ClarkCapital MANAGEMENT GROUP

Navigator®
Fixed Income Total Return

K. Sean Clark, CFA, Chief Investment Officer

First Quarter 2016 — Portfolio Commentary

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.

WHO'S AFRAID OF VOLATILITY?

The first quarter proved to be a tale of two themes in global markets. First came "The economy is collapsing," then "Don't worry, be happy." Global risk assets suffered sharp declines into February as markets around the world began pricing in recession as it appeared economic trends were deteriorating. At its worst point on February 11th, the S&P 500 was down 10.27%, the MSCI All Country World Index was down 11.39%, and the Barclays High Yield Index was down 5.16%. It was the worst start to a year for high yield bonds on record. Credit spreads (Barclays High Yield – 10 Year U.S. Treasury) peaked at 840 bps on February 11th, their highest level since 2009. Spreads have since fallen to 644 bps as of March 31st, which is still considerably higher than the 550 bps average since 2000.

High yield bonds have recovered, with the Barclays High Yield Index ending the first quarter with a 3.35% gain, having rallied 8.97% off the lows on February 11th. The Barclays Aggregate Bond Index gained 3.03% in the first quarter. The weakness in high yield in 2015 and early this year was centered mainly in the energy and basic material sectors. So it is no surprise that the rebound rally in high yield began on the precise date that oil prices bottomed. Oil jumped sharply, posting its strongest five-week rally since 2011.

The key question going forward is whether the improvement of credit risk sentiment will be sustained. Outside of the commodity and materials sectors, we observe credit fundamentals that remain favorable. For example, ex-commodities, high yield defaults have recently made post-crisis lows of just 1.2% over the past twelve months. However, for the overall high yield marketplace, default rates have risen to 2.9%, still well below the historical median of 4.5%. According to firm-level default data collected from Moody's, roughly 70% of the total amount of defaulted debt over the past 12 months has been in the energy and metals and mining sectors.

First Quarter Attribution

In our view, the volatility during the first quarter showed the benefit of an actively managed tactical fixed income approach. For the quarter, the Fixed Income Total Return portfolio rose 6.38%, gross of fees (5.38% net of 3.00%), outperforming both of its benchmarks. The strategy's strong returns were primarily driven by the asset class decisions. The Fixed Income Total Return portfolio entered the year in a fully defensive posture, owning 100% U.S. Treasuries as high yield debt was pressured due to concerns over weakening economic growth and declining commodity prices. The tide began to shift with risk assets across the board, both equities and credit, bottoming along with investor sentiment on February 11th. Credit spreads began to contract from their highest levels since 2009 as high yield bonds began outperforming U.S. Treasuries. On February 29th, the portfolio shifted its allocation away from Treasuries and bought 100% into high yield bonds, where it remains at the end of the quarter.

Past performance is not indicative of future results.

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

- The credit spread on the Barclays High Yield Corporate Index when we exited high yield on December 9th, was 614 bps. At its worst on February 11th, the date of the market bottom, the spread rose to 840 bps. As of February 29th, when we bought back into high yield, the spread had fallen to 731 bps.
- The volatility of yield, essentially a VIX for interest rates (technically the volatility component of interest rate swaptions) hit an all-time high on February 11th, corresponding with the date of the high yield market bottom. We believe that illustrates clear panic in the credit markets.
- The top performing holdings for the quarter were Treasury positions, the iShares 7-10 Year Treasury ETF (IEF) and the Barclays Long-Term Treasury SPDR (TLO). The bottom performers still provided gains in the portfolio. These include the Barclays Short Term High Yield SPDR (SJNK) and the PIMCO High Yield Spectrum fund (PHSIX).
- The portfolio currently owns 100% high yield exposure through a diversified mix of three high yield ETFs and six actively managed high yield mutual funds.

Outlook

The case for credit remains compelling and we maintain a favorable view that is grounded in continued economic growth, moderate inflation, gradual monetary policy normalization, little threat of spillover from energy and basic materials to the broader high yield marketplace, and credit spreads that are wider than where fundamentals and the economic cycle suggest they should be. In addition, we believe that high yield bonds, with an 8.18% yield on the Barclays High Yield Index, offer attractive valuations in an environment with low yields in the U.S. and negative rates across Europe.

As far as the Fed goes, they are likely to err on the cautious side of hiking rates. Janet Yellen's latest comments indicate that while the Fed acknowledges improvements in the economy, they remain focused on weaker international growth. The Fed does not seem to be in a hurry to raise rates and won't likely hike again until the June FOMC meeting.

Finally, we said in our end of year commentary that "using historical precedent presents an interesting picture about how high yield debt has performed following a down year. Since 1987 the BofA Merrill High Yield Master II Index has suffered only five years of negative returns. Following prior down years for high yield, the asset class has seen a major bounce back with positive returns every time." Adding to that historical perspective is the fact that high yield debt, based on the Barclays High Yield Index, has never had two consecutive years of annual losses.

Past performance is not indicative of future results. This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

ClarkCapital
MANAGEMENT GROUP

Navigator®
Fixed Income Total Return

K. Sean Clark, CFA, Chief Investment Officer

First Quarter 2016 — Portfolio Commentary

The opinions expressed are those of the Clark Capital Management Group Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investment portfolio. Material presented has been derived from sources considered to be reliable, but the investment singular accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Past performance does not guarantee future results.

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 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 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 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 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.

Barclays U.S. Aggregate Bond Index: The index is unmanaged and measures the performance of the investment grade, U.S. dollar denominated, fixed-rate taxable bond market, including Treasuries and government-related and corporate securities that have a remaining maturity of at least one year.

MSCI All Country World Index is 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 and is comprised of stocks from both developed and emerging markets.

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.

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.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services and fees can be found in its Form ADV which is available upon request.

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. Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. 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 recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

CCM-505