CROSSMARK GLOBAL INVESTMENTS

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THETA/GROWTH A COVERED CALL STRATEGY COMMENTARY

Second Quarter Performance Summary 2017

After taking a slight breather in April, the U.S. equity markets continued its upward trend in May. June was a different story as the markets traded off for the balance of the month. Neither the equity markets nor the bond markets reacted well to speeches that suggested the ECB could soon begin reducing its quantitative easing (QE) purchases, and the Bank of England might raise interest rates at some point this year. The two primary benchmarks for the Theta Growth strategy are the S&P 500 Covered Call Index (SPXCC) and the CBOE S&P 500 Buy Write Index (BXM). As the markets took a breather in April, Theta Growth model slightly outperformed the return of .86% for the SPXCC and was flat against the BXM. In May, as the markets continued to rally, Theta Growth model slightly underperformed the return of .98% for the SPXCC and underperformed the return of 1.78% for the BXM. The markets stalled a bit as the calendar flipped to June with the Theta Growth model outperforming the return of .33% for the SPXCC and outperforming the return of .35% for the BXM. Overall for the second quarter Theta Growth model outperformed the return of 2.19% for the SPXCC and was a few basis points behind the return of 3.07% for the BXM. The S&P 500 gained another 3.09% for the second quarter and is up 9.49% since the beginning of the year. Theta Growth is designed to outperform in flat to declining markets and will lag in quick rallying markets.

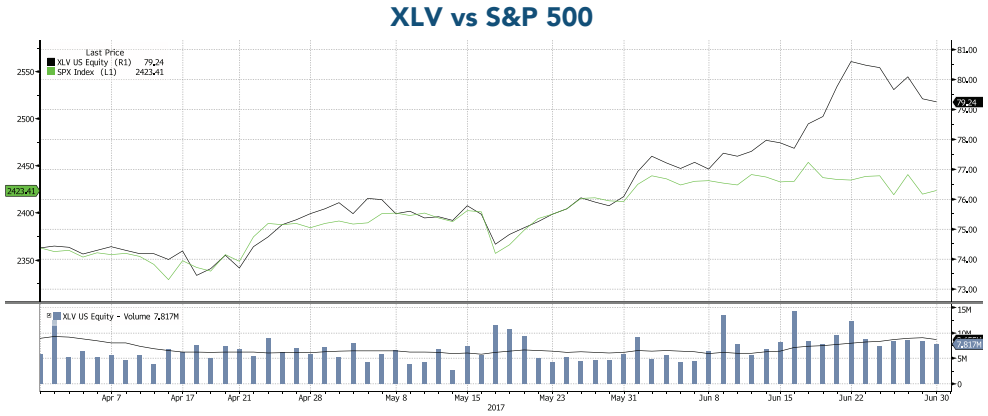
The S&P 500 – What Sectors Worked and What Did not Work in Q2 2017

VIX vs S&P 500

Source: Bloomberg

- After taking a slight breather in April, the U.S. equity markets continued its upward trend in May. June was a different story as the markets traded off for the balance of the month.
- The Healthcare sector broke out in the second quarter as it the led the way with a return of 6.98%.
- Neither the equity markets nor the bond markets reacted well to speeches that suggested the ECB could soon begin reducing its quantitative easing (QE) purchases and the Bank of England might raise interest rates at some point this year.

The Healthcare sector broke out in the second quarter as it the led the way with a return of 6.98%. The Industrial sector was up 5.18% for the quarter followed by Financials up 4.36%. The Material and Technology sectors were up 3.15% and 3.06% respectively. The Energy sector was the big loser again for the second quarter as it returned -6.50%. The Energy sector is down -12.70% for 2017 following its banner year of 2016 when it was up 28.02%. The Consumer Discretionary, Utility and Consumer Staples sectors all had positive performance for the second quarter.



Source: Bloomberg

Best and Worst Trades/Performers Q2 2017

The following section provides a closer look at a few of the best and worst trades/performers of the quarter.

Best Trade/Performer

1. A slight underweight to the Energy sector as that was the worst performing S&P 500 sector for the quarter down -6.50%.
2. The individual Healthcare names in the Theta Growth portfolio had strong second quarters as the Healthcare sector was the best performing S&P 500 sector up 6.98%. Medtronic (MDT) was up 10.16% followed by Abbot Labs (ABT) up 10.12% and Gilead Sciences (GILD) up 5.35% for the second quarter.
3. Nike Corp. (NKE) had a great earnings announcement on the last day of the quarter and was up 10.96% on June 30th which resulted in a positive return of 6.23% for the quarter.
4. PayPal Holdings (PYPL) continued its strong 2017 with a solid return of 24.75% for the second quarter.
5. Kroger (KR) was sold from Theta Growth on April 25th and was down -13.21%. After another poor earnings announcement from Kroger, the stock was down another -21.59% after it was sold from the portfolio.

Worst Trade/Performer

1. After a banner first quarter up 16.15%, Lowes Cos. (LOW) was down -5.30% for the second quarter.
2. Verizon Comm. (VZ) continued to perform poorly in 2017 as it was down another -7.30% for the second quarter.
3. A slight underweight to the Healthcare sector was a drag on performance as that sector was the best performer for the quarter up 6.98%.

Looking ahead to the Second Quarter of 2017

As we begin the third quarter of 2017, historically September and August are the worst performing months of the year in relation to the S&P 500 index. Keeping this in mind, the potential for market volatility in the third quarter and the rest of the year definitely exists. One of the key questions for the balance of the year will be the extent to which equity and bond markets can withstand a gradual reduction in monetary stimulus which has been very supportive to markets over the past several years. Mario Draghi's recent speech on QE was one of the most market-moving events of the second quarter, with both bonds and equities selling off. The announcement of quantitative tightening from the Fed combined with the announcement of a reduction in QE from Mario Draghi and the ECB could very well be the events that trigger a potential pullback in the markets.

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The Theta Growth team will continue to look for opportunities to increase income by strategically putting on option trades as the present themselves. Even with the VIX hitting a low of 9.75 on June 2nd, the Theta Growth strategy is still able to generate attractive income through the use of call options and dividends.

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%.

"In-the-Money" – Options with a strike price, or exercise price, lower than the price of the underlying asset. These options have a theoretical delta greater than 50%.

"Out-of-the-Money" – Options with a strike price, or exercise price, greater than the price of the underlying asset. These options have a theoretical delta less than 50%.

"Delta" – One of the "Greeks" derived from the Black-Scholes model for option pricing. Theoretically, it states how much the price of the option will change given a $1 change in the price of the underlying asset. It is also commonly referred to as the "hedge ratio."

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 is in its 30th year 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 Global Equity Income Fund- named Lipper's "Best Global Equity Income Fund" for the last three consecutive years. Crossmark manages approximately $5 billion in assets with clients nationwide.

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