Clark Capital Management Group

Navigator®
Opportunity Update

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Fourth Quarter 2018 — Portfolio Commentary

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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 Team, 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.

FOURTH QUARTER LOWS LIKELY TO BE RETESTED, BUT LONG-TERM VALUATION PICTURE IMPROVED

The fourth quarter of 2018 began on a positive note, but few knew what turbulence was to come. Markets reached new highs on October 3rd, particularly in credit markets, where High Yield spreads reached their lowest levels since 2009. However, it all unraveled very quickly. On October 3rd we had an equity market top, with two major catalysts.

First was a peak in oil prices (perhaps prompted by the fury surrounding the Saudi murder of Jamal Khashoggi the prior day). Oil prices would tumble over 35% by late December. Catalyst number two was the bankruptcy of Sears— even though it was long anticipated. It was the first bankruptcy among the 125 bonds in the Credit Default Swap Index in over two years. Credit markets turned for the worse, as there were two other thorns in the market's side. Rhetoric in the China – U.S. trade war heated up, as the implementation of Trump's tariffs on China was set for December 31st (they are now scheduled for March 1st). Second was the perceived hawkishness of the Federal Reserve. While a Fed rate hike in December was anticipated, the concern over too many hikes in 2019 amidst slowing economic growth spooked markets.

The selloff began in October but accelerated in November. To most people's surprise, the selloff began to resemble a waterfall in December. The Fed's rate hike came as expected on December 19th, but the Fed's language was seen as too hostile, and the selloff began to hit panic levels. Between December 19th and December 24th, the market sold off another 9%, reaching its most oversold level in many years. Cash, U.S. Treasuries, and ultra-conservative sectors such as Staples and Utilities were all that provided any form of safety. The S&P 500 declined 13.5% on the quarter, and the Russell 2000 Small Cap stocks fared much worse, undergoing a full 20.2% bear market in just the fourth quarter. We had been defensively positioned in many of our portfolios and took the opportunity during this time to add equity exposure and become fully invested.

U.S. Sector Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares Core S&P 500 ETF	IVV	50.00%
Consumer Staples Select Sector SPDR	XLP	18.00%
Vanguard Health Care ETF	VHT	10.00%
S&P Homebuilders SPDR	XHB	10.00%
Utilities Select Sector SPDR	XLU	10.00%
Cash		2.00%

The Sector Opportunity portfolio uses a relative strength methodology to rank the top performing sectors over the intermediate-term, and by owning these sectors going forward (and avoiding lower-ranked sectors) attempts to outperform the S&P 500. The fourth quarter was alarming for investors, as the S&P 500 was at an all-time high on October 3rd but then saw a massive 19%+ decline that ended with what appeared to be a waterfall decline on Christmas Eve. The continued rhetoric regarding trade wars, crashing oil prices, and a hawkish Fed increased fear among investors and led selling to run rampant.

The Sector Opportunity portfolio shifted gears during the period, having started the quarter aggressively positioned in Technology, Consumer Discretionary, and Industrials. During the first part of the decline (mainly October), the portfolio underperformed as relative winners became leaders on the downside. As the decline began, these prior outperformers led on the way down, and only low beta and low volatility equities could hold their own relative value.

As our models adjusted to the market's defensive tone, the portfolio moved into Utilities (XLU), Consumer Staples (XLP), and Health Care (VHT). Eventually when our credit models signaled a risk-off environment, the portfolio increased cash to over 10%. We put that cash back to work on December 21st when our measures showed that the market selloff was becoming extreme. As the quarter moved on, we saw very few names beating the S&P 500 itself, and therefore the S&P 500 ETF became our largest position. We became wary of being caught in an extremely defensive position at a major bottom and as a result, chose to index half of the portfolio as the S&P 500 was near the top of our rankings anyway. Late in December, the Fed responded to jittery markets, and ratcheted back its rhetoric, helping the markets find some footing. Below are some further developments in the portfolio during the quarter:

- As markets quickly and dramatically found a bottom around Christmas, we began to see former leaders Technology, Retail, and Biotechnology rise quickly in our matrix. We believe these could be future holdings as the first quarter of 2019 moves on.
- The new Communications Services sector was fully implemented by ETFs in December. As a result, former Technology stalwarts Google, Facebook, and Netflix along with Disney, joined traditional telecommunications services firms AT&T and Verizon to form a more growth-oriented sector that is roughly 10% of the S&P 500. According to our models, the new sector's relative strength appears to be on the rise.
- As of December 31, the portfolio owned five positions: the S&P 500 Index (IVV), Consumer Staples (XLP), Health Care (VHT), Utilities (XLU), and Homebuilders (XHB). Technology, Financials, Industrials, Materials, and Communications Services received zero weighting in the portfolio.
- Health Care (VHT), Consumer Staples (XLP), and the S&P 500 (IVV) were the top contributors during the quarter, while Oil & Gas Exploration & Production (XOP), Financials (VFH), and Retail (XRT) were the top detractors.

International Opportunity Portfolio

SECURITY	TICKER	WEIGHT
Vanguard Emerging Markets ETF	VWO	25.00%
iShares Core Total International Stock ETF	IXUS	24.00%
iShares Edge MSCI Emerging Markets Minimum Volatility ETF	EEMV	20.00%
iShares Edge MSCI EAFE Minimum Volatility ETF	EFAV	14.00%
iShares Brazil ETF	EWZ	5.00%
VanEck Vector Russia ETF	RSX	5.00%
iShares Turkey ETF	TUR	5.00%
Cash		2.00%

The International Opportunity portfolio's stated mission is to allocate tactically between international style, factor, and region ETFs that display significant relative strength (and avoid those that do not). In doing so, the strategy attempts to outperform the MSCI All Country World Ex-U.S. Index. The fourth quarter was a test for investors—the toughest for global equity markets in many years; however, we believe some interesting divergences and trend changes could be going on under the surface.

The peak for international developed and emerging markets stocks was not in October, as it was for the S&P 500. Instead, they both experienced a blow off top back in January and have undergone full bear markets ever since. International developed stocks fell 22.7% through December 24th while emerging markets underwent a full 26% bear market. However, they bottomed on October 29th, but have been relative outperformers since.

Meanwhile, U.S. markets experienced a breakdown versus the rest of the world after outperforming international stocks by over 14% through November. As a result, our International Opportunity portfolio now favors emerging markets, broad international stocks, and low volatility stocks. While we cannot be certain that the bear market in international stocks is over, we are seeing encouraging signs. We believe that positive news from the U.S.—China trade negotiations could spark a longer-term uptrend in international equities. Here are some further developments in the portfolio during the quarter:

- As the quarter developed and the selloff intensified, the portfolio was driven more towards lower beta ETFs, namely minimum volatility ETF (EFAV and EEMV). Their lower beta and relative stability were the only safe haven where our models showed a relative advantage. Looking forward, international real estate could become a potential holding.

- The investment universe for the International Opportunity portfolio is undergoing a substantial shift, and one that we believe will be of benefit to investors. We are moving away from a country-oriented focus towards an international style box, factor, and regional focus. Factor ETFs in the universe include Quality, Buybacks, Minimum Volatility, Value, Growth, Momentum, and Small Cap. Regional ETFs include Eurozone and Asia Ex-Japan. We believe this universe will allow us to better latch on to longer-term trends and avoid political and news-based single country effects.

- When our U.S. credit market models signaled caution and a more defensive stance, the International Opportunity portfolio increased its cash in late November. As the December decline intensified and became more extreme in our eyes, the strategy redeployed that cash into the portfolio in late December.

- Emerging Markets Minimum Volatility (EEMV), EAFE Minimum Volatility (EFAV), and Emerging Markets (VWO) were the top contributors, while commodity-related countries Norway (NORW), Mexico (EWW), and Argentina (ARGT) were the top detractors.

The portfolio's thematic allocations are as follows: 45% to broad international equities, 15% to emerging markets countries, and 14% to EAFE Minimum Volatility.

U.S. Style Opportunity Portfolio

SECURITY	TICKER	WEIGHT
iShares Core S&P 500 ETF	IVV	40.00%
iShares Edge MSCI USA MIN VOL	USMV	30.00%
iShares Core High Dividend ETF	HDV	28.00%
Cash		2.00%

The Style Opportunity portfolio 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 portfolio that seeks to outperform the Russell 3000.

Times of transition and regime changes in market leadership are some of the most difficult phases for investors to manage, and the fourth quarter represented a major regime shift to defensive U.S. stocks. Though we had seen growth stocks' momentum slowing as the quarter began, the portfolio was still aggressively positioned in Small Cap Growth and momentum stocks as the quarter began.

Quickly, Small Cap Growth fell out of favor and the portfolio's focus shifted towards large caps and defensive, lower beta names (USMV and HDV). Large Cap Growth (SPYG) also eventually fell out favor in the portfolio, as its longer-term market leadership faded in November.

Once our relative strength models signaled caution in U.S. equities and credit in November, we took the opportunity to become even more defensive, and increased our position in cash up to 15%. As the decline steepened and the oversold conditions became the most extreme in over two years, we put that cash back to work on December 21st. As it turned out, the markets went even lower until a Christmas Eve bottom, from which markets have since found footing and rallied. The following were other developments in the portfolio during the quarter:

- For the quarter, Large Cap Value (SPYV) declined 11.98%, Large Cap Growth (SPYG) declined 14.63%. Small Cap Value (IJS) trailed all styles with a 20.60% decline, while Small Cap Growth fell (IJT) by 19.77%. Momentum stocks (MTUM) declined 15.44%, while Minimum Volatility (USMV) declined 7.56%. The S&P 500 (SPY) fell by 13.52%.

- Defensive, lower-beta ETFs dominated the portfolio in the fourth quarter, as they were the only theme within our model rankings that beat the S&P 500 itself. As the decline deepened and became more extreme, we did not want the portfolio to be

100% allocated defensively near a major bottom. As a result, we added a large position in the S&P 500 Index itself (IVV), which was near the top of our rankings.

- In aggregate, the portfolio is overweight the Utilities, Consumer Staples, and Energy sectors, and underweight Technology, Consumer Discretionary, and Communications Services. The portfolio avoids mid-cap and small cap stocks, as their relative strength trends remain weak. However, we do recognize that they could present a nice opportunity if markets and the U.S. economy display improved confidence as 2019 develops.
- The top contributors to the equity portfolio during the quarter were the iShares Edge USA Minimum Volatility ETF (USMV) and the iShares Core High Dividend ETF (HDV). The top detractors were the iShares Russell 2000 Growth ETF (IWO) and the SPDR S&P 500 Growth ETF (SPYG).

Global Tactical Portfolio

SECURITY	TICKER	WEIGHT
SPDR Barclays Bloomberg 1-3 Month T-Bill ETF	BIL	30.00%
iShares Short Treasury ETF	SHV	30.00%
JPMorgan Ultra Short Income ETF	JPST	15.00%
iShares Short Maturity Bond ETF	NEAR	15.00%
PIMCO Enhanced Short Maturity ETF	MINT	5.00%
Cash		2.00%

The methodology of the Global Tactical portfolio is to select ETFs that are part of a narrowed-down universe of 32 U.S. equity styles, sectors, country/regions, and commodities. The portfolio uses the Navigator® Fixed Income Total Return credit market model as an overlay to manage risk. When the credit market model is positive towards High Yield Bonds (and thus positive on credit risk and market risk in general), the portfolio will select from its ETF universe consisting primarily of equities.

However, when the credit model turns negative, the portfolio sells equities and owns cash or Treasury bonds that are in line with the Navigator® Fixed Income Total Return portfolio's holdings. After over two and a half years, the peak in credit and U.S. equities led our credit models to finally turn defensive on November 16th, and the Global Tactical portfolio moved into cash for the remainder of the year.

- Between November 16th and the end of the year, the S&P 500 declined 8.16%, and the S&P 600 Small Cap Index tumbled 11.88%. The Global Tactical portfolio was invested in cash at that time, and we believe the portfolio accomplished its mission of providing a better risk-adjusted journey through equity markets over time.
- As 2019 develops, we see international and emerging markets stocks rising in our ranks, along with Technology, which was a prior leader. We expect markets to, in some shape or form, retest the December low, and we will be watching closely as to what market leaders emerge once a potential retest takes place.
- The portfolio continues to move towards reducing its investable universe to broad style, factor, and region equity ETFs. We anticipate having fewer positions, but in broader-based ETFs.
- The portfolio moved into cash equivalents on November 16th, as cash was favored in our models over U.S. Treasuries.

Alternative Portfolio

SECURITY	TICKER	WEIGHT
Blackrock Event Driven Equity	BILPX	10.0%
iShares Core MSCI Emerging Markets ETF	IEMG	7.0%
LoCorr Long/Short Commodity Strategy	LCSIX	7.0%
Blackrock Global Credit Long / Short Instl	BGCIX	6.0%
Altegris Futures Evolution Strategy I	EVOIX	6.0%
iShares Floating Rate Bond ETF	FLOT	6.0%
Legg Mason Brandywine Alternative Credit I	LMANX	6.0%
Nuveen High Yield Muni Inst'l	NHMRX	6.0%
Neuberger Berman Long / Short Instl	NLSIX	6.0%
First Trust North American Energy Infra-structure Fund	EMLP	5.0%
Gold Shares SPDR	GLD	5.0%
FlexShares Morningstar Global Upstream Natural Resources ETF	GUNR	5.0%
VanEck Vectors Oil Services ETF	OIH	5.0%
VanEck Vectors Emerging Markets Local Currency ETF	EMLC	4.0%
VanEck Vectors Gold Miners ETF	GDX	3.0%
VanEck Vectors Agribusiness ETF	MOO	3.0%
iShares Global Timber & Forestry ETF	WOOD	3.0%
VelocityShares Daily Inverse VIX Medium Term ETN	ZIV	3.0%

SECURITY	TICKER	WEIGHT
IndexIQ Merger Arbitrage ETF	MNA	2.0%
VanEck Vectors CEF Municipal Income ETF	XMPT	2.0%
Farmland Partners Inc.	FPI	1.0%
VanEck Vectors High Yield Muni Bond ETF	HYD	1.0%
Cash		4.0%

The Alternative Opportunity portfolio contains a well-diversified mix of themes which breaks down as follows: Alternative-Oriented Mutual Funds and ETFs 49.0%, Tactical Global Equity 32.0%, Fixed Income 7.0%, Commodities 5.0%, Inverse Volatility 3.0%, and Cash 4.0%. The following are some important events that occurred in the portfolio during the quarter:

- The primary purpose of the core liquid alternative portion of the portfolio is to provide non-correlated alternative exposure and includes seven mutual funds (and one ETF) in the long/short credit, alternative credit, long/short equity, long/short commodity, managed futures, high yield muni bond, and merger arbitrage areas. Commodity long/short was the best performing core fund, while equity long/short suffered.
- The bear market trend that began on October 3rd proved an important fact about alternative investing: correlations increase during strong down markets. Most categories in the alternative investing sphere endured a rough quarter, with the notable exception of Gold, which gained 7.5%.

  The SG Trend Index, a trend-following managed futures index, declined 5.1%. The Bloomberg Commodity Index took a 9.4% tumble. The HFRX Event Driven Equity Index declined 6.5%. Our Alternative portfolio benchmark, the HFRX Global Hedge Fund Index, declined 5.6%. Over a three year period, the Global Hedge Fund Index is up 0.45%.
- On December 19th, as the market's selloff began to accelerate, the portfolio made a number of changes. We sold out of high yield bond ETFs, broad U.S. equity, frontier markets, Asia Ex-Japan, broad commodities, and closed-end funds. Overall, however, we increased equity exposure, focusing on commodity-oriented equity exposure, which was particularly beaten down in the second half of the year. We added to Energy Infrastructure (EMLP), Oil Services (OIH), Timber & Forestry (WOOD), Agribusiness (MOO), Emerging Markets (IEMG), and Emerging Markets Local Currency Bonds (EMLC).
- The top contributors for the quarter were the LoCorr Commodity Long/Short Fund (LCSIX), Gold (GLD), and Gold Miners (GDX). Global Natural Resources (GUNR), Long/Short Equity (NLSIX), and broad U.S. equity (ITOT) were the top detractors.

Fixed Income Total Return Portfolio

SECURITY	TICKER	WEIGHT
Navigator Tactical Fixed Income I	NTBIX	50.00%
SPDR Barclays Bloomberg 1-3 Month T-Bill ETF	BIL	12.00%
iShares Short Treasury Bond ETF	SHV	12.00%
Lord Abbett Ultra Short Bond	LUBYX	10.00%
JPMorgan Ultra Short Income ETF	JPST	4.00%
iShares Short Maturity Bond ETF	NEAR	4.00%
PIMCO Enhanced Short Maturity Active ETF	MINT	2.00%
Cash		6.00%

Coming into the quarter, the Fixed Income Total Return (FITR) portfolio had owned High Yield bonds since the end of February, 2016. Markets and High Yield Bonds peaked very quickly on October 3rd, and then reversed. Sears' bankruptcy, plummeting oil prices, trade war concerns, and a perceived to be hawkish Fed combined to cause a downturn in stocks and credit. Our models began to turn around, and on November 16th we exited High Yield after over two and a half years.

Cash was the preferred defensive vehicle, as interest rates had been rising all year, and our model had soured on Treasuries. High Yield bonds had already fallen over 2% from their peak, but they would go on to lose another 3.5% by Christmas Eve. Our models remained defensive through the end of the year, but began to turn more positive as 2019 began. Here are some additional developments during the quarter:

- While High Yield Bonds are a risky part of the credit market, it may surprise many that they have recently risen in quality. This is a result of many of the riskiest credits in High Yield switching over to the leveraged loan market, which has been a cheaper vessel for them. The October to December correction was the first time that the leveraged loan market, which has grown to be huge size, was under fire with these risky credits. Senior Loan ETFs like BKLN and SRLN were hit disproportionally hard during the selling. The markets were behaving rationally, knocking down most of the areas where questionable lending may have taken place.

- Utilities was the best performing High Yield sector during the quarter, while not surprisingly the 35% decline in oil prices spurred energy bonds to a 9.1% loss. For all of 2018 Health Care was the strongest High Yield sector while Energy lagged.
- In the days after Christmas, markets rallied strongly and our High Yield models became more positive, sparking a good deal of activity.

Sentry Managed Volatility Portfolio

SECURITY	TICKER	WEIGHT
Navigator Sentry Managed Volatility Fund	NVXIX	95.00%
Cash		5.00%

Hedging one's equity exposure during a strong market for equities, or even just a flat market for equities, is an exercise in patience and understanding of the proper role of a hedge in a broader portfolio. Volatility and market turbulence bookended 2019 as January, February, November and December saw sudden, dramatic spikes in fear and selling. The fourth quarter was the worst market environment for equity investors in many years, and it was an environment in which a hedging strategy can show its stripes.

The S&P 500 experienced a brutal quarter, during which it declined over 19% by Christmas Eve, and ended the quarter down 13.5%. The dynamic hedging employed by the Navigator® Sentry Managed Volatility Fund (NVXIX) fueled a 42.1% gain for the quarter. During a volatile year for markets, the Sentry Managed Volatility Fund gained 23.6%, compared to a 4.4% decline for the S&P 500.

Looking out into 2019, our expectations are that the bearish activity we saw in the fourth quarter could continue into the first half of the year. Earnings expectations remain elevated, and they are vulnerable to disappointment. Normally, after markets undergo a sharp selloff, a retest in coming months will follow. Our base case is that this time is no different.

Regarding the second half of 2019, we are more bullish, as a substantial correction will likely have run its course. As always, we remain committed to keeping protection on at all times for our clients in the Sentry program, and as we see spikes in volatility, we are looking to be opportunistic about reducing the cost of the hedge. That means taking profits on being long volatility – these profits come quickly and dramatically but disappear quickly as well.

Outlook

As we move into the New Year, we believe international stocks may present a potential opportunity as they've shown their first signs of life relative to the U.S. in a long time. Emerging markets bottomed earlier in November and have shown relative strength ever since.

Our outlook for 2019 is for two different halves. In the first half of the year, we expect some sort of retest of the December lows, and the result of the trade negotiations should be front and center as the year goes on. However, we do expect for there eventually to be a bottom, and from there we believe the future will be bullish.

We are already seeing a shift away from growth stocks towards a more neutral relationship between value and growth. Small Caps and Emerging Markets could be leaders in the second half of the year, perhaps long with Financials, Energy, and Technology. However, we believe investors should anticipate more volatility to continue in the short-term.

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The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

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.

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.

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.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index representing approximately 8% of total market capitalization of the Russell 3000.

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 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 MidCap 400 Index represents US mid-sized companies covering over 7% of the U.S. equity market.

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 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.

These portfolio holdings and weightings reflect portfolio models that may or may not have changes since publication. Actual client holdings and weightings may or may not differ. Performance since position initiated reflects the performance of security from the closing price of the day before the initial purchase date. This performance does not reflect actual performance of any actual client position or account. In addition, performance does not reflect total performance of a specific position as allocations are often reduced or increased. This performance does not reflect the deductions of any fees. For information on fees see the Form ADV Part 2A Appendix 1 Wrap Fee Brochure for Unified Solutions. This research has not been reviewed by FINRA. The S&P 500 Index is an unmanaged market capitalization weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. It represents approximately 75% of the U.S. equities market. Index returns do not reflect fee deductions. Benchmark index performance provided by Bloomberg and includes dividends. It is not possible to make an investment directly in any index.

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The relative strength measure is based on historical information and should not be considered a guaranteed prediction of market activity. It is one of many indicators that may be used to analyze market data for investing purposes. The relative strength measure has certain limitations such as the calculation results being impacted by an extreme change in a security price.

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