

INVESTMENT POLICY STATEMENT

Portfolio Analysis & Advisory Report

Institutional-Grade Construction · Adviser CMAs · Strategic Policy Construction
Monte Carlo GBM (3000 Paths) · Euler Risk Decomposition · Basel III VaR/CVaR

PREPARED EXCLUSIVELY FOR

Yurii K

REPORT DATE

08 August 2026

RISK PROFILE

Growth

HORIZON

10 Years

STRATEGY

Strategic Policy

§ 0 – INVESTMENT MANDATE

Investment Policy Statement

This Investment Policy Statement establishes the investment objectives, risk parameters, and operational guidelines governing the management of the above-named client portfolio. It serves as the foundational governance document for all portfolio construction decisions and is reviewed annually or upon material life event. All methodology follows CFA Institute standards and Basel III risk measurement conventions.

01 • INVESTMENT OBJECTIVE

Portfolio mandate: **Growth**. Risk aversion coefficient (revealed preference): **A = 4.4**. Utility function: $U = E(r) - \frac{1}{2}A\sigma^2$. The allocation is a **fixed strategic policy** set by the adviser to match this risk posture; the coefficient A frames the risk level but does not itself derive the weights.

02 • RISK MANDATE

Target annualised volatility: **15.0%**. Sharpe ratio: **0.71**. Sortino: **0.94**. Calmar: **0.64**. Long-only constraint. No leverage. Drawdowns $\leq 37.4\%$ are within mandate.

03 • RETURN TARGET

Target gross return: **14.7% p.a.** (adviser CMAs). Goal: **\$1.00M in 10 years**. Achievement probability: **87.7%** (3000 MC paths). Risk-free rate: **4.00%**.

04 • LIQUIDITY & HORIZON

Horizon: **10 years**. Initial capital: **\$350k**. Monthly contributions: **\$1k**. Structured for a long-term, buy-and-hold horizon. Rebalancing: annual or at $\pm 5\%$ drift from target weights.

05 • INVESTMENT CONSTRAINTS

Long-only (no short selling). No leverage. No derivatives unless separately approved. Universe: **GDX, EEM, EWJ, XOM, JPM, SPY, MSFT, PM, HYG**. Concentration: HHI = **1766 (Moderately Concentrated)**. Position sizes are set by strategic policy and monitored against the covariance risk model.

06 • GOVERNING FRAMEWORK

Adviser capital market assumptions · Ledoit-Wolf shrinkage covariance · Adviser strategic policy weights (fixed) · 3000-path Monte Carlo GBM · VaR/CVaR per Basel III · CFA Institute methodology · Annual rebalancing cadence.

Adviser Attestation: This analysis has been prepared by Anton Ladnyi, CFA (A.L. Capital Advisory) using institutional quantitative methods consistent with CFA Institute standards. All projections are probabilistic estimates. Past performance is not indicative of future results. Not regulated financial advice.

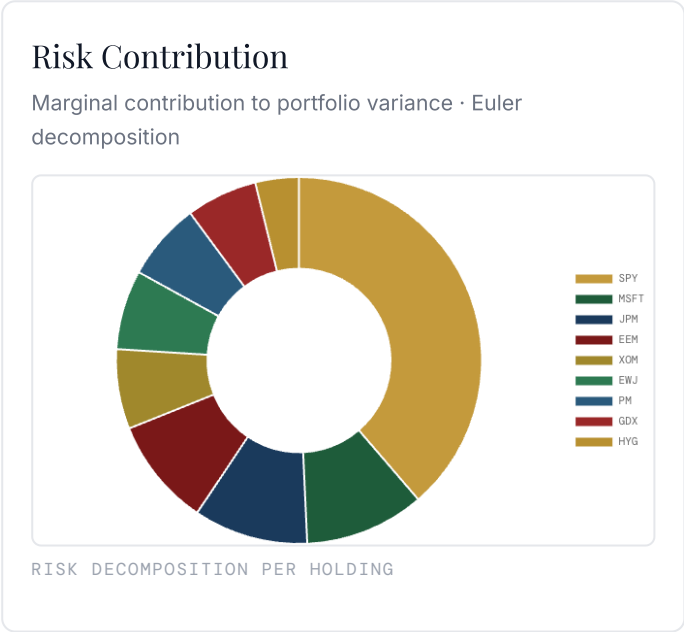
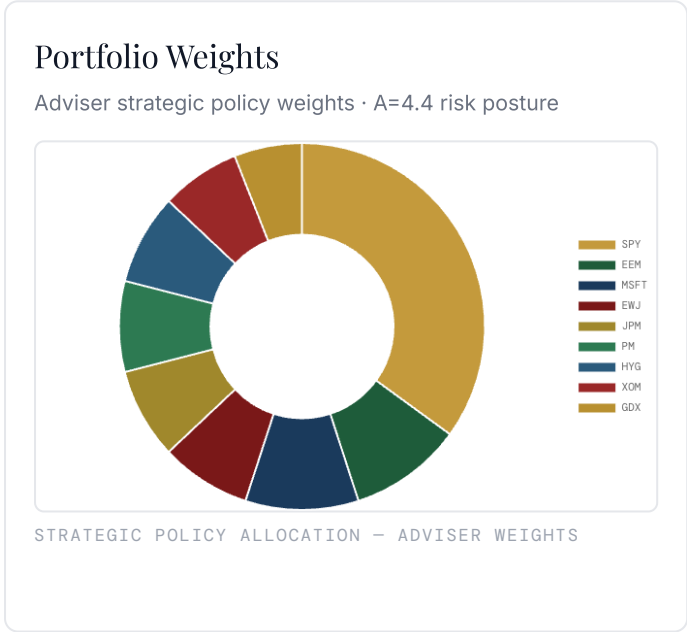
ANTON LADNYI, CFA • ADVISER • A.L. CAPITAL ADVISORY

CLIENT ACKNOWLEDGEMENT • DATE

§ 1 – PORTFOLIO OVERVIEW

Strategic Policy Portfolio Summary

EXPECTED RETURN 14.7% p.a. · B-L posterior	VOLATILITY 15.0% Annualised MVO	SHARPE RATIO 0.71 Risk-adjusted return	GOAL PROBABILITY 87.7% Monte Carlo · 3000 paths
SORTINO RATIO 0.94 Downside-adj. return	CALMAR RATIO 0.64 Return / max drawdown	VAR 95% (1M) 5.4% Monthly 5th %ile loss	HEALTH SCORE 68.7/100 Moderate Portfolio quality index



§ 2 — HOLDINGS

Portfolio Holdings & Fundamentals

Full Holdings Table

All positions · Yahoo Finance live fundamentals · strategic policy weights

Ticker	Name	Sector	Weight	Beta	P/E	Div Yield	Mkt Cap
GDX	VanEck Gold Miners ETF	ETF	6.0%	—	15.6×	0.85%	—
EEM	iShares MSCI Emerging Market	ETF	10.0%	—	17.0×	1.73%	—
EWJ	iShares MSCI Japan ETF	ETF	8.0%	—	20.0×	3.86%	—
XOM	ExxonMobil Holdings Corporat	Energy	7.0%	0.17	25.8×	2.69%	\$634.3B
JPM	JPMorgan Chase & Co.	Financial Services	8.0%	0.98	15.3×	1.68%	\$950.4B
SPY	State Street SPDR S&P 500 ET	ETF	35.0%	—	26.0×	1.01%	—
MSFT	Microsoft Corporation	Technology	10.0%	1.10	27.9×	0.73%	\$3.71T
PM	Philip Morris International	Consumer Defensive	8.0%	0.40	26.0×	3.10%	\$295.5B
HYG	iShares iBoxx \$ High Yield C	ETF	8.0%	—	10.9×	5.94%	—

PORTFOLIO BETA

Weighted-average market beta: **0.70**. Moderate market exposure — sub-market sensitivity.

CONCENTRATION (HHI)

Herfindahl-Hirschman Index: **1766** → **Moderately Concentrated**. HHI < 1,000 = well diversified; 1,000–1,800 = moderate; > 1,800 = high. Lower is better for idiosyncratic risk reduction.

§ 3 – MONTE CARLO SIMULATION

Probability Analysis & Wealth Projection

GOAL ACHIEVEMENT PROBABILITY

88%

On Track ✓

10-year horizon • 3000 Monte Carlo paths

\$1.22M

25TH PERCENTILE

Lower quartile

\$1.62M

MEDIAN

Most Likely

\$2.19M

75TH PERCENTILE

Upper quartile

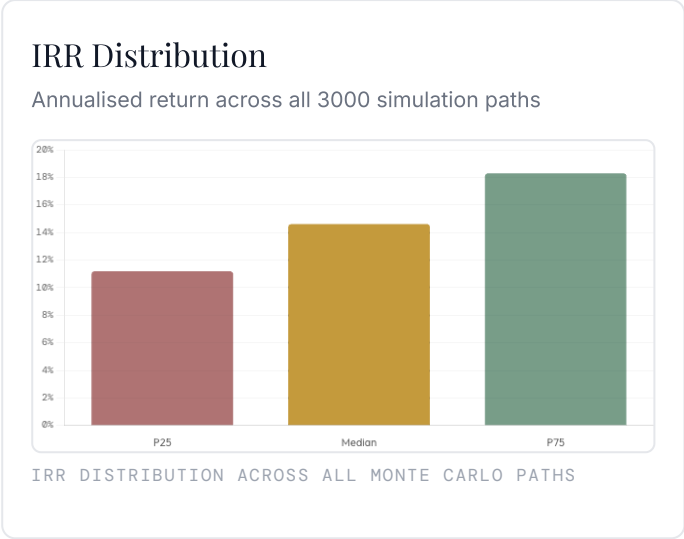
MEDIAN MAX DRAWDOWN

Expected worst drawdown across simulation paths: **-23.1%**. This is the median peak-to-trough loss observed across all 3000 Monte Carlo scenarios — tail risk should be sized accordingly.

SIMULATION PARAMETERS

3000 Geometric Brownian Motion paths • 10-year horizon
• Monthly compounding • Initial investment: **\$350k** •
Monthly contribution: **\$1k** • Risk-free: **4.00%**

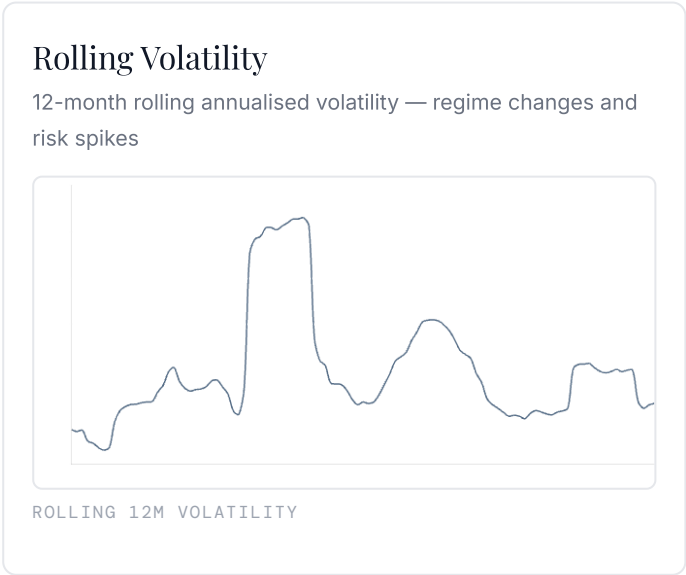
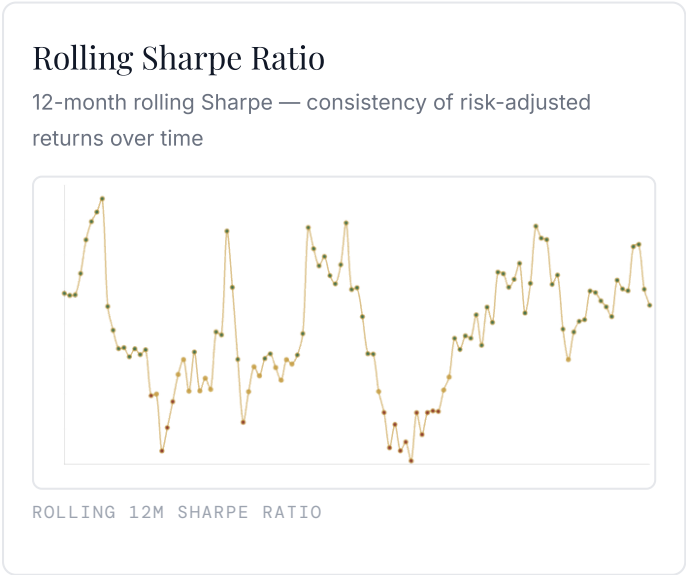
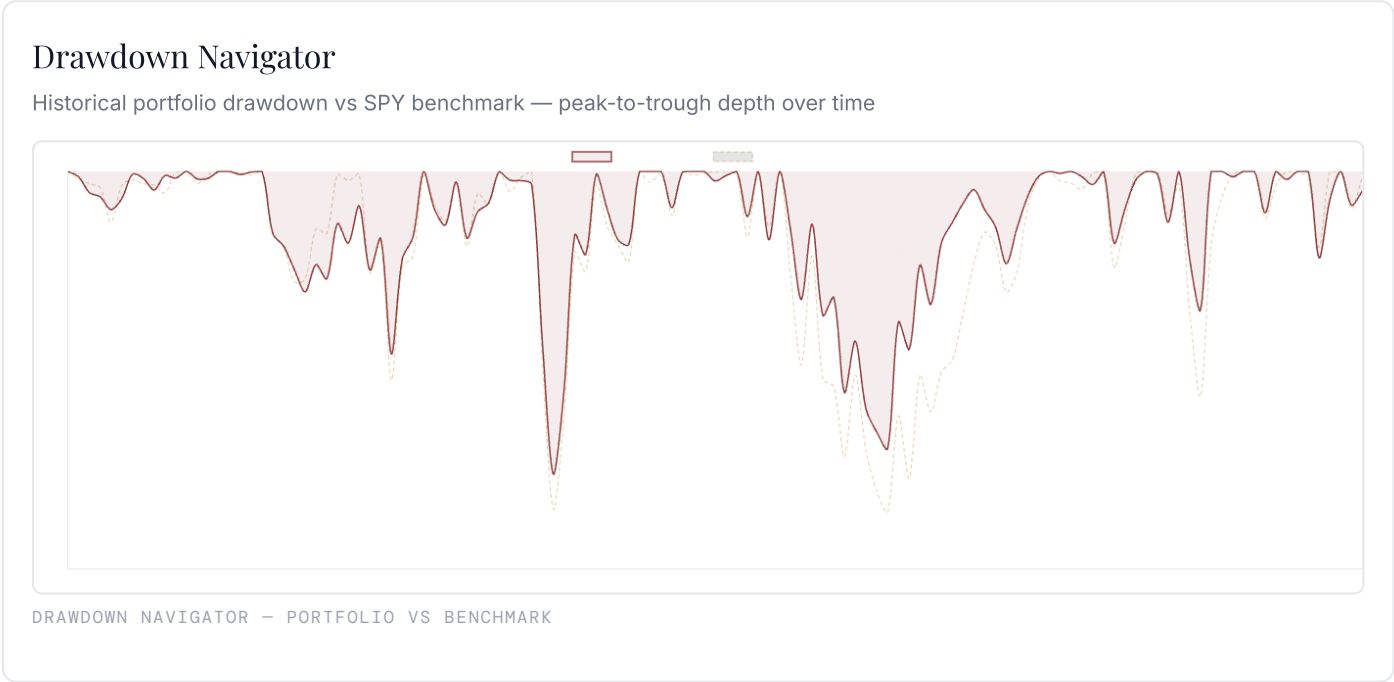




§ 4 – RISK ANALYSIS

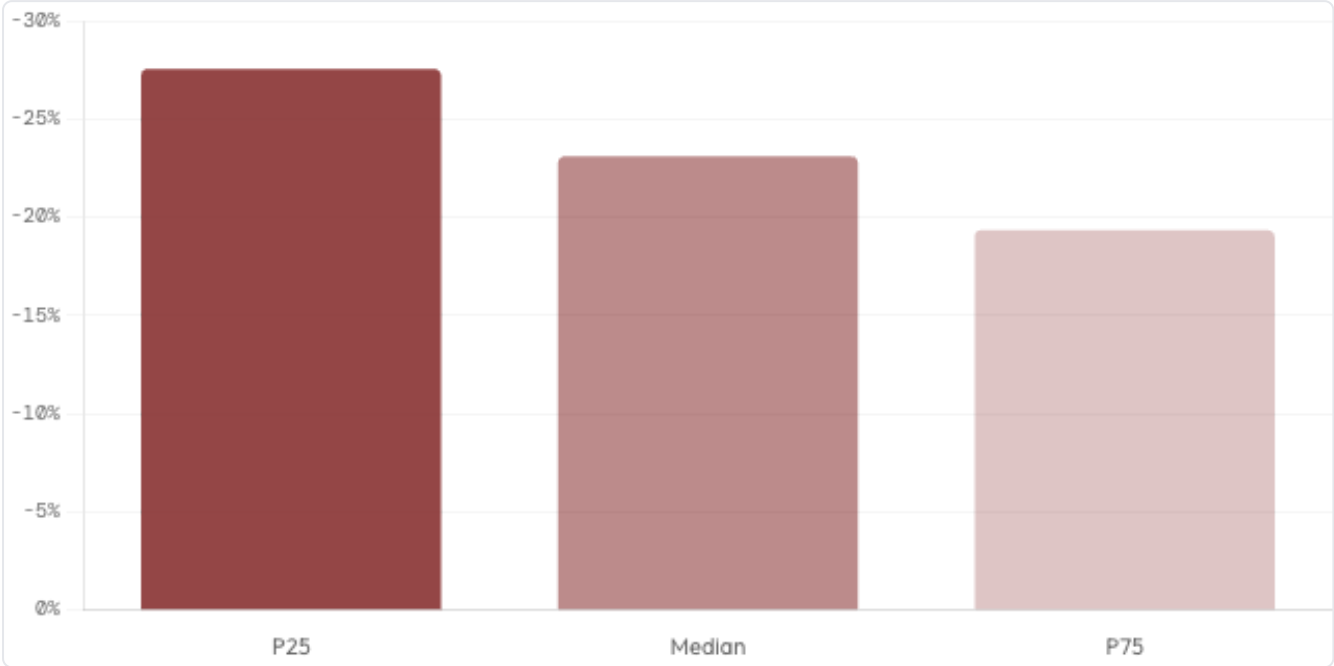
VaR, CVaR, Drawdown & Rolling Metrics

SHARPE RATIO 0.71 Return / volatility	SORTINO RATIO 0.94 Return / downside vol	CALMAR RATIO 0.64 Return / max drawdown	PORTFOLIO BETA 0.70 vs. S&P 500
VAR 95% (1M) 5.4% Monthly 5th %ile loss	CVAR 95% (1M) 7.2% Expected shortfall	MAX DD (MEDIAN) -23.1% Peak-to-trough, MC	HISTORICAL MAX DD -31.6% on 2020-03-23



Maximum Drawdown Distribution

Per-path drawdown across all 3000 MC simulations — full tail-risk profile



MC DRAWDOWN DISTRIBUTION — PER-PATH PEAK-TO-TROUGH

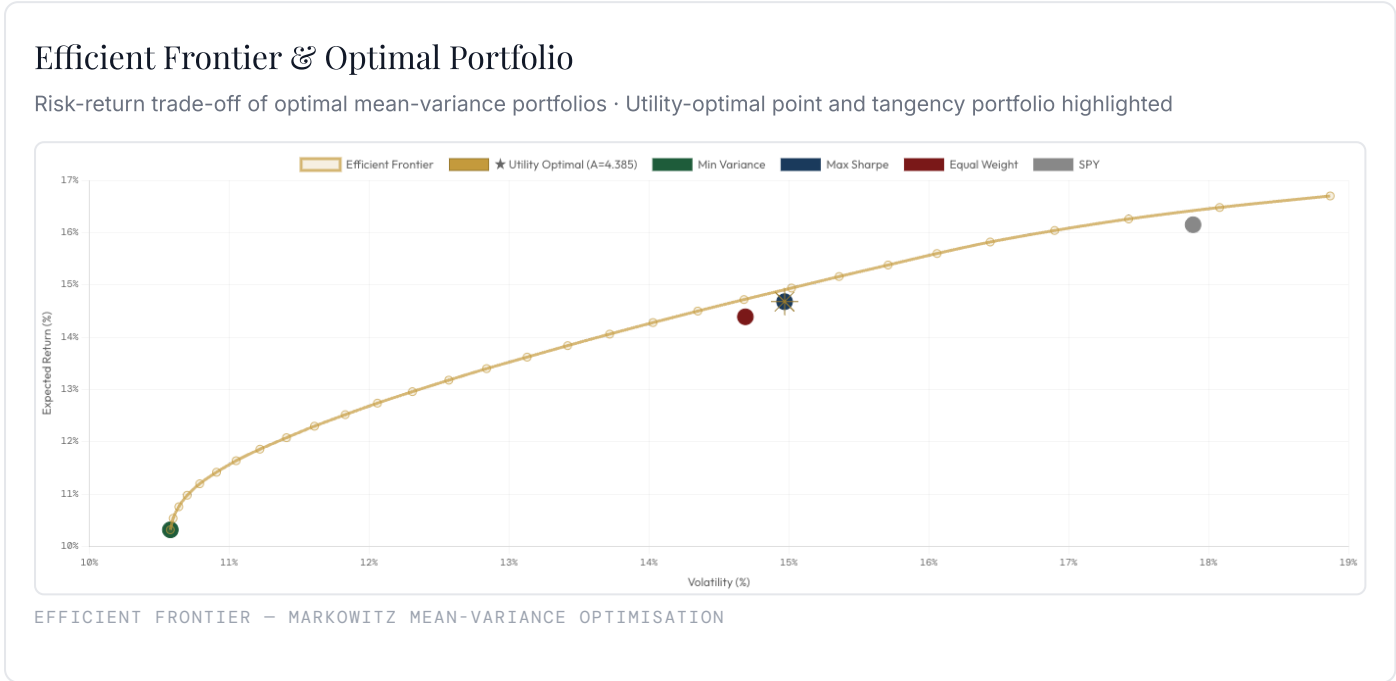
Calendar Year Returns

Annual portfolio return vs SPY benchmark — active return per year

Year	Portfolio	SPY Benchmark	Active Return
2026	+15.7%	+14.0%	+1.7%
2025	+29.2%	+17.7%	+11.5%
2024	+20.2%	+24.9%	-4.7%
2023	+20.9%	+26.2%	-5.3%
2022	-9.4%	-18.2%	+8.8%
2021	+22.2%	+28.7%	-6.5%
2020	+14.2%	+18.3%	-4.2%
2019	+31.0%	+31.2%	-0.2%
2018	-7.0%	-4.6%	-2.5%
2017	+22.1%	+21.7%	+0.3%
2016	+6.6%	+7.7%	-1.1%

§ 5 – EFFICIENT FRONTIER

MVO Optimisation & Capital Market Line



PORTFOLIO POSITION

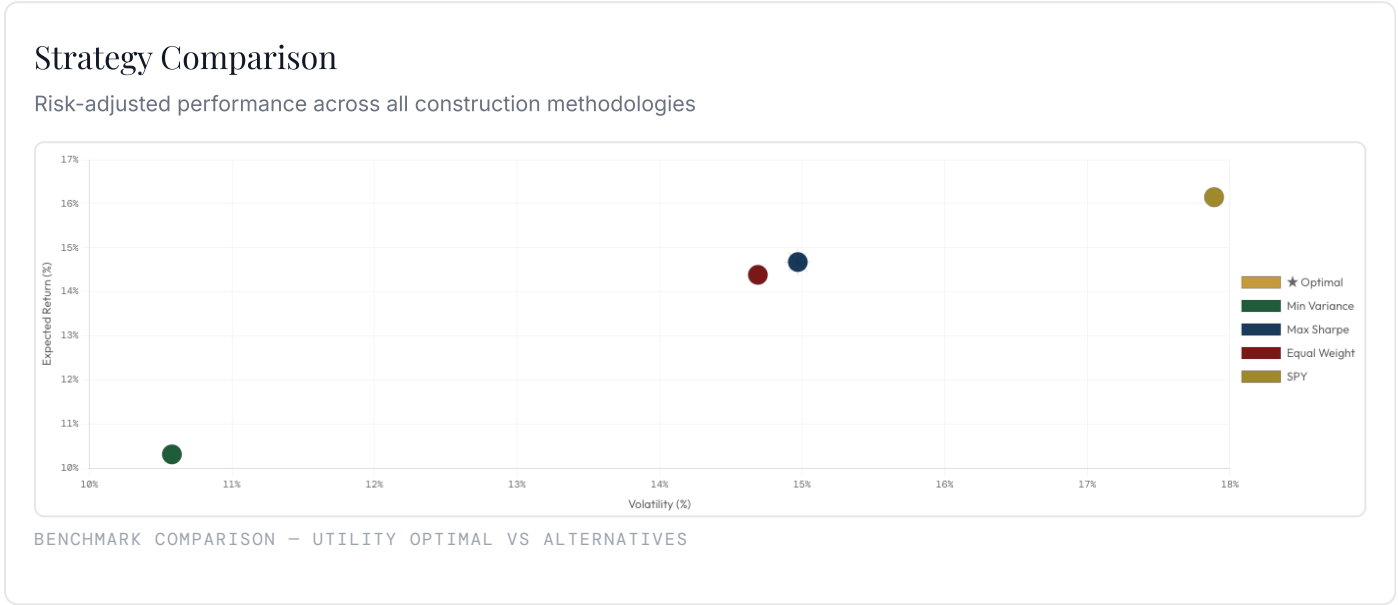
Expected return: **14.7%** · Volatility: **15.0%** · Sharpe: **0.71**.
The strategic policy portfolio is plotted against the efficient frontier for reference; as a fixed-weight allocation it is not required to sit on the frontier, and any gap to it is the deliberate cost of the policy constraints (tax, liquidity, diversification).

CONSTRUCTION METHOD

Weights solved via SLSQP to maximise utility function $U = E(r) - \frac{1}{2} \cdot A \cdot \sigma^2$, subject to long-only ($w_i \geq 0$) and full-investment ($\sum w_i = 1$) constraints. Black-Litterman posterior returns used as $E(r)$ input. Ledoit-Wolf covariance as σ input.

§ 6 – BENCHMARK COMPARISON

Portfolio vs Min-Var, Equal-Weight & SPY



STRATEGIC POLICY

Expected return: **14.7%** · Vol: **15.0%** · Sharpe: **0.71**.
Adviser strategic policy allocation matched to an A=4.4 risk posture. Recommended implementation.

INTERPRETATION

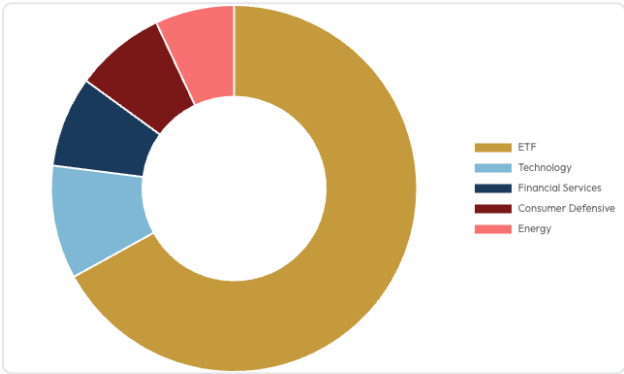
The strategic policy allocation is set by the adviser to reflect the client's objectives and constraints (income, tax, diversification), with the A=4.4 coefficient defining the risk posture. Portfolios to the left on the efficient frontier offer lower return with lower risk; portfolios to the right offer higher return with commensurately higher risk.

§ 7 – SECTOR ATTRIBUTION

GICS Sector Analysis & Brinson-Hood-Beebower Attribution

Sector Allocation

Portfolio weight by GICS economic sector · fund-level view — each ETF is shown as a single class; no look-through to the underlying sector mix



SECTOR ALLOCATION – WEIGHT BY GICS SECTOR

Beta-Adjusted Risk

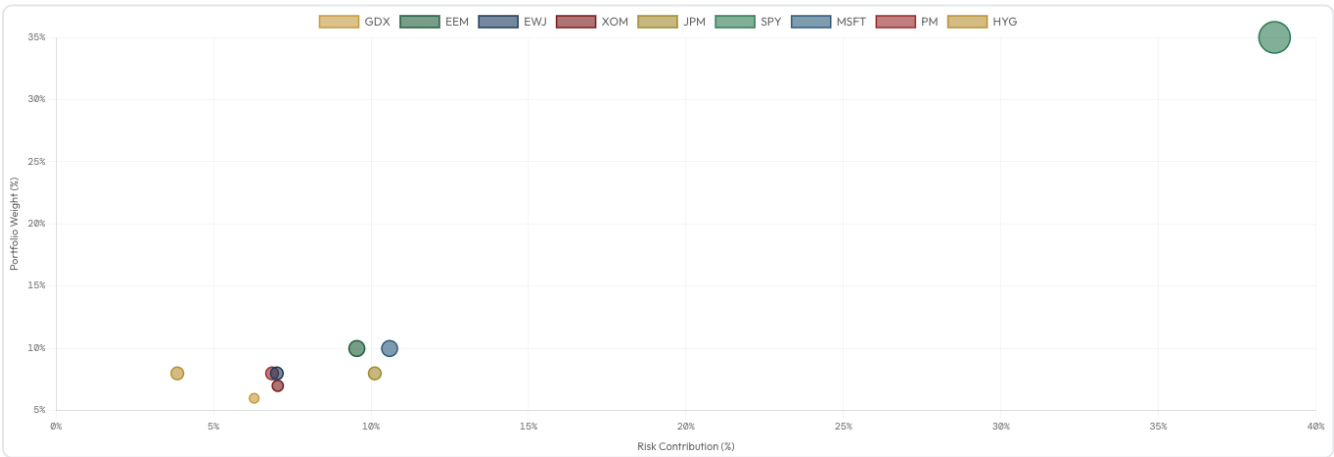
Market sensitivity × weight per holding — red = risk > allocation



BETA-ADJUSTED RISK CONTRIBUTION BY HOLDING

Weight vs. Risk Contribution

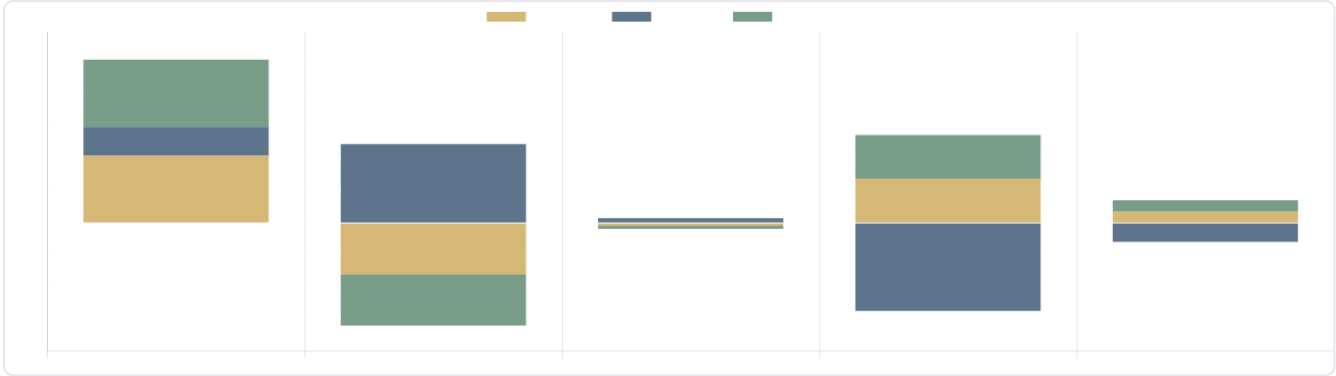
Holdings above the diagonal are risk-disproportionate — candidates for trimming



WEIGHT VS RISK CONTRIBUTION QUADRANT CHART

BHB Attribution Chart

Brinson-Hood-Beebower decomposition — allocation, selection and interaction effects vs SPY · fund-level classification; attribution is indicative only for an ETF/fund mandate



BHB ATTRIBUTION — SECTOR-LEVEL ACTIVE RETURN DECOMPOSITION

Brinson-Hood-Beebower Attribution Table

Portfolio: **26.33%** · Benchmark (SPY): **23.55%** · Active return: **+2.78%** · *fund-level sectors — indicative only*

Sector	Port Wt	Bench Wt	Selection Effect	Interaction Effect	Total Effect
ETF	67.0%	20.0%	+1.795%	+4.218%	+10.231%
Energy	7.0%	20.0%	+4.942%	-3.213%	-1.484%
Financial Services	8.0%	20.0%	+0.301%	-0.181%	-0.061%
Technology	10.0%	20.0%	-5.509%	+2.755%	+0.001%
Consumer Defensive	8.0%	20.0%	-1.184%	+0.711%	+0.238%
TOTAL ACTIVE RETURN			+0.345%	+4.290%	+2.78%

§ 8 – STRESS TEST ANALYSIS

Historical Crisis Scenarios & Portfolio Resilience

WORST SCENARIO

-50.1%

Global Financial Crisis ·
portfolio drawdown

BEST VS MARKET

+8.5%

vs market · 1970s Stagflatio

AVG OUTPERFORMANCE

+6.4%

vs market · all 6 scenarios

PORTFOLIO BETA

0.70

Market sensitivity (β)

Historical Crisis Scenarios

Portfolio drawdown vs market · relative performance · recovery estimate

Scenario	Period	Portfolio DD	Market DD	vs Market	Trough Value	Recovery	Severity
1970s Stagflation	1973 – 1974	-39.7%	-48.2%	+8.5%	\$211k	77 mo.	Catastrophic
Black Monday	Aug – Dec 1987	-26.8%	-33.5%	+6.7%	\$256k	19 mo.	Severe
Dot-com Bust	Mar 2000 – Oct 2002	-40.8%	-49.1%	+8.3%	\$207k	70 mo.	Severe
Global Financial Crisis	Oct 2007 – Mar 2009	-50.1%	-56.8%	+6.7%	\$175k	57 mo.	Catastrophic
COVID-19 Crash	Feb – Mar 2020	-29.9%	-33.9%	+4.0%	\$245k	4 mo.	Severe
2022 Rate Shock	Jan – Oct 2022	-21.3%	-25.4%	+4.1%	\$275k	21 mo.	Moderate

Per-Holding Impact by Scenario

Dollar and percentage impact per position in each historical crisis scenario

1970S STAGFLATION · 1973 - 1974 · PORTFOLIO: -39.7%

Holding	Weight	Beta	Shock	Dollar Impact
MSFT	10.0%	1.28	-55.0%	-\$19,262
SPY	35.0%	1.00	-48.2%	-\$59,045
GDX	6.0%	0.67	-48.0%	-\$10,078
EWJ	8.0%	0.72	-37.5%	-\$10,493
EEM	10.0%	0.70	-36.9%	-\$12,920
JPM	8.0%	0.81	-36.2%	-\$10,149
PM	8.0%	0.35	-28.0%	-\$7,852
XOM	7.0%	0.44	-20.6%	-\$5,048
HYG	8.0%	0.00	-15.0%	-\$4,200

BLACK MONDAY · AUG - DEC 1987 · PORTFOLIO: -26.8%

Holding	Weight	Beta	Shock	Dollar Impact
MSFT	10.0%	1.28	-38.9%	-\$13,619
JPM	8.0%	0.81	-33.6%	-\$9,413
SPY	35.0%	1.00	-33.5%	-\$41,038
EEM	10.0%	0.70	-24.2%	-\$8,484
EWJ	8.0%	0.72	-23.8%	-\$6,660
XOM	7.0%	0.44	-20.6%	-\$5,041
GDX	6.0%	0.67	-18.8%	-\$3,957
PM	8.0%	0.35	-14.4%	-\$4,032
HYG	8.0%	0.00	-5.0%	-\$1,400

DOT-COM BUST · MAR 2000 - OCT 2002 · PORTFOLIO: -40.8%

Holding	Weight	Beta	Shock	Dollar Impact
JPM	8.0%	0.81	-68.8%	-\$19,251
SPY	35.0%	1.00	-49.1%	-\$60,148
MSFT	10.0%	1.28	-49.0%	-\$17,150
XOM	7.0%	0.44	-46.5%	-\$11,405
EEM	10.0%	0.70	-36.3%	-\$12,692
EWJ	8.0%	0.72	-32.7%	-\$9,159
PM	8.0%	0.35	-24.1%	-\$6,744
HYG	8.0%	0.00	-15.0%	-\$4,200
GDX	6.0%	0.67	-10.5%	-\$2,212

GLOBAL FINANCIAL CRISIS · OCT 2007 - MAR 2009 · PORTFOLIO: -50.1%

Holding	Weight	Beta	Shock	Dollar Impact
JPM	8.0%	0.81	-80.5%	-\$22,551
SPY	35.0%	1.00	-56.8%	-\$69,580
XOM	7.0%	0.44	-56.2%	-\$13,757
MSFT	10.0%	1.28	-49.1%	-\$17,169
EEM	10.0%	0.70	-45.0%	-\$15,755
EWJ	8.0%	0.72	-40.1%	-\$11,215
PM	8.0%	0.35	-39.2%	-\$10,962
HYG	8.0%	0.00	-33.0%	-\$9,240
GDX	6.0%	0.67	-23.7%	-\$4,985

COVID-19 CRASH · FEB - MAR 2020 · PORTFOLIO: -29.9%

Holding	Weight	Beta	Shock	Dollar Impact
JPM	8.0%	0.81	-48.3%	-\$13,527
SPY	35.0%	1.00	-33.9%	-\$41,528
XOM	7.0%	0.44	-33.7%	-\$8,265
MSFT	10.0%	1.28	-29.1%	-\$10,178
EEM	10.0%	0.70	-26.9%	-\$9,421
EWJ	8.0%	0.72	-23.9%	-\$6,695
PM	8.0%	0.35	-23.6%	-\$6,596
HYG	8.0%	0.00	-20.0%	-\$5,600
GDX	6.0%	0.67	-14.1%	-\$2,966

2022 RATE SHOCK · JAN - OCT 2022 · PORTFOLIO: -21.3%

Holding	Weight	Beta	Shock	Dollar Impact
GDX	6.0%	0.67	-40.9%	-\$8,596
MSFT	10.0%	1.28	-30.0%	-\$10,504
SPY	35.0%	1.00	-25.4%	-\$31,115
EWJ	8.0%	0.72	-22.1%	-\$6,184
EEM	10.0%	0.70	-20.5%	-\$7,178
PM	8.0%	0.35	-18.5%	-\$5,182
HYG	8.0%	0.00	-11.0%	-\$3,080
JPM	8.0%	0.81	-8.1%	-\$2,280
XOM	7.0%	0.44	-2.3%	-\$575

§ 9 – FUNDAMENTALS SCORECARD

Valuation Metrics & Signal Classification per Holding

WTD AVG P/E

22.1×

Trailing P/E · rated holdings

WTD AVG FWD P/E

18.0×

Forward P/E · where available

WTD AVG BETA

0.70

Market β · rated holdings

WTD AVG DIV YIELD

2.01%

Blended income yield

Fundamentals Scorecard								
Per-holding valuation metrics · green Fwd P/E = earnings growth priced in · beta <0.7 = defensive								
Ticker	Sector	Weight	Beta	P/E	Fwd P/E	EV/EBITDA	Div Yield	Signal
GDX	ETF	6.0%	—	15.6×	—	—	0.85%	Moderate
EEM	ETF	10.0%	—	17.0×	—	—	1.73%	Moderate
EWJ	ETF	8.0%	—	20.0×	—	—	3.86%	Moderate
XOM	Energy	7.0%	0.17	25.8×	14.5×	9.8×	2.69%	Fair Value
JPM	Financial Services	8.0%	0.98	15.3×	14.3×	—	1.68%	Value
SPY	ETF	35.0%	—	26.0×	—	—	1.01%	Moderate
MSFT	Technology	10.0%	1.10	27.9×	21.3×	19.4×	0.73%	Fair Value
PM	Consumer Defensive	8.0%	0.40	26.0×	20.7×	18.9×	3.10%	Fair Value
HYG	ETF	8.0%	—	10.9×	—	—	5.94%	Fixed Income

§ 10 — RISK DECOMPOSITION

Euler Risk Attribution per Holding

Euler Risk Attribution			
Euler risk contribution vs portfolio weight — red = disproportionate risk, green = risk-efficient			
Ticker	Weight	Risk Contribution	Risk Premium vs Weight
SPY	35.0%	38.7%	+10.5%
MSFT	10.0%	10.6%	+5.9%
JPM	8.0%	10.1%	+26.5%
EEM	10.0%	9.6%	-4.5%
XOM	7.0%	7.0%	+0.6%
EWJ	8.0%	7.0%	-12.4%
PM	8.0%	6.9%	-14.2%
GDX	6.0%	6.3%	+4.8%
HYG	8.0%	3.9%	-51.9%

§ 11 — STRATEGY COMPARISON

Utility Optimal vs All Alternative Strategies

Strategy Performance Comparison				
Risk-return metrics across all construction methodologies				
Strategy	Exp. Return	Volatility	Sharpe	Return/Vol
Utility Optimal★	14.7%	15.0%	0.71	0.98
Min Variance	10.3%	10.6%	0.60	0.98
Max Sharpe	14.7%	15.0%	0.71	0.98
Equal Weight	14.4%	14.7%	0.71	0.98
SPY	16.1%	17.9%	0.68	0.90

Alternative Portfolio Weights			
Allocation per strategy — compare vs utility optimal			
MAX SHARPE — WEIGHTS			
GDX 6.0%	EEM 10.0%	EWJ 8.0%	XOM 7.0%
JPM 8.0%	SPY 35.0%	MSFT 10.0%	
PM 8.0%	HYG 8.0%		
EQUAL WEIGHT — WEIGHTS			
GDX 11.1%	EEM 11.1%	EWJ 11.1%	
XOM 11.1%	JPM 11.1%	SPY 11.1%	
MSFT 11.1%	PM 11.1%	HYG 11.1%	

§ 12 – CONCENTRATION ANALYSIS

Diversification Metrics & Portfolio Structure

HHI SCORE

1766

Moderately Concentrated

EFFECTIVE HOLDINGS

5.7 / 9

Equiv. equal-weight N

MAX POSITION

35.0%

Largest single holding

TOP 3 CONCENTRATION

55.0%

Combined weight, top 3

Concentration Detail		
Herfindahl-Hirschman Index analysis · effective number of holdings · top-N concentration		
Metric	Value	Interpretation
HHI (×10,000)	1766	Moderately Concentrated — below 1,000 = well diversified; 1,000–1,800 = moderate; above 1,800 = concentrated
Effective N	5.7 of 9	Portfolio behaves like 5.7 equal-weight holdings. Higher = more diversified.
Max Position	35.0%	Largest single holding by weight.
Top 3 Weight	55.0%	Within normal range for concentrated-growth mandates.
Top 5 Weight	71.0%	Moderate top-5 concentration.
Top 10 Weight	100.0%	Concentration in largest decile of holdings.
Total Holdings	9	Moderate breadth.

Investment Analysis & Adviser Letter • Anton Ladnyi, CFA

AL

Anton Ladnyi, CFA

SENIOR INVESTMENT ADVISOR • A.L. CAPITAL ADVISORY

GOLDMAN SACHS • J.P. MORGAN • CFA CHARTERHOLDER

PREPARED EXCLUSIVELY FOR

Yurii K

08 August 2026

RETURN

14.7%

B-L Posterior

VOLATILITY

15.0%

Annualised

SHARPE

0.71

Risk-Adj.

GOAL PROB.

87.7%

MC • 3000 paths

MEDIAN

\$1.62M

Terminal Wealth

VAR 95%

5.4%

Monthly

Dear Yurii K,

The current assessment of your portfolio as of 08 August 2026 encompasses a comprehensive review of your growth-oriented mandate, utilizing a 3000-simulation Monte Carlo analysis over a 10-year horizon. This report evaluates your performance attribution against the S&P 500, diagnostic concentration metrics, and current risk-adjusted return profiles to ensure alignment with your accumulation goals.

◆ PORTFOLIO OVERVIEW

Your risk profile is defined by an aversion coefficient of 4.4, which indicates a moderate tolerance for volatility in pursuit of long-term capital appreciation. The portfolio is currently structured with 67.0% in ETFs, 10.0% in Technology, 8.0% in Financial Services, 8.0% in Consumer Defensive, and 7.0% in Energy. The overall portfolio health score is 68.7 out of 100, comprised of a 9.5 out of 20 score for risk-adjusted returns, 9.7 out of 20 for drawdown profile, 20 out of 20 for goal probability, 16.6 out of 20 for concentration risk, and 12.9 out of 20 for diversification. Concentration risk is highlighted by the divergence between weight and risk contribution for your top holdings. SPY represents 35.0% of the portfolio but contributes 38.69% of the total risk. MSFT accounts for 10.0% of the weight and 10.59% of the risk, while JPM accounts for 8.0% of the weight and 10.12% of the risk.

PORTFOLIO VITALS

14.7%

EXPECTED RETURN

15.0%

VOLATILITY

4.4

RISK AVERSION (A)

⚡ RISK & DRAWDOWN PROFILE

The portfolio maintains a Sharpe ratio of 0.710, a Sortino ratio of 0.940, and a Calmar ratio of 0.640, reflecting a balanced approach to generating excess returns relative to the volatility and downside risk incurred. The 1-month Value at Risk at the 95% confidence level is 5.37%, suggesting that in a typical month, there is a 5% probability of experiencing a loss exceeding this threshold. The historical maximum drawdown of 31.6% occurred on 2020-03-23. Our Monte Carlo projections suggest a median maximum drawdown of 23.1% over the 10-year horizon, which serves as a baseline expectation for the periodic volatility you should be prepared to endure to achieve your accumulation targets.

RISK METRICS

0.71

SHARPE RATIO

5.4%

VAR 95% (1M)

-23.1%

MAX DD (MEDIAN)

↗ LONG-TERM OUTLOOK

Based on 3000 Monte Carlo simulations, the median terminal wealth is projected to reach \$1.62M, with a stress scenario P5 outcome of \$0.81M and an upside P95 outcome of \$3.45M. The median internal rate of return is 14.61%. You currently have an 87.7% probability of hitting your \$1.0M target. The remaining 12.3% probability of missing this target implies that while the current trajectory is favorable, market conditions may necessitate adjustments to your monthly contribution of \$1000 or a re-evaluation of asset allocation if the portfolio trends toward the lower bound of our projections.

30-YEAR OUTLOOK

\$1.62M

MEDIAN TERMINAL

87.7%

GOAL PROBABILITY

\$3.45M

P95 UPSIDE

● PERFORMANCE ATTRIBUTION

Your portfolio has delivered an active return of +2.78% against the SPY, driven by an allocation effect of +4.29%, a selection effect of +0.345%, and an interaction effect of +4.29%. The total portfolio return of +26.33% compares favorably to the SPY return of +23.55%. Calendar year performance shows a return of +15.68% in 2026 against the SPY at +14%, +29.23% in 2025 against the SPY at +17.72%, +20.2% in 2024 against the SPY at +24.89%, and +20.92% in 2023 against the SPY at +26.18%. The dominant alpha drivers have been the strategic allocation decisions, which have consistently provided the primary source of outperformance relative to the benchmark.

⚡ KEY RISKS & RECOMMENDATIONS

The primary risks to your portfolio include the 38.69% risk contribution from the 35.0% weight in SPY, the 10.59% risk contribution from the 10.0% weight in MSFT, and the 10.12% risk contribution from the 8.0% weight in JPM. To mitigate these, we recommend the following actions. First, rebalance the SPY position to reduce the concentration risk below the current 38.69% risk contribution threshold. Second, diversify the technology exposure to reduce the reliance on MSFT and its associated 10.59% risk contribution. Third, monitor the financial services sector allocation to ensure the JPM position does not exceed its current 10.12% risk contribution as market volatility fluctuates.

I am available to discuss these metrics and the implications for your long-term strategy at your earliest convenience.

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APPENDIX A – METHODOLOGY

Quantitative Framework & Model Descriptions

BLACK-LITTERMAN MODEL

Posterior expected returns derived using the B-L Bayesian framework, combining CAPM equilibrium market returns with forward-looking views. Blending parameter τ controls confidence in views vs. equilibrium. Produces more stable, better-diversified return vectors than pure historical means.

LEDOIT-WOLF COVARIANCE

Sample covariance regularised using Ledoit-Wolf analytical shrinkage. Reduces matrix condition number and eliminates the extreme eigenvalue problem that causes MVO to produce unstable, concentrated portfolios — especially with small samples.

MEAN-VARIANCE OPTIMISATION

Weights solved via SLSQP to maximise $U = E(r) - \frac{1}{2} \cdot A \cdot \sigma^2$ subject to $w_i \geq 0$ (long-only) and $\sum w_i = 1$ (fully invested). Black-Litterman returns and Ledoit-Wolf covariance as inputs. Solution is unique given A.

MONTE CARLO SIMULATION

3000 GBM paths over 10 years using optimised μ and σ . Each path compounds monthly with stated contributions. Terminal wealth distribution and goal achievement probability derived from full path ensemble. Fat tails and regime changes are NOT modelled.

VAR & CVAR (BASEL III)

Value-at-Risk (95%) = loss threshold exceeded in 5% of scenarios. CVaR / Expected Shortfall = average of worst 5% outcomes. Both computed from the full MC distribution (not parametric approximations), consistent with Basel III framework.

EULER RISK DECOMPOSITION

Marginal Contribution to Total Risk: $MCTR_i = \partial \sigma_p / \partial w_i$. Component attribution: $\rho_i = w_i \times MCTR_i$. By construction $\sum \rho_i = \sigma_p^2$. Enables precise identification of marginal risk impact per position.

SHARPE, SORTINO & CALMAR

Sharpe = $(E(r) - rf) / \sigma$. Sortino = $(E(r) - rf) / \sigma_{\text{downside}}$ (uses only negative deviations). Calmar = $E(r) / |\text{max_drawdown}|$. All ratios use annualised figures. Higher = better risk-adjusted return; Sortino penalises downside risk only.

HHI CONCENTRATION INDEX

Herfindahl-Hirschman Index = $\sum (w_i)^2 \times 10,000$. Pure cash = 10,000. Perfect equal weight $N=10 \rightarrow HHI=1,000$. Effective $N = 1 / \sum w_i^2$ = the number of equal-weight holdings that would produce the same HHI. A lower HHI and higher effective N indicate better diversification.

Risk Disclosure & Legal Notice: This Investment Policy Statement is prepared exclusively for the named client and contains proprietary quantitative analysis. All projections are probabilistic estimates, not guarantees. Monte Carlo simulations assume log-normal returns and constant volatility — they do not model fat-tail events, liquidity crises, regime changes, or correlation breakdown. Past performance is not indicative of future results. This document does not constitute regulated financial advice under MiFID II or any other regulatory framework. The client is encouraged to seek independent legal and tax counsel before implementing any strategy. © 2026 A.L. Capital Advisory. Reproduction prohibited without written consent. REF: ALC-IPS-20260808