AlphaCore Insights

4Q 2021

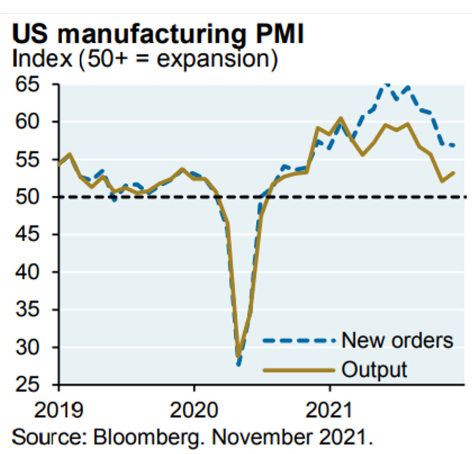
"AND THAT'S A WRAP"

EXHIBIT 1. 4Q AND 2021 YTD RETURNS

Total Returns	4Q 2021	YTD (Dec. 2021)
S&P 500 TR USD	11.03	28.71
Bloomberg Commodity TR USD	-1.56	27.11
NASDAQ Composite TR USD	8.45	22.18
Russell 2000 TR USD	2.14	14.82
ICE BofA US High Yield TR USD	0.66	5.36
Bloomberg US Agg Bond TR USD	0.01	-1.54
MSCI EM NR USD	-1.31	-2.54
Bloomberg US Treasury Index (3-10 Yr) TR	-0.58	-2.49

Source: Morningstar, as of 12/31/2021

EXHIBIT 2. US MANUFACTURING PMI



Source: Bloomberg, November 2021

ECONOMIC AND MARKET RECAP

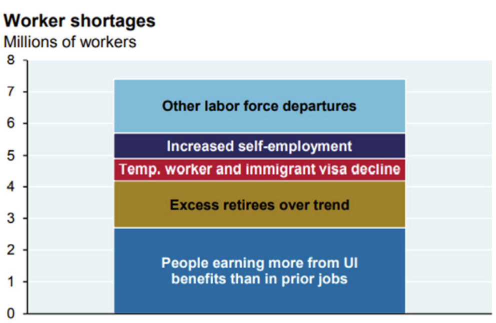
The year 2021 delivered several twists and turns as lingering impacts from COVID-19 led to a more turbulent economic recovery than anticipated. Despite reoccurring outbreaks during the summer and winter months, the US economy made great strides. We saw strong economic growth, rising wages and falling unemployment, and as a result, most risk assets delivered strong returns for investors. A variety of policy and macro risks could steer the recovery off course, but in general, we remain optimistic about the economic path forward in 2022.

The recovery started off strong; however, the emergence of new COVID variants put the brakes on any hope of a continuous and synchronized global recovery. Given the rapid deployment of vaccines, and therapeutics, the US economic recovery has been robust. The most recently published November economic data points reveal that the economy remains on strong footing. Industrial output, employment, wage growth, and corporate earnings all paint a strong picture for continued recovery in 2022. The November employment report published an unemployment rate of 4.1%, which sits well below the 50-year average unemployment rate of 6.3%. Reaffirming the strong labor market at year-end was the latest jobless claims number of 198,000 which further highlights a healthy and improving employment outlook.

The GDPNow 4Q 2021 model estimate from the Atlanta Federal Reserve Bank for real GDP growth (seasonally adjusted annual rate) is set for 7.6%, a stark contrast from the 2.1% economic growth rate experienced during Q3 2021. Assuming that these estimates are met, the US economy is set to deliver +5.6% economic output growth in 2021.

Several risks and challenges remain. On the output side, supply chain bottlenecks continue to be a headwind. There are nuances in the data that we will be carefully monitoring. US manufacturing PMI data continues to trend in expansion territory, albeit falling in recent months. However, the weakening trend isn't due to a fall in demand but is instead rooted in supply-side issues as new orders continue to outstrip output. Lead times in global manufacturing still hover at record highs, and container ships in major US ports on the West Coast are still dealing with near-record backlogs and are waiting to unload $30bn of import goods. We expect goods-driven inflation to fall as supply chain problems get resolved, but the timeline is still unclear. Historically, bottlenecks were resolved after several months from capital expenditures, but COVID has made this exercise a bit trickier. New capacity creation like new the development of new manufacturing plants and shipping facilities could take up to a year or two to become fully operational.

EXHIBIT 3. US LABOR SHORTAGE BREAKDOWN



Source: BLS, Census, GS, JPMAM. October 2021.

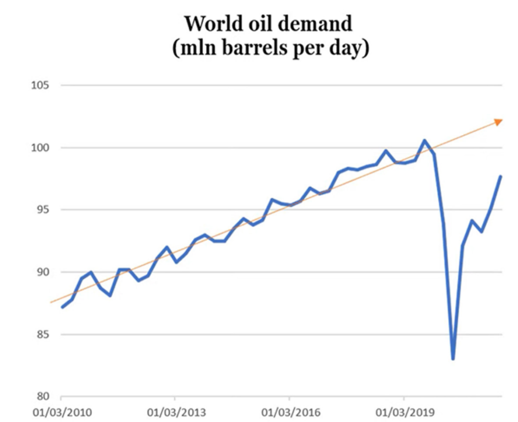
Another uncertainty that poses a threat to the economic recovery has been the persistence in labor shortages despite record job openings, and as a result, we have been seeing wage inflation quickly trending higher. Bureau of Labor Statistics data shows that low-skilled labor costs in the US rose almost 7% in 2021. The JP Morgan Asset Management exhibit to the left attempts to categorize the missing 7.5 million workers who have yet to re-enter the workforce. As household savings expire and fiscal stimulus balances are no longer available, we expect the unemployment rate to grind lower throughout 2022.

Much of the growth we are seeing was made possible from the unprecedented fiscal and monetary stimulus injected into the economy. Balance sheets were refinanced across corporate sectors, and consumers were given lifelines to bridge their way through very tough times. Savings rates hit record highs, and household net worth reached all-time highs given the rapid rise in financial assets, which in turn helped fuel a surge in the consumption of goods. Of course, a byproduct of all this stimulus and demand creation has been increasing inflation levels. The last November year-over-year headline CPI print came in at 6.8%, the fastest pace in nearly 40 years. After months of hot readings, finally, the Fed recognized that inflation is likely less transient than they had expected. In response, the Fed and other global central banks worldwide are embarking on a rate hiking cycle to combat inflation. Jerome Powell has announced that the Fed will begin this process with withdrawing liquidity by reducing and winding down its program of asset purchases from Treasury markets, followed by a series of rate hikes. A policy adjustment misstep here could be a significant headwind for risk assets in 2022.

In summary, the COVID 19 situation appears to be evolving towards a more manageable state given the successful rollout of vaccines, improved therapeutics, and an Omicron strain that appears to be a far less severe disease. While infection rates have skyrocketed past prior peaks, hospitalization data appears to be more muted. The hope, of course, is that we see COVID-19 transition toward an endemic disease during 2022. We expect that the virus will continue to have a waning impact on economies and markets. Some industries and sectors will remain more vulnerable to increased COVID-19 cases, but this could potentially be an opportunity for investors. CDC and Johns Hopkins data shows that between estimated infections, vaccinated populations (nearly 73% of adults), and estimated vaccinated and infected populations, nearly 90% of the US population has now had some type of exposure to the virus. In our opinion, the light at the end of the tunnel is getting much brighter as it relates to the public health crisis.

We share a view that the global economic expansion should continue through 2022 and express a posture in portfolios that reflects inflation to be a heavily underappreciated risk by the market as indicated by current bond yields. As goods spending falls with the expiration of lockdowns, consumer mobility should trend higher towards pre-COVID levels. As a result, services inflation will likely take the baton

EXHIBIT 4. WORLD OIL DEMANDS AS OF NOV 2021



Source: International Energy Agency: Bloomberg

and keep inflation from falling too quickly. Wage inflation, rent hikes, and other pressures are broadening out and may put a floor on inflation falling to pre-COVID levels. Many services-related industries have yet to make a full recovery -- travel and leisure, airlines, and restaurant and food services. Furthermore, oil demand has yet to reach pre-pandemic levels. And finally, while the most recent version of the infrastructure spending bill did not pass in Congress, some version of fiscal stimulus will likely make its way across the floor and could keep this expansion humming along.

Several risks that are worth mentioning to our optimistic view are as follows:

1. Supply-side dynamics do not improve, and inflation runs away from here. Such a situation would impact corporate profit margins and mute demand/consumption and may ultimately lead to a halt in the recovery. A stagflation outcome would be problematic for all assets.

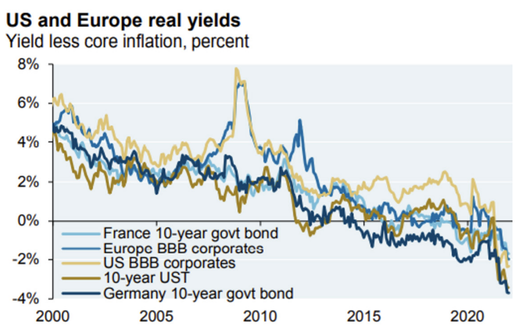
2. A policy error by the Fed that too quickly tightens financial conditions and results in a self-induced recession.

3. The Chinese economy was one of the fastest in the world to rebound from COVID shutdowns, and 2021's strong US consumption of goods was able to bolster its exports this year. Yet, its stock market performance in 2021 was one of the worst in the world, posting just over a -20% loss for investors. Chinese policymakers intentionally pricked its housing bubble and are attempting to rebalance their economy away from housing development which has created a potential debt crisis. Chinese property developers took over headlines this year as they tried to avoid defaulting on their creditors. The success or failure of such a transition will have meaningful implications for the global economy -- we would see further easing of monetary policy. Furthermore, China's zero-tolerance policy with COVID-19 could potentially come back to bite in 2022. The country is dealing with record new cases, and Chinese vaccines have shown an inability to produce adequate protection. Such challenges could

dent global GDP in 2022.

4. The escalation of geopolitical tensions in Europe and Asia could exacerbate the energy inflation and shortage that is already in play today.

EXHIBIT 5. US AND EUROPEAN REAL YIELDS



Source: Barclays, BLS, Bloomberg, JPMAM. December 28, 2021. UST is yield to maturity; other indices are yield to worst.

FIXED INCOME AND CREDIT

Inflation remained elevated throughout the quarter, and bond markets represented by the Barclays Bloomberg Aggregate Bond Index posted roughly a flat return for the period and would finish 2021 down -1.54%. A more duration-sensitive bond proxy represented by the Bloomberg US Treasury 3-10 Yr TR Index posted a -0.58% during the quarter and finished 2021 with a -2.49% return. For the first time in 7 years, bond investors were handed a negative return. Did we mention that headline inflation last month printed at a near 7% year over year? Riskier sectors like corporate credit and high-yield bonds as measured by the ICE BofA US High Yield TR Index returned +5.36% for 2021. However, given the credit risk taken and the inflationary headwind that is in store for credit investors, we do not like owning these assets at such tight spreads. If economic growth remains robust and inflationary pressures linger, Treasury and bond markets will likely see another uphill battle from here. No matter where you look within both public mortgage and corporate credit sectors, most nominal bond yields trade near historical lows, and today, offer investors some of the most negative real yields ever seen. As of December 16, the real yield on the 10 Year Treasury bond was -3.14%. As a result, we remain heavily underweight core bond and generic corporate credit exposures and have emphasized reallocating this capital into fixed income alternatives. Our clients with income needs are accessing loans within the private markets or allocating capital to hedge fund strategies that are more trading oriented, which can add additional yield and total return through insightful credit selection. Furthermore, duration sensitivity is more muted with such assets and strategies either through the floating rate nature of the loans or active interest rate hedging programs implemented by the manager.

EQUITIES

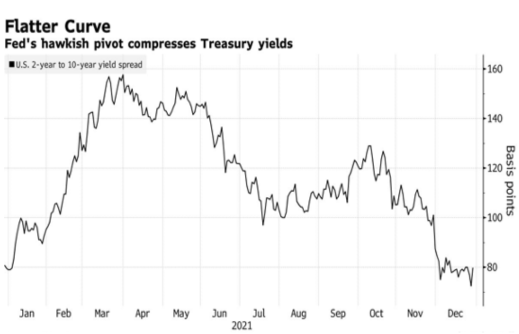
Broad equity markets continued their march higher during the fourth quarter. US equities, as represented by the S&P 500 Index, posted a +11% quarterly return, while smaller capitalization stocks represented by the Russell 2000 Index posted only a 2.14% return for the period. This brought US equity markets to conclude 2021 with a calendar year return of +28.71%. During 4Q 2021, investors received a holiday gift basket full of negative macro headlines, this time related to the rapid spread of the Omicron variant. While broad market indices barely saw a dent, underneath the hood, equity markets displayed another round of strong factor rotations that led to elevated levels of dispersion. Equity price movements during the period reflected a flight to quality behavior. Factor performance in Exhibit 6 highlights such changes in investor preferences during the quarter. Quality as a factor performed in line with the broader market (S&P 500 Index), while more cyclically sensitive areas saw relative underperformance. Furthermore, high beta stocks (arguably risker stocks), which spanned various themes and sectors (travel and leisure, high multiple and non-profitable tech stocks, IPOs and SPACs, and renewable clean tech names) saw their values fall by -25% or more during the period. Was the collapse here driven by investors' fears of a possible recession? The yield curve has flattened significantly over the last several months. Perhaps markets were so forward-looking that they were pricing in a Fed policy error that would crush growth, and therefore are justifying a low term premium on the long end of the curve.

EXHIBIT 6. EQUITY FACTOR RETURNS - QUALITY, VALUE & SIZE VS S&P

Source: Koyfin, 10/1 - 12/31/2021

It is possible, but we do not think this is the case here. While the correction we've witnessed in more cyclically sensitive areas like leisure and travel and small-cap stocks could be explained by the rapid spread of Omicron, we believe the collapse in high-multiple growth areas of the market had more to do with the inflationary dynamic that is not going away, and the difficult liquidity conditions that are to come in 2022 when the Fed begins tightening monetary policy. With the Fed expected to raise policy rates next year and slow

EXHIBIT 7. 2-10 YEAR YIELD CURVE (AS OF 12/31/2021)

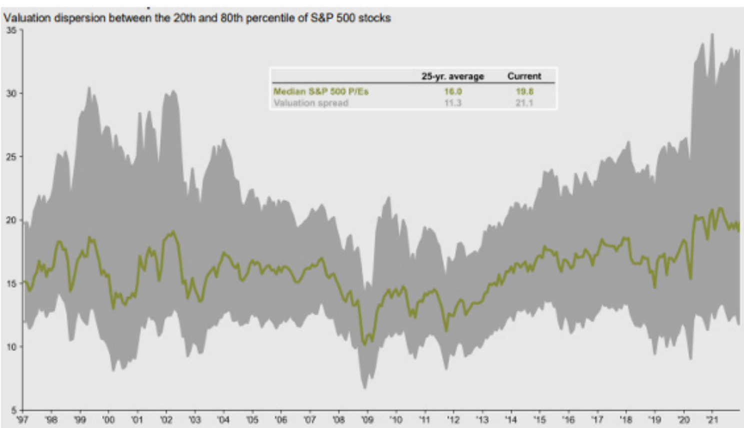


Source: Bloomberg

down its purchases of Treasury bonds, the cost of money will rise. If economic growth remains above trend, the expectation should be that long-duration assets like high multiple growth stocks would have a higher cost of capital to clear and thus, makes their valuation multiples look relatively richer today.

We maintain a cautiously optimistic view on equities. Valuations remain high from a historical perspective; however, earnings are forecasted to grow faster than the pace of GDP, and corporate profits sit near all-time highs. However, we note several unique observations that may provide areas of opportunity for our clients. Valuation dispersion within the S&P 500 remains near all-time highs. Secondly, market capitalization concentration within the index is also sitting near all-time highs. The top five largest firms make up nearly 25% of the total composition of the index, while the top 20 names make up nearly 50% of the index. These dynamics continue to have us excited for active management. History suggests that such concentration and market anomalies are followed by periods of relative outperformance by owning underappreciated sectors. A relatively conservative way to do this, in our opinion, is by owning breadth by equal weighting exposures rather than owning market cap exposures. Such a tilt within the equity allocation may bring some value and more cyclically sensitive areas of the market into client portfolios. Furthermore, 2022 has us again excited about our active managers that potentially are set up to deliver outperformance through their active stock selection. This high dispersion regime should be a nice setup for a variety of our active hedge fund managers.

EXHIBIT 8. VALUATION DISPERSON OF THE S&P 500 INDEX



Source: Compustat, FactSet. Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets - U.S.* Data are as of December 16, 2021

ALTERNATIVES

The conclusion of 2021 marked the third straight year where the S&P 500 Index posted double-digit returns. Unfortunately, it will also be remembered as a disastrous year for many discretionary long-short equity hedge funds. We have not yet seen December's returns for many hedge funds, but many are set to post one of their worst alpha years on record. Perhaps a simple way to look at this is by referring to the Goldman Sachs Hedge Fund VIP ETF[1], which serves as a basket of the most popular hedge fund holdings (think of this as a hedge fund crowding factor). This basket of stocks delivered +11.85% for 2021, nearly 17% less than the S&P 500. So why such massive underperformance? In short, many were loaded to similarly themed and crowded high multiple growth names that saw massive drawdowns after missing earnings/revenue numbers; a massive de-risking event hurt overall performance as many tried to offload such exposures. While the returns are disappointing, large alpha drawdown years are generally followed up by strong outperformance in the subsequent year. We are not too concerned; we believe that skilled hedge fund managers will learn to adapt and rotate into new ideas in 2022.

Despite the underwhelming year from this sub-set of long-short equity managers, we believe alternative managers on balance fulfilled their role in a portfolio. If underperforming equities was a sin, massively outperforming the fixed income asset class washed away such sins in our book. On balance, 4Q 2021 was another favorable period for both our alternative strategies and asset classes. Year to date, the overall allocation to alternatives has been the most consistent part of our total portfolios. As we've said all year, the inflationary backdrop which has created upward pressure on interest rates has served as one of the biggest drivers behind this strong performance.

EQUITY SUBSTITUTES

Our lineup of long-short equity managers was not immune to the de-risking phenomenon described earlier. Missed earnings forecasts and an overall re-rating across high multiple technology stocks bruised several of our long-short equity managers. However, not all long-short equity strategies performed poorly in 2021. Our value-focused long-short equity manager greatly outperformed the broader market return this year and served as a tremendous diversifier in client portfolios. Accurate stock selection was critical, and returns were generated from both long and short sides of the portfolio. Furthermore, widely held multi-strategy and multimanager hedge funds delivered returns consistent with long-term annualized returns of global equities in 2021.

[1] Please note that AlphaCore does not allocate to GS Hedge Fund VIP ETF

The conclusion that is to be drawn from this year's performance is recognizing the importance of diversifying across various types of managers. For example, while our value-focused manager delivered outsized returns this year, the same could be said for the group of growth-oriented long-short equity managers last year. The last point is that hedge funds like long-short equity managers are utilized as equity substitutes. The idea here is that over a full cycle, these strategies seek to deliver equity-level returns with less volatility. This may mean underperforming the broader market over certain periods, but assuming manager selection and allocation sizing are appropriately implemented, investors should appreciate the differentiation that such strategies bring within the context of their overall portfolio.

PRIVATE ASSETS AND FIXED INCOME SUBSTITUTES

Private real estate and private credit exposures continued their strong performance throughout 4Q 2021. Low borrowing costs and strong demand dynamics have provided a supportive backdrop for real estate markets. Multifamily and industrial sector tilts have contributed meaningfully to overall performance. Throughout the pandemic, these two resilient submarkets have provided high occupancy rates, thus providing a consistent source of income for our portfolios.

We believe 2021 demonstrated the importance of diversifying away from traditional fixed income whereby private credit strategies outpaced generic corporate credit and core fixed income exposures. Easy financial conditions, a strong economic recovery, and low default rates were supportive of a strong year for credit in general. Those investors willing to give up liquidity and lend to more nuanced borrowers were paid to do so by meaningfully outperforming more traditional forms of credit like high yield bonds. When taking corporate credit risk, we continue to prefer lending into the middle market and earning additional spread from our borrowers.

Structured credit managers on our platform also delivered strong risk-adjusted returns this year. We maintain that the COVID recovery theme will persist into 2022 and should fuel the economic growth to provide a supportive backdrop for securitized credit markets. At the same time, we recognize that many macro and policy risks are theme will persist into 2022 and should fuel the economic growth to provide a supportive backdrop for securitized credit markets. At the same time, we recognize that many macro and policy risks are still at play here, which helps stir uncertainty around the recovery values of many commercial real estate-backed loans. As seasoned pools of mortgages approach maturity dates, the markets must discount the future ability of these loans to refinance in the new COVID environment. Owners of such loan pools purchased these assets as yield substitutes in the past and may lack the necessary skills to appropriately underwrite credit quality within these loans. We think there are opportune stressed/distressed situations around the corner that will result in rotational selling and provide our skilled credit hedge funds to buy attractively priced bonds for strong total return opportunities. Such dislocations are currently harder to find in places like traditional investment-grade fixed income, which is why we prefer to look to fixed income alternatives for our clients.

CONCLUSION AND OUTLOOK FOR 2022

Our investment team is optimistic about our asset allocation approach and believes the environment ahead remains a favorable one for alternative strategies. It has been a long time since a 60/40 portfolio has dealt with risks such as inflation. As we've said at the start of the year, at such low absolute level of yields, traditional bonds and credits are about as un-investable as they've ever been. The high dispersion and elevated volatility regime that we see ahead of us in 2022 is welcomed. In such a regime, we strongly believe that investors are better served owning active forms of investing like alternatives strategies and private asset exposures like private credit and real estate. To wrap up our 4Q 2021 commentary, I've decided to re-insert language and views that we expressed in our 1Q 2021 commentary because I believe it still very much captures our overall risk-taking framework and philosophy for the 2022 environment ahead:

"An important part of investing is about repurposing capital for tomorrow. While many may argue that secular trends (aging demographics, digitalization, and low rates) will continue to favor large-cap technology names and innovative growth companies,

we believe the newly introduced macro and cyclical effects should be given more attention in your asset allocation. Let me also say, valuations do matter! These dynamics have re-inserted themselves into asset pricing, and we believe they will largely be the force behind the market-moving narratives for the next several quarters. With that said, we still see bubble pockets all across risk assets. The run-up in cryptocurrencies speaks to such liquidity-driven manias, and for some, has provided inflation hedging fascinations. We quickly forget the fundamental drivers of investing because macro-dynamics are slow moving and are often confirmed by lagged indicators. Cycles are also long lasting, and what worked in the past works for extended periods of time, and therefore, we fall victim to some degree of tunnel vision. We think investors should not underestimate the demand creation that these unprecedented levels of fiscal policy may create. Washington is discussing the potential passage of an infrastructure-focused bill which could serve as further fuel for this recovery. A concerning outcome, of course, would be an inflation overshoot. Ignore this scenario, and those investors subscribing to the 60/40 model, which likely overweight growth and duration exposures today, will be faced with a gut-wrenching reality check."

Looking back, 2021 was a tremendous journey for our entire firm. We are incredibly appreciative of your trust and confidence, and it has been a pleasure growing alongside extraordinary clients like you. Please feel free to reach out with any questions, and I hope to see you all soon.

Best,
Johann Lee, CFA
Director of Research

DISCLOSURES

- Bloomberg Barclays Capital US Aggregate Bond Index: The index consists of approximately 17,000 bonds. The index represents a wide range of securities, from investment grade and public to fixed income.
- ICE BoAML HY Index: The index is a commonly used benchmark index for high-yield corporate bonds. It tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market.
- Russell 3000 Index: The Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.
- Russell 2000 Index: The Russell 2000 Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index. It was started by the Frank Russell Company in 1984. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.
- MSCI ACWI (All Country World) Index: The MSCI ACWI is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI Index is comprised of stocks from both developed and emerging markets.
- MSCI Emerging Markets Index: The MSCI Emerging Markets Index is used to measure the financial performance of companies in fast-growing economies around the world. The index tracks mid-cap and large-cap stocks in 27 countries, dominated by Chinese, Taiwanese, and South Korean companies.
- S&P 500 Index: S&P 500 index is a float-adjusted market-cap weighted index, largely reflecting the large-cap US equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
- NASDAQ 100 Index: The Nasdaq 100 Index is a basket of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry, like commercial and investment banks.
- Purchasing Managers' Index (PMI): PMI Index is an indicator of economic health for manufacturing and service sectors. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers.
- ISM Manufacturing Index: The ISM Manufacturing Index is a widely-watched indicator of recent U.S. economic activity. The index is often referred to as the Purchasing Manager's Index (PMI).
- The Bloomberg Commodity Total Return Index: The BCOM TR Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13-week (3 Month) U.S. Treasury Bills.
- CBOE Volatility Index (VIX Index): The VIX Index is a real-time market index used to measure the market's expectation of future volatility. Being a forward-looking index, it is constructed using the implied volatilities on S&P 500 index options (SPX) and represents the market's expectation of 30-day future volatility of the S&P 500 index which is considered the leading indicator of the broad U.S. stock market.

This commentary represents the current market views of the author, and AlphaCore Capital in general and there is no guarantee that any forecasts made will come to pass. Due to various risks and uncertainties, actual events, results or performance may differ materially from those reflected or contemplated in any forward-looking statements. The opinions are based on market conditions as of the date of publication and are subject to change. No obligation is undertaken to update any information, data or material contained herein.

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The commentary may utilize index returns, and you cannot invest directly into an index without incurring fees and expenses of investment in a security or other instrument. In addition, performance does not account other factors that would impact actual trading, including but not limited to account fees, custody, and advisory or management fees, as applicable. All of these fees and expenses would reduce the rate of return on investment.