — all are down. Energy and material bond holdings were down sharply. We are monitoring the energy holdings and looking to increase our allocation to healthcare in the upcoming quarter.

The Tax Free Portfolios

It was another quiet quarter in the municipal market, volatility wise. We have been shortening our stated maturities in the portfolio and concentrating on 4% coupons from 5 to 20 years. In our opinion, 5% coupon bonds with short calls in the 2017-2019 range, which we had bought in the past, don't seem to present any value. Therefore we will continue to look for value in the 4% coupon structure.

On the macro front, news from Puerto Rico has been quiet and bonds have seemed to find equilibrium. If stocks close higher in the fourth quarter and for the year, the next sell off may be tax selling as investors look to harvest losses in 2014.

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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 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.

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 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.

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