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Right Horizons Compliance Document

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This document delineates the customization features and management strategies mutually agreed upon between AlphaBlock™ and Right Horizons (RH). It underscores our commitment to a tailored approach in investment portfolio management, assuring alignment with RH's unique requirements and strategic goals.

Under our mandate, we cover S&P BSE 100, S&P BSE 30, S&P BSE Mid Cap Select Indexes as benchmarks, emphasizing broad market representation without direct portfolio replication. We adhere to strict constraints, capping the maximum weighting for any portfolio component at 10% for BSE 100 and 15% for BSE 30 and BSE Mid Cap Select. Components reaching these limits are automatically readjusted to initial weights between 0.2% and 0.4%. Risk management is a priority, with annual portfolio turnover limited to 30% and excess volatility kept within 10% of the market's volatility.

Each trade requires detailed justification, encompassing selection, timing, and exit strategies. We implement corporate actions diligently, maintaining a comprehensive action log for RH’s perusal. Our portfolio composition strategy aims to reduce tracking error below 20%, adjusting universe alignment triennially, unless tracking error necessitates earlier adjustments.

Stress testing is conducted for portfolios of INR 50 Lakhs and above. RH is granted exclusive access to our online platform for all relevant documentation and resources. Portfolio rebalancing is conducted monthly, accommodating immediate corporate action adjustments.

Our objective is to achieve relative outperformance of our models on a risk-adjusted basis, and we continually incorporate feedback-driven enhancements, such as outlier weight constraints for stocks exhibiting significant price performance. RH is empowered to make strategic exceptions with transparent policy documentation. Full access is provided to RH for our codebase related to research, signals, simulations, and attributions, ensuring transparency in our methodologies.

The system is designed as a decision-support tool, with RH executing strategies post thorough review. RH maintains discretion over mandate adjustments, which are reviewed annually or biennially. RH independently determines strategies for investor education and product pricing. An enhanced digital environment is provided for

extensive access to portfolio-related information and data resources. Cost efficiency and active indexing strategies are integral to our collaborative approach.

In summary, this compliance document reflects our dedicated service to Right Horizon, prioritizing their specific needs and objectives in our management strategies.

Summary of Customization Requests and Management Strategies:

Mandate Coverage: S&P BSE100, S&P BSE30, S&P BSE MidCap Select Indexes.
Portfolio Constraints: Maximum weighting limits for components.
Risk Management: Caps on portfolio turnover and volatility.
Trade Justification: Required for each trade.
Corporate Actions: Diligent implementation and logging.
Universe Diversification: Focus on tracking error reduction and periodic alignment.
Minimum Investment Amount: Stress testing for large portfolios.
Online Platform Access: Dedicated for RH.
Rebalancing Schedule: Monthly with immediate corporate action adjustments.
Performance Objectives: Risk-adjusted outperformance.
Feedback-Driven Enhancements: Including outlier weight constraints.
Strategic Exceptions: Policy documentation for temporary mandate alterations.
Open Source Transparency: Full access to codebase and methodologies.
Methodology Disclosure: Via published research papers.
Review Process: Post-diligence execution by RH.
Discretionary Adjustments: Mandate changes at RH's discretion.
Innovation and Education: RH-led investor strategies.
Enhanced Digital Environment: For extensive information access.
Cost Efficiency Focus: Integral to management approach.
Active Indexing Strategy: Customized process for Active Strategies for RH

AlphaBlock Technologies Inc.

AlphaBlock Technologies Inc. is a Toronto-based company on a mission to disrupt the investment management model by building machines that beat the market. Its Pay for Alpha "Universal-indexing" method has been calculated and validated by NASDAQ and has received an MIT Fintech award for its innovative technology. AlphaBlock is funded by Real Ventures and is a part of the MaRS innovation program.

Founder and Team Profile

Mukul Pal has spent over 20 years in global financial markets, in investment management capacities, working from 2000-2004 for the Bombay Stock Exchange, HDFC Securities, and various financial institutions in India, from 2005-2010 consulting European asset managers and securities divisions of financial institutions

like Société Générale, Raiffeisen, Uniqua Insurance, Bucharest Stock Exchange, Bank of Transilvania and starting 2011 building Smart Beta Investing solutions for asset owners and asset managers in North America. He has published extensively, filed several patents, holds an MBA in Finance, a master's in applied econometrics and statistics, the CMT and CAIA designations, and has been awarded a top fintech award from MIT in 2016. In his current role, he runs AlphaBlock, a Deep Tech company that in its first application builds Indexes and Electronic Index Funds.

Florina Nap, Florina is an MSc in computer science with more than 12 years' experience in managing technology teams for financial services companies. In her last project she managed the credit, debit, and POS management systems for one of the largest private banks in Central and Eastern Europe. The company was acquired by UiPath, world's largest Robotic Process automation. At AlphaBlock, she develops software products and maintains technology delivery systems.

Dan Todor, is a career developer with over 25 years' experience in banking, exchanges, marketplaces etc. He is particularly interested in distributed architectures, highly concurrent low latency backend systems. Mainly Scala/Akka and Elixir as languages, streaming architectures based on Kafka/Cassandra. Sometimes frontend JS. At AlphaBlock, he develops Generative AI solutions for self-onboarding for B2B clients.

Fernando Cipriano from university with a finance degree as well as an arts degree and teaching degree, entered the field of investment management answering telephones. Right from the very beginning he knew that he had found his home. He worked for several investment managers like Fidelity before founding his own firm in 2002. This firm grew to over $1.5 billion in assets and over 17 thousand investors around the world. In 2014, the firm was sold to Dundee Wealth. He heads the Advisory business for AlphaBlock.

Richard Kang has the experience of over 25 NYSE-listed ETF launches since May 2009. He co-founded an NY-based asset manager whose ETF product lineup focused on underlying exposures in emerging and frontier markets. Over his 20 years of buy-side experience, Richard has had senior roles at a hedge fund, fund-of-hedge fund, investment counseling firm, index provider and ETF issuer/manager. He sits on FTSE's Country Classification Indexing committee and the editorial board of Institutional Investors' The Journal of Index Investing. Richard was part of the core team at Emerging Global Advisors, which raised $1 B in assets. The company was acquired by Columbia Threadneedle Investments, U.S. Richard has joined the team to assist in onboarding assets from large pension funds and launching ETFs.

Problem

There are multiple problems in the investment management industry. First, the popular benchmark and Indexes that drive the Index funds are concentrated and risky. S&P 500, the most popular passive investment product in the world is 51% concentrated in just 50 out of 500 stocks. This creates lack of diversification in investor's portfolios. The market capitalization methodology is non-scientific, biased, risky, and hard to beat due to its assumption that the probability of today's winners winning tomorrow is one. Smart Beta uses various fundamental factors to beat MCAP indexing, but has failed due to the zoo of factors, their persistence and failure, and their timing difficulty.

Second, every year investors pay $1.5 trillion in fees to 90% of asset managers who underperform their benchmarks. These fees subsidise the asset management industry, leads to poor governance practices, causes higher risk for investors and erodes wealth by 50% over 10 years.

Third, the current Index Funds and ETFs are considered unbeatable i.e. it is assumed that they cannot be redesigned and enhanced to reduce risk and increase returns. Above that the current Index Funds and ETFs amplify the current MCAP weighted indexes and have become significant in trading volume that leads to systematic risk in market as Apple prices don't go up only because of iPhone sales but also due to the 500 ETFs that own the Apple stock and has to do end of day maintenance by buying and selling Apple stock.

Universal Indexing Solution

AlphaBlock's technology solves the three problems, lesser concentration, reduced starting point bias, and better risk management.

We challenge the MCAP indexing method and redefine investing. The process is based on using probabilities to weight a set of components passively, without relying on market capitalization or fundamental factors. The process combines the statistical law of 80-20 with the statistical law of mean reversion, which are two opposing forces that govern the behavior of markets. The process aims to overcome the winner's bias of MCAP indexing, which assumes that today's winners will keep winning tomorrow with a probability of one. The process claims to be universal, meaning that it can be applied to any region, asset, or domain. This process can be enhanced by AI, which can study the empirical behavior and detect patterns to improve the method. Our process is a scientific innovation that can solve the problem of indexing and beat the MCAP method across different starting points while keep tracking error and turnover low.