

# MUNICIPAL FIXED INCOME

## SMA Strategy Profile

### Strategy Objective:

Seeks to maximize after-tax income and preserve capital by attempting to reduce risk levels in portfolios by managing duration and utilizing "A" and higher rated bonds which are not subject to the alternative minimum tax (AMT).

### Strategy Snapshot:

**Product Inception** 1/1/2002  
**Category** Muni National Short

The Crossmark Municipal Fixed Income Strategy invests primarily in investment-grade municipal debt issues. It is a conservative, actively-managed solution focusing on municipal bonds analyzed to be most likely to fulfill the strategy objective. Generally, the portfolio will consist of 15 to 30 individual issues. By actively managing exposure to various states and sectors, the Strategy aims to maximize the generation of tax-free income. The issues are limited to those of A rated or better at time of purchase, substantially reducing the risk of default. Individual issues are selected from general obligation and essential service sectors such as water, sewer, utilities, transportation, highways, and education. Current exclusions include hospitals, assisted living, retirement centers, hotel, healthcare, housing, jail or student dormitory-related, and U.S. territories (or states at the discretion of the portfolio manager).

The Strategy focuses on short- to intermediate-term fixed rate callable issues. Municipal bonds are limited to those with a credit rating of single-A or better as measured by Moody's, S&P or Fitch at the time of purchase. Investors can choose from three different strategies to best accomplish their tax-free income goals.

## Key Highlights

### HIGH TAX-FREE INCOME



- Active issue management allows for potentially higher taxable equivalent yields than possible with a similar portfolio of short-term corporate bonds
- By emphasizing bond characteristics and overall structure, Crossmark attempts to maximize the portfolio's current income and yield

### REDUCED DEFAULT RISK



- Crossmark utilizes internal and third party research and analysis in developing an appropriate universe of securities
- The Strategy is diversified by U.S. geography and by sector, with issues limited to those having a single-A or better rating at time of purchase
- The investments focus on essential services and general obligations with a short- to intermediate-term maturity and duration

### THREE GEOGRAPHICAL OPTIONS



- Investors can configure their portfolios to reflect a preference for national, single state, or state preference allocations
- In a national account, Crossmark attempts to limit the exposure to any one state to a maximum of 25% of portfolio value

## Investment Process

<b>State Preference</b>	<p>Crossmark municipal fixed income strategy can be structured in a variety of ways per the state preference of the client. Portfolios can include issues from a single specified state, state preference on a best efforts basis to include national issues, or national where portfolio managers select what they consider the most appropriate issues regardless of state.</p>
<b>Quality</b>	<p>Quality review is conducted through both internal and third-party research and analysis. Over time, Crossmark has identified a series of economic factors which we believe may help predict which states are the safest from a municipal bond investment perspective. These factors include:</p> <ul style="list-style-type: none"> <li>• State unemployment rate</li> <li>• Change in Philly Fed Coincident Index</li> <li>• Percentage change in home prices</li> <li>• Percentage change in sales tax revenues</li> <li>• Future deficit as percentage of general fund</li> </ul> <p>National portfolios are generally invested in the issues of five to eight states with exposure to any given state limited to 25% of the portfolio's value. Crossmark seeks to structure portfolios with issues rated single-A or higher (at time of purchase) by Moody's, S&amp;P, and/or Fitch.</p>
<b>Duration/Maturity</b>	<p>In order to balance the need for safety with the desire to maximize income, the portfolio managers will generally focus on issues with short to intermediate maturities and durations.</p>
<b>Issue/Sector Selection</b>	<p>Even though investment-grade municipal bonds have very low rates of default, Crossmark is selective with regard to issue and sector, and may use inclusionary screening to target issuers that support their stakeholders across multiple environmental, social, and governance categories. Optional exclusionary screening identifies issuers with business practices not consistent with widely held traditional values. The Crossmark focus is on issues backed by essential services or general obligations. The allocation in any one sector is based on the state ranking, the yield spread between sectors and the overall economic outlook for the U.S. and state economies. Crossmark prefers to limit single sector investments when possible to 25% of the portfolio, except for general obligations.</p>

**Crossmark Global Investments, Inc. (Crossmark)** is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

**All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.** The Municipal Fixed Income 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). Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).