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 Incom e 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:

ClarkCapital MANAGEMENT GROUP

Navigator® Fixed Income Total Return

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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.

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.