

Right Horizons Trade Justification Document

January 1, 2024

This document delineates the trade justification reasons for the portfolios built by AlphaBlock™ for Right Horizons (RH). The documents underscore our commitment to a tailored approach in investment portfolio management, assuring alignment with RH's unique requirements and strategic goals.

The following is the format for trade justifications covering the following categories.

- Portfolio Expansion
- Market Exit
- Strategic Mandate Shift
- Diversification Entry
- Tactical Adjustment
- Growth Oriented Entry
- Value Oriented Entry
- Risk Mitigation Exit
- Sector Rotation Entry
- Blend Reduction Adjustment

The following are some sample examples.

Portfolio Expansion (Equity, India, Bombay Stock Exchange, BSE India 100, Starting 1 June, 2023): "Beginning 1 June, 2023, this Portfolio Expansion focuses on adding top-performing equities from the BSE India 100 index. The strategy aims to capture the growth potential of major Indian companies, leveraging the dynamic nature of the Bombay Stock Exchange's larger cap segment."

Market Exit (Equity, India, Bombay Stock Exchange, BSE India 30, Starting 15 July, 2023): "Effective from 15 July, 2023, this Market Exit represents a strategic divestment from select equities in the BSE India 30 index. This move is a calculated response to market shifts, aiming to optimize portfolio performance and risk on the Bombay Stock Exchange."

Strategic Shift (Equity, India, Bombay Stock Exchange, BSE Mid Cap Select, Starting 10 Aug, 2023): "Scheduled for 10 Aug, 2023, this Strategic Shift involves realigning our investments towards the BSE Mid Cap Select index. The focus is on the mid-cap sector in the Bombay Stock Exchange, aiming to capitalize on growth opportunities in less saturated market segments."

Diversification Entry (Equity, India, Bombay Stock Exchange, BSE India 100, Starting 5 Sept, 2023): "Initiating on 5 Sept, 2023, this Diversification Entry targets a broader range of equities within the BSE India 100 index. This strategy enhances our exposure to a diversified mix of leading Indian companies on the Bombay Stock Exchange, aiming for balanced growth."

Tactical Adjustment (Equity, India, Bombay Stock Exchange, BSE Mid Cap Select, Starting 20 Oct, 2023): "Effective 20 Oct, 2023, this Tactical Adjustment refines our holdings within the BSE Mid Cap Select index. The move is designed to better position our portfolio amidst evolving trends in the mid-cap segment of the Bombay Stock Exchange."

Growth-Oriented Entry (Equity, India, Bombay Stock Exchange, BSE India 30, Starting 12 Nov, 2023): "Starting 12 Nov, 2023, this Growth-Oriented Entry focuses on high-potential equities in the BSE India 30 index. The strategy aims to leverage the growth trajectories of top Indian companies on the Bombay Stock Exchange, enhancing our portfolio's growth prospects."

Risk Mitigation Exit (Equity, India, Bombay Stock Exchange, BSE India 100, Starting 15 Dec, 2023): "Scheduled for 15 Dec, 2023, this Risk Mitigation Exit entails reducing exposure to certain holdings in the BSE India 100 index. The decision is driven by a strategic evaluation of risk and return profiles in the Bombay Stock Exchange's large-cap market."

Sector Rotation Entry (Equity, India, Bombay Stock Exchange, BSE Mid Cap Select, Starting 22 Jan, 2024): "Effective 22 Jan, 2024, this Sector Rotation Entry targets promising mid-cap equities in the BSE Mid Cap Select index. The move is aligned with our strategy to capitalize on emerging opportunities in the Bombay Stock Exchange's mid-cap sector."

Defensive Strategy Adjustment (Equity, India, Bombay Stock Exchange, BSE India 30, Starting 3 Feb, 2024): "Scheduled for 3 Feb, 2024, this Defensive Strategy Adjustment involves reshuffling our investments in the BSE India 30 index. The adjustment aims to enhance portfolio stability by focusing on the top-tier equities of the Bombay Stock Exchange."

Blend Reduction Adjustment (Equity, India, Bombay Stock Exchange, BSE Mid Cap Select, Starting 18 Mar, 2024): "Beginning 18 Mar, 2024, this Emerging Market Focus emphasizes investments in the BSE Mid Cap Select index. The strategy aims to exploit the growth potential within the mid-cap sector of the Bombay Stock Exchange, tapping into emerging market dynamics."

The following are brief explanations of the trade justification variables.

StartEntry:

To build the portfolio, a symbol is selected based on its ranking and placed into a specified bin. It's allocated a certain proportion of the portfolio which aligns with its rank within the bin.

RebalanceEntry:

When a symbol exits the portfolio, a new one is added, assuming a similar position within the same bin or sub-bin. This new symbol is chosen based on its ranking, which determines its proportion in the portfolio, ensuring a seamless transition and maintenance of the bin's structure.

RebalanceExit:

A symbol is removed from the portfolio when it reaches the rebalance timing period predefined by the portfolio's structure. The symbol, which had entered the portfolio with a certain rank and proportion, exits with possibly different values after having stayed in the portfolio for a specified number of days.

RebalanceAdjustment:

Sometimes a symbol may exit the portfolio due to rebalancing, yet it qualifies to be reselected immediately because it still holds the highest ranking within its bin. In this case, its portfolio proportion is updated to reflect its new position. If the symbol maintains its top rank, no action may be required, and it continues its tenure in the portfolio.

ProportionAdjustment:

The portfolio operates with a specific maximum constraint for each component, initially assigning an equal weight to each. Daily checks are performed to ensure no component exceeds its maximum threshold. If one does, it's replaced, and a new component is added at the initial weight, redistributing the excess weight among the remaining symbols in the bin. This maintains a balanced portfolio in line with the set constraints.

GroupchangeEntry:

Occasionally, a new component qualifies to be added to the portfolio based on its ranking and the availability of space in the appropriate bin or sub-bin. This addition is integrated smoothly into the portfolio, assigned a proportion that reflects its rank within the core bin.

GroupChangeExit:

When a symbol no longer fits the selection criteria of the portfolio's universe, it is automatically removed while its entry-exit, rank, proportion, duration are recorded.

The explanations provided pertain to a series of variables that are part of the trade justification process in investment management, specifically within the context of managing a portfolio according to certain mandates and constraints. These variables indicate actions or adjustments that do not require direct intervention as they are automatically triggered under specific conditions predefined by the investment strategy or regulatory requirements. Here is an expanded explanation of each variable:

GroupChangeAdjustment

This variable refers to adjustments made to the investment universe, which is the pool of assets eligible for inclusion in a portfolio. Changes to the investment mandate, which could include criteria like asset classes, geographic focus, or risk parameters, are formally incorporated into the portfolio management strategy once a year. This ensures that the portfolio remains aligned with the agreed-upon investment universe and mandate over time.

PNLExit

"PNLExit" stands for Profit and Loss Exit. This condition is triggered when an asset in the portfolio becomes an extreme performer, meaning its performance deviates significantly from the rest of the portfolio, either positively or negatively. When this happens, the asset is removed from the portfolio to avoid undue risk or volatility, and the proceeds are earmarked for Profit and Loss Adjustment (PNL Adjustment) to maintain the portfolio's balance and risk profile.

PNLAdjustment

In scenarios where an asset becomes an extreme performer, not only can it be removed, but there may also be a need to adjust the maximum weightage (or proportion of the portfolio) assigned to a component to ensure it aligns with a pre-established target weight. This adjustment is made to manage risk and ensure that the portfolio does not become overly concentrated in any single asset, thereby maintaining diversification and adhering to the portfolio's investment strategy.

PNLEntry

This variable indicates the opportunity to add a new Profit and Loss (PNL) entry into the portfolio using unallocated cash. This action might be taken to capitalize on new investment opportunities or to reallocate resources within the portfolio to achieve strategic objectives, such as enhancing returns or adjusting the portfolio's risk profile.

SymbolsTransitionAdjustments

This refers to the adjustments made during transitions in the investment mandate or updates to the portfolio model version. An existing portfolio is updated to align with a new version, which may involve removing some assets (exits), adding new ones

(entries), and adjusting the weightages of remaining assets. These transitions ensure that the portfolio continues to reflect the most current investment strategy and complies with any changes in the investment mandate.

Red Flag Exit

This condition is activated in the case of extreme positive outliers—assets whose performance significantly exceeds expectations. Such assets can either be adjusted within the portfolio to reduce risk or completely exited to capture gains and reallocate resources in a manner that aligns with the portfolio's overall strategy and risk tolerance.

Red Flag Entry

Following the exit of an asset due to extreme performance (as indicated by a "Red Flag Exit"), the resulting cash is then reallocated within the portfolio. New entries are made, meaning new investments are selected and added to the portfolio, using the proceeds to maintain strategic asset allocation and to pursue the portfolio's investment objectives.

Red Flag Adjustments

After an asset is exited from the portfolio, adjustments are made to reallocate the resulting cash. These adjustments can include both the addition of new investments ("Red Flag Entry") and modifications to the weightages or composition of existing portfolio components to ensure the portfolio remains balanced, diversified, and aligned with its strategic objectives.

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.