ClarkCapital MANAGEMENT GROUP

Navigator®
International Equity/ADR
Tony Soslow, CFA®, Senior Portfolio Manager

Second Quarter 2017 — Portfolio Commentary

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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.

*Top Guns Manager of the Decade is a recognition from Informa Investment Solutions PSN, an independent, national money manager database. This designation may not be representative of any one client's experience because the rating reflects an average of all, or a sample of all, the experiences of Mr. Soslow's GCM clients. This information does not reflect the experience of clients of Clark Capital Management Group, Inc. and is not indicative of future performance. For the periods when the designation was made, the recognition was for the GCM All Cap Core strategy managed by Mr. Soslow. Though the strategy was in the top ten, it was not ranked first in the top ten category for each period.

EXIT STRATEGY?

Threatening to throw cold water on the Treasury market, Fed officials in June readied plans to shrink the central bank's sizable balance sheet. While a measured approach may not begin until September, Yellen and Co.'s lifting of the Fed Funds rate four times this cycle to 1.25% has clearly communicated the inappropriateness of a continued ultra-easy policy. European bankers are now in synch and are beginning to threaten more restrictive monetary policy. Supported by a Purchasing Managers Index that reached its highest level in six years, Francois Villeroy de Galhau, France's central bank governor and a board member of the European Central Bank (ECB), says he now expects the ECB to start considering changes to its seemingly never ending bond-buying scheme in the fall. Higher short term interest globally and reduced central bank accommodation has flattened the yield curve both here and abroad. Importantly, the yield spread between 2-year and 10-year government securities recently went negative in China and has narrowed here from 1.35% to 0.80% for the six months ending June 22. Despite the historical tendency for yield curve flattening to forecast slower economic growth and tougher equity market conditions, U.S. and international stock indices continued to reach new highs during the quarter.

In Our Lifetime

Buoyed by this quarter's successful passing of stress tests by the major U.S. banks, Fed Chair Janet Yellen boasted that another financial crisis was "unlikely in our lifetime." Using stronger bank balance sheets, less leverage and greater Fed tools as supporting evidence, Ms. Yellen's proud proclamation borders on hubris. Respectfully, after experiencing 31 years of bull and bear markets, recessions and recoveries, I wonder – does current monetary policy success guarantee future policy success or does past success demonstrate an ability to have future success? There is a big difference. Certainly I congratulate the Fed on navigating the last crisis and concur that our current credit condition is admirable. However, I find it difficult to imagine all of the economic challenges we will face over our lifetime. Just as "lower for longer" and "slower for longer" feel like a persistent optimal economic state of sub-2% inflation and full employment, will the natural forces of supply and demand never disrupt the status quo? Reminiscent of Alan Greenspan's famous "irrational exuberance" claim, I believe Janet Yellen's enthusiasm for our currently "well managed" banking system and economy may ultimately haunt her.

#FOMO

As an example of our investment philosophy and process at work, in June of 2016 our Navigator All Cap Strategy purchased Facebook for clients. At that time, we assessed that Facebook exhibited all of those characteristics which we seek when making a portfolio purchase (1) it was cheap, based on our earnings discount model, (2) it was high quality, based on our an-ti-fragility factors and (3) business momentum was accelerating, based on earnings and revenue trends. Although we usually avoid the most speculative/high momentum part of the equity markets due the richness of its component companies, Facebook in June of 2016 met all of our investing criteria. Fast forward to today — FANG stocks have sharply rallied with

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

Facebook's price having outpaced its growth in forecasted cash flows. While we recognize Facebook's growth potential, it no longer meets our investing criteria and thus we have sold it. Like many voyeuristic social media users who monitor friends' activities or portfolio managers attempting to keep up with our benchmarks, we naturally have #FOMO — or the fear of missing out. Despite this, our investment philosophy is rooted in discipline. In other words — our investment performance is derived from the continuous disciplined application of a proven investment process. As Facebook became overvalued and its business momentum began to decelerate, we have had to remove it from the portfolio and find a new company which meets our investing criteria. Certainly we are often wrong about individual investments and periodically underperform our benchmark. However discipline provides a rudder to our investment process. Without it, we would be directionless. When and if Facebook or Google or another anti-fragile, high-flying company meets our investing criteria and fits within our diversification needs, we will unemotionally add it to the most appropriate investment strategy.

ADR Performance Strong vs. Index

The Navigator International Equity/ADR strategy delivered annualized gains of 11.30% gross (8.03% net) vs. the gain of 7.22% for the MSCI All Country World ex-USA Index over the last five years. For the second quarter of 2017, the strategy gained 5.53% gross (4.76% net) versus the 5.78% gain in the MSCI All Country World ex-USA Index. Since its inception, International Equity/ADR remains in the top 2% within its Morningstar manager peer group according to the most recently available data of March. Our holdings in Consumer Discretionary and Industrials, such as Electrolux AB and International Consolidated Airlines Group, helped performance in the second quarter while our holdings in Technology and Utilities, such as Fabrinet and Companhia Paranaense de Energia, acted as a drag. In the quarter, strong performance in our positions in Netherlands and Ireland was offset by weaker performance in Thailand and China. The value characteristics of the ADR strategy remain more compelling than both its U.S. and international benchmarks as the current P/E of 15.4 is less than that of the S&P 500 (20.2) and EAFE (21.0) with similar quality and business growth characteristics.

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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 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.

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 MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. The index covers approximately 85% of the free float-adjusted market capitalization of the EMU.

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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