ClarkCapital MANAGEMENT GROUP

Navigator®
Opportunity Update
Mason Wev, CFA®, CMT®, Portfolio Manager

Third Quarter 2016 — Portfolio Commentary

Mason Wev, CFA®, CMT®
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.

A (COMPARATIVELY) QUIET TIME FOR THE MARKETS

Compared to the Brexit-related fireworks at the end of the second quarter, the third quarter was a quiet time for the markets. The biggest headline and concern throughout the quarter was whether the Fed would raise rates in September. They chose to wait but signaled strongly that a December hike is likely. The good news is that markets generally enjoy quiet news periods. The S&P 500 produced a 3.85% gain for the quarter, and most other equity markets produced stronger gains. The S&P MidCap 400 Index stocks rose by 4.14%, and the Russell 2000 by 9.05%. The solid breadth and participation by small cap stocks was welcome, but most welcome was a return of participation by international markets. The MSCI EAFE Index gained 6.43%, and Emerging Markets rose by 9.03%. Chinese and Brazilian markets led the way among Emerging Markets. Economic data continues to be a net positive, but only a modest one. We continue to see tightening labor markets, but broader economic growth is only modest at best. Ever since 2008, the economy appears unable to reach "exit velocity"; growth is slow and steady, but does not even exceed 3% annually. Europe and Japan had relatively strong equity market performance. However, their longer-term economic struggles remain apparent. The two regions rank near the bottom of our relative strength rankings. Late in the quarter, even a gigantic economic player like Deutsche Bank came under fire, facing a liquidity crisis startling for such a major institution. None of these events change our longer-term view on equities. While stock valuations are elevated we believe longer-term stock returns should be modest compared to historical averages. We maintain a modestly bullish stance, and see few signs of persistent economic weakness.

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U.S. Sector Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares U.S. Medical Devices ETF	IHI	9.00%
PowerShares S&P SmallCap Info Technology ETF	PSCT	9.00%
iShares North American Tech-Software	IGV	9.00%
iShares PHLX Semiconductor ETF	SOXX	8.00%
First Trust Dow Jones Internet ETF	FDN	8.00%
PowerShares S&P SmallCap Industrials ETF	PSCI	7.00%
PowerShares S&P SmallCap Health Care ETF	PSCH	7.00%
iShares U.S. Broker Dealers ETF	IAI	7.00%
First Trust ISE-Revere Natural Gas ETF	FCG	6.00%
PowerShares S&P Small Cap Financials ETF	PSCF	6.00%
S&P Metals & Mining SPDR	XME	5.00%
iShares Mortgage Real Estate Capped ETF	REM	5.00%
Vanguard Information Technology ETF	VGT	5.00%
VanEck Vectors Coal ETF	KOL	4.00%
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 increased its allocation to the Technology area, as it has displayed impressive relative strength over the past few months. The Consumer Discretionary sector ranks as weakest in our relative strength analysis, particularly retail.

- Technology rose to the top of our relative strength rankings as the quarter developed, and we now have positions in Semiconductors (SOXX), Internet (FDN), broad Technology (VGT), Small Cap Technology (PSCT), and Software (IGV).
- Materials-oriented sectors still fare very well in our rankings. However, we have reduced our emphasis on the space due to its volatility. We currently own only Metals and Mining (XME) and Coal (KOL).
- We have slowly begun to add Energy to the portfolio, via the Natural Gas equities ETF (FCG). While energy returns have been strong since the bottom in February, the sector's relative strength appears to have flattened for the most part.
- Relative strength tends to persist and, as evidence of that, we see a number of holdings in our portfolio that have lasted over two quarters. Those include Medical Devices (IHI), Software (IGV), Metals & Mining (XME), and Small Cap Technology (PSCT).
- Medical Devices (IHI), Small Cap Technology (PSCT), and Metals and Mining (XME) were the portfolio's top contributors. Gold Miners (GDX), Utilities (XLU), and Small Cap Consumer Staples (PSCC) were the top detractors.

The portfolio's current sector weightings are as follows: Technology 39.0%, Financials 18.0%, Health Care 16.0%, Energy 10.0%, Industrials 7.0%, Materials 5.0%, and Cash 5.0%. The portfolio is not allocated towards the Consumer Discretionary, Telecommunications, or Utilities sectors.

International Opportunity Portfolio

SECURITY	TICKER	WEIGHT
S&P China SPDR	GXC	16.00%
WisdomTree India Earnings ETF	EPI	14.00%
iShares South Korea ETF	EWY	12.00%
VanEck Vectors Russia ETF	RSX	10.00%
iShares Brazil ETF	EWZ	10.00%
iShares Taiwan ETF	EWT	8.00%
VanEck Vector Indonesia ETF	IDX	7.00%
iShares New Zealand ETF	ENZL	7.00%
Global X MSCI Argentina ETF	ARGT	6.00%
iShares Hong Kong ETF	EWH	5.00%
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 avoiding those that do not) and, in doing so, to attempt to outperform the MSCI All Country World ex-USA 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:

- The biggest change in the portfolio during the quarter was the rise of the China complex. The portfolio added positions in China (GXC), Hong Kong (EWH), and Taiwan (EWT). Each of these ETFs saw an important price and relative strength break higher in August.

- Latin America continues to be strong in our work, particularly Brazil (EWZ), along with a recently resurgent Argentina (ARGT). Political and economic crises in both nations led them to be long-term oversold early in 2016. In our view, their reversal has been impressive and because they had been so oversold, we were encouraged that their outperformance had a great chance to be sustainable.
- Asia ex-Japan nations dominate our country rankings. In addition to China, India (EPI), South Korea (EWY), and Indonesia (IDX) are current holdings and are in the top quartile of our relative strength ranks.
- Europe's struggles are manifest in our relative strength rankings, whereas Italy (EWI), Spain (EWP), Ireland (EIRL), and Greece (GREK) have resided near the bottom for many weeks.
- Brazil (EWZ), New Zealand (ENZL), and Russia (RSX) were the portfolio's top contributors, while the Philippines (EPHE), Chile (ECH), and South Africa (EZA) were the top detractors.

The portfolio's regional allocations are as follows: 62.0% to Emerging Asia, 16% to Latin America, 10% to Russia, 7% to Developed Asia, and 5.0% to cash.

U.S. Style Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares Russell 2000 ETF	IWM	45.00%
PowerShares S&P 500 High Beta ETF	SPHB	27.00%
iShares Russell 2000 Value ETF	IWN	25.00%
Cash		3.00%

The Style Opportunity portfolio ranks a number of U.S. equity styles and factors using Clark Capital's Relative Strength-based ranking methodology, and then assembles them into a broad-based portfolio that attempts to outperform the Russell 3000. During the first half of 2016, we saw that the long-standing trend favoring growth over value had reversed, and the Style portfolio has thus shifted from growth stocks to value stocks and now small caps. As the quarter developed, small cap stocks came to dominate the portfolio's allocations, and our rankings show that it is the capitalization factor that is dominating, not value or growth. Here are some additional key developments in the portfolio during the quarter:

- Among the major Morningstar style boxes, Small Cap Value (IWN) continues to top our rankings. A more important change was that strong market breadth and a risk-on market mentality helped the S&P 500 High Beta ETF (SPHB) move from the bottom to near the top of our rankings during the quarter.
- High dividend paying stocks (HDV) and low volatility (USMV) followed the opposite course. As of June 30th, they topped our rankings, but at the end of the third quarter both found themselves in the bottom quartile of our ranks. We sold the positions early in the third quarter.
- 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 ranked at the bottom of our Relative Strength matrix during the entirety of the third quarter.
- The top contributors to the portfolio during the third quarter were the iShares Russell 2000 (IWM) and the iShares Russell MidCap Value (IWS). The top detractors were the iShares High Dividend Equity (HDV) and the iShares MSCI USA Minimum Volatility (USMV).

Global Tactical Portfolio

SECURITY	TICKER	WEIGHT
iShares Asia Ex-Japan ETF	AAXJ	12.00%
iShares Latin America 40 ETF	ILF	12.00%
iShares Russell 2000 Value ETF	IWN	12.00%
iShares Russell 2000 Growth ETF	IWO	12.00%
Vanguard Information Technology ETF	VGT	12.00%
Vanguard Emerging Markets ETF	VWO	12.00%
Gold Shares SPDR	GLD	6.00%
S&P China SPDR	GXC	6.00%
Vanguard Materials ETF	VAW	6.00%
S&P Metals & Mining SPDR	XME	6.00%
Cash		4.00%

The methodology of the Global Tactical portfolio is to select ETFs that are part of a narrowed-down universe of 32 U.S. equity styles, sectors, country/regions, and commodities. The portfolio's methodology has been modified to use the Fixed Income Total Return model to manage risk. When the Fixed Income Total Return model is positive towards High Yield Bonds (and thus positive on credit risk and market risk in general), the portfolio will select from its 32 ETF universe made up primarily of equities. 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. With the Fixed Income Total Return model making new highs constantly throughout the quarter, we maintained a strong position in equities in accordance with our relative strength rankings. The following were other key portfolio developments during the quarter::

- The portfolio currently has two areas of emphasis: the energy/materials/commodities sphere and Emerging Markets. These two areas are, of course, strongly correlated. We are constantly examining our position size and attempt to diversify as much as our models will allow.
- Emerging Markets represents 42% of the portfolio, including holdings in broad Emerging Markets (VWO), Asia ex Japan (AAXJ), Latin America (ILF), and China (GXC).
- Under the portfolio's 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) and Latin America (ILF) were the portfolio's top contributors, while Utilities (XLU) and Australia (EWA) were the top detractors.
- Europe (EZU), the U.K. (EWU), the Consumer Discretionary sector (XLY), and the Consumer Staples sector (XLP) are at the bottom of our 32 ETF available investment universe for the Global Tactical portfolio.
- Technology, U.S. Small Caps, and Asia-focused emerging markets top our relative rankings at this time.

Alternative

SECURITY	TICKER	WEIGHT
iShares Core S&P Mid Cap ETF	IJH	9.00%
LoCorr Commodity Long/Short Strategy Inst'l	LCSIX	8.00%
Blackrock Event Driven Equity	BILPX	8.00%
AQR Managed Futures High Volatility I	QMHIX	8.00%
Neuberger Berman Long / Short Inst'l	NLSIX	7.00%
Blackrock Global Credit Long - Short Instl	BGCIX	7.00%
Nuveen High Yield Municipal Bond NHMRX	NHMRX	7.00%
iShares Russell 2000	IWM	7.00%
iShares Gold Trust	IAU	5.00%
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%
iPath Bloomberg Coffee ETN	JO	2.00%
Cash		16.00%

The Alternative Opportunity portfolio contains a well-diversified mix of themes which breaks down as follows: Alternative-Oriented Mutual Funds 45.0%, Tactical Global Equity 22.0%, Fixed Income 10.0%, Commodities 7.0%, and Cash 16.0%. The following are some important events that occurred in the portfolio during the quarter:

- The portfolio made a number of changes to our core liquid alternative mutual fund lineup. We added LoCorr Long/Short Commodities (LCSIX), Nuveen High Yield Muni Bond (NHMRX), and BlackRock Event Driven Equity (BILPX) to the portfolio. The funds all rank highly in their respective categories. More importantly, the funds were chosen for their non-correlation to equity and bond markets – and their non-correlation to each other. The categories of the three funds – managed futures, merger arbitrage, and high yield muni bond – are some of the least correlated categories to equity and bonds.
- The top contributors to return for the quarter were inverse volatility (XIV), the Russell 2000 (IWM), and Mid Cap stocks (IJH), while the top detractors were AQR Managed Futures High Volatility (QMHIX), iPath Bloomberg Grains ETN (JJG), and iShares Gold Trust (IAU).
- The core liquid alternative portion of the portfolio's primary purpose is to provide non-correlated alternative exposure and includes six mutual funds in the long/short credit, long/short equity, long/short commodity, managed futures, high yield muni bond, and merger arbitrage areas. We added one final piece to the portfolio's core – a position in gold, which could be either long or short. We currently are long gold, but the position is a tenuous one.
- The remainder of the portfolio includes a small position in Coffee (JO), positions in Small and Mid Cap U.S. stocks (IWM and IJH), Emerging Markets (VWO), High Yield Bonds (JNK and HYG), and Convertible Bonds (CWB). Growing market breadth and a recovery in commodities and emerging markets helped these positions during the third quarter.

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 immediately paid off, as fear took over and credit markets underwent a dramatic decline into mid-February. For a brief period, High Yield bonds yielded the most since 2009. When the trend became 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. Since then credit markets continued to gradually strengthen, with yields grinding lower while Treasuries were flat or declined. Stability (at least) in energy markets, along with recovering foreign markets, served as key supporting factors. Here are some additional developments from the portfolio during the quarter:

- The Barclays US High Yield Corporate Bond Index was up 5.5% for the third quarter, while the Barclays US Aggregate Bond Index was up 0.46%. High Yield performance was driven by the Energy and Telecomm sectors. B and CCC credits were stronger than BB.

- As of September 30th, the resulting duration of the FITR portfolio is 3.64, with a Current Yield of 6.26%. The average maturity is 6.60 years, and average credit quality is B+.

- On the quarter, the portfolio's top contributors were High Yield Bond ETFs (JNK and HYG), and BlackRock High Yield Bond (BRHYX). The portfolio's top detractors were the Barclays Short-Term High Yield Bond SPDR (SJNK), PIMCO High Yield Spectrum (PHSIX), and AB High Income (AGDYX).

- While many commentators voice great concern that High Yield Bonds are in a bubble, a longer term view reveals that High Yield spreads expanded greatly amidst February's sell-off, creating a major buying opportunity and have only now returned to near longer term averages. We believe that an Option-Adjusted Spread (OAS) of below 300 basis points represents a roughly fully valued High Yield market. Currently the OAS is 480 basis points, with more room to decline.

Sentry Managed Volatility Portfolio

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

Latest Update: October 1st, 2016

Hedging one's equity exposure during a strong market for equities – or even just a flat market for equities – is an exercise in patience and 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 third quarter, the S&P 500 was struggling higher. After a sharp sell-off following the Brexit vote, the S&P 500 staged a big rally and made new highs on August 15th. After an initial decline, markets attempted to re-make new highs. So far, the prior highs have served as resistance. However, you cannot call the pattern bearish, as the S&P 500 remains just a few percentage points away from all-time highs. The Sentry Managed Volatility Fund (NVXIX) maintains its strategy of always owning protection for the portfolio and uses methods to short volatility (but is only a way in which our downside is managed) in order to partially fund the cost of the hedge. With markets enjoying a strong third quarter, the fund was a drag on equity portfolios, and by design. Looking forward, given strong market breadth, renewed international market strength, and slow but steady economic growth, we continue to hold a mildly bullish longer-term outlook for equity markets.

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The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

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.

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.

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.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index representing approximately 8% of total market capitalization of the Russell 3000.

The Russell 3000 Index measures the performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. 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 MidCap 400 Index represents US mid-sized companies covering over 7% of the U.S. equity market.

The MSCI World ex US Index is a market capitalization-weighted index designed to measure equity performance in 22 global developed markets, excluding the United States. The MSCI World Ex US Net Index is generally representative of international equities. Index returns reflect the reinvestment of income and other earnings, are provided to represent the investment environment shown, and are not covered by the report of independent verifiers.

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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