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

1

- 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

2

- 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

3

- 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

The strategy uses a three-step process to select the underlying portfolio holdings, determine the best options contracts in the current markets, and bring both elements together into a final portfolio.

Step 1: Stock selection	Use a multi-factor model to screen the broad, large-cap domestic equity market and identify the leading stocks with exchange-listed options and attractive growth characteristics: • Low P/E, enterprise value, and price-to-book ratio • Positive earnings • Dividend yield • Beta • Liquidity • Price momentum
Step 2: Options analysis	Evaluate potential holdings for income possibilities and short-term volatility characteristics and use technical analysis to assess implied volatility, option premiums and open market interest. Then determine the ideal option contract to write (i.e., duration and strike price) on each stock holding in context of the whole portfolio. Option overlay guidelines: • Write on at least 90% of the stock holdings • Seek strike prices 5% or higher than the stock price and an expiration date within 120 days • Consider current events to reduce the assignment rate and maximize yield (e.g., earnings and dividend announcements)
Step 3: Portfolio construction	Create a final portfolio of 30–40 stock positions relatively sector neutral (+/-2%) to a large, diversified, equity index excluding REITs. Initial positions are generally equally weighted at approximately 3–4% each while targeting a market beta and market dividend yield as measured against the broad U.S. large-cap markets. Continuously repeat steps 1–3.