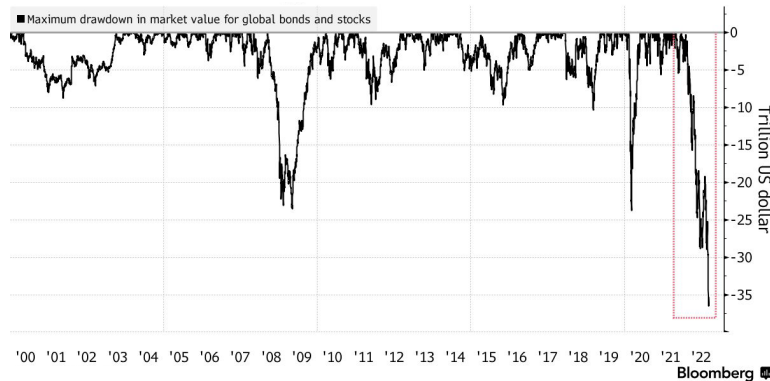


2022 Year-End Commentary

A NEW AGE FOR DIVERSIFICATION

Last year was an extremely challenging year for capital markets and will surely be remembered as one of the worst periods of wealth destruction since the Great Financial Crisis of 2008. Stocks and bonds cumulatively lost a record \$36 trillion, illustrated by the Bloomberg chart below (Chart 1). Markets shifted to several competing narratives – inflation concerns, tightening of monetary policy, and geopolitical conflicts - but the overarching theme was the repricing of assets related to tighter liquidity conditions. Asset class yields gained significant ground compared to policy rates and corrected over the course of the year. As a result, the classic 60/40 portfolio delivered dismal total returns for investors, posting -16.54% for the calendar year.

CHART 1: GLOBAL BONDS AND STOCKS SEE BIGGEST EVER LOSS IN MARKET VALUE



Source: Bloomberg

Although valuations across broad markets have normalized, we still believe a cautious outlook is warranted as we enter 2023. In our view, inflation uncertainty is still underappreciated. Asset yields still trade as if global central banks will successfully tamp down inflation close to the sacred “2%” target by year end, which seems increasingly unlikely (Source: Bloomberg: According to Credit Suisse Group using inflation swaps, markets see 2.4% inflation in the next 11 months as of 12/31/2022). The failure to hit this target could be highly disruptive to capital markets and could worsen the credibility of global central banks. The second reason why we advise caution is because earnings volatility is now the main downside risk factor for credit and equities. This should serve as a reminder of the unusual market environment from where this journey began.

CHART 2: ASSET CLASS RETURNS

Total Returns	4Q 2022	YTD 2022
US Fund Systematic Trend	-5.10	16.86
Bloomberg Commodity TR USD	2.22	16.09
US Fund Multistrategy	2.42	-1.72
Russell 1000 Value TR USD	12.42	-7.54
Bloomberg US Treasury 3-10 Yr TR USD	1.22	-10.50
ICE BofA US High Yield TR USD	3.98	-11.22
Bloomberg US Agg Bond TR USD	1.87	-13.01
S&P 500 TR USD	7.56	-18.11
MSCI EM NR USD	9.70	-20.09
Russell 2000 TR USD	6.23	-20.44
Russell 1000 Growth TR USD	2.20	-29.14
iShares 20+ Year Treasury Bond ETF	-2.21	-31.41
NASDAQ Composite TR USD	-0.79	-32.54

Source: Morningstar, as of 12/31/2022

At the same time, we recognize that various sub-sectors of the market have reset meaningfully, and we want to avoid taking an overly bearish position. Our patient, methodical approach over the past year allows us to be more selective in our investment decisions. If the liquidity picture remains tight, we believe yield opportunities will remain elevated, and thus present an abundance of cross-asset opportunities for prudent allocators.

Over the last 15 years, 60/40 investors benefitted from one giant momentum trade funded by central bank liquidity and supported by the “TINA” (there is no alternative) rationale. Circumstances have since changed, and the quickly rebounding bull markets of the past appear to have been a

fleeting phenomenon. With a myriad of alternative strategies and investments available, AlphaCore advocates taking a differentiated approach than holding passive index funds during this turbulent time.

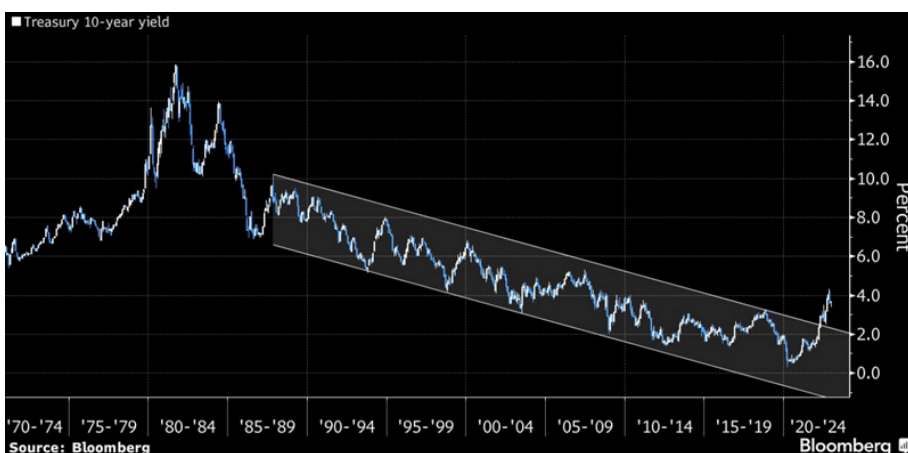
A RECAP OF ASSET CLASS RETURNS FOR 4Q 2022 AND THE YEAR-TO-DATE

Chart 2 shows fourth quarter and 2022 YTD returns across asset classes and major indices. Both cross-asset volatility and dispersion levels were unusually high, causing heightened uncertainty for investors. In general, financial markets trended downward, but equity markets saw some reprieve during the last quarter of the year. Value-style indices performed well, along with ex-US and EM equities that saw tailwinds from a falling USD and the prospect of China’s economic reopening. A similar recovery failed to materialize in growth-style indices and more tech-heavy equity baskets.

Bonds also saw a strong recovery in performance from the lows of the year during the fourth quarter but returned some of these gains during the month of December as yields rose once again to conclude 2022. Though bonds were once an adequate diversifier to equities, they failed to deliver any advantage this year as inflation rates reached cycle highs.

CHART 3:

HISTORICAL 10-YEAR TREASURY YIELD CHART (1970-2022)



Source: Bloomberg

Alternative asset classes and strategies outpaced both stocks and bonds by a wide margin. While multi-strategy portfolios (represented by Morningstar’s multi-strategy peer category) helped preserve capital, commodity and macro trend-following managers performed well on an absolute basis, delivering approximately +16% for the year. Systematic trend struggled during the final quarter of the year, due to strong reversals in FX and bond markets, which detracted from positive performance. Despite this hurdle, the strategy managed to generate strong total returns for the period overall by taking advantage of increasing volatility. Commodities delivered strong returns due to tight supply-demand dynamics. Multi-strategy portfolios, which run a variety of underlying alternative sub-strategies (long short equity, relative value arbitrage, etc.), helped mitigate losses relative to other long-only exposures in stocks, credit, and bonds. We remain bullish on these alternative strategies, all of which have demonstrated an ability to deliver strong total returns in uncertain market conditions. With volatility and dispersion likely to persist, dynamic, multidirectional strategies can provide a differentiated source of positive return. At the same time, we are actively seeking out new opportunities in stocks and bonds as valuations continue to move in a favorable direction.

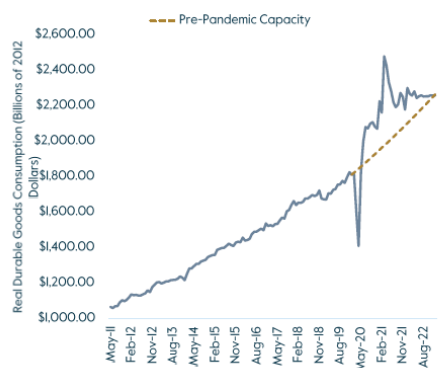
ECONOMIC DATA UPDATE

In 2022, market dynamics reflected a transition from an era of easy money to a regime of tighter financial conditions orchestrated by global central banks combatting inflation. Geopolitical shocks stemming from the Ukraine-Russia conflict added fuel to the fire, exacerbating supply shocks, which ultimately increased the risk of lingering inflation. As a result, investor sentiment has soured dramatically, and their focus is now pivoting toward concerns around economic growth as we enter 2023.

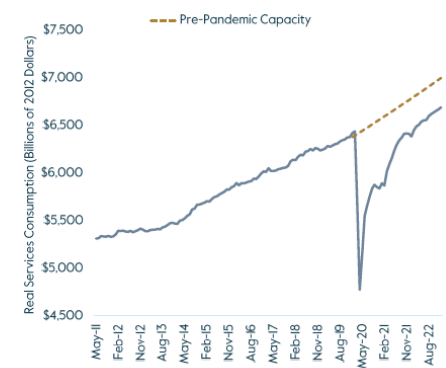
Most leading economic indicators still point toward a growth slowdown in the US and Europe in 2023, which will most likely dampen corporate profits. As previously mentioned in our Q3 commentary, a recession appears to be the base scenario. According to the Atlanta Fed’s GDPNow tracker, 2022’s YOY real GDP should come in around +2.5-2.7%. Spending data on goods and services from the US Bureau of Economic Analysis further supports this estimate. These trends are consistent with the slowing consumer and housing data we’ve shared in past notes.

**CHART 4: CONSUMER SPENDING AND HOUSING DATA
(MAY 2011-NOVEMBER 2022)**

U.S. Real Durable Goods Spending



U.S. Real Services Spending Net of Housing



In slightly more uplifting news, headline inflation, which hit a peak of 9.1% in June 2022, has since receded to 7.1% as of November 2022. Much of this downward shift has resulted from the rapid fall of goods and energy inflation. However, central banks must remain vigilant on the stickier components of the inflation calculation, which include services and wages.

Source: U.S. Bureau of Economic Analysis, Carlyle

These measures of price change still remain elevated near their peaks, at ~ 6.7% and 6%, respectively. These levels are over 3 times higher than the desired 2% Fed Funds rate. Both the stubbornly low unemployment rate, hovering at a near-record low of 3.7%, and the ongoing labor shortage in the US are perpetuating this problem. While labor force participation rates have generally reverted to pre-COVID levels for people under the age of 55, workers over the age of 60 have not returned and it seems unlikely that they ever will. This has created a dearth of approximately 3.5 million workers in the labor market, setting a floor on wage growth.

HOUSING DATA

Last month, existing home sales plunged 7.7% to a seasonally adjusted annual rate of 4.09 million units, down 40% from its peak in late 2020. The most recent November data marks 10 straight months of US home sales declines. This is the largest year-over-year decline on record, going back to 1999 (Source: National Association of Realtors).

CHART 5: HOME SALES DATA: 2016-2022

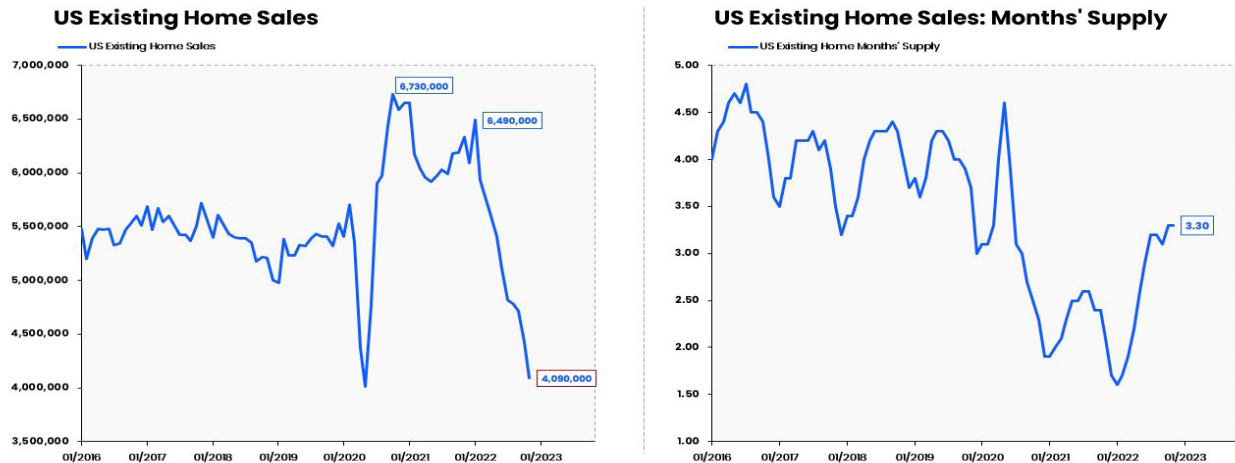


Chart: EPB Research • Source: National Association of Realtors

Source: National Association of Realtors, EPB Research

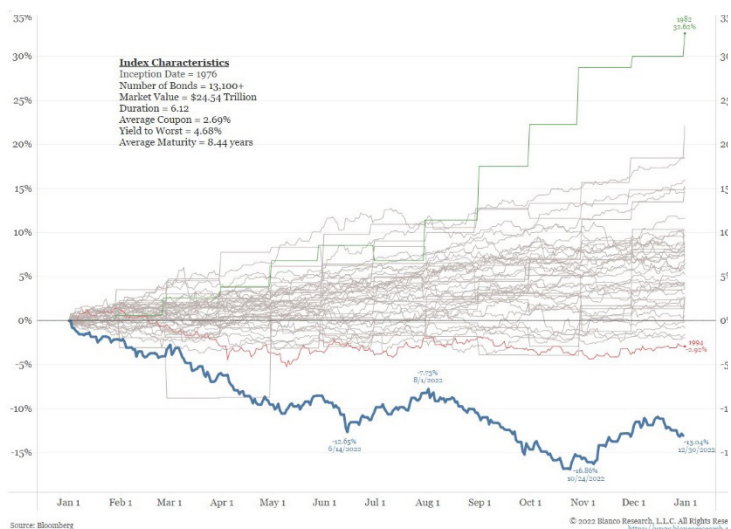
Despite these headwinds, the S&P CoreLogic Case-Shiller Home Price Index showed that home prices nationally were up +7.3% for the year through October 2022, even after accounting for a -3% softening over the past four months. As the real estate market enters its next phase in 2023, we expect to see further declines in prices as inventory ticks up. The sluggish state of the housing market, a leading macroeconomic signal, is not something to be ignored.

On the whole, our economic outlook and market views have changed little from our previous communications. Therefore, our portfolios remain defensively positioned to accommodate the looming possibility of a stagflationary scenario - a period of lethargic growth and elevated inflation. Though it is a tough pill to swallow, the data is increasingly pointing to this being the most likely outcome. 7

FIXED INCOME

Bond yields rose in 2022 in response to both inflationary pressures and rapid rate hikes by global central banks. The 10-year Treasury increased over +200bps to levels not seen in over a decade. Consequently, bonds closed out the year with the worst performance on record since 1976, with the Barclays Aggregate Bond Index posting a return of -13%. AlphaCore's cautious stance on the richly valued bond market coming into 2022 resulted in portfolios significantly underweight bonds. Our view was that yields would eventually re-price in a higher inflationary regime, and thus we would be able to purchase bonds for our clients at much more attractive prices.

CHART 6: YEAR-TO-DATE TOTAL RETURN FOR THE BLOOMBERG U.S. AGGREGATE INDEX



Source: Bianco Research

potentially offer clients much higher yields than before. Broadly speaking, fixed income yields are at levels we have not seen in over a decade. With that said, we strongly advocate active security selection to take advantage of these types of yield opportunities. Higher yield environments may likely coincide with an elevated period of default risk, and thus credit underwriting and active duration positioning will be key in achieving strong risk-adjusted returns.

EQUITIES

Global equity markets posted negative returns for the year, with wide dispersion across styles, sectors, factors, regions, and capitalization. The NASDAQ 100 Index posted a -33% drawdown, while the Dow Jones Industrial Average lost a slightly less egregious -8.82%. Both the S&P 500 Index and the Russell 2000 Index were down roughly -20% on the year.

Examining the yield curve, the inversion of the curve (where longer-end yields are priced lower than front-end yields) reflects the market's view that inflation will fall quickly in the future in tandem with the slowing of the economy.

With the yield curve shifting rapidly and recessionary conditions likely on the horizon, we believe pockets of opportunity could open up in the near future. Similarly, we foresee credit becoming cheaper, presenting opportunities to buy into segments of the bond market with higher yields at lower prices than usual. As the economy slows, we will prioritize liquidity and high-grade municipal or Treasury bonds, and our view on duration is much more favorable. Finally, we believe investment-grade corporates could also cheapen and

CHART 7: YTD 2022 PERFORMANCE US EQUITY MAJOR AVERAGES

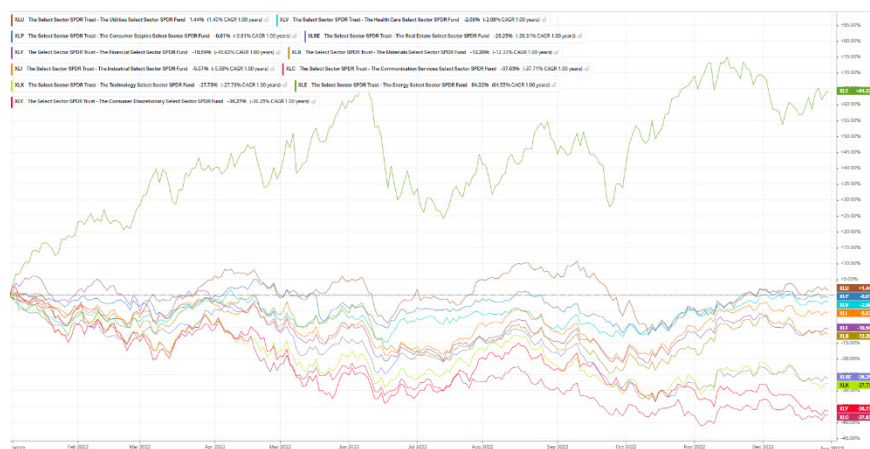


Source: Koyfin, as of 12/31/2022

were trading at much-inflated multiples relative to the broader market, they were hit especially hard by interest rate hikes. Energy, however, proved to be an outlier, thanks to high demand and low inventory driving up commodity prices. As a result, energy companies generated record cash flow and profits (+64.32% on the year).

The NASDAQ's underperformance can be attributed to its concentration in the year's poorest performing sectors: technology, communication services, and consumer discretionary. These three categories combined account for approximately 80% of the NASDAQ's sector composition, each posting 2022 calendar year returns of -27.73%, -37.83%, and -36.27%, respectively. Because these divisions of the market

CHART 8: YTD 2022 EQUITY SECTOR PERFORMANCE



Source: Koyfin, as of 12/31/2022

balance in sector and name concentration compared to the broad market indices. In our prior commentaries, we've touched on the changing macroeconomic dynamics that are at play along with fiscally directed spending that appear to be favorable tailwinds for broader segments. In other words, our view suggests that more favorable opportunities lie outside of the mega cap darlings and growth themes of the last decade.

It appears that equity valuations overall have finally corrected from their past stratospheric levels and are now sitting right around the 25-year historical median. The corporate profit cycle has also peaked, and margins are coming down. Of course, this earnings downcycle is accompanied by elevated borrowing rates and slowing consumption. With this in mind, AlphaCore equity portfolios are overweight quality and profitability factors. Additionally, we aim for greater

Last year's equity dispersion exposed a multitude of flaws in the market. Investors chased multiples to unsustainable heights over the past few years, and those who overstayed their welcome in highly concentrated, growth-focused portfolios were swiftly punished when conditions shifted. This is why we strongly cautioned against over-allocation to growth names during the past several quarters. Our thesis was vali-

dated by the frequent market upheaval over the year, underscoring the importance of an active portfolio management approach, especially when it comes to equities.

ALTERNATIVE INVESTMENTS

Alternative allocations provided a necessary ballast against stock- and bond-driven drawdowns in client portfolios. Managed futures and value-biased long-short equity managers were notable winners for us during the year. Not surprisingly, having the ability to short assets was critical in delivering positive returns in 2022. Multi-strategy, multi-PM portfolios also delivered modest positive returns on the year. Meaningful detractor came from growth and technology focused long-short managers who were unsuccessful in hedging the rate-driven multiple compression that companies in their portfolio would endure. Other detractors in the alternatives portfolio were long volatility managers whose approach to hedging proved inadequate given the range bound behavior of the VIX.

Most other alternative strategies we incorporated including merger arbitrage, convertible arbitrage, and relative value, delivered on capital preservation and outperformed both equity and bond markets.

- Our managed futures fund profited by taking short positions on rates and bonds and long positions on the US dollar versus a basket of non-US currencies. Varying long and short positions throughout the year in commodity and agricultural markets also generated positive returns for the strategy.
- Our long-short equity manager achieved strong absolute returns primarily through their short book. Profits were generated from shorting highly overvalued technology and consumer businesses and owning cheap, durable and high cash flow generative businesses on the long side.
- Another bright spot during the quarter and the year as a whole was returns from multimanager/multi-strategy private fund exposures. These portfolios distribute capital across a variety of portfolio management teams spanning different asset classes and investment strategies. Such portfolios are generally run market neutral and exhibit low correlation to broader equity and fixed-income markets. Again, thanks to their ability to go short, these exposures were able to deliver positive absolute returns during the period.

As our previous note alludes to, we have become more cautious on private assets. Private real estate and private credit are simply less favorable as income alternatives present attractive opportunities. We maintain our view that private markets have further downward repricing to endure given their lagged valuations.

OUTLOOK

Portfolio views and positioning are always tentative- investors should pay close attention to incoming data and modify their thesis and rationale accordingly, especially in times when there are secular and circular dynamics to be monitored. There is no shortage of risks to be aware of as we make allocation decisions in 2023. We are carefully monitoring the following risks:

1. China decisively pivoted its COVID policy and began its economic reopening process. The days of draconian lock down measures are behind us, introducing a reflationary force for markets to contend with. This in turn complicates the global inflation situation as aggregate demand increases, bidding up or at the very least, supporting elevated commodity prices. Essentially, there are cyclical inflation waves (demand for energy from reopening), and potentially secular/structural inflation adjustments investors need to be mindful of (deglobalization, reshoring, wages, etc.).
2. Deglobalization remains in play as the Russia-Ukraine conflict drags on. US-China semiconductor policy changes put further pressures on supply chains.
3. Changes in fiscal and monetary policy. Higher borrowing costs match higher inflation - this of course makes asset markets nervous.
4. Inflationary pressures: Labor markets in the US remain tight, and the labor force participation rate remains largely unchanged. Undersupply of workers keeps wage growth pressures intact and creates a more difficult scenario for the Fed to pivot into easing mode.

Market dynamics in 2022 confirmed the end of an era whereby markets enjoyed a reasonably stable level of inflation, which was ushered in by a period of peak globalization. This allowed for a coordinated prescription of easy monetary policy by central banks around the world that depressed the cost of capital. Of course, this encouraged spending, ballooned private credit creation, and buoyed asset prices to unsustainable new heights. The global economy today is undergoing a transition that is, in many ways, a stark reversal of much of the stability enjoyed over this period. Geopolitical differences, divergent fiscal and monetary policies of governments and central banks, uncertainty around inflation and deglobalization are just a few of the major factors reshaping the economy of tomorrow. But rather, we see this transition as a return to normalcy – the anomaly being the unique period of easy money - as bumpy as it may be. As we enter this new economic environment, it is our conviction that investors ought to embrace alternative strategies and hold portfolios with exposure to a more robust set of risks.

As always, thank you for your trust and confidence in us. Do not hesitate to reach out to your advisor or myself with any questions that you may have.

Best,

Johann Lee, CFA
Director of Research

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- **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 publically 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.

MORNINGSTAR CATEGORIES

MORNINGSTAR MULTI-STRATEGY: This is a Morningstar alternative strategy category. For a multi-asset strategy to qualify in an alternative category, greater than 30% of a strategy's gross exposure must be allocated to alternative substrategies. Alternative substrategies should provide an 'alternative' exposure to the dominant risk factors found in traditional indices, and as standalone strategies, would generally fall into one of the other Morningstar alternative categories: Equity Market Neutral, Event Driven, Macro Trading, Options Trading, Relative Value Arbitrage, and Systematic Trend.

MORNINGSTAR SYSTEMATIC TREND: This is a Morningstar alternative strategy category. Systematic trend funds mainly implement trend-following, price-momentum strategies by trading long and short liquid global futures, options, swaps, and foreign-exchange contracts. Strategies invest across geographies and assets, including equities, fixed income, commodities, currencies, and more.

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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.