

# INCOME OPPORTUNITIES

## Strategy Profile

### Strategy Objective:

Seeks to optimize a diversified fixed income strategy while seeking higher levels of income

### Strategy Snapshot:

**Product Inception** 01/1/2013  
**Category** Short-Term Bond

The Crossmark Income Opportunities Separately Managed Account Strategy seeks to optimize a diversified fixed income strategy while seeking higher levels of income. The strategy focuses on diversified sector exposure with both domestic and international securities.

The Strategy may invest in multiple sectors including investment-grade corporate debt issues, high-yield corporate debt issues, taxable municipal bonds, international sovereign ETFs, mortgage-backed securities and fixed-rate preferred stocks.

## Key Benefits

### CURRENT INCOME



- The Strategy focuses on providing elevated levels of cash flow by utilizing multiple sectors including REITs, fixed-rate preferred stocks, and high-yield corporates
- Direct ownership of the majority of the bond holdings provides income in the form of known, consistent, and defined coupon and/or dividend payments

### ACTIVE MANAGEMENT



- Provides duration management/targeting
- Practices sector rotation based on economic outlook discussed and determined by our Investment Policy Committee
- Practices security rotation based on fundamental analysis from our in-house research team, consisting of our Head of Research, Senior Responsible Investing Specialist, and Research Associate

### DIVERSIFICATION



- The Strategy aims to provide exposure to multiple sectors including:
  - Investment-grade corporates
  - High-yield corporates
  - Fixed-rate preferred stocks
  - REITs
  - International sovereign bonds
- Diversifying the strategy with various sectors may help to reduce volatility in changing markets

## Investment Process

The Strategy takes a conservative approach to fixed income investing by employing a four-step process that seeks to outperform the bond market over a full market cycle, as well as provide positive annual returns.

Duration Selection	<ul style="list-style-type: none"> <li>• The in-house research team analyzes current economic and market conditions to create an interest rate outlook</li> <li>• Target portfolio duration is selected based on the interest rate projections</li> <li>• Duration targets may be adjusted due to changing market conditions in order to potentially take advantage of interest rate movements</li> </ul>
Yield Curve Selection	<ul style="list-style-type: none"> <li>• Current shape of the yield curve is reviewed and expected changes are plotted</li> <li>• Target issue maturities are selected based on yield curve expectations with the goal of providing the best performance while maintaining duration targets</li> </ul>
Sector Selection	<ul style="list-style-type: none"> <li>• Current and historical sector spreads are reviewed and a sector outlook is created</li> <li>• Sector outlook, combined with in-house research, is used to make two sector decisions - primary and secondary</li> <li>• The primary sector allocations include fixed income sectors like government agencies, corporates, international sovereign bonds, etc.</li> <li>• The secondary sector allocations within the corporate sleeve of the strategy are then selected, such as financials, utilities, etc.</li> </ul>
Issue Selection	<ul style="list-style-type: none"> <li>• Potential issuers are vetted by the research team to determine if they are appropriate for the strategy</li> <li>• An issuer must pass specific screens (such as liquidity and rating) to be included on the recommended issuers list</li> <li>• Issues may be selected for inclusion in the strategy if they are on the research team's recommended issuers list and meet the criteria defined by the first three steps of the investment process</li> </ul>

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**All investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.** The Income Opportunities 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).