ClarkCapital MANAGEMENT GROUP

Navigator® Fixed Income Total Return

K. Sean Clark, CFA, Chief Investment Officer

December 23, 2014 — Portfolio Commentary

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 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.

YEAR-END UPDATE

Executive Summary

Fixed Income Markets: Experienced Uncertainty and Volatility due to Fed rate hike expectations and to sharp declines in the energy sector.

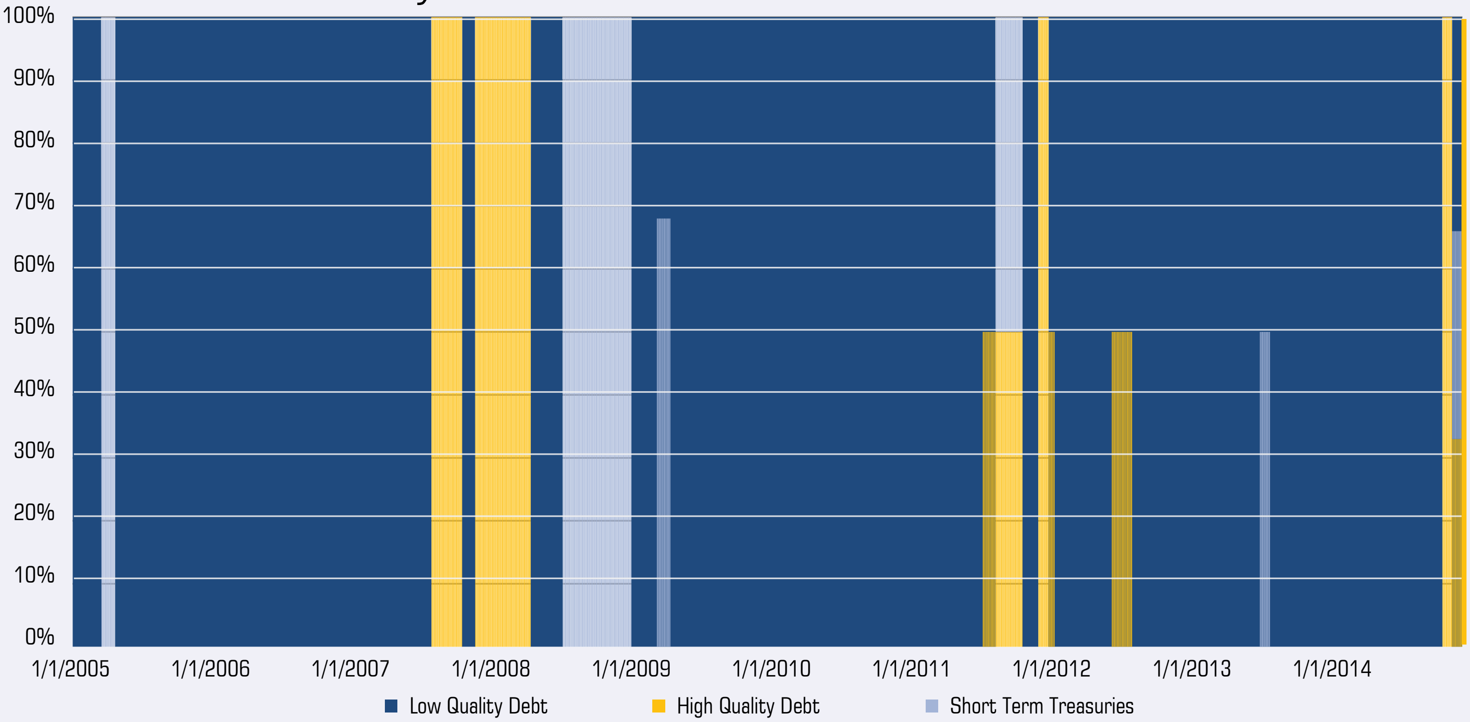
During the last three months, the fixed income markets have experienced uncertainty and volatility. In our view this is partly a result of Fed rate hike expectations and largely due to sharp declines in the energy sector. In this update we will highlight recent allocation changes in the Navigator® Fixed Income Total Return strategy and provide our thoughts on the current state of the fixed income markets. We hope you find this commentary helpful in your year-end client reviews.

Since late June, the high yield market has been relatively non-correlated with equities when the markets have been up and extremely correlated with equities during the corrections. The decoupling of correlation to equities in up markets can be attributed to several factors.

The collapse in oil is a main factor. Energy is heavily represented in the high yield sector with a 15% allocation in the Merrill Lynch High Yield Master Index. The spread between the Merrill Lynch High Yield Master Index compared to the 10 year Treasury hit a low of 2.3% in late June. This low had not been seen since the summer of 2007. In other words, the high yield market was overvalued and investors were not being compensated enough in yield for the perceived risk inherent in the sector.

However, we believe there is a larger trend to high quality and liquidity in the markets. The trend is not just in fixed income but also in equities. For example, the S&P 500 is up 14.28% this year and the Russell 2000 is up only 4.05%. Investors from central banks across the globe — including the U.S., banks, pension plans, and corporations — are being forced to buy the most liquid and highest quality assets. As an example, Germany's 10 year treasury equivalent is yielding .59% compared to the U.S. Treasury at 2.17%. Global investors seem to be willing to pay a premium to own liquid, high quality assets whether they are U.S. Treasuries, high quality U.S. corporate bonds or large cap liquid equities. Prior to this October, the Fixed Income Total Return strategy had been largely allocated to high yield bonds since July 2012. Over that time , we believe we were able to take advantage of the credit spread opportunities in the high yield space, delivering favorable risk-adjusted returns to clients. But alongside favorable returns, the strategy seeks to provide capital preservation. Although not a high yield specific strategy, we have been allocated to high yields for the majority of the time since the strategy's inception in 2005. During the last three months, the model has guided us into preservation mode.

Allocation History



Fourth Quarter Allocation Timeline

October 10, 2014

Allocation Change: 100% High Yields to 100% Treasuries

The portfolio was reallocated from 100% high yields to 48.5% 7 to 10 year Treasuries and 48.5% to 3 to 7 year Treasuries. This move was predicated by a sharp decline in equities due to poor economic news and an overextended rally in equities in need of a correction. The high yield market is highly correlated to the equity market, so it was not surprising that the two declined in tandem.

However, we believe the largest contributing factor was the explosive upside move in treasuries in October as investors sought liquidity and safely. During that period, the 10 Year treasury experienced its largest move in 10 years. We benefitted from sitting in a risk-off position amid the market turmoil and spike in volatility.

November 4, 2014

Allocation Change: 100% Treasuries to 33 1/3% High Yields, 33 1/3% Treasuries, 33 1/3% Cash

Following the model, we reallocated the strategy to a partial position with a 33 1/3% allocation high yield, 33 1/3% allocation to Treasuries, and 33 1/3% allocation to cash, essentially positioning the portfolio in a neutral position.

While unusual, an allocation across all three sectors is not unprecedented for the strategy. Over our more than 28 year history of data and researching the models, we have seen nine periods of time which resulted in an allocation across all three sectors.

At first, we expected the three-sector allocation to resolve itself shortly as our research process would lead us to consolidate into one or two sectors. However, the stunning fall in oil prices hurt energy high yield bonds hard. While the S&P 500 had a stunning rebound off its early October lows, high yields decoupled from equities. High yield bonds have a much higher weight to Energy than the overall S&P 500, and our research continued to favor the divided allocation.

December 10th, 2014
Allocation Change: 33 1/3% High Yields, 33 1/3% Treasuries, 33 1/3% Cash to 100% Treasuries

Our research model triggered a move to 48.5% 7 to 10 year Treasuries and 48.5% to 3 to 7 year Treasuries advocating a defensive position in light of continued volatility and decline in energy.

Current Outlook

With the current volatility in the bond markets, we advocate diversifying one's fixed income exposure. For instance, we recommend a combination of the following:

- Tactical fixed income that seeks to take advantage of macro trends
- Actively managed individual bonds that seek to identify targeted opportunities and protect par value in the event of a decline
- Duration neutral bond exposure that seeks to strip out the interest rate risk affiliated with rising rates

For more on our 2015 fixed income outlook, please join me on January 6, 2015 for Clark Capital's 2015 Market Outlook.

The opinions expressed are those of Clark Capital Management Group Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investments portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

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 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.

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.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request.

The relative strength measure is based on historical information and should not be considered a guaranteed prediction of market activity. It is one of many indicators that may be used to analyze market data for investing purposes. The relative strength measure has certain limitations such as the calculation results being impacted by an extreme change in a security price. Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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