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Senior Portfolio Manager

Tony serves as a portfolio manager in the Premier Portfolios group and is a member of the Clark Capital Investment Committee. He has over 25 years of portfolio management experience utilizing both a quantitative and fundamental process. From 1997 to 2013 Tony was the President and Chief Investment Officer of Global Capital Management which he founded. He was cited as a Top Guns Manager in 2006 and 2007 and was named Manager of the Decade in 2011 by PSN. From 1986 through 1997, Tony was Director of Portfolio Management at RTE Asset Management where he was responsible for portfolio management across all asset classes. Tony is a graduate of the Wharton School of the University of Pennsylvania and holds the CFA designation.

FROM RUSSIA WITH LOVE

Vlad sends his regards....and his troops.

In mid-November 2014, as Russia again moved troops and equipment into separatist controlled parts of Ukraine, it is not surprising that Vladimir Putin's reception in diplomatic circles was less than loving. For the quarter, foreign affection for Putin mirrored his economic lifeblood – oil – which reached a five-year low. Brent crude continued its fall from 2014's second half and is now just \$47/barrel – down 50% from its 2009 high. Oil's decline and, in turn, oil export revenue has been in lockstep with decline in the ruble. Although Russia represents a small economic power, a ravaged ruble combined with Western sanctions over Russia's involvement in the Ukraine destabilizes an already struggling Russian economy and its stock market. Taken together, the Russian economy is expected to decline 4% this year. As Russia has tried to backstop the decline in the ruble by raising key interest rates, their foreign currency reserves have dropped to just \$400 billion for the first time since August 2009. As these reserves fall, perceived credit quality does as well, as reserves are now less than Russia's \$670 billion total debt outstanding. Given Russia's large military presence, further declines in energy prices may cause economic distress and civilian unrest – raising the probability of more military volatility or political instability.

Executive Summary

Oil – and the Russian Economy – Tumble: Brent crude oil is now just \$47/barrel – down 50% from its 2009 high. The Russian economy, already expected to decline 4% this year, faces further instability if energy prices continue to decline.

A “Lost Decade” of Economic Growth for Europe? Continued deflation in the eurozone poses a major threat to lender and borrower desire to take risk. The European Central Bank (ECB) and eurozone governments must act quickly to reverse sentiment.

U.S. Equities Face Headwinds: Investor expectations for economic growth and profitability may be overly optimistic as the factors recently used to stimulate the economy are unlikely to be repeated.

.007%

No, not James Bond but the median two-year European government interest rate!

To say it another way, half the interest rates in Europe are now below zero. As investors scramble for safety and without fear of inflation, there are now €1.2 trillion eurozone government bonds with a negative yield, up from €500 billion in October 2014. Certainly declining oil and commodities have played a part along with long-term slow economic growth to keep the European and British Central Banks in expansionary mode. Unfortunately, Europe this decade is looking similar to Japan in the 1990s when it experienced a “lost decade” of economic growth. Unemployment rates remain high in Spain, Italy and Greece. Contrary to the Fed's successful Quantitative Easing plan which navigated the financial crisis of 2008-2009 by avoiding a credit collapse and slowly producing respectable economic growth, I am concerned that the European Central Bank's (ECB's) efforts will continue to be fruitless. With many bank

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Fourth Quarter — Portfolio Commentary

balance sheet assets underwater and eurozone inflation negative last month, continued deflation poses a major threat. With prospective returns on investment potentially negative, deflation suppresses both the lender's desire to lend and the borrower's optimism towards risk taking. The ECB and the eurozone governments must act quickly to reverse sentiment.

Dr. No

That's Mrs. Dr. No to you!

At the beginning of 2014's fourth quarter, I was convinced that Dr. Yellen and Company would keep policy on an even keel such that the likelihood of higher short term rates was low. My position centered on (a) the weakness of foreign economies, (b) low interest rates abroad and (c) low anticipated inflation domestically. While all these facts remain unchanged, U.S. economic growth has reached "escape velocity" and signs of labor market tightness are appearing. U.S. gross domestic product grew an annualized 5% in the third quarter and the unemployment rate dipped to 5.6% in December. The expansion marks the fastest quarterly growth rate since 2003, and the employment rate is the lowest since June 2008. As the Fed was free to say "Yes" to easy monetary policy before, I believe emerging signs of growth have changed Janet to Dr. "No." On the equity side, however, I am concerned that investor expectations towards economic growth and profitability may be overly optimistic as many of the factors which have had a stimulative effect are unlikely to be repeated. For instance, since it is unlikely for energy to decline another 50% from current levels, its impact – like that of low interest rates and taxes – should be less this year and next. As such, I would be surprised to see 2015 U.S. GDP growth exceed that of the last three quarters of 2014. How could the backdrop for this economy get any better? Low energy and low interest rates have conspired to push third quarter GDP revised upward to a 5% annual rate – the strongest quarterly advance in 11 years. Moreover, these same factors and generally mild weather likely supported fourth quarter GDP to its third consecutive greater than 4% growth period. Evidence of strong economic growth abounds as the New Orders Index hit one of its best levels in 17 years, the ISM Non-Manufacturing survey for 2014 averaged the highest in nine years and the Leading Economics Indicator Index is approaching peak levels that were hit in 2006. Certainly recession

is not on the horizon but investing is about what is happening at the margin not about what happened in the past. In our current case, not only do I anticipate economic growth to decelerate into 2015, I also expect profit margins to stabilize or retract from their record levels. Most of the levers used to expand margins historically – low and declining interest rates, low and declining commodity costs, low and declining employment costs and low and declining taxes – all have likely reached their trough. Given my outlook for decelerating GDP growth and stabilization of margins from record levels, I do not believe equity earnings growth will approach the levels achieved during the recent economic expansion.

All Cap Keeps Pace

Strong performance from small and mid-sized companies helped the Navigator All Cap Equity strategy gain approximately +5.41% (gross)/+4.64% (net) for the fourth quarter ending December 31, 2014, modestly outperforming the S&P 500 (+4.93%) and broader Russell 3000 (+5.14%). Prior to the fourth quarter, large cap U.S. equity performance dominated small caps. For the year, our All Cap strategy slightly underperformed by +12.12% (gross)/+8.83% (net) both of our benchmarks (Russell 3000 +12.56% and S&P 500 +13.69%) as roughly 50% of the companies in the strategy have market capitalizations below \$10 billion. On a two-year basis, our focus on high quality, undervalued companies with improving business prospects continues to yield strong performance as the strategy has gained +24.44% (gross)/+20.82% (net) compared to 22.68% and 22.61% for the S&P 500 and Russell 3000 respectively. Detractors from performance continued in the energy and materials sector as Westlake Chemical declined 29.4% and Texas lender BOK Financial declined 9.7%. Drug holding Gilead Sciences lost 11.5% as a minor hepatitis C drug price war ensued. Portfolio gainers were mostly heavy beneficiaries of oil's price decline and included Alaska Air up 37.3%, Gentex up 35.0% and Wisconsin Energy up 22.7%. The quality characteristics of the All Cap strategy remain superior to the S&P 500 as it possess a lower debt-to-equity ratio (0.61 vs 0.68), higher return on equity (30.0% vs 23.2%) and higher net profit margins (13.2% vs 9.1%) with similar value and business growth characteristics.

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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 S&P SmallCap 600 measures the small cap segment of the U.S. equity market. The index is designed to be an investable portfolio of companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

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 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.

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