



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.

BREXIT, NOT OUR PROBLEM

Trading across asset classes was dominated in the second quarter by the market's view of Brexit. When polls showed that Brexit was likely, risk assets sold off. When the polls showed it looked as if Britain would stay in the European Union (EU), risk assets rallied. Risk assets did rally hard up until the June 23rd vote in which the United Kingdom (U.K.) voted to leave the European Union after more than four decades. The stunning rejection of the continent's postwar political and economic order sent shock waves around global markets. The vote to exit sets the U.K. up for bitter divorce talks with the EU, which potentially could drag on for years and tip the country a step closer to recession. But we expect it to have very little impact on the U.S., other than through its impact on the financial markets.

The vote sparked a global sell-off and sent the U.K. spiraling into a political crisis. David Cameron resigned as Prime Minister, the British pound plunged to the lowest since 1985, stocks tumbled around the globe, and U.S. Treasuries surged, sending the 10-year U.S. Treasury yield below 1.40%. The benchmark U.S. 10-year Treasury note yield ended the second quarter at 1.49%, just a shade above the all-time closing low of 1.38% struck in July of 2012.

The vote to leave the EU was a stunner and initially the markets sold off sharply for two days. However, an interesting thing happened. After two days of global market sell-off, the markets recouped almost all of the losses over the next several days into the end of the quarter. It is interesting that after the initial shock of the vote, both risk-off and risk-on asset classes rallied.

Second Quarter Attribution

The Fixed Income Total Return (FITR) portfolio remained fully invested in high yield for the duration of the quarter, withstanding the brief spell of volatility surrounding the Brexit vote. For the quarter, the Fixed Income Total Return portfolio rose 4.85% gross of fees (4.08% net). Year-to-date the portfolio has gained 11.54% (9.91% net), outperforming both of its benchmarks. The strategy's strong returns were primarily driven by the asset class decisions.

The Fixed Income Total Return (FITR) portfolio entered 2016 in a defensive position, owning 100% U.S. Treasuries. The defensive bias was beneficial, as fear took over and credit markets underwent a dramatic decline into mid-February and high yield bonds yielded the most since 2009. Since February, credit markets have been strong, led by a dramatic decrease in high yield bond yields, as sentiment improved with regard to the energy and materials sectors in particular. The strategy has performed well, having allocated to high yield in late February, and remained committed to high yield through the second quarter. The dramatic decline and quick rally immediately following the Brexit vote affirmed our view that the Brexit was more of a sentiment-related issue for the markets and not an economy-related event. Here are some additional highlights during 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.

Second Quarter 2016 — Portfolio Commentary

- The Barclays U.S. High Yield Corporate Bond Index was up 5.2% on the quarter, and the Energy and Materials sectors accounted for over half of that return (3.2%) despite their weight being only 20% in the High Yield Index. Technology and Utilities were the weakest high yield bond sectors.
- As of June 30th, the resulting duration of the FITR portfolio is 4.02, with a Yield to Maturity of 7.02%. The average maturity is 6.79 years, and average credit quality is B+.
- For the quarter, the portfolio's top contributors were high yield bond ETFs (JNK and HYG) and Lord Abbott High Yield (LAHYX). The portfolio's top detractors were the Barclays Short-Term High Yield Bond SPDR (SJNK), PIMCO High Yield (PHIYX), and PIMCO High Yield Spectrum (PHSIX), all of which are on the more conservative side of the spectrum within high yield.

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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 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.

Outlook

It is still all about Brexit. Brexit was clearly a vote against globalization and the free flow of goods, people, and capital. We believe the primary impact will be felt in the U.K. and larger Europe, but there is also a global dimension to Brexit. The shock has been widely interpreted by market participants as another reason for the major central banks to ease monetary policy further or postpone tightening. This, in turn, has contributed to an extension of the bond rally with sovereign yields sinking to record lows. The Fed is now expected to hold off on any further rate hikes for the balance of the year. In the aftermath of the vote, the fixed income markets are likely to continue trading based on sentiment rather than economic fundamentals. Negative rates in much of Europe make U.S. fixed income assets even more appealing to bond investors around the world; the resulting decline in yields and the associated flattening of the curve far exceeds what is warranted solely on the basis of U.S. economic and policy prospects.

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 and net 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 (1.25%) 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.