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Senior Portfolio Manager

Tony serves as a portfolio manager in the Premier Portfolios group and is a member of the Clark Capital Investment Committee. He has over 25 years of portfolio management experience utilizing both a quantitative and fundamental process. From 1997 to 2013 Tony was the President and Chief Investment Officer of Global Capital Management which he founded. He was cited as a Top Guns Manager in 2006 and 2007 and was named Manager of the Decade in 2011 by PSN. From 1986 through 1997, Tony was Director of Portfolio Management at RTE Asset Management where he was responsible for portfolio management across all asset classes. Tony is a graduate of the Wharton School of the University of Pennsylvania and holds the CFA designation.

STATE OF THE PORTFOLIO. TEN FOR 2015

With a hat tip to both Byron Wien and Doug Kass for their innovative and informative annual lists of surprises, please find below my 10 thoughts for the past year and how they may impact 2016.

1. Plus Ça Change, C'est La Meme Chose

Despite heightened levels of measured volatility, 2015 ended with a whimper as most broad-based stock market indices ended the year little changed or down. The more things changed — a slower economy, new normalization Fed policy, weak earnings, plunging energy, China devaluing, ISIS active — the more things stayed the same. Even the expected impact on consumer spending from the big drop in oil and the expected impact on exports from dollar strength were both muted. Reviewing the forecasts of market strategists and economists yielded little deviation as most expect continued slow economic growth, low interest rates and mediocre stock market returns. Thus far in 2016, markets are anything but unchanged as investors now seem to be concerned about the negative factors mentioned above.

2. The Great Purge – Oil and Materials

As crude oil fell nearly 70% from its June 2014 high, energy, oil and materials stocks were the big losers throughout 2015. Both earnings and stock prices collapsed during the year and the negative impact of energy debt on junk bond indices was meaningful. Junk spreads expanded rapidly in the second half of the year such that the implied default rate for the broad junk index peaked near 12% — much higher than its typical 4 to 5% level. As energy cash flows swung negative, many buybacks suspended and dividends were cut or eliminated, portfolio managers purged positions throughout the year. Although it appeared as though energy panic selling hit a crescendo on December 30, 2015, concern about China's economic weakening and continued levels of production has sent the price of Brent crude oil to the lowest level since 2004 and West Texas Intermediate crude to a price not seen since 2003.

3. The Eight-Toed Portfolio Manager

While energy's decline played a large part in earnings weakness in 2015, other sectors were also weak. For 2015's fourth quarter, earnings are now expected to decline 7.3% on a 4.6% fall in total revenue. As a portfolio manager, I am highly concerned about not completely abandoning a sector while business deteriorates — ever searching for a new undervalued, high quality company. Unfortunately, as energy prices persistently fell, every time I stuck a new “toe in the water” in the energy or materials space, I would find that three months later, I would have fewer toes. Fortunately, our process pushes our energy sector weightings naturally to below index weights in these long cycles.

1. Bureau of Labor Statistics.

Past performance is not indicative of future results.

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Fourth Quarter 2015 — Portfolio Commentary

4. Priced as a Non-Going Concern

As previously indicated, Energy has gotten cheap. However, as the Eight Toed Portfolio Manager can attest, it doesn't mean it can't get cheaper. The sector's earnings have been decimated from \$23.5 B in the fourth quarter of 2014 down to an estimated \$7.1 B this quarter. The decline in oil prices has harmed virtually all primary companies in the space except the refiners — which primarily benefit from the spread between light crude and gasoline not the raw oil price. In general, the less integrated, smaller and debt dependent companies have been hit the hardest with many exploration and production companies, drillers and oil service companies that attempted to exploit horizontal drilling opportunities now priced as “non-going concerns.” Fortunately, our quality-oriented investment process has helped us avoid many of these companies thus far. Unfortunately, however, if oil stabilizes near these levels, many of those priced-for-near-bankruptcy companies, which we have successfully navigated away from, should rally violently higher as the market reassesses their probability for survival.

5. It's Earnings and the Economy, Stupid

As oil prices made fresh lows throughout the quarter, oil/energy sector earnings are expected to plunge 67.4% in the fourth quarter. A strong dollar and slower global growth also hurt Materials, Industrials and Staples earnings as S&P 500 earnings. Ex oil/energy are still expected to decline 2.0% year over year on marginally lower revenue. First considered a narrowly based earnings slowdown concentrated in energy earnings and capital expenditures, it widened out to more sectors as 2015 progressed. The economic decline has mirrored earnings as U.S. manufacturing activity, measured by the ISM Purchasing Managers Index, ended 2015 at 48.2 or in contraction territory for its second consecutive month. Although manufacturing only represents 12% of U.S. economic output, the ISM's decline below 50 for two consecutive months raises concern about the possibility of negative GDP growth in early 2016.

6. Stop Yellen

U.S. financial history was made on December 16, 2015 as the Fed lifted short term interest rates and changed its policy course to normalization. As we indicated in prior commentaries, such as “Rip Off The Band Aid,” the new policy should be distinguished from tightening. While both policies raise rates, the current objective of the Fed is to relieve the market from extraordinary expansionary conditions as distinguished from slowing an overheating economy, ie, when short term rates rest below the expected inflation rate. As inflation remains

low and economic growth slow, it is unlikely the current policy will transition from normalization/neutralization to tightening/restrictive. As such, equity investors should “Stop Yellen.” They are really not fighting the Fed.

7. Yuan to Go Lower?

In a repeat of last summer's/early autumn's yuan devaluation panic, Chinese stocks began 2016 down 6.9% on the heels of a weak Private Index of Manufacturing Activity report. The 10th consecutive month of slowing for the Index highlights China's difficulty in getting the economy back on solid footing, the central bank's willingness to inject funds and the currency's con-tinued weakness. To counter the weakening currency, the PBOC injected 130 B yuan via seven day repurchase agreements. As in the fall, China's emerging market trading partners like South Korea, Brazil and Russia dislike the arrival of additional currency devaluation.

8. FANG, Unicorns and All Day Breakfast

Although our quality bias materially aided our relative performance in 2015, we missed a lot of investment trends or fads. Our disciplined focus on quality in concert with value and business momentum left us out of both FANG (Facebook, Amazon, Netflix and Google/Alphabet) and the unicorn technology IPOs each possessing mythical investment stories. Importantly, we have a hard time explaining how we missed that “less hot/crazy” McDonalds as All Day Breakfast has juiced the earnings outlook for this stable grower.

9. The Schwartz Awakens

As you know, we believe there are many factors which influence the price of any stock and we are concerned with those high quality companies which we can purchase when they are undervalued and have accelerating business conditions. As such we purchased Disney in our All Cap strategy early in the year before fully knowing that the latest record breaking Star Wars film would certainly stimulate their bottom line.

10. Quality in 2015, Value Tilt in 2016?

Navigator portfolios demonstrated strong relative performance in 2015 as the market strongly favored companies with “antifragile” characteristics. Looking over 50 investment characteristics such as projected earnings growth rate, P/E ratio, market capitalization, 12-month price gain, etc., quality was the second best performing

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investment attribute. Going forward however, it appears as though value focused portfolios may start a meaningful rebound. Virtually all value metrics — price/sales, price/cash flow, price/earnings and dividend yield — performed near the bottom of the tables last year as their typical constituents — cyclicals, energy, materials and industrials — suffered large declines as earnings forecasts deteriorated. By yearend however, value stocks had become so cheap that many offer equivalent quality ratings and growth rates as the more expensive sectors. While we remain committed to our three pronged approach of focusing on what we view as undervalued, high quality companies with accelerating business prospects, we will naturally gravitate to the those areas in the market which performed poorly over the last few years when their business prospects stabilize.

SMID Approaches Its New Three Year Anniversary

High quality Industrials and Technology stocks helped Navigator SMID continue its relative performance run in 2015 helping it gain 4.44% gross (1.35% net) versus the 4.41% decline of the Russell 2000. Since its inception, Morningstar performance analytics ranks this strategy strong in comparison to similar managers. Our focus on what we view as high quality, undervalued companies with improving business prospects continues to yield strong performance. Performance was harmed by our underweight positions in less cyclical sectors Healthcare and Financials. While the value characteristics of the SMID Cap strategy remain compelling, — its current P/E of 13.8 is less than that of the S&P Mid Cap (18.4) or S&P Small Cap (20.6) indices with similar quality and business growth characteristics. Adjustments to portfolio holdings have now placed this strategy's value characteristics back in line with our High Dividend Equity, All Cap, Small Cap and ADR offerings.

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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.

Net returns are shown net of 3%, the highest fee that could potentially be charged including investment advisory fees, trading, custody, investment advisory fees and any other expenses that may be incurred in the management of the account. 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.

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 S&P SmallCap 600 measures the small cap segment of the U.S. equity market. The index is designed to be an investable portfolio of companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

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 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.

There is no assurance that any securities, sectors or industries discussed herein will be included in or excluded from an account's portfolio. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendation or decisions we make in the future will be profitable or equal to the investment performance of the

securities discussed herein. All recommendations from the last 12 months are available upon request.

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

The CBOE Volatility Index (VIX) is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

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

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

The Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The B of A Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Barclays 7-10 Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities between seven and ten years.

The Barclays 20+ Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities greater than twenty years.

The Barclays Long-Term Year Treasury Index tracks the performance of the long-term U.S. government bond market.

The Barclays U.S. Corporate High-Yield Index covers the 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 U.S. Treasury Bond Index is an issuances-weighted index measuring the performance of the U.S. Treasury bond market, one of the largest and most liquid government bond markets in the world.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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