AL FRANK ASSET MANAGEMENT
PHILOSOPHY & PROCESS REVIEW
HISTORY

Al Frank Asset Management is a division of AFAM Capital, Inc., an independent, registered investment advisor. The firm is registered with the SEC and notice filed in Texas, California and various other states.

Our firm was founded by Al Frank (1930-2002) in 1977. John Buckingham, Chief Investment Officer since 1990, and an accompanying investment team now carry forward The Al Frank Way, exercising diligence and prudence in applying our value-based philosophy to help pursue the investment goals and objectives of individuals and institutions through the management of separately managed accounts and two proprietary mutual funds. The firm also serves as the editor of The Prudent Speculator, which has been The Hulbert Financial Digest's #1 ranked*, not adjusted for risk, investment newsletter for the past 20, 25 and 30 years (as of 02.28.15).

For the past 37 years, Al Frank has stayed committed to buying undervalued securities for their long-term appreciation potential.
INVESTMENT PRODUCTS

We manage private accounts as well as two proprietary mutual funds that utilize our Select Value
and Select Dividend investment strategies.

PHILOSOPHY

Unwavering discipline can be a rare quality among asset management firms. But at Al Frank
Asset Management, we continue to adhere to the same strategy upon which the firm was founded
more than three decades ago: we seek to buy large baskets of undervalued stocks for their long-
term appreciation potential.

We don’t limit ourselves to the constraints of the nine style boxes, and so we are free to go
wherever we believe the best stock values can be found. After screening for and crunching
numbers to unearth and analyze these bargains, we construct our portfolios with broad sector
and holdings diversification across the capitalization spectrum with an intent to improve our
chances of owning those rare stocks that everyone wishes they’d noticed earlier.

This approach to selection and diversification gives us confidence that the true value of our
investments should come to fruition in the fullness of time, so patience comes easily. And
patience in turn enables us to have lower turnover of our holdings, which helps minimize our
trading costs.

Broadly speaking, Al Frank Asset Management adheres to a multi-cap value (or all-cap value)
style category. We utilize a go-anywhere approach focused on uncovering bargain priced stocks
independent of market capitalization, seeking broad sector, industry and holdings diversification.
Specifically, we seek long-term growth of capital through out-of-favor stocks that are trading for
low multiples of earnings, sales and/or book value. We believe that growth is a component of
value and we strive to find inexpensive stocks in industries with above-average growth prospects.
INVESTMENT STRATEGIES

We maintain two multi-cap value strategies:

* Select Value

* Select Dividend

Select Value is an actively managed multi-cap equity strategy that seeks long-term capital appreciation. Portfolios include both dividend and non-dividend paying stocks and broad diversification is sought via exposure to a significant number of major market sectors and industry groups. Portfolios are constructed initially with positions across 70 to 90 individual holdings.

Select Dividend is an actively managed equity strategy that primarily seeks long-term capital appreciation, with a secondary emphasis on current dividend income. Portfolios include primarily dividend-paying stocks. Broad diversification is sought via exposure to a significant number of sectors and industry groups. Portfolios are constructed initially with positions spread across 50 to 70 individual holdings.
INVESTMENT PROCESS

In its management of broadly diversified portfolios of undervalued stocks, the Investment Committee quantifies and qualifies stocks as undervalued using a multi-stage, bottom-up assessment that relates financial, operational and economic fundamentals to current and potential future market value.

The first stage of the process involves the daily assessment of relative valuation of the equity universe, defined by the members of the Russell 3000 and a substantial grouping of ADRs. The purpose is to systematically evaluate and score individual equities for their relative value, in order to define the universe of potential investments. The value-scoring algorithm incorporates a range of metrics historically indicative of future potential outperformance and aggregates individual metrics into a composite stock scoring system that ranks individual stock valuations in the context of valuations among peers and the broader universe. The peer-relative (generally sub-industry) scale ensures like-for-like relative valuation context, while the universe-relative scale captures sector-relative over- and under-valuation trends over time. Broadly speaking, the universe of potential investments is defined by the most undervalued 15% of securities evaluated.

In the second stage of the research process, the focus shifts to deeper quantitative reviews of fundamental support for individual equity valuations. As examples, the Committee reviews financial strength and earnings quality, in addition to higher-level qualitative aspects to clarify potential risks/reward. Reviews are further influenced by macroeconomic and industry-wide data. These fundamentals and trends are distilled into long-term expectations that are applied against our determination of “fair” valuation multiples. Using this quantitative/qualitative process, the Investment Committee develops target prices for all present and potential holdings.

Supported by an array of quantitative reviews in regard to incremental contribution to portfolio diversification, these target prices guide all investment decisions. Initial purchases only may be made at prices that reflect a sufficiently substantial discount to the target. Investments are made in individual portfolios on an equal-weight basis. With all portfolio holdings, the focus becomes the determination of ongoing risk assumed for an expected level of return for each investment. Where greater opportunities become available, we pursue them. Where standalone risk becomes too great—either from strong performance or fundamental deterioration—the Committee scales back or eliminates positions.
Define Universe of Undervalued Stocks
In order to define the universe of potential investments, individual U.S.-traded equities are scored on a daily basis. This process calculates each stocks’ aggregate relative value across a range of metrics historically indicative of future potential outperformance.

In-Depth Quantitative/Qualitative Evaluation
This step in the process includes examining company financial statements searching for low/reasonable debt levels, large cash stores and strong growth, past or potential. Additionally, we analyze free cash flow yields, return on invested capital and margin trends, as well as industry trends, assessing company-specific prospects and analyzing financial, operational and market risks and opportunities.

Establish Purchase Limits & Target Prices
Review historical valuation metrics and assign 3- to 5-year prospective valuation ‘norms.’ Buy when company shares are trading for significant discount to our fair valuation price and reward when relative to downside risk is favorable.

After Care—Ongoing Analysis
Consistently monitor company, industry, market and economic developments. Avoid emotional reactions to short-term positive or negative news, adjusting our target prices as events warrant and patiently holding when prudent.

Sell Discipline
Primary rationale driving sell decisions: stock reaches or approaches fair valuation price; lower valuation estimate results from reassessment of earnings or valuation multiples; downside risk becomes too great relative to upside potential; another stock offers a better reward to risk profile.
RISK MANAGEMENT

Seeking to mitigate risk, Al Frank employs 1) broad portfolio diversification across holdings, sectors and market capitalizations, 2) long-term investment time horizons and 3) a consistent selection methodology focused on buying stocks with inexpensive fundamental valuations.

Utilizing the same basic investment approach that the firm has employed for 37 years, we operate within an Investment Committee concept that is chaired by the Chief Investment Officer with broad reliance on technological (Bloomberg) and human resources. In regard to the latter, our Investment Committee consists of three employees with many years of industry experience, all of whom contribute analytically to the investment process, thus reducing the dependence upon any one individual.

Our approach carries over to portfolio management as well, with more than one portfolio manager reviewing an account over time and a dedicated trader often placing the individual orders. Neither individual decisions nor overall portfolio performance are attributed to individual portfolio managers, significantly reducing the possibility of an individual taking excessive risk in a portfolio for personal gain or recognition.

TRADING

On the occasion we purchase or sell the same security at a given time for multiple accounts, we utilize a rotational order execution and trade allocation system based on the alphabet. The sequence in which orders of directed and non-directed accounts are placed with brokers is determined alphabetically and then reverse-alphabetically. The sequence of trades is first determined by sorting broker-dealers and then sorting clients by internal client code. The objective of this procedure is to ensure that no client receives special consideration when trades are placed with brokers. Block orders may be used when it is in the best interest of each client participating in the order. Partially-filled bunched orders are allocated to the least-invested account when purchasing and the most-invested account when selling.

We strongly encourage clients to use Fidelity Investments or Charles Schwab & Co. Clients who direct their brokerage to a provider other than Fidelity or Charles Schwab may be charged a higher management fee by Al Frank and may pay higher commissions in some instances, depending on Al Frank’s ability to negotiate commissions, obtain volume discounts or best execution from the broker selected. Clients are responsible for verifying that they are receiving best execution if they direct their brokerage to a provider other than our recommended brokers. Brokers are selected principally on the basis of their commission rates and quality of execution and service, not on the basis of any products, research or “soft dollars.”
PERFORMANCE BENCHMARKS

Comparing actual composite composition over time with various U.S. equity indices should result in the identification of a benchmark index that best represents the universe of stocks from which strategy holdings are chosen. Noting 1) the market-cap breadth of the universe from which we choose stocks and 2) our predilection for relatively undervalued shares, we have chosen the Russell 3000 as the preferred benchmark for the firm’s products. The Russell 3000 index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

KEY PERSONNEL

John Buckingham leads a team that analyzes hundreds of stocks for money management clients and newsletter subscribers to The Prudent Speculator investment newsletter, of which he is the editor. He also manages the Al Frank proprietary mutual funds. John has been a part of AFAM since 1987 and is one of the company’s largest shareholders. He has served as the firm’s Director of Research since 1989, and was named Chief Portfolio Manager and Chief Investment Officer in 1990. John graduated magna cum laude from the University of Southern California in 1987 with a BS degree in computer science and a minor in business administration. John has appeared on numerous television and radio programs, is frequently interviewed by publications and conducts workshops at investment seminars.

Mark Mowrey, a member of the firm’s Research and Portfolio Management Team since 2004, is currently Senior Vice President, Portfolio Manager at AFAM | Innealta Capital. Mark is a member of the Management Committee. Focused primarily on more quantitative approaches to investment management, Mark addresses research topics ranging from the past and expected future performance of individual securities based on unique combinations of fundamental characteristics, to the evolving macroeconomic environment’s impact on the firm’s various investment strategies. Mark graduated from the Wharton School of the University of Pennsylvania in 1994. Prior to joining the firm, Mark served as the Director of Research at Red Herring Communications, a technology and finance-related magazine publisher. Mark’s background includes work as a public equity research analyst, a financier in private equities, a consultant and entrepreneur. Mark is a CFA® charterholder.

Jason R. Clark, a member of AFAM’s Investment Committee, has been a part of the firm’s Research and Portfolio Management Department since 2007. Jason is a Vice President and Senior Portfolio Manager. Within research, Jason is primarily focused on fundamental analysis of individual stocks and industries. Within Portfolio Management, Jason is responsible for active account management, providing education about the firm’s investment strategies and portfolio management process and working with the firm’s current and prospective Private Wealth clients. He also contributes to the firm’s newsletter and Market Commentaries. After serving in the United States Navy, Jason graduated summa cum laude with a BA degree in finance from the University of West Florida. His background includes experience as a fixed income specialist and corporate bond trader for Edward Jones and equity research associate with A.G. Edwards. Jason is a CFA® charterholder and member of the CFA® Society of Orange County.
EXECUTIVE

As Chief Executive Officer, Jeff Montgomery’s duties include strategy development, execution and talent management. Prior to joining AFAM Capital in 2008, Jeff was CEO of NFP Securities, Inc. (NYSE: NFP) from 2001 to 2008. Jeff’s previous experience includes serving as CEO and COO of Washington Square Securities, an ING broker-dealer (NYSE: ING), and General Counsel of PrimeVest Financial Services, Inc. and President of PrimeVest Mortgage, Inc. Jeff has additional background as a corporate attorney and litigator, entrepreneur and board member of several companies and organizations.

Coby Stilp, Chief Financial Officer, has over 22 years of leadership and investment experience. He spent over 17 years of his career working in New York City as an investment banking professional. While on Wall Street, Mr. Stilp focused on covering private equity sponsors such as KKR, Blackstone, Apollo and Bain Capital. In 2008, he became the Chief Financial Officer for a mid-sized, Austin-based oil and gas company that was subsequently sold. In 2012, Mr. Stilp purchased the general partnership and certain limited partnership interests of the $200 million Austin Capital Management hedge fund of funds complex. Mr. Stilp holds a BA in Economics from Georgetown University and an MBA in Finance and Accounting from the Wharton School of the University of Pennsylvania. Mr. Stilp is a CFA® charterholder and a member of the Austin Society of Financial Analysts.

Elizabeth Willmore, Chief Compliance Officer, has been with AFAM since May 2012. Elizabeth is responsible for administering the Compliance and Risk Management programs for the firm. Prior to joining the firm, she served as Chief Compliance Officer at Presidio Financial Services, Inc. in San Antonio, Texas for eight years. She spent four years with NFP Securities, Inc., where she acted as a Senior Sales Supervisor. Elizabeth holds a bachelor’s degree in psychology from the University of Houston and holds a number of FINRA registrations.

Eric Hare serves as the firm’s Chief Operating Officer. He began at AFAM Capital in 2006 as a research intern and joined the firm full-time in 2007. Eric has held a number of positions, including Research Analyst, Senior Operations Manager and Director of Operations. As Chief Operations Officer, Eric currently leads the team responsible for overseeing all day-to-day operations of the firm. Eric brings expertise in a variety of areas, including vendor, contract, account and project management; data reporting, analyzing and tracking; information technology solutions; and trading execution and operations. Eric graduated from Bemidji State University with a BA in Political Science and holds the FINRA Series 7 and 66 licenses.
Chris Creed, Director of Private Client Sales, has been a Certified Financial Planner since 2002 with 19 years of experience in the financial services industry. Before joining AFAM, he was with Fisher Investments PCG, where he was Regional Vice President for Louisiana and Mississippi. Until 2006, he was the owner of an independent wealth management practice, Creed Capital, through Wachovia Securities Financial Network. From 1994 to 2003, Mr. Creed was an investment representative with Edward Jones. He holds a BA in Marketing from Southeastern Louisiana University.

Talia Harmacek serves as Marketing Manager for the private client division. She works to share the AFAM story with potential clients and shareholders. This includes managing the firm’s online presence, sharing valuable content with interested parties and developing material that helps to explain the firm’s investment solutions. She is in charge of overseeing John Buckingham’s investment newsletter, The Prudent Speculator. Talia graduated from Texas Tech University with a BBA in Marketing and Management and earned her MBA from the same institution in 2014.
AFAM Capital is committed to assisting our clients build wealth. We are a resource for value-based investor information in the financial community, where we combine our simple philosophy of buying securities that we believe are undervalued for their long-term capital appreciation. We use our experience, hard work and intensive research to give you actionable investment information that can be used by individual investors.

For information regarding managed accounts, please call us toll free at 888.994.6827 or visit us at alfrank.com.

IMPORTANT INFORMATION

AFAM Capital, Inc. is a Registered Investment Advisor. Al Frank Asset Management is a division of AFAM Capital. AFAM is editor of The Prudent Speculator newsletter and is the investment advisor to individually managed client accounts and certain mutual funds distributed through Northern Lights Distributors, LLC. Summary prospectuses can be reviewed at www.alfrankfunds.com/resources/. Innealta summary prospectuses can be found at www.innealtafunds.com/innealta-resources/fund-documents. Investors that have their funds invested in accordance with the portfolios may experience losses. Investments in foreign investments may incur greater risks than domestic investments. Past performance is no guarantee of future results. AFAM only transacts business in states where it is properly registered or exempted from registration. Registration of an investment adviser does not imply any certain level of skill or training. Al Frank adheres to the same investment principles and philosophies in managing individual client accounts, its proprietary mutual funds and in the information that appears in its investment advisory newsletter, which is long-term growth of capital by owning a diversified portfolio of securities that are undervalued and holding them for their long-term potential appreciation. Diversification does not assure a profit or protect against a loss in a declining market.

*Past performance is not indicative of future results. The Hulbert Financial Digest performance results are calculated by undisclosed methods of the publication’s editor. Its rankings are based on an average of its several portfolios (and includes discontinued portfolios). Through 02/28/15, The Prudent Speculator is ranked #1* out of 53, 34 and 17 newsletters monitored for the past 20, 25, and 30 years, respectively. Rating is not indicative of future performance and may not be representative of any one subscriber’s experience.

*Not adjusted for risk. Return figure includes dividend reinvestment, but not taxes or fees.