ClarkCapital MANAGEMENT GROUP

Navigator®
Small Cap Core U.S. Equity

Tony Soslow, CFA®, Senior Portfolio Manager

Third Quarter 2017 — Portfolio Commentary

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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.

INDIAN SUMMER

A rash of late summer/early autumn heat here in Philadelphia has made post-Labor-Day suit wearing extremely uncomfortable. As a fairly conservative dresser, I am not going to debate business attire, but I am going to note that September and October temperatures have often had me thinking about changing into shorts and a t-shirt. Accompanying these unseasonably warm temperatures has been frequent talk among market prognosticators of a potential equity market "melt-up." The rationale for a hot upward price rise ranges from synchronized global economic growth, strongly advancing earnings, persistently low inflation and loosening regulatory conditions to the potential for sweeping tax reform. Since many of the forecasts for a robust near-term market advance come from analysts who rely heavily on past price moves and not valuation or sentiment measures, I am highly skeptical. Just as the days are likely to get shorter and cooler, I think this Indian Summer too will pass.

Under the Weather

Despite an unrelenting series of weather disasters ranging from Harvey to Irma to California earthquakes and fires, both developed and emerging economies are growing smartly. The U.S. September unemployment rate fell to 4.2%, the lowest since February 2004 and the overall eurozone unemployment rate for August held steady at 9.1%, an eight-year low. U.S. Non-Manufacturing and Manufacturing Purchasing Managers' Indexes have reached their highest levels since August 2005 and May 2004 respectively and are accompanied by corroborating data from Germany's Manufacturing PMI at 60.6, France's at 56.1, Italy's at 56.3, Spain's at 54.3, and the United Kingdom's at 55.9. While the Federal Reserve Bank of Atlanta forecasts U.S. third quarter GDP growth at a solid +2.5%, I would not be surprised to see fourth quarter GDP grow vibrantly to over 3%. Strong economic growth and the long delayed uptick in average hourly earnings growth to 2.9% is providing reinforcing evidence to a Fed committed to neutralizing monetary policy. As such, fed futures contracts now anticipate an 80% probability of a quarter point increase in the fed funds rate to 1.25% in December. Anticipating this growth, most broad equity measures ended the third quarter near record levels. Unfortunately, current measures of growth are so high that future six month forward stock market returns have historically been weak. The September Purchasing Managers Index was so high that at 60.8 I am concerned about Fed tightening and weak S&P 500 returns going forward. To word it differently, while high levels of Leading Economic Indicators and tight credit spreads point to continued economic expansion and low probability of an imminent recession-induced bear market anytime soon, I would not be surprised if high valuations and elevated investor sentiment limit intermediate returns to equity investors.

It's Always Sunny in Philadelphia

Navigator equity portfolios and broad-based equity markets performed well last quarter — many reaching new all-time highs. Although I am reluctant to attribute these advances to any one factor, supportive credit conditions, expanding profit margins and strong global growth have likely aided. As a portfolio manager reviewing client asset levels, strategy performance

Past performance is not indicative of future results.

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

and investment opportunities, I feel highly conflicted when markets jump out to new highs. On one hand, I wrongly feel brilliant — confusing "Capital Gains" with "Brains" and on the other hand, extremely anxious as underlying valuation metrics of many portfolio holdings reach full valuation. Despite the currently high barometric pressure, we know it's not always sunny in Philadelphia. Finding new ideas is more challenging in our Small and SMID cap strategies as the underlying P/E ratios of the S&P Mid Cap and Small Cap reach 22.9 and 26.2 respectively. Historically, we have found that most valuation metrics are (a) not good timing tools — but rather risk measurements, and (b) should be used in relation to the current level of interest rates. Despite the difficulties noted above, we will continue to adhere to our disciplined process of seeking to find undervalued, high quality companies with accelerating business momentum.

Navigator Small Cap Catches Russell

For the three years ending September 30, 2017, the Navigator Small Cap strategy delivered annualized gains of 13.97% gross (10.63% net), over 1.7% ahead of the Russell 2000 Index's 12.18% gain. For the three years ending June 2017, Small Cap remains in the top 2% of all Morningstar peer group managers according to the most recently available data as of June. For the third quarter of 2017, the strategy gained 6.85% gross (6.07% net) vs a 5.67% gain for the Russell 2000 Index. Positioning in Technology and Real Estate helped the relative performance while positioning in Industrials and Energy sectors acted as a drag. Our higher quality holdings such as Stamps.com and MKS Instruments Inc helped performance in the quarter as positions in Spirit Airlines Inc and Tech Data Corp. hurt the performance. The value characteristics of the Small Cap strategy remain compelling. Its current P/E of 19.3 is far less than that of the S&P Small Cap (26.2) and Russell 2000 with superior quality 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 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 benchmark for this composite is used because 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 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.

Bloomberg 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 Bloomberg 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 Bloomberg 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 Bloomberg 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 Bloomberg Barclays Long-Term Year Treasury Index tracks the performance of the long-term U.S. government bond market.

The Bloomberg 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 Bloomberg 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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