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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.

## A FRACTURED MARKET

Our observation is that the major drivers of returns for the market in 2014 were a continued improvement in the U.S. economy, a commodity collapse, and the ending of quantitative easing in the U.S. Performance in 2014 was very mixed and dominated again by large cap U.S. stocks. The S&P 500 gained 13.66%, giving the impression that 2014 was a banner year for stocks. However, a closer examination shows that most markets struggled in 2014. The average stock in the Russell 3000 was up only about 4% and the median stock was actually down! U.S. small cap stocks were only up 4.89%, international markets declined across the board with the MSCI EAFE index down 4.22% and emerging markets losing 2.11%.

In contrast to most expectations coming into 2014, Treasury bonds performed very well as the 10-year Treasury yield dropped from 3.03 to 2.17%, and duration outperformed credit risk. In fact, long-term treasuries were the top performing asset class in 2014 with the Barclays Capital 20+ Year Treasury index gaining 27.48%. Dollar strength helped drive asset flows into the U.S. and domestic stocks and bonds were beneficiaries of that trend. The trade-weighted U.S. dollar index gained 12.79% while commodities posted their largest losses since 2008, dropping 33.06%.

The return profile in 2014 was so mixed that investors who prudently diversify may feel as if they missed the boat. The average broadly diversified portfolio was up in the 5% range.

**Some interesting facts about last year that highlight the disparity of returns across asset classes:**

- S&P 500 up at least 10% for third year in a row. First time since five-year streak from 1995 to 1999.
- No more than three consecutive down days for S&P 500. Fewest on record.
- First time since 1982 that long-term Treasuries outperformed S&P 500 by 1000 bps when the S&P 500 was up by 10% or more.
- Largest S&P 500/EAFE spread since 1997.
- U.S. dollar's best year since 1997.
- S&P GSCI Commodity Index second worst year on record.
- Oil's worst year since 2008.
- Largest Russell 1000/2000 spread since 1998.

### Executive Summary

**Market Activity in 2014:** Major drivers of returns for the market in 2014 were a continued improvement in the U.S. economy, a commodity collapse, and the ending of quantitative easing. Performance was very mixed and dominated by large cap U.S. stocks. In truth, most markets struggled during the year.

**Expectations for 2015:** We expect U.S. economic growth to be the strongest annual growth rate since the recession and to be accompanied by growth in the global economy. We anticipate gains for the U.S. stock market on the order of 10%. With international markets having underperformed so drastically in 2014, we expect international stocks to regain momentum and outperform in 2015.

Past performance is not indicative of future results.

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

Fourth Quarter — Portfolio Commentary

Q4 Portfolio Analysis & Performance

**Key Contributors and Detractors**

Core

U.S. Equity Core

**Top Contributors**

- MFS Value Inst'l
- JPMorgan Large Cap Core Plus

**Top Detractors**

- ClearBridge Aggressive Growth
- Artisan Mid Cap Value

In 2014, small cap stocks underperformed large cap stocks by the largest margin since 1998. That scenario was reversed in the fourth quarter. Thus U.S. Equity Core portfolio's allocation to small caps provided a nice boost to the portfolio for the fourth quarter compared to the S&P 500 for the fourth quarter, but it was a net negative for the year overall. While in 2014 the Goldman Sachs Small Cap Value Fund (GSSIX) performed well versus its benchmark, its absolute returns were not impressive. The portfolio's other small cap holding, JPMorgan Small Cap Growth (OGGFX), struggled during the first half of 2014 but appears to have found some footing. Both funds continue to have impressive long-term records, and we expect to continue to own them. The portfolio's overall allocations are in line with the Russell 3000, with 71% allocated to large cap stocks and 27% allocated to mid and small cap stocks. In digging under the hood a little further, we see that the portfolio was overweight the Health Care, Industrial, and Consumer Discretionary sectors and underweight Consumer Staples, Energy, and Technology. The portfolio's beta and forward P/E are roughly in line with the S&P 500, which is sensible given that the portfolio should represent a core U.S. Equity investment. For the quarter, Artisan Mid Cap Value (ARTQX) and ClearBridge Aggressive Growth (SAGYX) were the top detractors. Artisan Mid Value is a very respectable fund, but its five year numbers now look very poor and it is likely that its position in the portfolio will be reduced or eliminated. MFS Value (MEIIX) and JPMorgan Large Cap Core Plus (JLPSX) were the portfolio's top contributors, as the market's defensive and quality-oriented tone continued.

U.S. Equity Income Core

**Top Contributors**

- Nuveen Santa Barbara Dividend Growth
- JPMorgan Large Cap Growth

**Top Detractors**

- AllianceBernstein High Income Adv
- Loomis Sayles Strategic Income

The U.S. Equity Income Core portfolio allocates partially to stocks and bonds, with a bias towards quality equity holdings with a record of downside outperformance and towards higher income, aggressive fixed income holdings. The portfolio's bias towards aggressive corporate credit versus defensive government credit was a detractor in 2014, as U.S. Treasury bonds soared amidst a global economic malaise that left interest rates near zero in Europe and Japan. By comparison, U.S. Treasury yields remain attractive, particularly to foreign investors that own weak currencies. Nevertheless, the portfolio maintains its overweight stance on corporate credits, as under this portfolio's longer term orientation we maintain our view that U.S. Treasuries have an increasingly unattractive risk profile. While the two fixed income funds we own, AllianceBernstein High Income (AGDYX) and Loomis Sayles Strategic Income (NEZYX), were both up on the year, they substantially lagged the Barclays U.S. Aggregate Bond Index. In the bond world, nothing could beat U.S. Treasuries in 2014. Two of the portfolio's more defensive equity holdings, Nuveen Santa Barbara Dividend Growth (NSBRX) and JPMorgan Large Cap Growth (SEEGX), were top contributors for the quarter. A strong defensive and quality bias continues to hold sway in U.S. equity markets.

International Equity Core

**Top Contributors**

- MFS International Value Inst'l
- Artisan International

**Top Detractors**

- iShares CORE MSCI Emerging Markets
- Vanguard Emerging Markets ETF

International Equity markets were fraught with danger in 2014, and by and large they did not produce gains. Deflationary conditions in Europe and Japan along with a collapse of oil prices in the second half of the year that left energy-exporting nations under fire meant that risks simply outweighed rewards for international equities. Thus we were pleased that the International Equity portfolio had a defensive bias that helped minimize losses. In aggregate, the portfolio has a beta of 0.92 versus the MSCI World ex-U.S. Index. Not surprisingly, given the market's (and particularly the international equity market's) hunger for growth companies, the portfolio is more expensive than

## Fourth Quarter — Portfolio Commentary

the benchmark, with a 12-month forward P/E of 15.2 versus the International Index's 13.3. In an international equity market where real earnings growth is hard to find, the portfolio's defensive bias was able to minimize losses. In aggregate, the portfolio overweighted the Technology, Consumer Staples, and Consumer Discretionary sectors, and underweighted Financials, Utilities, and the collapsing Energy sectors. From a country allocation perspective, overweights to Germany and underweights to Japan and Australia were beneficial, while overweights to Taiwan and Hong Kong, along with poor security selection in Italy, were detractors. Among individual holdings, quality large cap mutual funds such as MFS International Value (MINIX) and Artisan International (ARTIX) were the top contributors to return. Allocations to emerging markets, which were crushed when oil prices collapsed in the fourth quarter, were the top detractors, namely the Vanguard Emerging Markets ETF (VWO) and the iShares CORE MSCI Emerging Markets ETF (IEMG).

### Fixed Income Core

#### Top Contributors

- BlackRock U.S. Mortgage Inst'l
- Loomis Sayles Investment Grade Bond

#### Top Detractors

- Navigator Duration Neutral Bond
- Legg Mason Western Asset Unconstrained Bond

The Taxable Fixed Income Core portfolio continues to emphasize credit risk over interest rate risk, and in 2014 that emphasis left the fund trailing its benchmark. High quality government bonds out-

performed across the globe as deflation in Europe and Japan and massive drops in commodity prices drove interest rates to very low levels. More than a few European nations saw negative short-term interest rates. In aggregate, the Taxable Fixed Income Core portfolio was slightly lower quality than its benchmark, with a composite credit rating of A+ versus AA for its benchmark. The portfolio was underweight high quality and U.S. Treasuries and overweight non-rated and BBB debt. It was a strange year for fixed income, as strong Treasury performance is usually correlated with a recession in the U.S. However, in 2014 it was the global economy that was weak, particularly Europe and Japan. The U.S. economy and corporate earnings in the U.S. performed fairly well, but the market did not recognize or react to this. As 10-year Treasury yields have fallen below 2%, we continue to believe that the long-term risk-reward relationship for U.S. Treasury investors is unattractive. Investors now must assess the risk of a proxy for the 10-year Treasury, the iShares Barclays 7-10 Year Treasury ETF (IEF), that has a yield of below 2% but a 3-year standard deviation of 5.0% and a 10-year standard deviation of 6.4%. An investment with volatility that is 2.5 or 3 times greater than potential return over the long-term is disproportionately risky, and thus we continue to avoid having too much Treasury bond exposure. The portfolio's detractors, the Navigator Duration Neutral Bond Fund (NDNIX) and the Legg Mason Western Asset Unconstrained Bond Fund (WAARX), were both avoiding interest rate risk. The portfolio's top contributors were BlackRock U.S. Mortgage Portfolio (MSUMX) and the Loomis Sayles Investment Grade Bond Fund (LSIIX). We believe that in the long run the portfolio's caution with regard to interest rates will serve our investors well, as the risk-reward relationship presented by Treasury bonds has rarely if ever been this unfavorable.

## Explore U.S. Style Opportunity

### Top Contributor

- SPDR S&P 500 Index ETF
- iShares S&P U.S. Minimum Volatility ETF

### Top Detractors

- PowerShares S&P 500 High Beta ETF
- iShares S&P 100 Index ETF

The Style Opportunity portfolio emphasized large cap, steady growth stocks during the fourth quarter of 2014. The slow but steady economic growth that we have seen since 2009 has led equity investors to place more and more value on those companies that can deliver persistent growth. Such companies' earnings are not volatile but stable and steady. Pharmaceuticals, Consumer Staples, and large Technology companies are prime examples. The portfolio's relative strength ranking methodology has seen large cap stocks and large cap growth in particular top our equity style rankings for much of 2014, and thus the portfolio was heavily weighted towards the S&P 500 (SPY) and the iShares S&P 500 Growth ETF (IVW). With growth companies displaying clear relative strength and selling at a premium, it is not surprising that the Style portfolio is modestly more expensive than the broad S&P 500. The portfolio's 12-month forward P/E is 17.5, while the S&P 500 is at 16.4. In our view, given the portfolio's high quality and correspondingly lower beta of 0.94, such a modest premium above the S&P 500 does not seem unreasonable. While we construct the portfolio by looking at the relative strength rankings of a number of U.S. equity style ETFs, we do look at what the portfolio looks like as a whole. In aggregate, the portfolio overweights the Technology, Health Care, and Consumer Discretionary sectors, while underweighting Financials and Energy, traditional value sectors. One recent new entrant to the portfolio, the iShares MSCI U.S. Minimum Volatility ETF (USMV), was a top contributor for the quarter as interest rate sensitive companies in particular fared well. The SPDR S&P 500 ETF (SPY) was the other top contributor. The top detractors included the S&P 500 High Beta ETF (SPHB) and the iShares S&P 100 Index (OEF). Looking forward to 2015, we do see the relative strength of small cap companies on the rise, and we may soon add them to the portfolio. Small cap stocks were very expensive in comparison to large caps at the beginning of 2014, and that overvaluation contributed to a very poor year for small cap stocks. However, that valuation gap has largely been closed and small cap relative strength returned in the fourth quarter.

## U.S. Sector Opportunity

### Top Contributors

- Health Care Select Sector SPDR
- Financials Select Sector SPDR

### Top Detractors

- iShares PHLX Semiconductor ETF
- Consumer Staples Select Sector SPDR

In following relative strength trends, the Sector Opportunity portfolio continued to emphasize Health Care and Technology during the fourth quarter. During most of 2014 we saw very tame equity markets, but the volatility tiger came out of the cage during the fourth quarter. We saw a collapse in oil prices and energy stocks and a dramatic move lower in interest rates. Despite that, the S&P 500 posted a gain for the quarter. Steady growth and defensive sectors such as Health Care and Technology, along with interest rate sensitive sectors such as Real Estate and Utilities, showed the most relative strength. While the U.S. economy has been strong and is still on the rise, investors across the globe are starved for companies that can grow, and they are willing to pay up in our opinion. The portfolio's relative strength driven methodology has tracked and then allocated towards the market's hunger for growth. As a result, on trailing basis the P/E ratio of the Sector Opportunity portfolio is a rich 26.0 while by comparison the S&P 500 is at 18.2. On a 12-month forward basis, the comparison looks better but, as expected, remains rich, as the portfolio's P/E is 18.3 vs. the S&P 500 at 16.4. Given the market's hunger for companies that deliver stable earnings, it is not surprising that though the portfolio is expensive, its beta versus the S&P 500 is 0.93. Health Care, Technology, and Consumer Staples companies deliver that much hungered for growth, and these sectors' relative strength has made them mainstay holdings. For the quarter, contributing sectors included Health Care and Technology, while the Energy sector was avoided. Health Care was the portfolio's biggest sector weight, and investor appetite for pharmaceuticals and biotechnology was rewarded. Within the Technology sector, we allocated to stable large cap Technology ETFs such as iShares Technology (IYW) and the PowerShares QQQ (QQQ). Of greatest importance from a risk management perspective, the portfolio did not own Energy during the quarter and entirely avoided the losses in the sector amidst a collapse in oil prices and energy sector stocks. This highlights one of relative strength's greatest attributes: the potential to capture and/or avoid trends with large magnitude. Detracting sectors included an under allocation towards Financials, poor timing of trades in the Consumer Discretionary sector, and an under allocation to Utilities. Looking forward, our relative strength matrix shows that Financials are a sector currently most on the rise. The portfolio's current sector weightings are as follows: Health Care 31.0%, Technology 26.5%, Industrials 12.5%, Consumer Staples 10.0%, Financials 10.0%, Consumer Discretionary 7.0%, and Cash 3.0%.

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### International Opportunity *(Developed, Emerging & Frontier)*

#### Top Contributors

- SPDR S&P 500 Index ETF
- S&P China SPDR

#### Top Detractors

- iShares Thailand ETF
- iShares Mexico ETF

While relative strength has driven our Sector Opportunity portfolio towards relatively expensive stable growth stocks in the U.S., the International Opportunity portfolio has found relative strength in areas of comparative value. The portfolio allocates towards country and regional ETFs that display relative strength within our ranking matrix. Given the deflation that is vexing Europe and the volatility of the energy heavy Emerging Markets nations, it has been a very good thing that the portfolio considers the U.S. an investable part of its universe. The S&P 500 itself ranks near the very top of our relative strength rankings, and we have allocated our maximum weight of 20% for this portfolio to it. The Asia Pacific region dominates most of the rest of the portfolio, particularly China. China ranks very highly in relative strength, and with reasonable P/E ratios of ten times forward earnings, valuations are supportive of a further rally. Taiwan, the Philippines, Japan, and India round out the portfolio's Asia-Pacific exposure. Only Turkey, which is quite reasonably valued with a forward P/E of 12, is not from the Asia Pacific region. In aggregate we believe the International Opportunity portfolio is attractively valued. On a 12-month forward earnings basis, the portfolio's P/E ratio is 12.7 versus a 13.1 P/E for its benchmark, the MSCI World ex-U.S. Index. To be clear, the portfolio's methodology is agnostic with regard to valuations and will own countries and regions that have relative strength. Having said that, as managers we prefer to own securities that are both attractively valued and have relative strength because logically the appealing valuations mean that the relative strength can both continue into the future and have magnitude. Given the overall attractive valuations for the international equities, we are optimistic about this portfolio's opportunity to add value in 2015. For the quarter, the portfolio's top contributors were the U.S. via the S&P 500 ETF (SPY) and China (GXC). From a risk management point of view weakness in France and more broadly Europe were avoided. The top detractors were Thailand (THD), Mexico (EWW), and Japan (EWJ and DXJ). The portfolio's current regional weightings are as follows: Asian Emerging Markets 52.0%, United States and Canada 20.0%, Developed Asian Markets 17.5%, Middle East & Africa 7.5%, and Cash 3.0%.

### Alternative Strategy *(Commodities, Currency, Real Estate, Absolute Return)*

#### Top Contributors

- iShares Russell 2000 Index ETF
- iShares S&P 100 Index ETF

#### Top Detractors

- JPMorgan Alerian MLP ETN
- iPath Bloomberg Cocoa ETN

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 35.0%, Fixed Income 19.0%, Commodities 5.0%, and Cash 5.0%. The portfolio's mutual fund holdings are longer-term allocations that target proven and respected managers that have disciplined approaches toward a number of areas: long/short U.S. equities, long/short global fixed income, alternative asset manager selection, and managed volatility. 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 fourth quarter of 2014 was a difficult one for Alternative assets, as the market's shunning of risk led to more losses than gains. The portfolio's U.S. equity components produced gains, but its credit-oriented fixed income allocation struggled when energy bonds in particular were hit hard. Commodities in particular were simply crushed by a collapse in oil prices and fears of deflation in Europe. Though the portfolio underweighted commodities as an asset class, we did wade unsuccessfully into the commodity equity space a few times. The portfolio's top contributors were among U.S. equities, highlighted by the iShares Russell 2000 ETF (IWM) and the iShares S&P 100 ETF (OEF). Detractors included the JPMorgan Alerian MLP ETN (AMJ) and iPath Bloomberg Cocoa ETN (NIB). Looking forward into 2015, we expect to continue to emphasize U.S. equities and credit-oriented fixed income, areas which should fare well if the Fed does raise interest rates at mid-year, as many expect.

### Global Tactical *(Unconstrained)*

#### Top Contributor

- iShares Barclays 7-10 Year Treasury ETF
- iShares Russell 2000 ETF

#### Top Detractor

- SPDR S&P 500 Index ETF
- iShares Russell Midcap ETF

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

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have occupied the top of the portfolio for well over a year now, and they have received the lion's share of allocation. Early during the fourth quarter, a U.S. Treasury ETF (IEF) entered the portfolio for the first time in many months, and it has been favored as Europe's struggles and a collapse in energy prices led to falling interest rates and a general risk-off tone in the markets. Count us among many market observers that are perplexed that the S&P 500 can enjoy a strong 2014 with gains over 10% and be outperformed by long-term U.S. Treasuries by another 10%. Strong U.S. Treasury performance usually coincides with economic and stock market downturns, but that was not the case in 2014. A Europe battered by deflation and collapsing energy prices boosted both U.S. stocks and bonds. Looking forward into 2015, our expectations are that both Treasuries and U.S. stocks should enjoy gains during the first half of the year. We would still expect to overweight equities in the portfolio, as bonds continue to have a poor risk-return profile. For the quarter, the iShares Barclays 7-10 Year Treasury ETF (IEF) and a new entry to the portfolio, the iShares Russell 2000 (IWM) were the top contributors. Small cap stocks underperformed the S&P 500 for all of 2014, but they enjoyed a strong fourth quarter. The top detractors were the SPDR S&P 500 ETF (SPY) and the iShares Russell Midcap (IWR).

### Fixed Income Total Return *(Low Quality, High Quality, Short Term Cash)*

#### Top Contributor

- Eaton Vance Income Fund of Boston
- Lord Abbett High Yield

#### Top Detractor

- iShares iBoxx High Yield Corporate Bond
- Barclays High Yield Bond SPDR

Weakness in the fixed income credit markets that began to manifest in the third quarter continued into the fourth quarter. On October 10th the Fixed Income Total Return (FITR) model became fully defensive, and the portfolio has taken a generally defensive stance since then amid some increased market volatility. Overall the defensive stance has served investors well as two thirds of the portfolio has been in U.S. Treasuries or cash since October. Since our exit of high yield bonds on October 10th, high yield prices have continued to weaken amidst volatility, largely due to the collapse in oil prices and fears about the fiscal capacity of energy companies. The portfolio took an overall cautious stance because it never saw enough sustained high yield price strength, and thus we watched largely from the sidelines. However, one third of the portfolio did alternate between U.S. Treasuries and high yield bonds, moving into U.S. Treasuries and then back to high yield bonds twice during the quarter. Certainly our portfolio team was concerned with the FITR model struggling with volatility

during the fourth quarter, moving a portion of the portfolio in and out of high yield more than has been its usual pattern. We were reassured, however, that the portfolio remained at least two thirds out of high yield bonds for most of the quarter during a time when volatility was elevated. The primary goal of the FITR model has always been to capture and/or avoid large moves in relative strength between high yield bonds, U.S. Treasuries, and cash. A generally defensive stance during the quarter certainly appears justified, and thus we believe that our model is successfully fulfilling its mission. The top two contributors to return for the quarter were two high yield bond funds, Lord Abbett High Yield (LAHYX) and Eaton Vance Income Fund of Boston (EIBIX). The main high yield ETFs that the portfolio uses, the iShares iBoxx High Yield Corporate Bond ETF (HYG) and the Barclays High Yield Bond SDPR (JNK), were the top detractors.

### Sentry Strategy *(Hedge/Volatility)*

Hedging equity exposure during a bull market when the S&P 500 is up over 13% on the year 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. That is what we attempted to do as the markets advanced.

Our strategy and tactics towards managing volatility have been geared toward maintaining a relevant hedge while controlling costs. The core of our protection strategy uses S&P 500 puts, and we employed spread trades to offset some costs, usually putting on spread trades that are 2% and 7% or 3% and 8% below the S&P 500's price level at the time of execution. By both owning puts and then writing puts at a lower level, we are able to greatly reduce the cost of equity portfolio protection. During the quarter, we then moved in and out of these put spread trades, attempting to cash in on what are most often fleeting gains in volatility. Our policy in this section of the portfolio continues to be at all times to maintain a core protective position for client assets. Maintaining a constant protective position of course has a cost, and much of the portfolio's other activity is devoted to minimizing the cost of hedging. To do that, the portfolio placed call spread trades on the iPath S&P 500 VIX Short-Term ETN (VXX), looking to slowly and gradually earn profits taking advantage of the huge cost of owning volatility when markets are up or even flat. Finally, when volatility has spiked up and we sense extreme pessimism and panic have taken over the markets, the portfolio will attempt to monetize the portfolio's cash and tactically short volatility using the VelocityShares Inverse VIX Short Term ETN (XIV). During the quarter, we executed such a trade once, between October 15th and October 21st.

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### Outlook

The U.S. stock market finds itself in rare territory as we enter 2015. For only the sixth time in the past 150 years, the U.S. stock market has registered a double-digit gain for three consecutive calendar years from 2012 to 2014. Can the U.S. stock market post a fourth year of double-digit gains?

Historical tendencies suggest 2015 could be a very good year. However, it is very hard to get overly bullish given the many risks we see on the horizon. For example, since 1875 the S&P 500 has only rallied seven consecutive years once, from 1982 through 1989, when it advanced for eight consecutive years. The current bull is almost six years long and much older than the 3.8 year average of bull markets dating back to 1932. In addition, with the S&P 500 trading at a price-to-earnings ratio of 18, multiple expansion seems unlikely and further gains will largely depend on earnings growth. Fortunately, valuations can remain stretched for extended periods, and we do expect another positive year of earning growth on the heels of a strengthening U.S.

economy. We expect U.S. economic growth of 3.0%, which would be the strongest annual growth rate since the recession, while the global economy should grow by about 3.5%.

Our baseline expectations for the market call for additional gains. Our year-end target for the S&P 500 is 2275, which would be about a 10% gain. Those expectations are based on analysis of historical precedence including the average market gains in the third year of the Presidential Election Cycle, strong momentum, earning growth, seasonal trends, accelerating economic growth, and the normal market performance around the first Fed rate hike. As far as fixed income goes, we expect a further flattening of the yield curve as the Fed hikes rates, probably at the June FOMC meeting. The 10-year Treasury yield, currently trading at around 2.0%, is likely to challenge 1.60% before heading higher. Our year-end target for the 10-year Treasury yield is 2.50% with a potential range of 1.60% to 3.0%. We do favor credit risk over duration as the strengthening economy and low defaults offer fundamental support to lower quality debt.

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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 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 MSCI World Index is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance.

The MSCI World Index ex. U.S. is a freefloat-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the U.S.

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 Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

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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