ClarkCapital MANAGEMENT GROUP

Navigator® MultiStrategy Update

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Second Quarter 2018 — Portfolio Commentary

GLOBAL GROWING PAINS

The consensus thinking in early 2018 was that we had achieved "synchronized global growth," but only the U.S. has delivered so far. We began the second quarter with the S&P 500 retesting lows from the February correction. Markets quickly rebounded from those lows and for the rest of the quarter, rallied modestly, as the S&P 500 posted a 3.4% gain for the quarter. Broader U.S. markets enjoyed more strength, as the S&P 600 Small Cap Index gained 8.8%. The FAANG stocks (Facebook, Amazon, Apple, NetFlix, and Google) all posted gains of over 8%, with NetFlix up 32%, Facebook up 22%, and Amazon up 17%. While higher oil prices helped Energy lead on a sector basis, the bigger story was the strong performance by small caps. European economic momentum slowed, and many emerging markets experienced currency crises and full-blown bear markets. Fixed income markets were quiet and stable by comparison, with the Bloomberg Barclays US Corporate High Yield Index gaining over 1% while the Bloomberg Barclays US Aggregate Bond Index declined 0.2%, as the Fed raised rates for the second time this year.

One of the most surprising aspects of the market rally since 2009 has been profit margins — they have reached never before seen highs and stayed near those levels for a few years now. Bears who played defense, betting on a regression to the mean in profit margins, have had to endure the pain of opportunity loss. Our intermediate-term equity stance remains modestly bullish, but we are increasingly aware that U.S. equity returns are likely to be both lower and more volatile in the coming years. Many indicators cause concern, including a Consumer Comfort level reaching a high last seen 17 years ago in 1999 and 2000, a sustained Fed tightening cycle, rising oil and commodity prices, and stretched valuation indicators that signal higher odds of subnormal returns five to 10 years ahead. On the other hand, wage and inflation growth have not shown up in the economic data despite the stronger economy, and a flatter yield curve means that long-term interest rates have not risen nearly as much as shorter-term rates. Borrowing costs are very much under control.

U.S. Equity — Style Rotation

The U.S. equity portion of the MultiStrategy portfolios ranks a number of U.S. equity styles and factors using Clark Capital's relative strength-based ranking methodology, and then purchases those ETFs with higher rankings (and avoids those with lower rankings), assembling them into a broad-based portfolio that attempts to outperform the S&P 500.

In the second quarter, investors rewarded stocks with strong earnings growth and cash flow, while shunning companies with lower price-earnings ratios and higher leverage. Such a regime has favored growth stocks in the past, as the U.S. continues to be in a slow and steady growth environment. In the second quarter, however, small caps were the big winner across the board. Small Cap Value (IWN) gained 8.2%, while Small Cap

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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.

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Growth (IWO) gained 7.2%, each trouncing the S&P 500 with its 3.5% gain. Year to date, growth stocks have outperformed value across all market capitalizations. Small caps by their nature have a smaller exposure to global trade and a larger exposure to the U.S. economy, which was stronger than most regions in 2018 so far. The Style Opportunity portfolio favored growth stocks, both large cap and small cap, during the quarter, and as the quarter developed, a surge in Real Estate stocks helped make small cap value become a substantial position at the expense of Momentum (MTUM). The following were other developments in the portfolio during the quarter:

- For the entire quarter Large Cap Value (IVE) increased 1.4%, while Large Cap Growth (IVW) rose 5.2%. Small Cap Value (IWN) led all styles with an 8.2% gain, while Small Cap Growth rose by 7.2%. Momentum (MTUM) stocks gained 3.9%, Value (VLUE) gained only 1.3%, and Minimum Volatility (USMV) increased by 2.9%. The S&P 500 was up 3.5%.

- Small Cap Value (IWN) is the first value-oriented ETF to enter the portfolio in some time. The ETF's top sectors include Financials and Real Estate, two sectors that have lagged, at least in the large cap area. Historically value stocks have fared well when economic growth rates were on the rise, and this was the case, at least in the U.S., during the second quarter. However, for value to become a dominant position in the Style Opportunity portfolio, we would likely need to see large cap Technology stocks finally give up their longstanding market leadership.

- In aggregate the Style Opportunity portfolio is overweight the Industrials and Real Estate sectors, and underweight Technology and Energy. However, none of these sector positions differs by more than 3% from our benchmark, the Russell 3000. The more noticeable bias is to favor small caps over large caps.

- The top contributors to the portfolio during the quarter were the iShares Russell 2000 Growth (IWO) and Vanguard S&P 400 Mid Cap Growth (IVOG). The top detractors were the iShares S&P 500 Growth ETF (IVW) and the iShares Russell 2000 Value ETF (IWN).

Fixed Income — We Have Favored High Yield Bonds in 2018 and Remain Mildly Positive

The fixed income portion of the MultiStrategy 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.

Since our February 29, 2016 buy of high yield, the Bloomberg Barclays US Corporate High Yield Index is up 27.4%, while the Bloomberg Barclays U.S. Treasury Index is down 0.8%. During the second quarter, high yield bonds appeared to undergo a monthly cycle of weakness in high yield spreads, followed by a rebound to near prior lows. On the quarter, the Bloomberg Barclays High Yield Bond Index pulled a 1% gain while the Bloomberg Barclays US Aggregate Bond Index declined 0.2%. In totality, the activity was neutral, and our model remains mildly positive. We are encouraged that as our model weakens, every time it reaches a relatively low reading, stock markets and the High Yield Index have been higher. We believe the model is well positioned to capture a substantial, economically driven downturn, whenever that comes. While we wait for that to occur, we are more than content to collect a healthy yield. Since 2016, every time high yield bonds have seen bouts of weakness, the High Yield Index has surged to a new high. We don't see any activity in the economy that changes our mildly bullish outlook, and thus we expect to hold our high yield position. Still, our model is only mildly positive, and a relatively small breakdown in credit markets could move the portfolio towards a cautionary stance. For most of 2018, the portfolio's preferred defensive vehicle has been cash and/or money market equivalent vehicles, as cash now outpaces U.S. Treasuries in our models. If we truly are entering a bond bear market where interest rates are often rising, cash could often be the vehicle of choice. Here are some additional developments during the quarter:

- One important trend helping the high yield market has been lack of supply. The number of issuers and issues in the Bloomberg Barclays US Corporate High Yield Index continues to fall. Many companies are meeting their financing needs via the senior loan market or the European debt markets, leaving U.S. high yield investors with tighter supply, which is generally bullish.

- On the other hand, the long-term trend towards companies adding leverage to fund growth and buybacks means that one day there could be plenty of supply in the high yield markets. Amazingly, 49% of the U.S. investment grade corporates are now BBB, with the next downgrade moving them into the high yield category. This means that whenever the next serious economic downturn comes, there is likely to be considerable turbulence

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in the credit and high yield markets as former investment grade bonds become “Fallen Angel” high yield bonds. We view these developments as another potential chance to be tactical within the credit sphere.

- On the quarter, the portfolio’s top performing holdings were BlackRock High Yield (BRHYX) and JPMorgan High Yield (OHYFX). The portfolio’s worst performers were AB High Income (AGDYX) and MainStay MacKay High Yield Corporate Bond (MHYIX).

Outlook

Looking forward, we believe that a key concern will be that the market and the Federal Reserve appear at odds over the direction of interest rates. Federal Reserve Board members currently estimate that the Fed Funds rate will be 3.4% in 2020. Meanwhile the market is not as optimistic, as current market rates today estimate a 2020 Fed Funds rate of just 2.6%. The market simply does not believe the Fed, despite their open statement of intent. Either the market or the Fed will be proven wrong as 2020 approaches.

On a short-term basis, market sentiment has cooled off as the second quarter ends. However, that does not change the long-term sentiment picture in which price-earnings ratios and price-sales ratios remain historically elevated. From a cycle perspective, we are quite overdue for a defensive market regime in which high quality stocks outperform, and high yield spreads explode higher. However, we see no sign of any such movement in our trend work. During corrections, defensive stocks and bonds rise in our ranks, but they never reach the top because their trends cannot persist. Thus, while the market has elevated risks with regard to the potential for longer-term returns, our projections for the foreseeable future remain positive. It is hard to remain optimistic among today’s chaotic and disheveled news environment, but there are a number of potential ways in which the market’s direction can resolve itself bullishly. Among those are a continued strong economy and labor market while the structural deflationary trend keeps inflation in check, a cooling of trade war talk and reduction of tensions with China, a growth recovery in Europe and emerging markets, and cash repatriation by U.S. firms. We will continue to monitor trends, and use our relative strength models as a guide.

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The MultiStrategy benchmark consists of an allocation to the Russell 3000 and an allocation to the BBgBarc US Corporate High Yield. The Russell 3000 Index measures the performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The BBgBarc 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 benchmark for this composite is based upon the approximate allocation of equities and fixed income in the MultiStrategy composite. The Russell 3000 is generally representative of broad based equities. The BBgBarc US Corporate High Yield is generally representative of broad based U.S. fixed income.

The volatility (beta) of an account may be more or less than its benchmark. It is not possible to invest directly in an index.

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