ClarkCapital MANAGEMENT GROUP

Navigator® Fixed Income Total Return

K. Sean Clark, CFA®, Chief Investment Officer

First Quarter 2018 — Portfolio Commentary

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.

KEEP CALM AND CARRY ON

The global markets experienced a sharp bout of volatility in the first quarter, in stark contrast to the tame markets investors have become accustomed to over the past two years. Investors enjoyed one of the least volatile rides in history in 2017 and all the fruits that come with low volatility, including solid gains in risk assets and small corrections that proved to be buying opportunities. Once the calendar changed, the market tenor shifted from calm to anything but. The higher volatility began to the upside. The S&P 500 posted its best January in 21 years on the heels of tax reform and investor optimism on the economy. However, the bloom quickly faded and investors were left with downside volatility and market losses in February and March. Major market indices across equity and fixed income ended the first quarter with modest losses. For example, for the quarter

S&P 500	-0.76%
Russell 2000	-0.08%
MSCI ACWI ex U.S.	-1.18%
Bloomberg Barclays High Yield	-0.86%
Bloomberg Barclays Aggregate Bond	-1.46%
Bloomberg Barclays 7-10 Year Treasury	-1.86%

Along the way the S&P ended its longest streak in history without a 3% correction, concluded its second-longest stretch without a 5% drop, and entered its first 10% correction since early 2016. There was no shortage of market rattling events in the first quarter including a new Fed Chairman, the announcement of possible tariffs, concerns over a brewing trade war, and political instability in the Trump administration. It had been a great stretch of gains for the market and the return of normal corrections and volatility like we had in the first quarter was expected. It was the first quarterly decline for the S&P 500 since the third quarter of 2015 and the first quarterly decline for the Bloomberg Barclays High Yield Index since the fourth quarter of 2015.

Some additional market highlights include:

- First quarter 2018 was the first down quarter for the S&P 500 since third quarter 2015.
- After eight trading days of 1% moves in either direction for all of 2017, the S&P posted 23 such days in the first quarter. After no days with a 2% decline in 2017, the S&P logged five in the first three months of 2018.
- The CBOE Volatility Index (VIX) hit its highest level since August 2015.
- The 10-year Treasury yield hit its highest level since January 2014.

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- The two-year Treasury yield, the most sensitive to Fed policy, reached its highest level since August 2008.
- The U.S. Dollar Index fell to its lowest level since December 2014.
- Weekly unemployment claims fell to their lowest levels since December 1969.
- S&P 500 operating EPS estimates rose by the most since FactSet began tracking the data in 2002.

First Quarter Attribution

The Fixed Income Total Return (FITR) portfolio remained fully invested in high yield bonds during the first quarter and has now been allocated to the high yield space for twenty-five consecutive months. For the quarter, the Fixed Income Total Return portfolio lost 0.84% (-1.58% net of fees) in comparison to the Bloomberg Barclays Corporate High Yield Bond Index, which declined 0.86%, and the Bloomberg Barclays Aggregate Bond Index, which lost 1.46%.

High yield bonds proved to be very resilient in the first quarter, especially considering the heightened volatility in the equity markets. Below investment grade bonds acted as a safer haven than even U.S. Treasuries and investment corporate debt. For example, 10-year U.S. Treasury yields actually rose during the correction, somewhat of an anomaly given that yields normally decline in a risk-off environment. Rising inflation expectations, a steeper Fed policy rate path, and the possible pullback in Chinese bond purchases all conspired against Treasuries and resulted in their underperformance.

High yield spreads remain very narrow, 345 bps at the end of the quarter, as investors seem comfortable taking on credit risk given the solid fundamental backdrop of an improving economy and very low corporate default rates. In fact, Moody's is forecasting that default rates will fall to 2.0% by January 2019 from today's 3.2% amid a growing economy and improving credit conditions in the commodity sector.

Outlook

Coming into this year we stated: "Following last year's unprecedented streak without any meaningful corrections and the lack of volatility, we expect to see an upturn in volatility and a return of more normal market corrections. Since we don't see a recession on the horizon, any correction should be shorter and shallower and set the market up for additional gains." The fundamental backdrop remains solid with the synchronized global economic expansion intact, the Conference Board's Leading Indicators Index at a new high, and jobless claims at their lowest levels since 1969! The correction in risk assets has caused investor sentiment to sour to the point of pessimistic extremes. We remain of the opinion that the recent volatility is a trading correction within an ongoing bull market. However, risks have risen given the increasing trade tensions and steeper Fed policy path on interest rate hikes.

For now, the outperformance trend of high yield bonds remains intact. High yield still hasn't done anything wrong, and we continue to favor high yield over U.S. Treasuries, or said another way, we favor credit over duration. Should the trend falter or credit conditions suddenly deteriorate, our outlook would shift to a more defensive posture.

Source: Bloomberg, FactSet

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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 2000 Index measures the performance of the bottom 2,000 stocks in the Russell 3000 Index which is made up of 3,000 of the largest U.S. companies.

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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