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.

GLOBAL TURMOIL WHILE THE U.S. MARKET STAYS HOOKED ON LOW RATES

The third quarter of 2015 finally brought a long-awaited correction to the global equity markets. By any measure, the correction was well overdue. After four years, the S&P 500 had a better than 10% correction, falling 12.4% from May 21st to August 25th. For the quarter, the benchmark shed 6.9%, its biggest quarterly decline since the third quarter of 2011. As bad as that sounds, large cap U.S. equities were among the least affected by the global carnage. Every country in the MSCI ACWI lost ground in the third quarter, all nine Russell style boxes ended the quarter negative on the year, Chinese equity benchmarks were cut in half, and commodity indices hit six-year lows. The reasons for the carnage are many: fears of a Chinese hard landing, uncertainty over the potential end of the Zero Interest Rate Policy (ZIRP), and the biggest earnings decline since the Great Recession. On the international front, Brazil, Indonesia, Malaysia, Turkey, and Russia have all entered dramatic bear markets, all of which have featured collapsing currencies, as the strong dollar puts each of these countries into funding crises.

Now that the markets have had their biggest corrections since 2011, heading into the fourth quarter, the question is whether the markets are going through a bottoming process ahead of the most bullish seasonal period of the year or setting up for another downleg. Our assessment of the current market environment is that with U.S. recession risks low, the longer-term uptrends still intact, and investor sentiment pessimistic following the declines, a bottoming process is likely. We are giving a bottoming process the benefit of the doubt and expect the global markets to rebound in the fourth quarter with a yearend rally. In the longer-term, we expect the major indexes to make new highs, but that course will almost certainly be more turbulent than the past few years' extreme low volatility.

Q3 Portfolio Analysis & Performance

U.S. Style Opportunity

The Style Opportunity portfolio ranks a number of U.S. equity styles and factors using Clark Capital's Relative Strength-based ranking methodology and then assembles them into a broad-based portfolio that attempts to outperform the S&P 500. The dramatic market correction in August produced tremendous price volatility, but our Relative Strength rankings hardly budged. The market's underlying trends have not yet changed particularly. The Style portfolio remains focused on growth stocks and, however surprising it might be, today's market environment deems these stocks defensive. Thus the portfolio fared reasonably well during the August market turbulence. Here are some additional key developments in the portfolio during the quarter:

- Low volatility portfolios entered our matrix some time ago, and after August's turbulence, the iShares USA Minimum Volatility ETF (USMV) is at the top of our Relative Strength matrix.

Past performance is not indicative of future results.

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

- Large cap growth, as represented by the iShares S&P 500 Growth ETF (IVW), has displayed incredibly smooth and steady Relative Strength for over a year. The consistency and persistence of large cap growth's Relative Strength has led us to make this our largest position.

- For more than a year, there has been a strong trend towards growth stocks surpassing value stocks, regardless of market capitalization. With financials (the dominant sector in value indexes) rising and market volatility rising, we are watching closely to see if this trend is changing. Our models indicate no significant change thus far.

- Mid and small cap stocks are holding up relatively well amidst the market turbulence, as they are not exposed to the volatility in international, particularly emerging, markets. Mid and small cap growth stocks, in particular, are holding up well, despite the first correction since 2011.

- The top contributors during the third quarter were the iShares USA Minimum Volatility ETF (USMV) and the iShares Russell 2000 (IWM). The top detractors were the iShares Russell 2000 Growth (IWO) and the iShares S&P 500 Growth (IVW).

U.S. Sector Opportunity

The Sector Opportunity portfolio uses a Relative Strength methodology to rank the top performing sectors over the intermediate-term and attempts to outperform the S&P 500 by owning these sectors going forward. In the third quarter the Sector Opportunity portfolio continued to focus on cyclically sensitive sectors, including Consumer Discretionary, Consumer Staples, select areas within Technology, and Health Care. The portfolio has been largely positioned in growth stocks and, in this market environment, growth stocks actually serve as a defensive position. Thus, the portfolio held its own during August's dramatic four day correction in the S&P 500. Here are some highlights and key developments in the portfolio during the quarter:

- Relative strength trends changed very little. The Consumer Discretionary, Health Care, Technology, and Consumer Staples sectors were at the top of our Relative Strength ranking system.

- Consumer Staples (XLP), food and beverage (PBJ), insurance (KIE), and regional banks (KRE) made the most dramatic upward moves. Financials were the fastest rising broad-based sector.

- The Consumer Discretionary sector, particularly broad Consumer Discretionary (XLY) and Homebuilders (XHB) are exhibiting the most persistent Relative Strength, both chart-wise and in our rankings.

- The Energy and Materials sectors continue to underperform and are at the bottom of our ranking system; we see no signs yet of a price or Relative Strength bottom being put in place.

- The internet (FDN) and software (IGV) industries, along with avoiding the Energy sector, were the portfolio's top contributors, while broad Health Care (XLV) and banking (KBE) and an underweight to Transports were the top detractors.

The portfolio's current sector weightings are as follows: Consumer Discretionary 30.0%, Technology 24.5%, Consumer Staples 17.5%, Financials 15.0%, Health Care 10.0%, and Cash 3.0%. The portfolio does not currently allocate to the Industrials, Utilities, Energy, Materials, and Telecommunications sectors.

International Opportunity *(Developed, Emerging & Frontier)*

The International Opportunity portfolio's stated mission is to allocate tactically between international country and region ETFs that are displaying significant Relative Strength and, in doing so, to attempt to outperform the MSCI All Country World ex U.S. Index. The international equity markets enjoyed a strong first half of 2015, largely due to the strong dollar, but the third quarter was a different story. Many emerging markets, including Brazil, Indonesia, and Turkey, among others, entered massive bear markets driven by currency crises. China's market endured substantial declines, as its economy appears to be slowing and equity markets are recovering from a burst bubble. Our Relative Strength-based system kept us away from many of these potholes. Here are some of the other important developments in the portfolio during the quarter:

- The portfolio substantially overweighted Japan during the quarter, on both a currency hedged and unhedged basis. We have been reducing that position as Japanese Relative Strength has waned.

- Our Relative Strength rankings pointed us towards smaller European countries, such as Ireland (EIRL), the Netherlands (EWN), Belgium (EWK), and Italy (EWI). Our research shows this was a result of a modest but real recovery in domestic European economies.

- U.S. markets, across all market caps, score well in our Relative Strength rankings. As a result, the portfolio allocates 20% to U.S. equities, near our stated maximum.

- The portfolio sold off the remainder of its positions in China early in the quarter. Our rankings pointed us away from other troubled emerging markets, such as Brazil, Indonesia, Malaysia, and Turkey.
- Despite extreme weakness in emerging markets, Russia is in the top half of our rankings. While Russia does not yet have sustained outperformance, its Relative Strength appears to have bottomed. We have not yet added it as a position.
- Ireland (EIRL) and Japan Small Cap Dividend (DFJ) were the portfolio's top contributors, while Europe Hedged (HEZU) and Japan Hedged (DXJ) were the top detractors.

The portfolio currently allocates 48% to Europe, and during the quarter reduced its hedge versus the Euro. The portfolio is allocated 20% to the U.S., while 19% is allocated to Japan, and 10% is allocated to Developed Markets small cap. Latin America, the Middle East, and Africa receive no significant weight. There is no allocation to Emerging Markets at this time.

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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 Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

The 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 MSCI ACWI stands for All Country World Index. A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

The MSCI All Country World ex USA Total Return (MSCI ACWI), market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The 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 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.

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 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.

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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