Clark Capital MANAGEMENT GROUP

Navigator®
Opportunity Update

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Second Quarter 2016 — Portfolio Commentary

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Portfolio Manager

Mason joined Clark Capital Management Group, Inc. in 2005 as a Portfolio Manager. He is a member of the Clark Capital Investment Committee, contributing to asset allocation policy and security selection. Mason has more than a decade of experience in the investment industry. He is responsible for quantitative investment analysis, security selection, and communicating the firm's investment policy to wealth advisors and consultants. He participates in the research and product development efforts of the Portfolio Team. A graduate of Dickinson College, Mason earned an M.B.A. in International Management from the Garvin School of Management at Thunderbird (the American Graduate School of International Management) and holds the CMT and CFA designations.

PLENTY OF FIREWORKS

Introduction

The last week of the second quarter provided plenty of fireworks as the market:

- Ran up to prior highs in anticipation of the Brexit vote;
- Then fell dramatically in a two day waterfall decline;
- But then staged a V-shaped recovery near the prior highs.

While all of that activity was volatile and dramatic, we did not see much change in underlying market trends, which can be best described as an ugly grind higher.

Trends were generally positive and stronger for U.S. markets than for International markets. The S&P 500 (through mid-day on June 30th) was up 1.1%, while the Russell 2000 was up over 2.0%. Emerging Markets and the MSCI EAFE Index declined between 0.8% and 2.2% respectively. U.S. sector performers included Gold Miners (up 36.0%) and Oil & Gas Exploration (up 16.0%). Lagging sectors included Retailing (down 9.6%) and Technology (down 3.1%).

It appears that the energy sector did make an important bottom on February 11th, and since then it has been a market leader. Meanwhile, the retailing sector, long one of the beneficiaries of quantitative easing, was harmed by lower margins due largely to wage pressures.

Despite the broad-based lack of confidence that we see from the public regarding the economy, the fact is that unemployment is very low, and wages have finally begun to increase at a slow but noticeable rate. Sectors that are sensitive to inflation, such as materials, had momentum at their back. However, in our strange world of quantitative easing, so did bond proxy-like equities such as utilities, consumer staples, and telecommunications.

While the U.S. economy is at least seeing a very modest upward pressure on wages, there is no doubt in our opinion that globally, forces are deflationary. Internationally, we saw strong performances by commodity-producing nations such as Brazil (up 13.7%), Argentina (up 14.2%), and Russia (up 6.6%). Europe struggled as Brexit vote concerns, weak economic growth, and negative interest rates haunted European financials, in particular. The broad Eurozone (down 5.7%), Spain (down 8.1%), and Italy (down 10.9%) were big laggards. After the results of the Brexit vote, the declines were dramatic and represented pure panic. The S&P 500 declined by 5.7% within two trading days, and the MSCI EAFE Index declined by a dramatic 10.9%.

Our view coming into the Brexit vote was that any decline would be a buying opportunity, and we did put some cash to work in our Alternative and U.S. Style portfolios, along with selling some Gold and Treasuries, which spiked higher upon the Brexit news. While markets spiked lower on the Brexit news, as of June 30th they had regained much of their losses.

U.S. Sector Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares US Medical Devices ETF	IHI	14.00%
Vanguard Materials ETF	VAW	10.00%
PowerShares S&P Small Cap Technology ETF	PSCT	10.00%
PowerShares S&P Small Cap Consumer Staples ETF	PSCC	8.00%
Industrials Select Sector SPDR	XLI	7.00%
S&P Metals & Mining SPDR	XME	7.00%
iShares Mortgage Real Estate Capped ETF	REM	5.00%
Dow Jones Wilshire REIT SPDR	RWR	5.00%
Utilities Select Sector SPDR	XLU	5.00%
iShares Semiconductor ETF	SOXX	5.00%
iShares S&P North American Technology - Software	IGV	5.00%
JPMorgan Alerian MLP ETN	AMJ	4.00%
iShares US Aerospace & Defense ETF	ITA	4.00%
VanEck Vectors Gold Miners ETF	GDX	3.00%
VanEck Vectors Steel ETF	SLX	3.00%
Cash		5.00%

The Sector Opportunity portfolio uses a relative strength methodology to rank the top-performing sectors over the intermediate term, and by owning these sectors going forward (and avoiding lower-ranked sectors) attempts to outperform the S&P 500. During the quarter, the portfolio maintained its recent emphasis on Materials, and given the solid market breadth, we have begun to allocate to small cap sector ETFs as well. With the exception of the trend towards Materials (and a developing trend toward Energy), we don't see many major new relative strength trends. We consider the portfolio to be well diversified as we wait for more pronounced trends to develop.

- The portfolio's second quarter performance was, by our estimate, in line with the S&P 500 (gross of fees).

- Materials-oriented sectors including gold and silver miners, broad materials, and metals and mining top our relative strength matrix. Due to domination of the ranks by just one sector, we have had to manage our materials-related position size, which is currently at 23%. While that is high, we have been unwilling to get more concentrated even though our rankings might recommend doing so.

- The depth and persistence of the multi-year decline in energy meant our models needed to wait for a sustained uptrend in relative strength before energy could become a holding. Energy has been steadily rising after a strong second quarter, and a few ETFs have risen into the top half of our ranks. They are potential purchases if Energy can sustain its current trend.

- While the Materials area tops our rankings, the weakest areas are Banking, Biotechnology, and Retailing. We are completely avoiding these market segments.

- Metals & Mining (XME), Gold Miners (GDX), and Medical Devices (IHI) were the portfolio's top contributors. Industrials (XLI), Small Cap Technology (PSCT), and Consumer Staples (XLP) were the top detractors.

The portfolio has become broad and quite diversified. Its current sector weightings are as follows: Materials 23.0%, Technology 20.0%, Health Care 14.0%, Industrials 11.0%, Financials 10.0%, Consumer Staples 8.0%, Utilities 5.0%, Energy 4.0%, and Cash 5.0%. The portfolio does not allocate towards the Consumer Discretionary or Telecommunications sectors at this time.

International Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares Canada ETF	EWC	15.00%
Market Vectors Russia ETF	RSX	13.00%
iShares Russell MidCap ETF	IWR	10.00%
iShares Thailand ETF	THD	10.00%
iShares Australia ETF	EWA	10.00%
iShares Brazil ETF	EWZ	10.00%
iShares New Zealand ETF	ENZL	7.00%
Global X MSCI Argentina ETF	ARGT	6.00%
WisdomTree India Earnings ETF	EPI	5.00%
iShares Philippines ETF	EPHE	5.00%
Global X MSCI Norway ETF	NORW	4.00%
Cash		5.00%

The International Opportunity portfolio's stated mission is to allocate tactically between international country and region ETFs that are displaying significant relative strength (and to avoid those that do not), and in doing so, attempt to outperform the MSCI All Country World Ex-U.S. Index. International markets, particularly emerging markets, underwent a full-on bear market between late 2014 and early 2016. We now see that emerging markets, particularly commodity-producing markets, put in important lows during the first quarter. Since then they have been providing market leadership, while Europe's economic struggles (signified by negative interest rates across the continent) means it has been pulling up the rear. Here are some other important developments in the portfolio during the quarter:

- U.S. markets have outperformed global markets for a number of years now, and we foresee no slowing of that trend. As a result, we maintain a position in the U.S. via the Russell MidCap ETF (IWR).
- Latin America and Emerging Asia have for the past number of months displayed the most relative strength momentum. As a result, we favor Argentina (ARGT), Brazil (EWZ), Russia (RSX), Thailand (THD), the Philippines (EPHE), and India (EPI) in the portfolio.
- Europe remains a substantial underweight, and we only own one small position: Norway (NORW), a commodity and oil producer. European financials have been the weakest segment among international equities, and we are satisfied that our relative strength rankings have helped to avoid the area.
- Japan was a substantial weight in the portfolio for much of 2015, but its relative strength collapsed in early 2016, and we completely exited Japan by the middle of the first quarter. Now that the yen has surged (despite negative interest rates in Japan), the Japan Hedged ETF (DXJ) ranks at the very bottom of our list.
- Brazil (EWZ), Argentina (ARGT), and Thailand (THD) were the portfolio's top contributors, while Turkey (TUR), Indonesia (IDX), and South Korea (EWY) were the top detractors.

The portfolio's regional allocations are as follows: 20.0% to Emerging Asia, 17.0% to Developed Asia, 16% to Latin America, 15% to Canada, 13% to Emerging Europe, 10% to the U.S., 4% to Europe, 5.0% to cash.

U.S. Style Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares Russell MidCap Value ETF	IWS	42.00%
iShares High Dividend Equity ETF	HDV	30.00%
iShares USA Minimum Volatility	USMV	15.00%
iShares S&P 500 Value ETF	IVE	10.00%
Cash		3.00%

The Style Opportunity portfolio ranks a number of U.S. equity styles and factors using CCMG's relative strength-based ranking methodology and then assembles them into a broad-based portfolio that attempts to outperform the S&P 500. During the first quarter, we saw that the long-standing trend favoring growth over value had indeed reversed, and by early in the second quarter the portfolio sold all its growth stocks and began to invest in value, particularly Mid Cap Value (IWS). Value-oriented sectors such as Utilities and Energy have since been market leaders. Financials, the largest component in value indexes, have been mixed as banks have struggled. But interest-rate sensitive REITS and Insurance have performed well. Along with a solid position in value, our relative strength rankings in particular favor large-cap stocks that pay dividends and/or have high-quality balance sheets. Here are some additional key developments in the portfolio during the quarter:

- Among the major Morningstar Style Boxes, Mid Cap Value (IWS) topped our ranks for most of the quarter, and it has now become our largest position. The strong performance of REITs, Utilities, Energy, and Materials have driven its relative strength.
- High dividend paying stocks (HDV) and Low Volatility (USMV) currently top our Style ETF rankings. This should not be surprising, as the S&P 500 has been flat on a price basis for 18 months now. With stocks offering no price appreciation, dividends have become a prime source of returns for investors.
- Corporate buybacks are considered to have been a key driver of the secular bull market since 2009. However, the buyback ETF in our universe, PowerShares Buyback Achievers (PKW), has fared poorly and has ranked at the bottom of our relative strength matrix along with Small Cap Growth (IWO).
- The top contributors during the fourth quarter were the iShares Core High Dividend Equity (HDV) and the iShares Russell Midcap Value (IWS). The top detractors were the Guggenheim S&P 500 Equal Weight (RSP) and the iShares S&P 500 Value ETF (IVE).

Global Tactical Portfolio

SECURITY	TICKER	WEIGHT
iShares Australia ETF	EWA	12.00%
iShares Russell MidCap Value ETF	IWS	12.00%
Vanguard Materials ETF	VAW	12.00%
Vanguard Telecommunications ETF	VOX	12.00%
Industrials Select Sector SPDR	XLI	12.00%
Consumer Staples Select Sector SPDR	XLP	12.00%
Utilities Select Sector SPDR	XLU	12.00%
S&P Metals & Mining SPDR	XME	12.00%
Cash		4.00%

The philosophy of the Global Tactical portfolio underwent a significant change during the quarter, as we began using the Fixed Income Total Return model to manage risk in the portfolio. When the Fixed Income Total Return model is positive on High Yield Bonds (and thus on credit risk and market risk in general), the portfolio will select ETFs that are part of a narrowed-down universe of 32 U.S. equity styles, broad U.S. sectors, international country/regions, Gold, and a broad commodity ETN. However, when the Fixed Income Total Return model indicates caution, the portfolio will add U.S. Treasuries or cash in line with the model's indications. As markets underwent a dramatic (but very brief) crash after the Brexit vote results, the Fixed Income Total Return model nearly signaled caution and de-risking. We were pleased that it did not, as we view the Brexit vote as a sentiment-related and not economic-related event. Markets rallied after the brief two-day Brexit-driven decline, and while our model has improved and still favors risk-on, the dramatic strength of U.S. Treasuries means we remain closer than we had been to de-risking the portfolio. After the end-of-quarter rally, we hope that if we do need to take a cautious stance, our exit point to do so will be improved. The following were other key portfolio developments during the quarter:

- The portfolio now allocates entirely to U.S. equities, with Materials, Metals & Mining, value stocks, and quality, defensive equities such as Utilities and Telecommunications featured prominently. Cash is at 4%.
- Under the portfolio's new methodology, normally you will see the portfolio allocate to the top eight ranked ETFs in our universe of 32 available ETFs, weighting each position equally at 12%.
- Metals & Mining (XME), Gold Miners (GDX), and Gold (GLD) were the portfolio's top contributors, while Turkey (TUR), Brazil (EWZ), and Indonesia (IDX) were the top detractors.
- China (GXC), Japan (EWJ), the U.K. (EWU), and the Eurozone (EZU) are the bottom of our 32 ETF available investment universe for the Global Tactical portfolio.

Alternative

SECURITY	TICKER	WEIGHT
iShares Core S&P Mid Cap ETF	IJH	9.00%
Neuberger Berman Multi-Manager Absolute Return	NABIX	8.00%
Neuberger Berman Long / Short Inst'l	NLSIX	8.00%
Blackrock Global Credit Long - Short Instl	BGCIX	8.00%
TFS Market Neutral Fund	TFSMX	8.00%
AQR Managed Futures High Volatility I	QMHIX	8.00%
361 Managed Futures Fund I	AMFZX	8.00%
iShares Russell 2000	IWM	7.00%
VelocityShares Inverse VIX Short-Term	XIV	6.00%
Barclays High Yield Bond SPDR	JNK	4.00%
iShares iBoxx High Yield Corporate Bond ETF	HYG	4.00%
PowerShares QQQ	QQQ	3.00%
iShares Core Emerging Markets ETF	IEMG	3.00%
Barclays Convertible Bond SPDR	CWB	2.00%
ETFS Physical Platinum Shares	PPLT	2.00%
iPath Bloomberg Coffee ETN	JO	2.00%
iPath Bloomberg Grains ETF	JJG	2.00%
Cash		8.00%

The Alternative Opportunity portfolio contains what we believe to be a diversified mix of themes which breaks down as follows: Alternative-Oriented Mutual Funds 48.0%, Tactical Global Equity 28.0%, Fixed Income 10.0%, Commodities 6.0%, and Cash 8.0%.The following are some important events and themes that occurred in the portfolio during the quarter:

- Managing equity risk, and managing our positions in volatility in particular, we credit as having been key contributors to the returns of the Alternative Opportunity sleeve. Prior to the Brexit vote, we reduced our position in inverse volatility (XIV). After markets began a dramatic (but very brief) crash, we added back to our positions in volatility and also added to Mid Caps (IJH).

We also sold Gold (IAU) and long-term Treasuries (TLT) after they spiked in the aftermath of the vote.

- The top contributors to return for the quarter were Inverse Volatility (XIV), High Yield Bonds (JNK), and AQR Managed Futures High Volatility (QMHIX), while the top detractors were TFS Market Neutral (TFSMX), Copper (JJC), and Grains (JJG).
- The portfolio could well add commodity ETFs and ETNs more into the portfolio's mix, as commodities appear to have recovered from the worst of their rout — a major bottom appears to have been made in February. During the second quarter, the portfolio took positions in Platinum (PPLT) and Gold (IAU) as well as Grains (JJG) and Coffee (JO).
- The core alternative-oriented mutual funds in the portfolio are chosen not only for their managers' strong records and deep research teams, but for their comparative lack of correlation to equity markets. Because the Alternative portfolio's core mission is to provide genuine diversification for investors, we continue to emphasize lack of correlation in the portfolio. We expect to make some changes to our mix of mutual funds in the portfolio, as some funds have fallen in peer group rankings.

Fixed Income Total Return

SECURITY	TICKER	WEIGHT
iShares iBoxx $ High Yield Corporate Bond ETF	HYG	24.00%
Barclays High Yield Bond SPDR	JNK	19.00%
Blackrock High Yield Bond	BRHYX	12.00%
JPMorgan High Yield Bond Select	OHYFX	9.00%
Lord Abbett High Yield	LAHYX	9.00%
PIMCO High Yield Bond Inst'l	PHIYX	8.00%
AB High Income	AGDYX	8.00%
Barclays Short-Term High Yield Bond SPDR	SJNK	5.00%
PIMCO High Yield Spectrum Inst'l	PHSIX	4.00%
Cash		2.00%

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. When the trend becam e extreme and began to reverse, it took less than three weeks for the FITR model to become aggressive and buy back into High Yield at the end of February. 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. Our model favored High Yield and was at an all-time high coming into the Brexit vote. In just two days, the combined strength in Treasuries and weakness in High Yield nearly forced us to sell and become defensive — but only nearly. The quick, dramatic rally after the two-day decline in the aftermath of the vote affirmed our view that the Brexit vote was a sentiment-related and not economy-related event. We were relieved when the FITR model weakened, but didn't weaken enough to prompt what we viewed as a potentially untimely sale of High Yield. From where we sit, we see that so far this year the FITR portfolio has achieved its primary goals of preserving capital and being tactically opportunistic within the High Yield bond sphere. Here are some additional developments from the portfolio during the quarter:

- The Barclay US 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 4.01, with a Yield to Maturity of 7.07%. The average maturity is 6.77 years, and average credit quality is B+.
- On the quarter, the portfolio's top contributors were High Yield Bond ETFs (JNK and HYG), and Lord Abbett 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.

Sentry Managed Volatility Portfolio

SECURITY	TICKER	WEIGHT
Navigator Sentry Managed Volatility Fund	NVXIX	95.00%
Cash		5.00%

Latest Update: July 1st, 2016

Hedging one's equity exposure during a strong market for equities — or even during just a flat market for equities — is an exercise in patience and in understanding the proper role of a hedge in a broader portfolio. When our assessment of the markets is broadly bullish – as it is for 2016 – the Navigator Sentry Managed Volatility Fund attempts to manage the cost of hedging while maintaining a minimal hedge required to safeguard client assets. Under these circumstances, the Navigator Sentry Managed Volatility fund is a net loser in client portfolios, waiting for its day when protection will shine.

For most of the quarter, the S&P 500 was slowly grinding higher, and the Managed Volatility Fund (NVXIX) maintained its strategy of always owning protection for the portfolio. Over the quarter, we used methods to short volatility in order to partially offset the cost of the hedge. In doing so, we remained focused on managing our downside exposure without taking on undue risk. Coming into the Brexit, we viewed the market uncertainty as a unique risk and for the very short-term changed our views to cautious. Thus, we took off our shorts of volatility and increased the magnitude of the hedge. When markets cracked after the surprising vote result, the Fund was up 17% during the decline of the next few days. Soon after the Brexit-based decline, we re-established our longer-term strategy of shorting volatility to once again reduce the cost of the hedge. For the quarter, the Sentry fund gained 2.07% despite the fact that the fund was constantly hedging the S&P 500, which gained 2.46%. We were pleased to be able to provide what our experience tells us is a cost-effective hedge for clients during the quarter.

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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.

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