Clark Capital MANAGEMENT GROUP

Navigator®
Fixed Income Total Return
K. Sean Clark, CFA, Chief Investment Officer

Third 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.

HIGH YIELD — PARTY LIKE IT'S...

It is often said that the market dislikes uncertainty, and the market has had to deal with a lot of uncertainty so far in 2016. It began with the Deutsche Bank turmoil that led to a decline into the February 11th low and then the Brexit event that shocked the markets and led to a brief two day decline. The market has been resilient and quickly recovered from both of those events. Now, however, Deutsche Bank is back in the news and facing a potential fine of $14 billion imposed by the U.S. Department of Justice. That news has put the health of the entire financial system into question with many suggesting that we are at another "Lehman moment." That remains to be seen and while Deutsche Bank has come under stress, there is little evidence of stress leaking into the broader market as risk assets remain well bid for, high yield credit spreads continue to contract, and there has not been a renewed flight to safety into U.S. Treasury bonds.

The Fixed Income Total Return strategy allocated 100% of the portfolio to high yield bonds on February 29th, and remained fully committed to high yield bonds through the quarter. For the quarter, the Fixed Income Total Return strategy gained 4.35% (3.58% net). The Barclays High Yield Bond Index gained 5.55% and the Barclays Aggregate Bond Index was up a modest 0.46%. Year to date the Fixed Income Total Return strategy has gained 16.39% (13.84% net) and the Barclays High Yield and Aggregate Bond Indices have gained 15.11% and 5.80% respectively. High yield bonds performed very well during the third quarter as risk assets rallied coming off of the Brexit induced low and credit spreads contracted. In our *Market Outlook 2016* publication we stated that high yield bonds had one of the best risk-adjusted return profiles, and so far this year that has played out as expected.

High yield bonds have rallied for eight straight months against a supportive technical backdrop, an accommodative Fed, and a continuation of moderate but uninspiring economic growth. The credit spread contraction theme has been the place to be as spreads (high yield — 10-year Treasury) declined from 581 bps at the end of the second quarter to 458 bps at the end of the third quarter. Even so, the 458 bps spread suggests to us that high yield bonds are not overly expensive as an asset class given historical precedent. For example, the long-term mean spread is 500 bps. In addition, credit spreads peaked at 840 bps on February 11th, which was very high for non-recession periods. The only times in which high yield bonds as an asset class traded at a higher spread to U.S. Treasuries was in the recession of 1990, the early 2000s, and the 2008-2009 credit crisis. Further, the only time that high yield spreads came close to the same level as February 11th in a non-recessionary environment was during the

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

U.S. debt downgrade in 2011. Following that, peak spreads contracted for nearly three years.

Outlook

We remain constructive on high yield and favor credit over duration. We expect the economy to grow through yearend and therefore remain supportive of credit. However, there are a number of growing risks including the Deutsche Bank situation, the U.S. presidential election, and the Federal Reserve's timing of additional interest rate hikes. The market has become a little more volatile as the election polls have tightened, but history has shown that is normal in election years. We do expect the Federal Reserve to hike rates at their December 14th FOMC meeting and we think that is likely to lead to more volatility. However, absent an exogenous shock, we expect the yield advantage of high yield corporate debt to be too much for investors to pass on.

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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.

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 (.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.

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