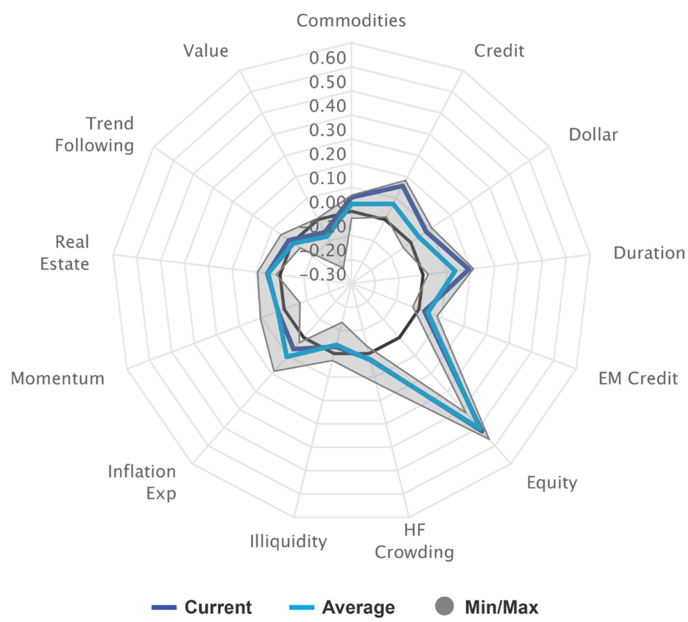
THE IMPORTANCE OF
STRESS TESTING

UNDERSTANDING YOUR PORTFOLIO'S EXPOSURES WITH STRESS TESTING:

For many years, both institutional investors and financial regulatory authorities have been utilizing stress testing methodologies as a risk management tool in their day to day investment management processes. These are very much the same tools used by portfolio managers overseeing their investment strategies to get a better sense of their portfolio exposures' sensitivity to adverse market situations. In the most formal sense, a risk management process should be a continual exercise that addresses the following aspects of the portfolio:

1. Identifying and measuring risk exposures.
2. Specifying risk tolerance bands.
3. Reporting risk measures and exposures
4. Ongoing monitoring and corrective increases or decreases in exposures.

Portfolio managers ultimately utilize these tools with the purpose of understanding exactly which risks they are taking, and more importantly, to determine if they are being paid appropriately to take such risks. While there are many ways to conduct stress tests, a widely-used approach to risk management is a procedure known as scenario analysis. Scenario analysis can be used by investors to measure the impact of extreme events on the portfolio by deliberately changing the conditions of various market factors that include interest rate and FX changes, spread changes, inflationary changes, and various other market movements. Scenario analysis measures the effect on the portfolio from the simultaneous movements in these various factors, and may come to help discover various weaknesses or over-concentrations in a portfolio's current positioning.

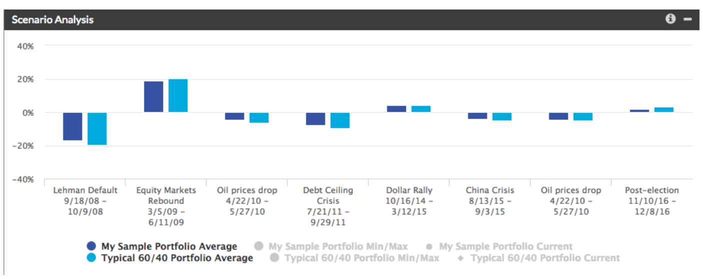


ALPHACORE'S EMBRACE OF RISK MANAGEMENT

AlphaCore's approach to portfolio management incorporates scenario analysis so that we may better understand the various "what if" scenarios that may take shape in the financial markets, understand the degree to which the current portfolio may be impacted, and finally aim to better situate our portfolios to help minimize the drawdown potential experienced by the client.

A SUMMARY OF OUR PROCESS

Our approach to scenario analysis first starts with identifying the predominant factor exposures of a portfolio, whereby we then measure the sensitivity of the portfolio to each of these market factors. Multiple simulations are then generated to estimate the portfolio's expected returns under several historical crisis episodes (Sub-prime Debt Crisis of '08, Lehman Default '08, China Crisis '15). Findings from these test runs are then utilized as a feedback loop to provide constant improvement and refinement of our client's portfolio positioning. In addition to serving as a risk management tool, the exercise helps us understand where our clients are taking risks, and whether they are harvesting an appropriate premium for accepting these risks. Of course, not all risks are bad – our proprietary factors are used to make sure that we are exposed to those risks we believe are attractively priced.



The insights gathered from our stress testing outputs allow for our portfolio management team to stay dynamically engaged throughout investment process. The current portfolio's factor exposures are analyzed and any diversification deficiencies or an over-concentration to a specific risk may then be adjusted for by re-balancing the portfolio towards more appropriate allocation levels from a factor exposure perspective. Furthermore, risk identification should be followed up with establishing new risk tolerance bands that are more aligned with the risk/return profile of the client, and the portfolio's stated objective. At the same time, this analysis will also help guide the portfolio on a forward-looking basis. Ongoing stress testing and their results provide a risk and return attribution assessment that helps in the decision-making process for future implementation of our investment themes and factor positioning. We believe that incorporating the key pillars of a comprehensive risk management process is critical in conducting a sound, and diligent portfolio management practice.