



**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.

## THE DOLLAR IS KING

The first quarter of 2015 was characterized by a few macro trends that dominated the investing landscape including the Federal Reserve pushing off rate hikes, foreign central bank easing, U.S. dollar strength, and oil weakness. These all influenced asset flows and contributed to a choppy market environment. The Federal Reserve ended QE3 in October, and then spent the first three months of 2015 preparing the markets for a rate hike later this year. The U.S. economy went through a soft patch in the first quarter, not unlike the weather-related weakness in the first quarter of 2014, in which the economy declined at a 2.1% annualized pace. We don't expect anything like that this time around but, nonetheless, data has been soft due to the ending of quantitative easing, the strong dollar, poor weather across much of the U.S., West Coast port strikes, and oil weakness. Growth should pick up for the balance of the year and we already see evidence of strong underlying trends. Coming into the year it looked like the Fed would hike rates at their June meeting. However, the soft first quarter economic data and comments from the Fed have shifted markets' expectations and it now looks like the first rate hike will be in the fall, possibly at the September meeting.

Meanwhile, in Europe, European Central Bank President Draghi announced quantitative easing for the eurozone as they attempt to stimulate an economy that flirted with recession last year. Central banks across the globe from London to Tokyo remain in easing modes. The effects on currencies and equity markets have been dramatic. The euro fell 11.2% in the first quarter, the largest quarterly decline in the single currency since its inception in 1999. Even after the steep losses, the euro looks lower as negative interest rates across Europe prompt investors to sell euros and buy dollars, putting further pressure on the continent's currency. At quarter end the euro stood at 1.0731 dollars/euro, down from 1.40 dollars/euro in last year. Analysts expect it to continue weakening with many forecasting 0.85 dollars/euro in 2016. Increasing currency volatility remains a major source of macro risk in global markets today. While it remains to be seen if history will repeat itself, currency turmoil has often led to global equity declines due to the large leverage effect of currency trades.

Relative central bank policies have boosted international equities with foreign markets outperforming the U.S. The MSCI EAFE Index rose 5.0% while the S&P 500 gained a mere 0.95% on a total return basis; the EAFE outperformed the S&P 500 by the most since the first quarter of 1998. In local currencies, the foreign markets were up even more, with the MSCI EAFE

### Executive Summary

**A Choppy Quarter in the U.S.:** The U.S. economy went through a soft patch in the first quarter, and the markets reacted to a few macro trends including the Federal Reserve pushing off rate hikes, foreign central bank easing, U.S. dollar strength, and oil weakness.

**QE and the Global Economy:** Central banks across the globe from London to Tokyo remain in easing modes. The effects on currencies and equity markets have been dramatic. While it remains to be seen if history will repeat itself, currency turmoil has often led to global equity declines due to the large leverage effect of currency trades.

Past performance is not indicative of future results.

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

## First Quarter 2015 — Portfolio Commentary

Index up 10.9% in local currencies. The dollar strength and central bank easing had a profound positive impact on foreign markets.

In the U.S., as noted above, economic data consistently came in below expectations in the first quarter. As a result, investors put a premium on companies that could grow their businesses without the benefit of a strong economy. Stocks with high long-term earnings and sales growth outperformed. Sector leadership largely favored the consumer. Health Care, which continued its winning streak from 2014, and Consumer Discretionary, were the strongest sectors, while the Energy and Utilities sectors underperformed. In addition, small cap and mid cap stocks outperformed large cap in part due to the strong dollar and higher valuations of larger cap stocks. In fixed income, high yield outperformed with credit spreads narrowing from 444 basis points at the beginning of the year to 426 basis points at quarter-end. High yield bonds rebounded nicely from their December energy crisis lows and are trading close to new highs on a total return basis. For the quarter, the Barclays High Yield Index gained 2.52% and the Barclays Aggregate Bond Index was 1.61% higher.

### Q1 Portfolio Analysis & Performance

#### Key Contributors and Detractors

##### Core

##### U.S. Equity Core

###### Top Contributors

- JPMorgan Small Cap Growth
- JPMorgan U.S. Large Cap Core Plus

###### Top Detractors

- MFS Value Inst'l
- Nuveen Santa Barbara Dividend Growth

The U.S. Equity Core portfolio's mission is to provide core U.S. equity exposure via a mix of what we view as high quality, proven mutual funds and ETFs. While the S&P 500 was up only slightly in the first quarter, mid and small cap stocks both showed impressive gains, rising by over 3%. For the quarter JPMorgan Small Cap Growth (OGGFX), a laggard in 2014, was the strongest contributor, as small cap technology and biotechnology stocks surged. JPMorgan U.S. Large Cap Core Plus (JLPSX) was another top contributor; the fund has a unique 130/30 strategy that has been successfully implemented over many years. Dividend paying stocks lagged after a stellar 2014, and thus our dividend-focused holdings MFS Value Inst'l (MEIIX) and

Nuveen Santa Barbara Dividend Growth (NSBRX) were the largest detractors. 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 has a slightly higher P/E than the S&P 500 but also a higher long-term growth rate. While we expect to stay with most of the portfolio's current holdings, we may add some more exposure to the mid cap growth space, an area that the portfolio is somewhat light on right now.

### U.S. Equity Income Core

#### Top Contributors

- JPMorgan Large Cap Growth
- iShares Russell 2000 ETF

#### Top Detractors

- American Century Value
- 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 but investment grade corporate credit versus defensive government credit was a negative again in the first quarter of 2015, as U.S. Treasury bonds again performed well amidst deflation 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 and limited return potential. The two fixed income funds we own, AllianceBernstein High Income (AGDYX) and Loomis Sayles Strategic Income (NEZYX), both lagged the Barclays U.S. Aggregate Bond Index. The portfolio's large cap growth fund, JPMorgan Large Cap Growth (SEEGX) put in a very strong quarter and was the portfolio's top contributor. Small cap stocks, which are shielded much more from the effects of a strong dollar, performed nearly as well, and the iShares Russell 2000 ETF (IWM) was also a large contributor. Loomis Sayles Strategic Income (NEFZX) and American Century Value (TWVLX) were the largest detractors, as dividend-oriented companies and corporate credit underperformed.

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## International Equity Core

### Top Contributors

- MFS International Value Inst'l
- Artisan International

### Top Detractors

- iShares Emerging Markets Minimum Volatility
- Vanguard Emerging Markets ETF

The International Equity Core portfolio's mission is to provide core international equity exposure via a mix of what we view as high quality, proven mutual funds and ETFs. Coming into 2015, we were of the opinion that after a particularly poor 2014, international markets were due to outperform, and in the first quarter that certainly was true. The euro fell by 11%, the biggest quarterly decline since its inception in 1999. As a result, European markets went on a tear as the profits of big European exporters got a substantial boost. Japan also continued to fare well, despite relatively weak domestic economic news. Our resultant International Equity Core portfolio, a combination of mutual funds for developed market exposure and ETFs for emerging market exposure, is in aggregate a high quality and lower beta portfolio, which is in line with the portfolio's core mission. The portfolio's sector and country biases are largely a result of the bets made by one of our mutual funds, MFS International Value (MINIX). The fund overweights Consumer Staples and Technology, while underweighting Energy and Financials. It is very rare to find a value fund that actively underweights Financials, which are a large portion of value fund indexes, but MFS has done so for some time, and we have found the fund has fared well. MFS International Value (MGIAX) and Artisan International (ARTIX) were the portfolio's largest contributors, as both funds participated in the rallies in Europe and Japan. From a country allocation perspective, the International Core portfolio has a substantial overweight to Japan, while underweighting Canada and the U.K. Among individual holdings, quality large cap funds with large allocations to Japan were the top contributors to return. Allocations to emerging markets, which continue to struggle with the collapse in commodity prices, were the top detractors, namely the Vanguard Emerging Markets ETF (VWO) and the iShares Emerging Markets Minimum Volatility (EEMV).

## Fixed Income Core

### Top Contributors

- BlackRock U.S. Mortgage Inst'l
- Pioneer Bond Y

### Top Detractors

- Navigator Duration Neutral Bond
- Loomis Sayles Investment Grade Bond

The Fixed Income Core portfolio's mission is to provide core U.S. fixed income exposure via a mix of what we view as solid, proven mutual funds and ETFs. The firm's longstanding bias towards credit risk has driven many of the recent investment decisions. Deflation in Europe and the resultant extremely low and even negative interest rates drove activity in the bond markets during the first quarter. In Switzerland and Germany, short and even intermediate-term interest rates have gone negative. Such extremely low interest rates have made U.S. Treasuries a compelling buy to foreign investors, and the resulting distortions are putting downward pressure on U.S. interest rates. This had led U.S. Treasuries to continue to perform well. Nevertheless, Clark Capital's market outlook continues to view the overall economic environment as conducive to healthy economic growth and to be favorable towards credit. As a result, we look to have our portfolio take on as much credit risk as we can while remaining investment grade; thus the portfolio's current average credit quality is BBB+. The portfolio does include a position in Navigator Duration Neutral Bond (NDNIX), which is an interest rate hedged municipal bond fund. We continue to like the fund because it provides a hedge against the potentially large loss that could hit bonds if interest rates rise; additionally, municipal bonds are attractive on both a pre-tax and post-tax basis. The portfolio's largest detractors were Navigator Duration Neutral Bond Fund and Loomis Sayles Investment Grade (LSIIX). The portfolio's top contributors were BlackRock U.S. Mortgage Portfolio (MSUMX) and the Pioneer Bond Fund (PICYX).

## Explore U.S. Style Opportunity

### Top Contributor

- iShares Russell 2000 Growth ETF
- iShares S&P 500 Growth ETF

### Top Detractors

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

The U.S. Style Opportunity portfolio was gradually moved from large cap growth stocks to mid and small cap growth stocks as the quarter progressed. Despite some short-term hiccups for the U.S. economy recently, we continue to see the underlying metrics as very positive in the longer run. The underlying trend technicals of the market are mildly bullish, and while valuations are high, they can be said to be only at the high end of a normal valuation range. Within U.S. equities, our relative strength based models have drifted towards mid and small cap growth stocks, and slowly we see even mid and small cap value stocks gaining ground. For the first time in quite some time, we have zero large cap stock exposure. That may well be a result of the strong dollar, which acts as a drag on large cap multinational earnings. Currently two thirds of the Style portfolio is dedicated to mid and small cap growth ETFs, with the remainder in mid and small cap blend ETFs. A stronger U.S. economy and a stronger dollar historically provide strength to small cap stocks, and this appears to again be the case. In aggregate the Style portfolio has a very aggressive and bullish stance. The portfolio's forward P/E ratio is 25.7 versus 16.8 for the S&P 500. In return for paying a premium versus the broader market, the portfolio does own stocks that have a 16% long-term growth rate versus 11.5% for the S&P 500. From a sector perspective, the Style portfolio overweights the Consumer Discretionary, Health Care, and Industrials sectors while underweighting Energy, Financials, and Consumer Staples. The portfolio has a relatively low percentage of debt-ridden companies. The portfolio's style tilt towards growth drove performance during the quarter, as the iShares Russell 2000 Growth ETF (IWO) and the iShares S&P 500 Growth ETF (IVW) were both top contributors. The SPDR S&P 500 ETF (SPY) and the iShares Russell Mid-Cap Growth (IWP) were the top detractors.

## U.S. Sector Opportunity

### Top Contributors

- Health Care Select Sector SPDR
- iShares NASDAQ Biotechnology ETF

### Top Detractors

- iShares U.S. Technology ETF
- iShares U.S. Transportation ETF

The U.S. Sector Opportunity portfolio's mission is to tactically rotate towards U.S. sector ETFs that display sustained relative strength. Over the past few quarters the Consumer Discretionary, Health Care, and Technology sectors have displayed that sustained relative strength, and the portfolio has been largely allocated there. The portfolio's holdings and the standings in the relative strength matrix have been remarkably stable. A number of ETFs have been in the portfolio for many months now, including: Biotechnology (IBB), broad Health Care (XLV), Health Care Providers (IHF), the NASDAQ 100 (QQQ), Retail (XRT), and Aerospace and Defense (ITA). The broad economic environment, which is being driven by global central bank easing, has favored discretionary spending in particular, and the portfolio now allocates a sizeable 39% there. While owning the market's stronger sectors is the portfolio's guiding principle, there is an important flip side to that — avoid the weakest sectors, and over the past year that has been Energy, a sector we have completely avoided for the last two quarters. Energy's severe underperformance seems to have ended for now, but we have no way of knowing if the worst is over. Despite massive declines in stock prices, Energy is the market's most expensive sector, with a forward P/E of over 30. We will be waiting on the sidelines to see if Energy can find traction. As of now, it remains at the bottom of our rankings. In aggregate, the sector portfolio, like the broad market, is willing to pay up for growth; the portfolio's forward P/E is 18.9 versus 16.8 for the S&P 500. However, in return for that premium, the portfolio has a long-term growth rate of 15.8% versus 11.5% for the S&P 500.



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International Opportunity *(Developed, Emerging & Frontier)*

**Top Contributors**

- iShares Japan ETF
- S&P China SPDR

**Top Detractors**

- iShares Turkey ETF
- SPDR S&P 500 ETF

The International Opportunity portfolio's stated mission is to allocate tactically between international country and region ETFs that display superior relative strength to the rest of the world. Central bank easing has been the big story so far in 2015, and the European Central Bank launched a massive quantitative easing during the quarter that really defined the investing environment for all others. Interest rates in continental Europe were quickly driven to negative levels. As a result the euro declined by a noteworthy 11% during the quarter, its largest quarterly decline on record. Effects on currency have become more and more pronounced over the last 12 to 18 months and, as a result, we made an effort to add a number of currency hedged ETFs to our relative strength matrix. Not surprisingly these ETFs were at or near the top of the matrix, and quickly Japan Hedged (DXJ), Germany Hedged (DBGR), and Europe Hedged (HEZU) were purchased as holdings. We now have hedged 18% of the International Opportunity portfolio to the dollar. We, along with many others, believe that the trend towards a stronger dollar is secular and long-term. Thus, we would expect that currency hedged ETFs will be a part of the portfolio for much of the next few years. Of course, we will strictly follow our relative strength matrix in deciding whether or not to include them as holdings. The performance of European equities was certainly the standout during the quarter, but Asian markets, particularly Japan, India and China were a close second, and they occupied much of the rest of the portfolio. Despite the strength in international markets, in aggregate the International Opportunity portfolio remains attractively valued, in our opinion. On a 12-month forward earnings basis, the portfolio's P/E ratio is 14.9 versus a 14.2 P/E for its benchmark, the MSCI World ex USA Index. Both of these measures are substantially cheaper than U.S. markets. On a sector basis, the portfolio overweights Technology, Consumer Discretionary, and Industrials while underweighting Energy, Financials, and Health Care. Japan, Germany, and Taiwan are the largest country overweights, while the U.K., Switzerland, and Canada are the largest underweights.

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

**Top Contributors**

- VelocityShares Inverse VIX Short Term ETN
- AQR Managed Futures Strategy HV I

**Top Detractors**

- S&P Oil & Gas Exploration & Production SPDR
- iPath Bloomberg Grains ETN

The Alternative portfolio contains a well-diversified mix of themes which breaks down as follows: Alternative-Oriented Mutual Funds 46.0%, Tactical Global Equity 28.0%, Fixed Income 14.0%, Commodities 2.0%, and Cash 10.0%. During the quarter we added two new alternative-oriented mutual funds to the portfolio: AQR Managed Futures Strategy High Volatility (AQMIX) and TFS Market Neutral (TFSMX). AQR Managed Futures Strategy takes long and short positions in equity, fixed income, commodity, and currency futures based on long-term momentum trends. The fund has a historical record of success, is leveraged at 150%, and importantly is one of the lowest expense funds that access the managed futures markets. TFS Market Neutral takes long and short positions in mid and small cap U.S. stocks, and the fund has a record of adding alpha over time and not being correlated to U.S. equity market movements. Within the rest of the portfolio, we take a targeted and tactical approach to managing equity, fixed income, and commodities. Due to what appears to be an ongoing bear market, we are largely avoiding commodities at this time. In fact, our only commodity position is a small short in Gold (DGZ). Within equities the portfolio is focused on U.S. mid and small cap stocks, Asia ex Japan, and shorting market volatility (XIV). The portfolio's top contributors were the VelocityShares Inverse Short-Term VIX ETN (XIV) and the newly added AQR Managed Futures Strategy (QMHIX). The top detractors were a brief, failed position in Oil & Gas Exploration (XOP) and a position in Grains (JJG). Looking forward to the rest of 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 this year, as many expect.

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Global Tactical *(Unconstrained)*

**Top Contributor**

- iShares Russell 2000 ETF
- iShares Russell Midcap

**Top Detractor**

- SPDR S&P 500 Index ETF
- iShares Barclays 7-10 Year Treasury ETF

The philosophy of the Global Tactical portfolio is to use our proprietary matrix ranking the relative strength of various asset classes (stocks, bonds, commodities, currencies, and cash) to allocate to those asset classes with the highest rankings. Stocks have occupied the top of the rankings for well over a year now, and for most of that time we have allocated the entire portfolio to equities. To begin 2015, the portfolio had a small allocation to U.S. Treasuries, but we quickly re-invested that in equities as the year began. As the first quarter developed we saw international equities pick up in their performance and by the end of the quarter we had established a small position in Currency Hedged EAFE (DBEF) and Currency Hedged Europe (HEZU) ETFs. We expect to add unhedged international equity positions early in the second quarter. Within U.S. equities, the portfolio has largely completed a move away from large cap and towards mid and small cap exposure, which is in line with our relative strength matrix. Given our view that the economic and investing environment favors equities for most of 2015, we expect the Global Tactical portfolio to favor equities for most of the rest of the year. Over time, the portfolio could well favor international equities over domestic. We do not see much reason for taking a cautious stance on equities, either U.S. or domestic, at this time. The Russell Mid-Cap (IWR) and Russell 2000 (IWM) ETFs were the portfolio's largest positions and were the top contributors. The top detractors were the SPDR S&P 500 Index ETF (SPY) and the iShares Barclays 7-10 Year Treasury ETF (IEF).

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

**Top Contributor**

- BlackRock High Yield Bond
- iShares Barclays 7-10 Year Treasury ETF

**Top Detractor**

- AllianceBernstein High Income Adv
- Barclays Short-Term High Yield Bond SPDR

Coming into 2015, the Fixed Income Total Return portfolio was in a neutral position with regard to high yield bonds, cash, and U.S. Treasuries, owning roughly one third each. However, early in 2015 confidence in high yield credit surged, and on January 12th the portfolio allocated 100% towards high yield bonds, using a combination of high yield mutual funds and ETFs. The relative performance strength of high yield bonds was coincident with at least an end to the waterfall decline in U.S. Energy stocks. While Energy stocks (and the high yield bonds in the sector, which at 16% are the largest sector in the high yield bond universe) have yet to become performance leaders, their relative decline appears to have ended, and they are now simply trading within an admittedly volatile range. While we are allocated 100% towards high yield bonds and believe that their extra yield could lead to strong performance, particularly in a steady economic environment, we are also aware of the strong downward pressure on U.S. interest rates. This pressure is not at all attributable to the U.S. economy but to the low and negative interest rates in Europe and Japan. Foreign investors see U.S. bonds as extremely safe and as one of their few sources of yield. As a result, the massive size of foreign inflows has boosted U.S. Treasuries in particular and U.S. fixed income overall. The relative strength moves between high yield bonds and U.S. Treasuries have been muted. While our models favor high yield, there is not a particularly strong trend towards either sector at this time. The top two contributors to return for the quarter were a strange pair indeed. First, BlackRock High Yield Bond (BRHYX) was our largest high yield bond holding, and it continues to fare well within the category. Second, even though we only held U.S. Treasuries until January 12th, their performance was strong and our positions were so large that the iShares Barclays 7-10 Year Treasury ETF (IEF) was also a top performer. AllianceBernstein High Income (AGDYX) and the Barclays Short-Term High Yield Bond SDPR (SJNK), were the top detractors.

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

Hedging one's equity exposure during a strong market for equities is an exercise in patience and understanding the proper role of a hedge in a broader portfolio. When our assessments of the markets are broadly bullish – as they remain today and for most of 2015 – the Navigator Sentry Managed Volatility Fund attempts to manage the cost of hedging while maintaining a minimal hedge required to safeguard client assets. Under these circumstances, the Navigator Sentry Managed Volatility Fund is a net loser in client portfolios, waiting for its day when protection will shine.

Put spreads on the S&P 500 that manage the cost of the hedge combined with call spreads on volatility (VXX) are at the core of the portfolio's hedging philosophy. The core of the protection strategy continues to be using these S&P 500 put spreads, 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. Of course, maintaining a constant protective position has a cost, and much of the portfolio's other activity is devoted to minimizing the cost of hedging. To do that, the portfolio has placed call spread trades on the iPath S&P 500 VIX Short-Term Futures 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 (which we estimate is over 70% of the time). Finally, when volatility has spiked and we sense that extreme optimism or pessimism and thus froth or panic have taken over the markets, we will attempt to monetize the portfolio's cash and tactically go long or short volatility. During a fairly quiet quarter in which the S&P 500 was up only slightly, we did not take on any of these trades in the first quarter.

### Outlook

Investors seem to have adopted a risk-on bias with small caps outperforming large caps, growth outperforming value, international equities outperforming the U.S., and high yield bonds outperforming investment grade credit. These characteristics suggest a positive tone for the markets as the second quarter begins. The question is how long will it last? There are risks to the market outlook from valuations and the currency moves, which we highlighted, have often preceded turmoil. But at this point the currency weakness has been cheered by investors.

There is certainly a lot of worry over earnings as estimates have plunged along with oil prices. The range of first quarter earnings estimates for the S&P 500 are from about -1.9% to as much as a -5% decline as a result of the strong dollar and severe winter weather. While over the long-term the economy, corporate earnings, and equity markets are highly correlated, there are instances where earnings forecasts become either too pessimistic or too optimistic and diverge from reality. We think we may be at one of those instances currently. We may be approaching a point where the estimates are too bearish and we have the potential for some upside surprises. The bar is currently set so low that it is easy to hurdle.

The U.S. economy is in a good position to rebound nicely in the second half. Employment growth is by far the best it has been in 15 years and there are some signs that meaningful wage growth, one of the factors that had been missing from this labor market recovery, may be on the horizon. With this in mind there is no reason for the Fed to keep rates at the lower bound. What does it mean if the Fed finally hikes rates later this year? For starters it will be the most telegraphed rate hike in the history of the Federal Reserve. So it should surprise nobody when it happens. A rate hike to begin normalization of policy should be tolerated by the economy and may actually have a positive impact. While some analysts believe that even a modest rate rise will disrupt markets, the Fed has made it clear that the trajectory of rate increases will be measured and gradual, a pace that should be well-anticipated by markets at this stage.

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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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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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