COVERED CALL INCOME

SMA Strategy Profile

Strategy Objective:

Seeks to generate income, provide limited capital appreciation, and generate lower volatility than the broad equity markets

Strategy Snapshot:

Product Inception	10/1/2005
Category	Derivative Income

Crossmark's Covered Call Income Strategy invests in large-cap domestic equity securities and then writes (sells) call options against the holdings in order to generate current income, provide investors with equity market participation, and reduce overall portfolio risk. The Strategy performs best in markets with high volatility and modest expectations for equity appreciation.

The Strategy uses a combined quantitative/fundamental approach to identify large-cap, dividend paying domestic stocks selling at a low range of valuation measurements which also exhibit positive price momentum.

Key Highlights

CURRENT INCOME

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- By utilizing an options overlay strategy, current income is generated through the combination of option premium and dividends
- Total monthly income includes the premiums received from options sold less options bought back, and cash from dividends and interest
- Written options are structured to expire at different times in order to provide potentially steady and consistent income payments to investors

CAPITAL APPRECIATION

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- The sector-neutral strategy is made up of 30-40 large-cap, dividend-paying, domestic equity holdings
- Returns are derived from three components: underlying stock positions, call option premiums, and dividends
- The investment process includes a valuation screening step in order to identify companies that are selling at a low range of valuation measures and may exhibit positive price momentum, in order to provide an opportunity for growth over the long-term
- Growth opportunities may be provided by prioritizing stock selection above options availability and amount of potential option premium during in the portfolio construction process

DECREASED VOLATILITY

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- Generating option premium income may mitigate the impact of market volatility and reduce downside risk in a portfolio
- Diversification across various economic sectors is emphasized in order to reduce unsystematic (or general market) risk

Investment Process

Define the Universe	Process begins by screening the broad, large-cap domestic equity universe with a focus on a specific subset of that universe, which represents 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 the defined universe in order to identify securities likely to outperform the overall equity market. During this step, the strategic target allocation to each market sector is determined. Factors in this step of the process include, but are not limited to:
	  • The price of the stock
	  • Price-to-earnings, enterprise value, and price-to-book ratio
	  • Momentum
	• Next, fundamental and portfolio analysis is conducted to achieve an underlying portfolio of stocks that offers attractive growth, valuation and diversification characteristics, along with the specific opportunity to generate income. Fundamental factors analyzed include:
	  • Dividend yield
	  • Beta
	  • Liquidity
	• Those stocks are then evaluated for their income generation potential and volatility characteristics to understand the risk-adjusted income opportunity of including a name in the portfolio
	• Names undergo a validation process in order to ensure the suitability of the stock
	  • Search for any impending news that could damage the stock price over the short-term
	  • We then consider how each new stock will impact the portfolio as a whole and how it integrates with the other names already held. Each stock is vetted with a specific focus on uncovering any new or pending announcements that could drive a drop in price, including:
	  • Concentration on short-term threats
	  • Focus on upcoming earnings reports and earnings announcement dates
	• Individual technical analysis is used to look at how a particular stock can be expected to fluctuate over the short-term by assessing:
	  • Implied volatility
	  • Option premiums
	  • Open market interest

Option Overlay Construction	• Each stock is analyzed to determine which option should be written
	  • This determines duration and strike price
	• Each option opportunity is ranked against the entire portfolio to capture the best income opportunities
	• Call options are sold on approximately 90% of the portfolio
	  • Options typically have a strike price slightly higher than the underlying equity price at time of sale and an expiration of 120 days or less
	  • When selling call options, the team also considers the timing of a stock's earnings announcements and dividend payments in order 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 in the portfolio with initial positions generally around 3-4% • The investment team will evaluate a sell decision when the security fails to meet the quantitative screening or starts to exhibit deteriorating fundamentals • In addition to dividends and option premiums summarized above as "cash proceeds", a portfolio's total return is impacted by changes in the value of the underlying securities held and the limited capital appreciation that selling covered call options may impose, resulting in gross total returns for any time period to be higher or lower than the portfolio's cash proceeds • Targets a market beta and market dividend yield as measured against the broad U.S. large-cap markets

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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.

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