Clark Capital Management Group

Navigator® 401(k)

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Second Quarter 2015 - Commentary & Perspective

Risk-Based Portfolios

Navigator Fixed Income

For the second quarter of 2015, the Navigator Fixed Income portfolio lost 1.14% (net) compared to a 0.62% loss for the Barclays Capital Intermediate Government and Credit Index. The Fixed Income portfolio's mission is to provide core U.S. fixed income exposure via a mix of solid, proven mutual funds and ETFs. The firm's longstanding bias towards credit risk and against interest rate risk has driven many recent investment decisions. In the fixed income world the second quarter was an uphill climb as interest rates rose as what most see as an impending Fed rate increase comes closer and closer. The Fixed Income portfolio includes a sizeable position in Navigator Duration Neutral Bond (NDNIX), an interest rate hedged municipal bond fund. While Treasury bonds endured sizeable losses on the quarter, the Duration Neutral Bond fund was up nearly 1% net, as the fund's defensive stance towards interest rates paid off. The fund's other credit-oriented holdings had less exposure to rising interest rates than Treasuries and helped shield the portfolio from losses. Over the long run, we continue to believe that Treasury bonds do not offer an attractive risk-reward ratio, and we are avoiding them until we see signs of a major economic downturn, during which their risk-off tendencies would make them an ideal safe harbor. We see no signs of sustained economic weakness during 2015. The portfolio's top contributors were the Navigator Duration Neutral Bond Fund (NDNIX) and the Barclays Convertible Bond SDPR (CWB). The top detractors were Legg Mason Brandywine Global Opportunities Bond (GOBIX) and Loomis Sayles Investment Grade Bond (LSIIX).

Navigator Capital Preservation with Sentry

For the second quarter of 2015, Navigator Capital Preservation with Sentry lost 0.90% (net) compared to a 0.90% loss for the Dow Jones Conservative Portfolio Index. The tactical fixed income portion of the portfolio maintained its position in high yield bonds during the quarter, and thus for the quarter, the broader portfolio was bullish on credit in general. While high yield bonds were flat and did not produce gains, in an environment of rising interest rates, a portion of the portfolio was shielded from broader bond market losses. The core fixed income portion of the portfolio continues to favor corporate bonds and spread contraction plays in general; the strategy also contains an interest rate hedged municipal bond fund, which again proved defensive in a difficult quarter for bonds. Within the alternative sphere, we underweighted commodities and focused on large-cap equity, long/short and managed futures mutual funds, and shorting volatility. In the portfolio's core equity portion small cap stocks continued to lead both U.S. and global markets higher, while among international equities Europe, China, and Japan delivered solid gains.

Hedging one's equity exposure during a strong market for equities is an exercise in patience and requires 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 the rest of 2015 – the portfolio's hedging strategy (via the Navigator Sentry Managed Volatility Fund) attempts to manage the cost of hedging while maintaining a minimal hedge required to safeguard client assets. Put spreads on the S&P 500 that manage the cost of the hedge combined with options on volatility (VXX) are at the center 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 from 2% to 5% 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 reduce the cost of the portfolio's protection.

Navigator Conservative Growth with Sentry

For the second quarter of 2015 Navigator Conservative Growth with Sentry lost 1.04% (net) compared to a 1.02% loss for the Dow Jones Moderately Conservative Portfolio Index. The tactical fixed income portion of the portfolio maintained its position in high yield bonds during the quarter, and thus for the quarter, the broader portfolio was bullish on credit in general. While high yield bonds were flat and did not produce gains, in an environment of rising interest rates, a portion of the portfolio was shielded from broader bond market losses. Within U.S. equity styles, the portfolio largely kept is focus on small cap and growth stocks, areas which have been leading in relative strength. Within the U.S. sector sphere, the portfolio emphasized Health Care and Consumer Discretionary and, later in the quarter, added Financials. Our relative strength rankings have kept us out of energy in particular. Among international equities, our relative strength rankings pushed the portfolio towards Japan and China and, as the quarter progressed, more into Europe. Our Europe and Japan positions are partially currency hedged.

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Navigator Moderate Growth with Sentry

For the second quarter of 2015, the Navigator Moderate Growth with Sentry lost 1.10% (net) compared to a 0.61% loss for the Dow Jones Moderate Portfolio Index. The tactical fixed income portion of the portfolio maintained its position in high yield bonds during the quarter, and thus for the quarter, the broader portfolio was bullish on credit in general. While high yield bonds were flat and did not produce gains, in an environment of rising interest rates, a portion of the portfolio was shielded from broader bond market losses. Within U.S. equity styles, the portfolio largely kept its focus on small cap and growth stocks, areas which have been leading in relative strength. Within the U.S. sector sphere, the portfolio emphasized Health Care and Consumer Discretionary and, later in the quarter, added Financials; our relative strength rankings have kept us out of energy in particular. Among international equities, our relative strength rankings pushed the portfolio towards Japan and China and, as the quarter progressed, more into Europe. Our Europe and Japan positions are partially currency hedged.

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 the rest of 2015 – the portfolio's hedging strategy (via the Navigator Sentry Managed Volatility Fund) attempts to manage the cost of hedging while maintaining a minimal hedge required to safeguard client assets. Put spreads on the S&P 500 that manage the cost of the hedge combined with options on volatility (VXX) are at the center 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 from 2% to 5% 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 reduce the cost of the portfolio's protection.

Navigator Growth

For the second quarter of 2015, the Navigator Growth portfolio lost 0.47% (net) compared to a 0.26% loss for the Dow Jones Moderately Aggressive Portfolio Index. The tactical fixed income portion of the portfolio maintained its position in high yield bonds during the quarter, and thus for the quarter, the broader portfolio was bullish on credit in general. While high yield bonds were flat and did not produce gains, in an environment of rising interest rates, a portion of the portfolio was shielded from broader bond market losses. Within U.S. equity styles, the portfolio largely kept its focus on small cap and growth stocks, areas which have been leading in relative strength. Within the U.S. sector sphere, the portfolio emphasized Health Care and Consumer Discretionary and, later in the quarter, added Financials; our relative strength rankings have kept us out of energy in particular. Among international equities, our relative strength rankings pushed the portfolio towards Japan and China and, as the quarter progressed, more into Europe. Our Europe and Japan positions are partially currency hedged. Within the Alternative sphere, the portfolio avoided commodities and emphasized U.S. small cap equities and alternative strategies such as long/short, managed futures, and shorting volatility.

Looking forward to the rest of 2015, we continue to expect U.S. markets to follow a generally upward path. We expect news regarding the U.S. and international economies to improve during the second half of the year, with major equity indexes moving higher. We continue to note that is has been since 2011 that markets have endured a 10% correction. However, this long period of low volatility does not mean a correction is imminent. Either way, we would view a correction during 2015 as an opportunity to add exposure to risk assets. While we are constantly watchful for deteriorating conditions and are ready to take a more defensive stance, we see no major issues outside the isolated case of the energy sector.

Navigator Aggressive Growth

For the second quarter of 2015, the Navigator Aggressive Growth portfolio lost 0.34% (net) compared to a 0.0% return for the Dow Jones Aggressive Portfolio Index. Within U.S. equity styles, the portfolio largely kept is focus on small cap and growth stocks, areas which have been leading in relative strength. Within the U.S. sector sphere, the portfolio emphasized Health Care and Consumer Discretionary and, later in the quarter, added Financials; our relative strength rankings have kept us out of energy in particular. Among international equities, our relative strength rankings pushed the portfolio towards Japan and China and, as the quarter progressed, more into Europe. Our Europe and Japan positions are partially currency hedged. Within the Alternative sphere, the portfolio avoided commodities and emphasized U.S. small cap equities and alternative strategies such as

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long/short, managed futures, and shorting volatility. Rising interest rates and falling energy prices continue to be a drag on the energy sector and commodities in particular; our relative strength rankings have kept us largely out of these struggling areas.

Looking forward to the rest of 2015, we continue to expect U.S. markets to follow a generally upward path. We expect news regarding the U.S. and international economies to improve during the second half of the year, with major equity indexes moving higher. We continue to note that is has been since 2011 that markets have endured a 10% correction; however, this long period of low volatility does not mean a correction is imminent. Either way, we would view a correction during 2015 as an opportunity to add exposure to risk assets. While we are constantly watchful for deteriorating conditions and are ready to take a more defensive stance, we see no major issues outside the isolated case of the energy sector.

Strategist Portfolios

Navigator Fixed Income Total Return

For the second quarter of 2015, the Navigator Fixed Income Total Return portfolio returned 0.44% (net) compared to a 0.0% return for the Barclays U.S. Corporate High Yield Index. Early in 2015, on January 12th, the Fixed Income Total Return portfolio allocated 100% towards high yield bonds using a combination of high yield mutual funds and ETFs. Since then our models have remained positive on high yield bonds and indeed made new highs for most of the second quarter. Lately, while headlines have focused on Greece and China-related volatility, within high yield the volatility has been centered around energy stocks. The collapse in oil prices has put the focus on oil and gas drillers and explorers, many of whom have financed via high yield debt. Their bonds continue to decline and indicate severe stress. However, we have found the market's fears to so far be isolated within the energy sector; other sectors are not showing signs of severe stress, and in fact, the recent U.S. economic strength indicates that fundamentals and leverage are improving. Thus, while we are watching the energy situation closely, our overall view on high yield bonds remains a bullish one. During the second quarter, high yield enjoyed strong performance in relative terms. While high yield bond prices were largely unchanged, interest rates increased and most bonds declined. The iShares Barclays Aggregate Bond ETF (AGG) declined 2.4%, and the iShares Barclays 7-10 Year Treasury ETF (IEF) declined 3.1%. Past history has indicated that high yield bonds outperform during times of rising interest rates, and the second quarter provided an example of just what that can look like. High yield bonds, despite their credit risk, can be quite defensive during bond bear markets. Two bond mutual funds, Lord Abbett High Yield Bond (LAHYX) and BlackRock High Yield Bond (BRHYX) were the top contributors on the quarter, while high yield bond ETFs (HYG and JNK) were the largest detractors.

Navigator Global Equity ETF

For the second quarter of 2015, the Navigator Global Equity ETF portfolio lost 0.51% (net) compared to a 0.31% gain for the MSCI World Index. The portfolio uses relative strength analysis to allocate to equities within the U.S. Style, U.S. Sector, and International equity spheres. Within U.S. equity styles, the portfolio largely kept is focus on small cap and growth stocks, areas which have been leading in relative strength. Within the U.S. sector sphere, the portfolio

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emphasized Health Care and Consumer Discretionary and, later in the quarter, added Financials; our relative strength rankings have kept us out of energy in particular. Among international equities, our relative strength rankings pushed the portfolio towards Japan and China and, as the quarter progressed, more into Europe. Our Europe and Japan positions are partially currency hedged. The portfolio is roughly equally balanced between U.S. and foreign equity holdings, Lately, however, we have been adding U.S. exposure.

Looking forward to the rest of 2015, we continue to expect U.S. markets to follow a generally upward path. We expect news regarding the U.S. and international economies to improve during the second half of the year, with major equity indexes moving higher. We continue to note that is has been since 2011 that markets have endured a 10% correction; however, this long period of low volatility does not mean a correction is imminent. Either way, we would view a correction during 2015 as an opportunity to add exposure to risk assets. While we are constantly watchful for deteriorating conditions and are ready to take a more defensive stance, we see no major issues outside the isolated case of the energy sector.

High Dividend Equity Portfolio

In the second quarter, worldwide mergers and acquisitions challenged the 2007 record as large cap companies boosted market share through mega deals. In 2014, corporate share buybacks also increased close to 2007 levels as companies repurchased $450 billion of shares. Dividend growth remains historically strong with another record of actual cash payments expected for 2015.

There were several high dividend equity positions with M&A activity. Time Warner entered talks with Charter Communications after a failed merger attempt with Comcast and the Heinz-Kraft merger was completed. Some takeover approaches were rebuffed. Cigna so far rejected Anthem's $53.8 billion acquisition proposal, Williams Companies rejected a $53.1 billion offer from Energy Transfer Equity LP and drug maker Mylan is attempting to resist a $50 billion takeover bid by Teva Pharmaceutical. The current activity is fueled by buyers looking for fundamental growth, global positioning and tax advantages in an attractive interest rate environment. This is in contrast to the mega deal days of 2007, which were fueled by private equity-backed leveraged buyouts.

The Fed Waiting Game

In the beginning of a Fed tightening cycle, the highest dividend yield sectors such as Utilities and Telecom tend to underperform but eventually outperform as the economy moves closer to a late economic stage. Historically, rising long-term rates have benefitted dividend-payers over non-dividend payers.

The portfolio is currently underweight the highest yield sectors while focusing on the attractive universe of dividend growers that we believe will continue to perform during a rate tightening cycle. In the second quarter the top sectors were Healthcare +2.43%, Consumer Discretionary +1.56% and Financials +1.23% while the worst sectors were Energy -6.70%, Industrials -2.77% and Utilities -2.59%.

Sources: Ned Davis Research, FactSet, S&P IQ

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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 freefloat-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

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 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 Dow Jones Aggressive Portfolio Index measures aggressive stocks, bonds, and cash which are represented by multiple subindexes and is quoted in U.S. dollars.

The Dow Jones Moderately Aggressive Portfolio Index measures moderately aggressive stocks, bonds, and cash which are represented by multiple subindexes and is quoted in U.S. dollars.

The Dow Jones Moderate Portfolio Index measures stocks with moderate risk, bonds, and cash which are represented by multiple subindexes and is quoted in U.S. dollars.

The Dow Jones Moderately Conservative Portfolio Index measures moderately conservative stocks, bonds, and cash which are represented by multiple subindexes and is quoted in U.S. dollars.

The Dow Jones Conservative Portfolio Index measures conservative stocks, bonds, and cash which are represented by multiple subindexes and is quoted in U.S. dollars.

MSCI World Index measures large and mid cap representation across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

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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For each separate account with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a separate account's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of separate accounts in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a separate account is derived from a weighted average of the performance figures associated with its three-, five- and ten-year Morningstar Rating metrics.

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.

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment.

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The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices and which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk. 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 Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S. The Barclays Capital Aggregate Bond Index is an intermediate term index.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

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