



Tony Soslow, CFA®
Senior Portfolio Manager

Tony serves as a portfolio manager in the Premier Portfolios group and is a member of the Clark Capital Investment Team. 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 Second in the top ten category for each period.

IGNORING THE DEAFENING NOISE

In late November and early December, we and the markets were concerned with multiple headwinds impacting earnings and thus the near-term future returns of stock prices. Fed tightening (as seen in two forms), produced a flattening of the yield curve or a narrowing of the difference between 2-year and 10-year treasury yields.

This flattening united with expanding credit spreads led investors to question both future economic growth rates and the creditworthiness of borrowers to withstand weak conditions. Additionally, as the 4th quarter progressed, noise from the China/U.S. trade war reinforced the threat of anticipated earnings deceleration from 2018's robust levels to produce a loud cacophony of disturbing sounds. As large portions of the equity market (housing, motor home, motor cycle, auto, NYFANG Index, semiconductor equipment, and energy prices) fell into bear markets, the desire to sell portfolio losers and push prices lower, amplified the grotesque symphony.

Fortunately, the reduction of earnings and economic expectations has produced collateral benefits—a reduced likelihood of continued Fed tightening and a 0.68% lowering of 10-year US treasury rates from 3.24% to 2.57%. Anticipated 2019 increases in the Fed Funds rate has declined from three hikes to one, and the decline in the 10-year rates has begun to support consumer and corporate refinance efforts. By year end, the selling from deafening negative noise did not correspond to the opportunities presented by lower stock and a less threatening interest rate environment.

From Good to Great

As noted in previous commentaries, large capitalization growth tech stocks—specifically the FAANG stocks, significantly outperformed in the first half of 2018, which we believe had a negative impact on high-quality value stocks that persisted throughout the year. As a result, the high-quality stocks that we typically traffic, experienced a strong deviation from the performance that we saw in 2017.

While we never want to trail our benchmarks, the underperformance these high-quality value stocks experienced in 2018 provided us with an opportunity to transition our holdings from what we believe are GOOD quality, undervalued companies with improving business momentum to GREAT quality, undervalued companies with improving business momentum.

At quarter end, the price-to-earnings and price-to-sales metrics of each of our portfolios had reached levels unseen for nearly five years. Historically, portfolio returns are typically strong from these value levels. Finally, lower 10-year interest rates serve as less competition for stocks in general and the expansion of credit spreads, typically favoring those companies which do not require heavy dependency on the credit market.

Past performance is not indicative of future results.

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

Fourth Quarter 2018 — Portfolio Commentary

When Second Derivatives Become First Derivatives

Sometimes, it's easy to forget that markets tend to care less about *current* economic and earnings strength and are more concerned with *future* economic and earnings growth. Partially aided by lower taxes, 2018 will be remembered as a great year for U.S. earnings growth as all three major S&P indices—the S&P 500, S&P MidCap 400 and S&P SmallCap 600 all had earnings gains in excess of 20%.

Moreover, the trend in earnings estimates was not typical, rising higher as the year progressed through the third quarter, which reflected analysts' ongoing attempt to fully incorporate the changing tax rate into reported earnings. As the market began to change its focus towards 2019 and 2020, it became obvious that the second derivative of earnings growth, or the change in the growth rate from 2018 (about 25%) to 2019 and 2020 (5-12%), was negative.

To be clear, it is unlikely that 2019 will produce an economic or earnings recession, but we will likely experience a slowdown in growth. We believe markets have, in part, adjusted to this anticipated slowdown. As we noted above, we expect that this slowdown will likely continue to alter the Fed's understanding of the mysterious "neutral" rate to be more patient with both future interest rate increases and balance sheet reduction.

All Cap's Quality and Value Characteristics Remain Solid

For the fourth quarter of 2018, the Navigator® All Cap Core U.S. Equity strategy had a loss of 17.71% gross (-18.37% net) versus a 14.30% loss in the Russell 3000 index. For the five years ending December 31, 2018, the strategy gained 6.58% gross (3.44% net) versus 7.91% for the Russell 3000. For the 5 years ending September 2018, All Cap remains in the top 16% of the U.S. Mid-Cap Blend Morningstar peer group managers according to the most recently available data as of September 2018.

Our positioning in Communication Services and Information Technology helped the relative performance while positioning in Financials and Industrials sectors acted as a drag in the fourth quarter of 2018. Portfolio holdings in Intel Corporation and Verizon Communications Inc. helped the relative performance while holdings in Newfield Exploration Company and G-III Apparel Group Ltd. hurt performance.

During the quarter, the strategy was overweight large cap companies with market capitalizations above \$15 billion. The value and quality characteristics of the All Cap strategy remain solid in comparison to the S&P 500 as it possesses a lower P/E of 12.5 vs. 15.9 and lower earnings variability combined with higher gross and net profit margins with similar business growth characteristics.

Fourth Quarter 2018 — Portfolio Commentary

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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 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 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 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 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 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/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.

Morningstar is the largest independent research organization serving more than 5.2 million individual investors, 210,000 Financial Advisors, and 1,700 institutional clients around the world.

The Morningstar Rating for separate accounts is a quantitative assessment of past performance—both return and risk. Percentile Rank is a standardized way of ranking items within a peer group. The observation with the largest numerical value is ranked zero. The observation with the smallest numerical value is ranked 100. The remaining observations are placed equal distance from one another on the rating scale. Note that lower percentile ranks are generally more favorable for returns (high returns), while higher percentile ranks are generally more favorable for risk measures (low risk). Separate accounts are ranked against others in the same Morningstar Category. Categories are assigned based on extensive holdings-based portfolio analysis. The rating is an objective grade of demonstrated performance. It is not designed to try to anticipate future performance.

Morningstar U.S. Mid Cap Blend Category: The typical mid-cap blend portfolio invests in U.S. stocks of various sizes and styles, giving it a middle-of-the-road profile. Most shy away from high-priced growth stocks but aren't so price conscious that they land in value territory. The U.S. mid-cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

For more information on the methodology Morningstar uses to rate separate accounts, please see The New Morningstar Rating for Separate Accounts Fact Sheet, which can be found on the Morningstar website.

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