



Tony Soslow, CFA®
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.

FIRE AND WATER

Foreign equities trailed U.S. equities this quarter and the underperformance was not just confined to the drama surrounding Samsung and Deutsche Bank. If you didn't giggle upon learning that Samsung's Galaxy Note 7s were catching fire, you had to smile when the U.S. Consumer Product Safety Commission warned that Samsung's top loading washing machines were exploding. Does unexpected water on the laundry room floor compensate for the unwelcome fire? On a more serious note, Deutsche Bank's potential inability to shore up their \$1.8 trillion balance sheet has begun to shake up the credit markets. With just \$60 billion in balance sheet equity to support \$1.8 trillion in assets, the thought of the bank losing an additional \$14 billion to a U.S. mortgage backed security fine from the Department of Justice has investors, German politicians and trading counterparties highly concerned about the bank's ability to withstand typical changes in asset volatility. Reminiscent of the Lehman disaster in 2008, supposedly 10 hedge funds cut their counterparty trading exposure to the bank.

Turkeys and Muppets

Speaking of Black Swans, you have to wonder if we as credit and equity investors are not just Turkeys, mindlessly trotting to the food trough after the farmer rings the bell, oblivious to the fact that tomorrow is Thanksgiving. Deutsche Bank's highly leveraged balance sheet scares me as much as the Bank of Japan's Governor Kuroda's comments that there is "No limit to monetary policy" – i.e. he can purchase Japanese Government Bonds in unlimited quantities. It's worth noting that the highly indebted/leveraged often pay their loans by taking on more debt until such point that they can't. Thus, it's all good...until it isn't. While, I do not know when either Deutsche Bank or Japan will stop being able to repay their loans, I do know that the initial signs of credit concerns have surfaced. This conflicts with Austrian Finance Minister Schelling's conclusion that the Deutsche Bank situation is not Europe's Lehman moment due to additional measures put into place by EU bank regulator's Basel III to stabilize financial markets.

Don't Be So Negative

Negative rates and low growth are not only hurting Deutsche Bank, but other German financials as well – underscoring the weakness in the European banking model in which approximately one third of Italy's loans are in trouble. Commerzbank suspended their dividend and announced job cuts of 25% and Nord/LB is expected to report a loss due to heavy shipping loan exposure. Confronted with this loss and a Moody's downgrade, Nord/LB, in turn, abandoned plans to sell seven-year euro-denominated notes, citing "market conditions." While the European Central Bank's Draghi and the Bank of Japan's Kuroda defend their negative interest rate policy by claiming it rescued them from deflation, I believe these policies reinforce the pessimism based in the belief that current levels of high debt equate to low growth going forward. Instead of inspiring businesses to borrow, negative rates can harm lenders by narrowing net interest margins, while providing little help on improving balance sheet asset values deep in the economic recovery.

Past performance is not indicative of future results.

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

Third Quarter 2016 — Portfolio Commentary

ADR's Slight Shift toward Emerging Markets Enhances Return/Risk Trade-Off

The Navigator International Equity/ADR strategy delivered three-year annualized gains of 6.94% gross (3.80% net) vs the gains of 0.18% for the MSCI All Country World ex USA Index and 0.48% gains for the MSCI EAFE Index. For the third quarter of 2016, the strategy gained 4.63% gross (3.86% net) vs the 6.91% gain in the MSCI All Country World ex USA Index and the 6.43% gain in the MSCI EAFE Index. Our holdings in Consumer Discretionary, such

as Magna International and WPP plc, and an underweight position in Real Estate, helped performance in the third quarter while our holdings in Telecom, such as NTT DOCOMO and Orange, and underweight position in Materials acted as a drag. In the quarter, strong performance in our positions in China and South Korea was offset by weaker performance in India and Norway. The value characteristics of the ADR strategy remain more compelling than both its U.S. and international benchmarks as the current P/E of 13.6 is less than that of the MSCI All Country World ex USA Index (15.30) and EAFE (24.94) with similar quality and business growth characteristics.

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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.

The MSCI All Country World ex USA Total Return (MSCI ACWI) 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 Capital International and is comprised of stocks from both developed and 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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