Navigator® Fixed Income Total Return

K. Sean Clark, CFA®, Chief Investment Officer

Fourth Quarter 2017 — Portfolio Commentary

ANOTHER GREAT YEAR IN THE BOOKS

2017 was an exceptional year for the global economy and stock markets. The major equity markets stand at or near record highs, and economic growth is accelerating as we begin the New Year. Here in the U.S., the economy is on solid footing, economic growth has accelerated over the past several quarters, and we enter 2018 poised for continued expansion. The economy and markets have a good deal of momentum following last year's strong gains. Risk assets across the board posted solid gains: the S&P 500 was up 21.8%, the MSCI All Country World ex-US Index gained 27.19%, and the Bloomberg Barclays High Yield Index added 7.50%. It was a year with very little volatility and only modest pullbacks. The largest pullback for the S&P 500 in calendar year 2017 was just 2.8%. It was even less for the Bloomberg Barclays High Yield Index, which had a maximum correction of only 1.87%.

Fourth Quarter Attribution

The Fixed Income Total Return (FITR) portfolio remained fully invested in high yield bonds during the fourth quarter and has now been allocated to the high yield space for 22 consecutive months. That is one of the strategy's longest periods with allocations to high yield. For the quarter, the Fixed Income Total Return portfolio gained 0.28% gross of fees (-0.47% net of 3.0%), slightly trailing both the Bloomberg Barclays Corporate High Yield Bond Index, which gained 0.47%, and the Bloomberg Barclays Aggregate Bond Index, which gained 0.39%. For the calendar year, FITR gained 6.96% gross of fees (3.82% net of 3.0%), again slightly underperforming the Bloomberg Barclays High Yield Index which gained 7.50% and outperforming the Bloomberg Barclays Aggregate Bond Index which gained 3.54%.

We begin the New Year continuing to favor credit over duration, and as such, we are fully exposed to high yield in the Fixed Income Total Return portfolio. We have now favored credit for over 22 months, and high yield has performed well in that period. Since we entered high yield on February 29, 2016, the Bloomberg Barclays High Yield Index has gained 27.25%; the Bloomberg Barclays Aggregate Bond Index has gained 4.10%; and the Bloomberg Barclays 7-10 Year Treasury Index has declined 1.02%.

Spreads have contracted dramatically, closing the year at 331 bps. That number is down from the 368 bps mark reached at the end of 2016, and it is significantly lower than its peak of 840 bps in February of 2016. We do not expect to see the same surge in credit we witnessed over the past two years, as spreads are already below their long-term average of 495 bps. But history shows spreads can remain tight for long periods of time without an economic downturn. The below investment grade credit space still has a nice yield advantage over other fixed income sectors, and we are comfortable remaining allocated to credit, as the economic outlook remains supportive.

Past performance is not indicative of future results.

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

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.

According to Markit, investment grade and high yield credit default swap spreads are pricing in the lowest default risk since 2014. While the low spreads argue for valuation concerns, there is a relationship between valuation and liquidity. Generally, the more abundant the liquidity, the firmer the support for higher valuations and vice versa. As of now, there is plenty of liquidity, which mitigates some of the valuation concerns.

In addition to plentiful liquidity evidenced by low volatility, credit conditions remain very favorable, and that is still supportive for the markets and the economy. We still could be in the middle innings of what could be an extra inning game, as credit conditions are well above danger levels. Prior to each of the past three recessions, credit conditions contracted precipitously, providing a warning sign of economic trouble ahead. This cycle could have a few more years to run, which supports the credit over duration long-term trade.

Outlook

As we begin the New Year, we have a positive outlook on the U.S. economy, and we expect it to grow by 3.0% in 2018. We believe risk assets will post additional gains, but following last year's unprecedented streak without any meaningful corrections and lack of volatility, we expect to see an upturn in volatility and a return to more normal market corrections. Since we don't see a recession on the horizon, any correction should be shorter and shallower, and should set the market up for additional gains. We come into the year favoring credit over duration, as continued growth is supportive to risk assets.

As always, there are risks to the outlook. 2018 is a mid-term election year, and historically midterm election years have experienced a decent correction in the middle of the year, valuations are a concern, the path of monetary policy and a new Federal Reserve Chairman could impact the markets, and of course, there are always geopolitical issues. Regardless of the risks, we believe the environment is conducive to continued upside gains.

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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.

Bloomberg 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 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 BofA 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 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.

Bloomberg 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.

Gross performance shown is presented gross of investment advisory fees and includes 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. Net performance includes the deduction of a 3.0% annual wrap fee, which is the highest anticipated wrap fee charged by any sponsor. Management and performance of individual accounts will vary due to differences such as the availability of securities, trading implementation or client objectives, and market conditions. For a fee schedule, please contact your advisor or refer to AssetMark’s Form ADV Part 2A. If you enter into an agreement directly with Clark Capital, refer to Clark Capital’s Form ADV Part 2A. The Firm’s policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

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