



ALPHAONE™ CAPITAL PARTNERS

RISK PHILOSOPHY

AlphaOne Capital Partners believes that risk management, both qualitative and quantitative in nature, must be applied not only at the portfolio-level but also at the operational and organizational-level. Investors must be cognizant of the risks and potential implications of those risks associated with investment. Moreover, it is important to differentiate between risk and uncertainty. Risk is an element of randomness in situations where the ultimate outcome is undetermined but the range of potential outcomes is understood and quantifiable. Uncertainty arises due to incomplete knowledge about the manner in which events occur. Therefore, AlphaOne seeks to eliminate uncertainty while managing risk in order to first assure capital preservation when pursuing capital appreciation.

With that belief in mind, what follows is an overview of the three main categories of risk, and some of their key components, which serve as the foundation of AlphaOne's risk management philosophy. (1) Investment risk, existing primarily at the portfolio-level, is comprised of risk factors that are unique to their portfolio and strategy, (2) operational risk is the possibility of financial loss caused by unanticipated events in the ordinary course of business, and (3) organizational risk arises from insufficient segregation of functions, and independent checks and balances.

INVESTMENT RISK

Investment risk, existing primarily at the portfolio-level, is comprised of risk factors that are unique to their portfolio and strategy. The greater an investment's exposure to a certain risk, the more the value of the investment is likely to fluctuate with changes in the level of that risk. The primary forms being capacity, concentration, leverage, liquidity, and market risk.

Capacity

Capacity refers to the total amount of money that can be put to work with a given manager or strategy without deteriorating performance. Certain strategies inherently have more capacity than others. For example, currency trading, which has trillions of dollars being traded each day, has more capacity than a strategy investing in equities of emerging markets. Therefore, capacity risk is driven largely by the liquidity of a portfolio's underlying investments, and the size of assets under management relative to the strategy's market. Capacity issues are also relevant when equitably sharing limited opportunities with existing investors, and when marketing products to new investors.

Concentration

A concentrated, undiversified portfolio increases the potential magnitude of portfolio fluctuations, and can make liquidation at mark-to-market prices difficult. Investors, therefore, must be aware of the various forms that concentration risk may take. Holding concentration is present when only a limited number of positions are held. Position concentration refers to individual positions accounting for a large percentage of a portfolio's value. Industry and sector concentration is a large percentage of a portfolio being weighted in only a few industries or sectors. Finally, geographic concentration is a portfolio being clustered in one particular country or region, potentially increasing the effect economic or geopolitical events have on a portfolio.

Leverage

Typically seen in hedge funds, leverage is the practice of using borrowed money to make investments. Hedge funds employ a variety of techniques that introduce leverage into their portfolios. Often this involves entering into short positions or borrowing money to purchase securities. These strategies may be used to incorporate exposures that are negatively correlated to the hedge fund's holdings in order to decrease the overall risk of the portfolio. However, the use of leverage can introduce new risks, such as counterparty risk. Investors should seek to understand the leveraging techniques used by a hedge fund manager.

Liquidity

Liquidity is the ability to meet cash needs or requirements. The 'market' form of liquidity risk is the risk of being unable to unwind investment positions at previously prevailing market prices. Portfolios comprised of less liquid assets, or funds hedging short positions can be particularly susceptible to liquidity risk. A fund or strategy's liquidity terms also dictate the level of liquidity risk. Appropriate liquidity terms are needed not only to ensure that redemptions can be met but also to prevent the liquidation of assets at inopportune times.



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Market Risk

The financial risk brought about from changes in the market price of investments in the portfolio. These fluctuations are driven largely by changes to, and the volatility of equity prices, currency and interest rate sensitivities, and commodity price movements. Hedge funds have the ability to actively adjust their exposures to various market risks by holding positive market exposure (net long bias), to take advantage of a generalized bullish period, or they may hold a net negative market exposure (net short bias). The short portfolio serves as a hedge against market declines but also provides an opportunity for managers to add value by selecting stocks more likely to underperform the market.

OPERATIONAL RISK

Operational risk is the possibility of financial loss caused by processes, systems, technology, individuals, or unanticipated events in the ordinary course of business. A written business continuity and disaster recovery plan is required for the latter risk. Beyond that, the primary types of operational risk are systems, technology, and third-party related.

Systems

AlphaOne typically is in possession of confidential client, employee and other sensitive information. In addition to having a fiduciary duty to maintain the confidentiality of such information, federal and state laws require safeguarding of such information.

Technology

Advances in technology have resulted in the widespread availability of industry-standard and proprietary resources for quantitative research, portfolio management, sales support, trading, settlement and record keeping. The availability of such tools, which AlphaOne utilizes, enhances operational efficiencies but requires ongoing monitoring and review.

Third Party Providers

Fiduciary obligations remain even when responsibilities are outsourced to third parties. To fulfill its fiduciary obligations, AlphaOne has internal monitoring of all outsourced operation functions and processes by senior management.

ORGANIZATIONAL RISK

We believe that one of the keys to effective risk management is a risk governance structure that provides segregation of functions with appropriate checks and balances that ensure fiduciary obligations are met.

Segregation of Functions

In order to maintain its fiduciary duty, as well as appropriate checks and balances, AlphaOne has segregated control functions from line functions as all as front office functions from middle and back office functions to ensure independent verification of investment details. Segregation of functions requires that trades be confirmed, compared, and valued by people other than traders and that independent checks and balances exist at every stage of the process to prevent errors remaining unresolved.

Fiduciary Obligation

AlphaOne has a legal obligation to act in the best interests of its clients, to treat all clients fairly and to meet a very high standard of care. To accomplish this, employees are made aware of their fiduciary obligations and how to consider those obligations in their ongoing decision-making. Fiduciary obligations are detailed in applicable investment and management agreements and other legal documentation. Third party and outsourced relationships are reviewed so as to assure that fiduciary issues are identified and fiduciary obligations are met

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