COVERED CALL INCOME / CURRENT INCOME PORTFOLIO

SMA Strategy Profile

Strategy Objective:

Seeks to provide a balance of above-average income and limited capital appreciation with lower volatility than the broad equity market.

Strategy Snapshot:

Product Inception	7/1/2007
Category	Allocation--50% to 70% Equity

The Crossmark Covered Call Income/Current Income Portfolio (CIP) Strategy seeks to provide a balance of equity market participation and current income by investing in a combination of large-cap domestic equity and investment grade, fixed income securities. The Strategy also writes call options against the equity holdings to generate additional income and reduce overall portfolio risk. For equities, a combined quantitative/fundamental approach is used to identify large-cap, dividend paying stocks selling at a lower valuation but with positive price momentum. Fixed income investments are focused on U.S. investment-grade corporate and U.S. Government Agency securities with a maximum maturity of ten years. For additional income, an allocation to fixed-rate preferred stocks is utilized, maintaining an overall intermediate-term duration within the total fixed-income component of the portfolio.

Key Highlights

DIVERSIFIED PORTFOLIO

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- Comprised of a combination of two flagship Crossmark strategies – Covered Call Income and Current Income Portfolio
- Active diversification across equity and fixed income investments can allow for participation (from the equity component) in up markets and some protection (from the fixed income component) in down markets
- The generation of dividends, interest, and option premium income may help mitigate the impact of market volatility and reduce downside risk in a portfolio

CURRENT INCOME

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- By utilizing an options overlay strategy, current income is generated through the combination of option premiums and dividends
- Options are structured to expire at different times to provide potentially steady and consistent income payments
- Direct ownership of the underlying bonds provides income in the form of known, consistent, and defined coupon payments without reaching down the credit curve into the junk bond sector

CONSERVATIVE APPROACH

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- Diversification across various economic sectors is emphasized in order to reduce unsystematic (or general market) risk on the equity investments
- The Strategy adheres to a maximum maturity of 10 years for the corporate and government agency bond allocations while focusing on the overall duration target
- Limiting investments to large-cap domestic equities and investment-grade fixed income securities (at time of purchase) preserves liquidity and helps manage credit risk

Investment Process

Each component is managed by the investment team of the underlying strategies shown below, and each team brings their unique expertise and experience along with a time-tested investment process specific to their aspect of the Strategy.

Covered Call Income Investment Process

Define the Universe	Screen the broad, large-cap domestic equity universe with a focus on the leading stocks with exchange-listed options. Looking for stocks that exhibit: • Low price-to-earnings, enterprise value, and price-to-book ratio • Positive earnings • Price momentum • Option market considerations
Stock Selection	A multi-factor quantitative screening process is applied to identify securities likely to outperform the overall equity market. During this step, we determine the strategic target allocation to each sector by reviewing: • The price of the stock • Price-to-earnings, enterprise value, and price-to-book ratio • Momentum Next, fundamental and portfolio analysis is conducted to identify stocks offering attractive growth, valuation and diversification characteristics, along with income generation. Fundamental factors analyzed include dividend yield, beta, liquidity. We evaluate for income and volatility potential to understand the risk-adjusted income opportunity. Our validation process ensures suitability, and we search for impending (potentially negative) news that could inflict short-term price damage. We consider the impact of each new stock, and how it would integrate with existing holdings. Each is vetted for any potential news or announcements (like earnings reports) that could drive a drop in price. Technical analysis is applied to understand how a stock could fluctuate over the short-term by assessing implied volatility, option premiums, and open market interest.
Option Overlay Construction	Each stock is analyzed to determine which option should be written (which determines duration and strike price). Each is the ranked against the entire portfolio to capture the best income opportunities. Call options are sold on approximately 90% of the portfolio, typically with a strike price higher than the equity price at time of sale and an expiration of 120 days or less. When selling call options, the team considers the timing of earnings announcements and dividend payments to reduce the assignment rate and maximize portfolio yield.
Portfolio Construction	The final portfolio is composed of 30-40 names: • Managed to be relatively sector neutral (+/-2%) to a large, diversified, equity index excluding REITs • Stocks are generally equally weighted with initial positions of approximately 3%-4% • A sale is considered when a stock fails the quantitative screening or exhibits deteriorating fundamentals • Portfolio return is also impacted by changes in security value and the limiting of appreciation (by writing covered calls) – total returns for any period may be higher or lower than for the cash proceeds • Targets a market beta and market dividend yield measured against broad U.S. large-cap markets

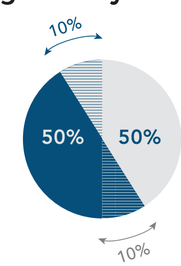
CIP Investment Process

Duration Selection	• The in-house research team analyzes current economic and market conditions to create an interest rate outlook • Target portfolio duration is selected based on the interest rate projections • Duration targets may be adjusted to potentially take advantage of interest rate movements
Yield Curve Selection	• The current shape of the yield curve is reviewed and expected changes are plotted • Target issue maturities are selected based on yield curve expectations with a goal of providing the best performance while maintaining duration targets
Sector Selection	• Current and historical sector spreads are reviewed and a sector outlook is created • Sector outlook, combined with in-house research, is used to make two sector decisions - primary and secondary • The primary sector allocations include fixed income sectors like government agencies, corporates, etc. • The secondary sector allocations within the corporate sleeve of the strategy are then selected, such as financials, utilities, etc.
Issue Selection	• Potential issuers are vetted by the research team to determine if they are appropriate for the Strategy • An issuer must pass specific screens (such as liquidity and rating) to be included on the recommended issuers list • Issues may be purchased if on the recommended list and meeting the other criteria

Rebalancing Process

The Covered Call Income/Current Income Portfolio Strategy targets a mix of 50% equities and 50% fixed income securities. It employs a built-in rebalancing feature to ensure the allocation stays on track throughout a full market cycle. This unique rebalancing process is triggered by market movements, not by a preset schedule or calendar. This allows for up to 10% appreciation in either component before the rebalance is triggered, providing an opportunity for the portfolio to capture gains. Once the equity or fixed income component reaches 60% of total asset value, the portfolio is rebalanced to 50%/50%.

Rebalance Triggered By Market Movements



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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Covered Call Income Strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Options are not suitable for every investor. Writing call options to generate income and to potentially hedge against market declines by generating option premiums involves risk. If the market price of a security increases, a call option written against that security limits the gain that can be realized. And, there can be significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives.

The Current Income Portfolio strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

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