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.

Past performance is not indicative of future results.

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

A REVERSAL OF FORTUNES

Markets have continued their strength from 2016 into 2017, as the S&P 500 ETF (SPY) is up 9.17% through June 30th. More importantly, the longer-term trend towards growth stocks has returned. Following the 2016 election, small cap and value stocks surged on expectations of a major tax cut and stimulus that might come out of a Trump administration. However, this trend reversed after what was a strong rally lasting only one month after the November election. The size of the gap between growth and value is quite startling. The S&P 500, mid cap, and small cap value ETFs (IVE, IVOV, and IWN) are up 4.67%, 3.41%, and 0.30% through June 30th. In contrast, the S&P 500, mid cap, and small cap growth ETFs (IVW, IVOG, and IWO) are up 13.15%, 8.52%, and 9.86%. Sector performance plays a large role here, as growth-oriented Technology and Health Care performed well while value-oriented Financials and Energy faltered.

Large cap stocks in general have been strong performers this year, and one factor driving this is the U.S. dollar, which has seen consistent weakness in 2017. A weaker dollar means that foreign profits increase due to foreign currency translation, and this development often helps large cap exporters. What perhaps is understated is how much this helps U.S. markets as a whole. Just under half of the S&P 500 sales are made abroad, and the weakness in the dollar has offered a substantial boost to those numbers. International economies, particularly those in Europe and Asia, have produced stronger growth this year than over the prior several quarters and, as a result, international stocks (and those U.S. companies with a high percentage of international sales) have been the winners.

The last important development that we would point to regarding markets this year is, of course, interest rates. The Fed raised rates three times over the past year, in December, March, and June. Expectations for another rate increase this year have been falling dramatically as growth has remained modest and inflation very much under control. What is most noteworthy is the flattening of the yield curve in 2017. While the Fed increased rates two times this year, the 10-year Treasury yield has declined. The spread between 2-year notes and the 10-year Treasury has fallen from 125 basis points to 91 basis points so far this year. Further interest rate increases are expected to be very gradual, and inflation remains under control. We continue to believe that we are in a slow growth, low inflation world.

U.S. Equity — Style Rotation

The equity portion of the Navigator® Multi-Strategy portfolios invests entirely in U.S. equities, emphasizing those style boxes and factors displaying the most relative strength (and avoiding those that are not). The portfolio re-oriented itself towards the longer-term trend favoring growth during the quarter. Large cap growth and momentum dominate the portfolio's holdings, and there is no doubt that the solid performance among Technology stocks is the primary driver of the changes along with

a lesser contribution from Health Care. Weakness in Energy and Financials led value stocks to underperform. Later in June, growth and Technology stocks were hurt by a sell-off driven by valuation concerns. Our models are watchful for a meaningful reversal of the bullish trend in Technology and thus growth. The trend was overdue for at least a consolidation, and we are mindful that market leaders are perhaps particularly prone to brief, sharp corrections. Our models remain watchful for a deeper intermediate-term trend change but we see no evidence of that yet.

- Throughout the quarter we reduced and sold the large and mega-cap S&P 500 (SPY) and S&P 100 (OEF) ETFs and added or added to momentum (MTUM), the S&P 500 growth (IVW), mid cap growth (IWP), and minimum volatility (USMV). The changes and portfolio turnover were relatively modest.

- Momentum (MTUM) gained 7.8% and the S&P 500 Growth (IVW) gained 4.4%; both were leading performers in our style box and factor matrix during the quarter. High dividend (HDV) and high beta (SPHB) stocks were flat and lost 0.5% each and were the weakest ETFs in our matrix.

- Small cap and value ETFs have received a recent performance boost from banks raising their dividends and at least a reprieve in the pressure on Energy. However, an examination of their charts and ranks in our matrix shows that much more bullish activity is needed to declare a trend change. Given that there are no ETFs clearly on the rise in our rankings, we may reduce growth stocks in the coming weeks and simply move into the S&P 500.

- The top contributors to the portfolio during the quarter were the iShares Edge MSCI USA Momentum Factor ETF (MTUM) and the iShares S&P 500 Growth ETF (IVW). The top detractors were the iShares S&P 100 ETF (OEF) and the SPDR S&P 500 ETF (SPY).

Fixed Income — We Continue to Favor High Yield So Far During 2017

The fixed income portion of the Multi-Strategy portfolios engages in asset class rotation within fixed income, owning high-yield bonds, Treasuries, or cash, whichever our model determines has recent trends in its favor. The strategy is effected via the Navigator Tactical Fixed Income Fund (NTBIX). The portfolio has favored high yield for well over a year now, ever since February 29th, 2016, and high yield has delivered solid performance, particularly relative to U.S. Treasuries. Given the strong performance, high yield is now richly to extremely richly priced compared to long-term historical averages. While that is a very important point, and high yield can reverse and begin a negative spread widening cycle at any time, rich pricing is the only negative that we can find. We see the U.S. economy as continuing in a slow but steady growth mode, but an important bullish development has been stronger growth, particularly in Europe and Asia, that could help keep the economy cruising along for a number of quarters. Modest high-yield issuance is another bullish factor, as issuance has fallen by over 8% since peaking in early 2016. This means that the huge sums of money chasing yield in a yield-hungry world are chasing a smaller pool of money. This is a bullish supply-demand factor that we will watch closely for reversal. Finally, while high-yield bonds are rich by any conventional valuation measure, prices can continue to rise from here. From 2004 through early 2007, high-yield bond yields were even lower than they are now and continued that way for years. Thus, while valuations indicate that high-yield returns will be much more modest going forward, history tells us that they can continue to be positive for even a period of years.

Outlook

Looking forward to the rest of 2017, we are more sanguine regarding the second half of the year, as historically the second half of a new President's first year has been volatile and not very profitable for investors. We expect our portfolio to take on a more defensive tone than it has had; so far this has only manifested itself in a focus primarily on large-caps. There could particularly be some market volatility surrounding the debt limit increase. We would expect that such weakness likely will present a shorter-term buying opportunity. Historically, the second half of a new President's first term and the first half of the second year of a new President's term have been relatively weak times for the markets. However, following this time of weakness, a strong rally ensues. So while we may expect some short-term weakness in the equity markets, our longer-term outlook remains bullish. Credit markets remain strong, and their continued strength will be a key metric to watch going forward. If we do see high-yield bonds lose relative strength, we will not hesitate to take a more defensive stance within our fixed income allocations.

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Navigator®
Multi-Strategy Update
Mason Wev, CFA®, CMT®, Portfolio Manager

Second Quarter 2017 — Portfolio Commentary

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The benchmark is the Barclays U.S. Corporate High-Yield Index. The Barclays U.S. Aggregate Bond Index is a supplemental benchmark. 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. 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 benchmarks for this composite are used because the Barclays U.S. Corporate High-Yield Index is generally representative of U.S. high yield fixed income and the Barclays U.S. Aggregate Bond Index is generally representative of broad based U.S. fixed income. The volatility (beta) of the Composite may be greater or less than its respective benchmarks. It is not possible to invest in these indices.

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