CROSSMARK GLOBAL INVESTMENTS

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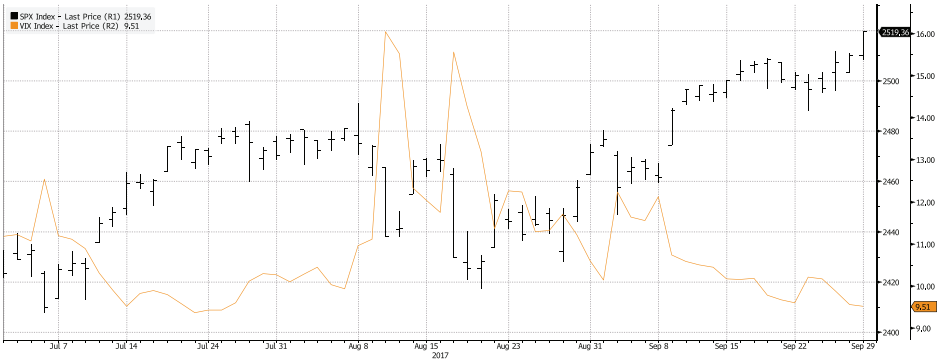
COVERED CALL INCOME (previously Theta Growth) COMMENTARY

Third Quarter Performance Summary 2017

The third quarter of 2017 got off to a hot start in July with the U.S. markets delivering another positive monthly return. Historically, the months of August and September are the two worst performing months of the year in relation to the SP 500 index. However, there is another historic trend that shows the markets usually do better than average after a strong month of July, and that is exactly what was delivered. The U.S. markets followed up a nice month of July with a positive return for August, which made that five months in a row of positive returns for the markets. September brought little in the way of weakness and in fact was the least volatile month of September on record as the markets added another positive return to the year. So much for August and September historically being the worst months of the year. The U.S. equity markets have had a rather smooth go of it in 2017. Healthy market gains combined with low volatility are being driven by the fact that investors are seeing positive earnings growth and hardly any sign of a near-term recession. Couple that with increased consumer confidence and the renewed talks regarding tax reform from Washington and you are going to see continued strength in the markets. Investors who followed the old adage "sell in May and go away" missed out on some strong returns over the summer months.

The Covered Call Income strategy (previously Theta Growth) continued to have a strong performance year as the strategy outperformed both the S&P 500 and the BXM Index for the third quarter. From a month to month standpoint, Covered Call Income was flat versus the S&P 500 Covered Call Index and outperformed the BXM for July. The months of August and September saw the Covered Call strategy outperform both the SP 500 covered call index as well as the BXM.

VIX vs S&P 500



Source: Bloomberg

- The U.S. markets followed up a nice month of July with a positive return for August, which made that five months in a row of positive returns for the markets.
- The Covered Call Income strategy (previously Theta Growth) continued to have a strong performance year as the strategy outperformed both the S&P 500 and the BXM Index for the third quarter.
- The failure of the healthcare bill and a slight retreat in the Technology sector limited an additional fall in volatility in July.

The U.S. equity markets have had a rather smooth go of it in 2017. Healthy market gains combined with low volatility are being driven by the fact that investors are seeing positive earnings growth and hardly any sign of a near-term recession.

Source: Bloomberg

The VIX index, Wall Street's widely acknowledged fear gauge, recorded a lifetime low of 8.84 during the third week of July and saw the VIX close with a 9 handle for a record ten straight days. The failure of the healthcare bill and a slight retreat in the Technology sector limited an additional fall in volatility in July. As the calendar flipped to August, the VIX soared over 40% on North Korea tensions to 16.04 on August 10th before retracting back ever slightly and then spiking again on the Spain terrorist attacks. When the month of August was complete, the VIX was back under 11. September brought the least volatile month of September ever recorded. Even with historical low volatility, the Covered Call Income team was still able to produce attractive premiums for the sale of covered calls as opportunities presented themselves in the third quarter.

Looking ahead to the Fourth Quarter of 2017

As we head into the fourth quarter of the year, October has been one of the worst performing months of the year historically. However, when September has positive returns as we just witnessed, that bodes well for an even stronger fourth quarter for the US markets. With November and December being the 3rd and 2nd best performing months respectively, the U.S. markets could quite possibly run even more. The trends that have guided the markets higher throughout the year remain intact as we head into the all-important earnings season. Typically the fourth quarter of the year is an active one, and like the fourth quarter of 2016, this quarter does not appear to be any different. The Covered Call Income strategy is well positioned for the balance of the year and will continue to look for trading opportunities as they are presented.

Definitions:

"Up and Out" – This occurs when the original call option is repurchased and another call option is sold. The new option is sold with a higher strike price and a later expiration date than the original option.

"Rolling Down" – This involves buying back the current call option and selling another call option with the same expiration date. The only difference between the two call options is the strike price. In this case, the new option has a lower strike price.

"At-the-Money" – Options with a strike price, or exercise price, equal to the price of the underlying asset. Theoretically, these options have a delta around 50%.

About Crossmark's 30 Year History

Crossmark, previously Capstone Asset Management Company, is an independent investment advisor headquartered in Houston, Texas. Founded in 1987, Crossmark has a multi-decade legacy of providing portfolio solutions for financial advisors and institutional investors with values-based, SRI and ESG values and factor-based strategies. Additionally, Crossmark is the exclusive manager of the Crossmark Steward Funds, which is a fund family that applies an overarching values-based screening methodology to its suite of equity and fixed income funds, including its award-winning Steward Global Equity Income Fund- named Lipper's "Best Global Equity Income Fund" for the last three consecutive years.

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