SARATOGA CAPITAL MANAGEMENT, LLC

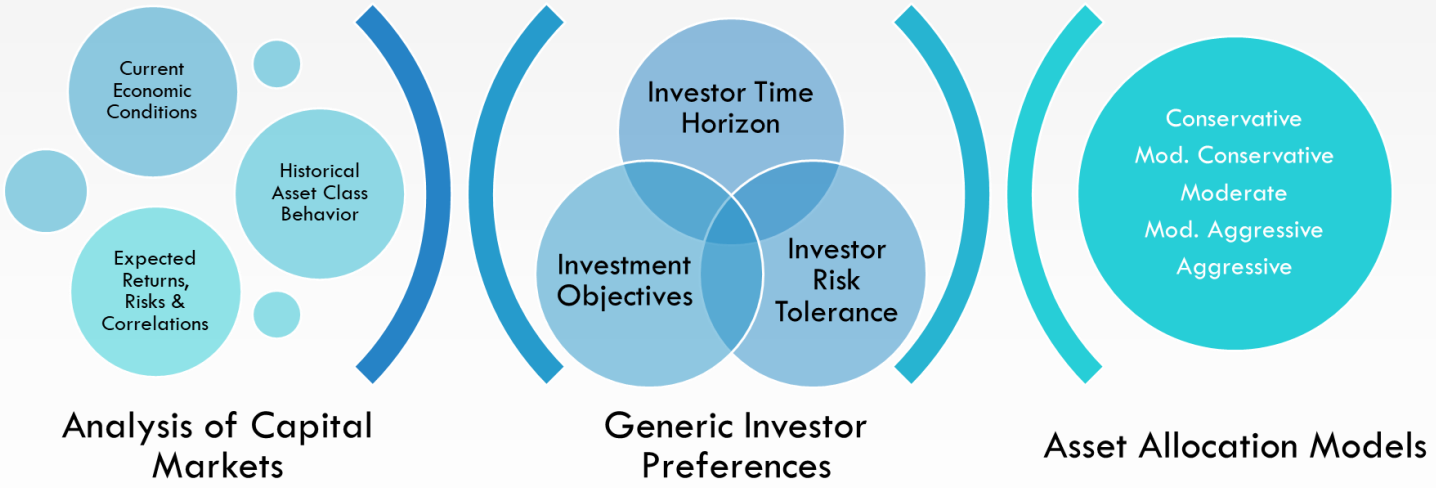
THE ASSET ALLOCATION SPECIALISTS©

THE SARATOGA ASSET ALLOCATION MISSION

At Saratoga Capital Management, LLC we believe that asset allocation strategies should change when the economy experiences major changes. As the economy moves between phases such as full-growth, slow-growth, recession and emerging, Saratoga considers changes to its asset allocation strategies. This brand of asset allocation is referred to as Dynamic Asset Allocation.

Dynamic Asset Allocation recognizes that the overall economy is fluid, and is comprised of numerous economic sectors. Saratoga regularly evaluates how individual economic sectors are affecting the general economy in order to develop our asset allocation parameters. After these parameters are established, Saratoga combines them with a range of investor preferences to develop our set of asset allocation models.

DYNAMIC ASSET ALLOCATION MODEL COMPONENTS



DECADES OF RESEARCH

PROPRIETARY RESEARCH

Saratoga's analysis of the economy and capital markets depends on decades of proprietary research. This research takes the form of a broad analytical toolkit, which we call MIVI, and a set of custom-built metrics we use to confirm and forecast some of the economy's major data points.

Saratoga's analytical toolkit, MIVI, is an acronym that derives its name from the four main categories of data it covers: monetary policy, inflation, valuations, and interest rates. Roughly 50 economic statistics roll-up into MIVI and help give us an understanding of how a given category of economic data is affecting the major asset classes.

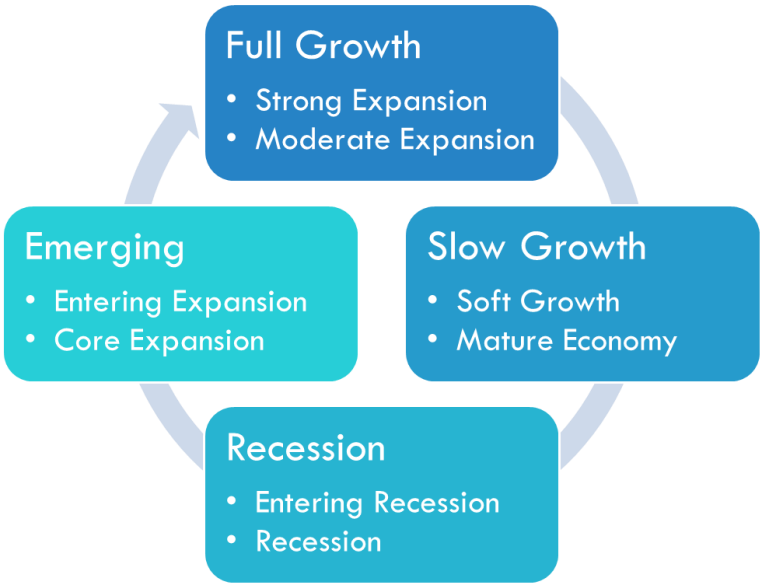
The metrics Saratoga uses to supplement MIVI are helpful in understanding the current level of certain major economic data points, as well as forecasting where those data points may be headed. For instance, while we don't believe we can predict the exact GDP figure for a given quarter, we do believe we can understand whether the current GDP figure is well -founded and which direction future readings may be headed. In addition to GDP, Saratoga has built custom metrics to get a handle on Federal Reserve activity and consumer sentiment. Combined, these metrics tell us which data in MIVI might be most important in the current economic environment.

MIVI
- Analytical Toolkit
- Assesses current economic environment

Economic Leading Statistics®
- Proprietary Metric
- Seeks to forecast GDP

Economic Strength Monitor™
- Proprietary Metric
- Seeks to forecast Fed

Consumption Modification Index™
- Proprietary Metric
- Assesses consumer sentiment



ECONOMIC STAGES

Saratoga believes that the economy has a number of generally distinguishable economic stages. One of the main things we use MIVI for is attempting to understand which stage of the economic environment we're currently in. We believe that the overarching economic environment largely dictates which asset classes will perform well and which asset classes will perform poorly.

Therefore, understanding which economic stage we're in helps us to figure out which asset classes to over- and under-weight.

MORE ON SARATOGA ASSET ALLOCATION AT SARATOGACAP.COM

SARATOGA'S ANALYSIS

Combining our analysis of the economy and capital markets with a set of generic investor preferences is the foundation of Saratoga's asset allocation modeling.

ANALYSIS OF GENERIC INVESTOR PREFERENCES

Saratoga provides five core asset allocation models ranging from conservative to aggressive, so that investors can take into account their individual investment situation. To build this range of models, Saratoga considers a standard set of generally accepted individual investment preferences:

Time Horizon: when access to assets will potentially be necessary.

Risk Tolerance: such as low, moderate or aggressive.

Investment Objectives: such as income, growth or preservation of capital.

ANALYSIS OF ECONOMY & CAPITAL MARKETS

On the last page, we discussed some of the tools Saratoga employs to analyze the economy and the capital markets. During this analysis, Saratoga primarily studies the historical and current relationships between economic developments and equity markets trends. Saratoga's analysis results in an empirical set of expectations regarding the behavior of asset classes. This analysis involves:

Analysis of Current Economic Conditions: Regular examination of a variety of macro-economic statistics that fall into the following four main categories of MIVI: Monetary Policy, Interest Rate Statistics, Valuations and Inflation Barometers. We examine these key statistics to determine current capital market conditions. Notably, at Saratoga we merely attempt to acknowledge the current environment, working with known economic data.

Analysis of Historical Asset Class Behavior: Observations of asset class metrics over a variety of relevant historical capital market conditions.

Expected Returns, Risks & Correlations: Results from studying the relationship between current economic conditions, past economic conditions and historic asset class behavior.

We apply our observations regarding current economic conditions via a process similar in concept to scientific DNA matching. We study the "imprint" of our current economic environment and then search historic data for prior periods that most closely "match" our current situation.

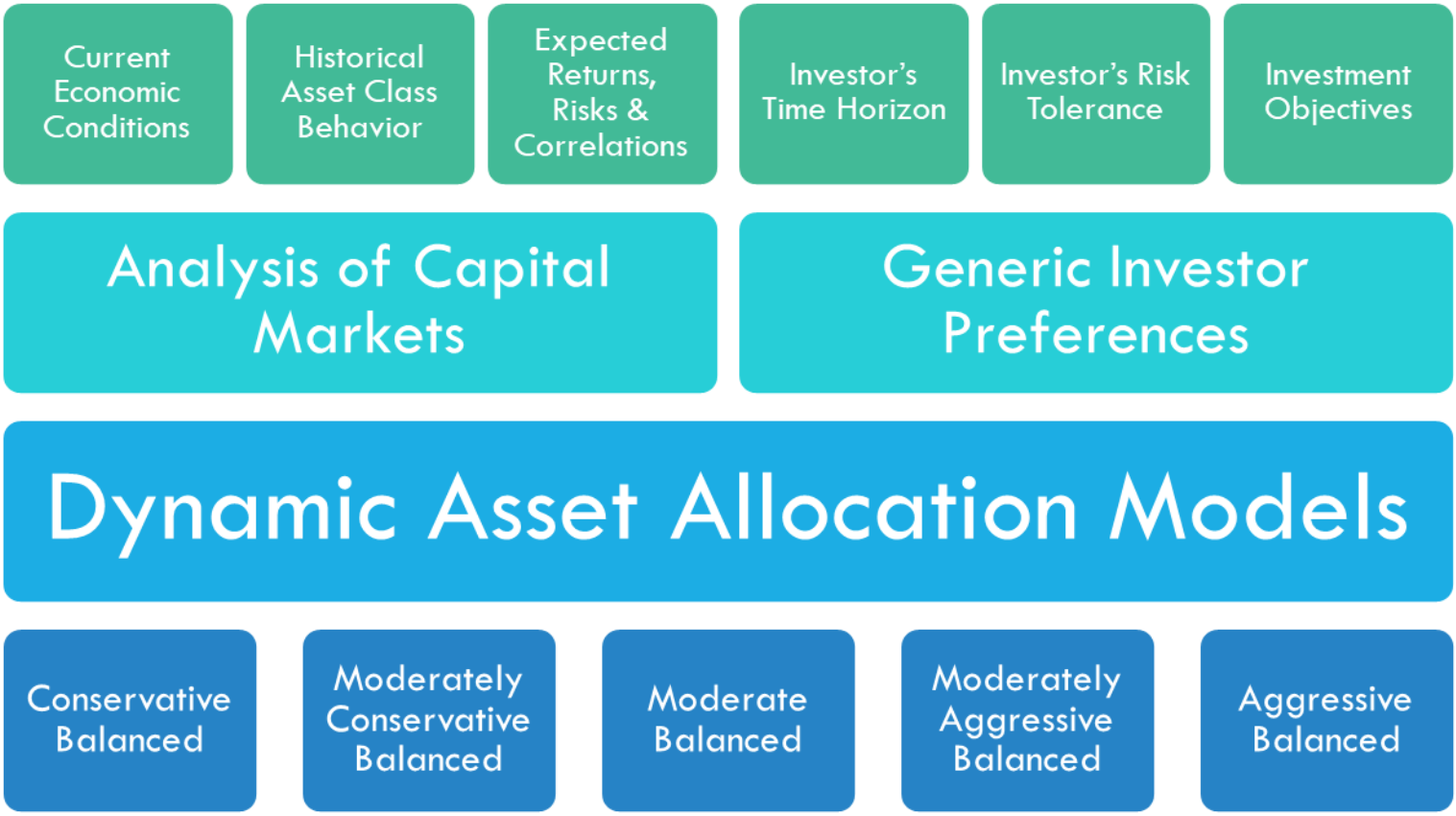
By finding the historic market environments that are most similar to our current situation, Saratoga is able to examine the time periods that we deem most relevant to determine the expected return and risk for each asset class. Each asset class is reviewed to see how it actually performed in market environments that are similar to today's market conditions. We believe that the observation of historically relevant return and risk data is critical to the portfolio optimization process.

This methodology is what distinguishes the Saratoga process from many other asset allocation methodologies. Many others draw their expectations from arbitrary time periods such as 10 years, 30 years or 80+ years (the beginning of much of the market data). Saratoga's thorough methodology takes the additional step of sorting the historic data into what we believe are the most relevant time periods. In other words, if inflation is currently running at 2% per year, we believe that to develop asset allocation strategies it is much more relevant to examine prior periods with similar inflation statistics than it is to examine arbitrary time periods regardless of the inflation rate.

ASSET ALLOCATION MODELS

In order to build our asset allocation models, Saratoga developed an optimization process that brings together the two sets of analysis detailed on the previous page. This process combines decades of research with a range of generic investor preferences in an effort to provide asset allocation strategies that fit both the investor and the prevailing economic environment.

In the chart below, you'll notice that both sides may change over time. For instance, an investor may get older and more conservative, meaning that the right-hand side of the chart would change. Likewise, the economy may shift from recession to expansion, changing the left-hand side of the chart. Saratoga seeks to provide a set of models that allow investors to account for changes on both sides of the chart at the same time.



Asset allocation does not assure a profit or guarantee that investors will not incur a loss. Performance of asset allocation models will fluctuate and will be influenced by many factors. Any statements not of a factual nature constitute only current opinions which are subject to change without notice. Past performance does not guarantee future performance.

Saratoga Capital Management, LLC does not advise individual investors.

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