altegris®

A SPECIAL REAL ESTATE MARKET COMMENTARY

We’re Shorting Class-B New York Office

Here’s Why

ISSUE No. 2 | *Fall*

Has technological change and sudden pandemic-driven remote work created a turning point for office buildings? American Assets Capital Advisers (AACA) thinks so.

American Assets Capital Advisers (AACA) believes that office real estate faces significant headwinds generated by both gradual technological change and sudden pandemic-driven remote work.

FOREWORD BY MATT OSBORNE, ALTEGRIS CIO

AUTHOR

Burl East
CEO and CIO
American Assets Capital Advisers (AACA)

SECTOR/TOPICS

Commercial real estate, COVID-19, office space, long/short

READ TIME

Under 15 minutes

INTRODUCTION

San Diego, California, and specifically La Jolla, is a beautiful place to live and work and we are very fortunate. But it is definitively not the center of the investment universe.

At Altegris, we have a mandate to search the planet for the best available managers in specialized and alternative strategies. So, I would not expect to find the real estate investment talent that is AACA in the same city, much less within walking distance down the street. Perhaps it is that distance from the major metropolitan centers that gives Burl East and his team at AACA the unique ability to see the key trends more clearly.

AACA has sub-advised the Altegris/AACA Opportunistic Real Estate Fund (RAAIX) since inception in January 2014, and managed the same strategy in a hedge fund for three years prior.

As CEO and Chief Investment Officer, Burl East brings more than 30 years of Wall Street and real estate investment experience to the daily challenge of sector analysis and stock selection. His perspectives on the longer term trends in real estate have led to a distinctly off-index portfolio, and category leading returns, including a 5-star Morningstar Rating for Class I shares overall rating out of 240 real estate funds ending 06/30/2020,* and is currently ranked in the top 1% in the one-year, three-year, and five-year periods and is in the top 3% in the year-to-date period in the Morningstar Real Estate Category ending 6/30/2020.**

Like any good research team, Burl and his colleagues will frequently go deep on a new theme but not be able to validate it for the portfolio. Occasionally, an idea develops into a viewpoint that is supported by the research and makes its way into the Fund. The following is one of those ideas. Of course, there is no assurance that Burl and team will be correct on this thesis, but it sure is an interesting and compelling idea. Here's why we are going short on New York office space.

* Morningstar Ratings measure risk-adjusted returns. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3, 5, and 10-year (if applicable) rating metrics. For the period ended June 30, 2020, Morningstar rated this Fund's Class I shares for the 3-year, 5-year, and overall period. Class I received 5 stars for the 3-year among 240 Real Estate Funds, 5 stars for the 5-year period among 233 Real Estate Funds, and 5 stars for the overall periods among 240 Real Estate Funds, rated by Morningstar. Performance reflects applicable fee waivers and reimbursements without which, the returns would be reduced and ratings could be lower. The Fund may have experienced negative returns over the time periods rated. Past performance is no guarantee of future results. For the most recent month-end performance, go to www.altegris.com/raaax.*

*** One-, three-, and five-year total return percentile rankings out of 253, 225, and 199 funds, respectively, within the Morningstar Real Estate Category as of 6/30/2020. Performance reflects applicable fee waivers and reimbursements without which, the returns would be reduced. The Fund may have experienced negative returns over the time periods rated. Past performance is no guarantee of future results.*

Executive Summary

AACA believes that office real estate faces significant headwinds, generated by both gradual technological change and sudden pandemic-driven remote work.

FIVE STRUCTURAL SHIFTS

1. **Work from Home (WFH) Trend.** COVID-19 has normalized remote working and proven viable to employers. Experts believe reduced in-office work may cause office space demand to decline by 10%-15%.[1]

   IMPACT ON OFFICE DEMAND: NEGATIVE

2. **Density Lifestyle Shift.** COVID-19 and social distancing requirements may reverse decades-long trend towards denser office space, and move towards a less-dense "horizontal" office environment.

   IMPACT ON OFFICE DEMAND:
   NEGATIVE FOR HIGH-DENSITY VERTICAL;
   POSITIVE FOR LESS-DENSE HORIZONTAL

3. **Office Employment Rate.** There have been mass layoffs and unemployment in the COVID-19 environment. The pandemic will not be permanent, but it has created a recession and may have a lasting impact on office space demand.

   IMPACT ON OFFICE DEMAND: NEGATIVE

4. **Tenant Shift to Lower Cost Environments.** Financial and non-financial costs to the employer and the employee will create winning and losing markets: financial (high- vs. low-tax); health/safety (old/crowded vs. new/social-distanced); difficulty (high- vs. low-regulation); quality of life (cost of living).

   IMPACT ON OFFICE DEMAND: NEGATIVE FOR HIGH-COST MARKETS; POSITIVE FOR LOW-COST MARKETS

5. **Increased Landlord Spending for Tenant Retention.** For years, office landlord costs have increased to 45% of NOI.[2] Tenants may require improvement packages. Most office buildings may require CAPEX investment to reconfigure the space to meet post-COVID requirements.

   IMPACT ON OFFICE DEMAND: NEGATIVE

[1] *Source: Green Street Advisors, "Office Insights" as of June 30, 2020.*

[2] *Source: NCREIF.*

NOTES: Not all office real estate may face the same headwinds; B property in high cost areas may face the most headwinds. Additionally, valuations for office real estate are near all-time highs and growth near all-time lows, as measured by capitalization rates (cap rates) and same store NOI growth. Both are at or near levels seen during the global financial crisis of 2008-2009. As such, AACA plans to take action by implementing strategic shorts in specific markets and office sectors.

Here's Why We're Shorting Class-B New York Office

Office buildings have long been considered a cornerstone of commercial real estate investing and a staple in many real estate portfolios. For example, the world's largest private real estate fund, JPMorgan Asset Management's Strategic Property Fund, has historically been almost half office: 45% as of 2011, 42% as of 2016, 37% as of 2019.[3]

COVID-19, however, is permanently changing this landscape. Technological advancements in recent years have given us the ability to liberate many jobs from a physical office or a specific geography, but it was not until the COVID-19 pandemic that society quickly and decisively gained a general acceptance for working remotely. We believe this (and a handful of other structural shifts) may create significant headwinds for office landlords for decades to come.

While there may be relative winners and losers in this scenario, we hold that office valuations do not reflect the new reality for the sector—particularly in dense gateway markets like New York City.

Herein, we describe five shifts in real estate and broader society that we believe may impact non-core office property values on a go-forward basis.

[3] *Source: JPMCB Strategic Property Fund Annual Reports, 2011, 2016, and 2019.*

1 Remote Working and Work from Home Trend

> “We’ve proven we can operate with no footprint. Can I see a future where part of every week, certainly part of every month, a lot of our employees will be at home? Absolutely.
>
> **James Gorman, CEO**
> **Morgan Stanley**

In our opinion, the work from home (WFH) trend is not temporary. We, as a society, have had the technology for many office-based jobs to work remotely for years; however, it wasn’t until COVID-19 forced a mass WFH “experiment” that everyone realized WFH works better than we thought.

Corporate America has traditionally been suspicious of WFH and employees “goofing off” if they are not in the office. In addition to the revelation that WFH actually works, Corporate America is realizing they do not need to pay for so much office and could reduce their cost structure if some of their employees did work remotely. Today, many companies are just starting to restructure to this new reality.

We believe that many jobs will never return to the office post-COVID, and many more jobs will leave the office over the next decade. COVID-19 has normalized WFH and most experts believe office demand will decline 10%-15% because of this trend.[4] This is a serious negative headwind for office landlords, in our option, as normal office demand growth is roughly in line with population growth (0.5% to 1% per year). This is a structural change, not dissimilar to how the long-term e-commerce trend has hurt mall and retail landlords’ ability to find tenants.

[4] *Source: Green Street Advisors: “Office Insights,” June 30, 2020.*

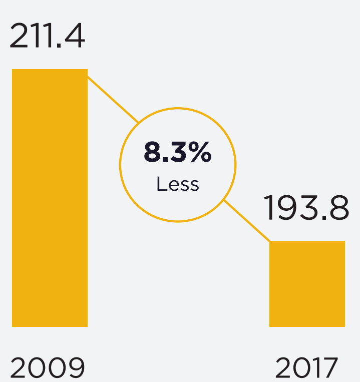
2 Shift from a Dense "Vertical" Lifestyle to a Less-dense "Horizontal" Lifestyle

For decades, employers and employees have been squeezing more people in less office space each year. The last decade has seen a reduction of about 1% per year in office square footage per employee, which really adds up over multiple decades.[5] Employers benefited from reduced rent costs and employees generally accepted the open floor plan for breaking down barriers and face-to-face interactions (Figure 1).

FIGURE 1

Employers have been Squeezing More People into Less Office Space for Decades

OFFICE SQUARE FOOTAGE PER PERSON | 2009 VS 2017[5]



8.3% less square footage per person
~1% less per year

[5] *Source: Cushman Wakefield: "The Rise of Open Spaces," February 21, 2019.*

From the employee's point of view, they have traditionally moved to city centers, like New York City (NYC), for a host of reasons including job opportunity and mentorship, but also for the suite of amenities the city offered in the way of restaurants, bars, clubs, and entertainment venues. Traditionally, this suite of amenities balanced out the expensive and lower quality of life (cramped living spaces, high cost of living, filthy subways, etc.) that came with the city.

However, in the pandemic, the costs and amenities of the city have fallen out of balance. Many New Yorkers have been traumatized by the experience. Many have realized that it is a very different experience to be locked down in more suburban markets like Miami or Denver than being locked down in New York City. COVID-19 has had a scarring effect on eight million New Yorkers. Additionally, with both the office and the amenities closed, there was no reason left to live in the City.

From an employer's point of view, there is constant pressure to reduce cost. In addition to putting more employees in less space, employers have also utilized office-sharing through companies like WeWork.[6]

If employers can no longer reduce costs through densifying and desk-sharing, remote working is the new low-hanging fruit to reduce their office footprint.

A TURNING POINT FOR OFFICE

However, once you send employees home, the next obvious question for the employee is: *"Why am I paying NYC rent if I don't have to be here for work and none of the amenities are open?"* Similar, the next obvious question for the employer is: *"Why I am paying an employee NYC wages if they are not in NYC and don't have NYC's cost of living?"* The end result of this musical chairs game is the recognition that office work is not bound by geography, and will move to greener pastures where overall quality of life improves.

We are already seeing a drop in apartment sales in NYC. According to CNBC, NYC apartment sales are at a 30-year low, down -54% year-over-year in Q2, and the median sale price has dropped -18% during that time, which indicates that hardly anyone is buying apartments in NYC.[7]

The physical constraints of the vertical lifestyle don't work well under a government that is trying to enforce social-distancing; and even though COVID-19 may not last forever, it, nonetheless, creates a lingering impact on our built environment through building codes, government regulation, maintenance requirements, and a cultural change in social norms. We believe COVID-19 marks a turning point for office.

[6] *As an aside, WeWork is now the largest tenant in NYC and has filed for chapter 11. The office sharing business model will be particularly challenged in the post-COVID world. WeWork's restructuring may flood available office space into a NYC market with historically low demand.*

[7] *Source: CNBC https://www.statista.com/chart/22196/manhattan-apartment-sales-coronavirus/*

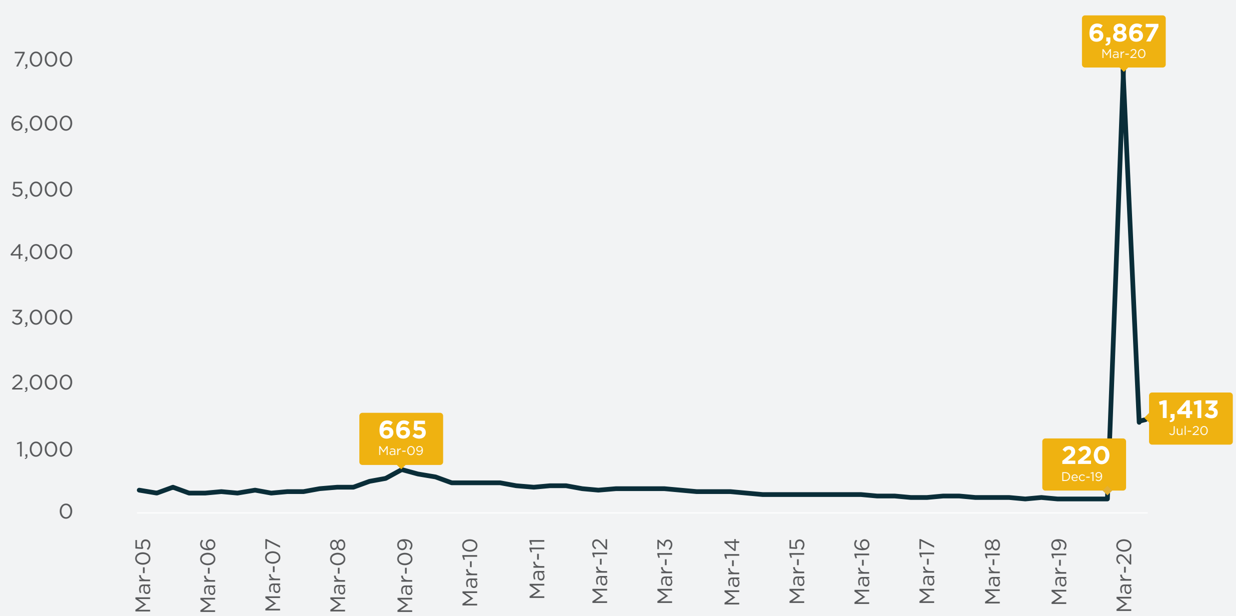
Negative Growth in Office Jobs

We are in a bad recession. We have unprecedented layoffs and businesses are facing difficult liquidity issues (Figure 2). We cannot predict how COVID-19 gets fixed and we cannot predict what arbitrary rules the government will force on our business tomorrow. What we do know is that companies are not hiring, and we also know that this is not good for office landlords.

FIGURE 2

Jobless Claims Soar

US INITIAL JOBLESS CLAIM FILINGS | PER WEEK IN THOUSANDS



Source: Bureau of Labor Statistics.

4 Tenants and Employees will Gravitate toward Lower Cost Environments

Both financial and non-financial costs to the employer and the employee will be a factor in determining winning and losing office markets.

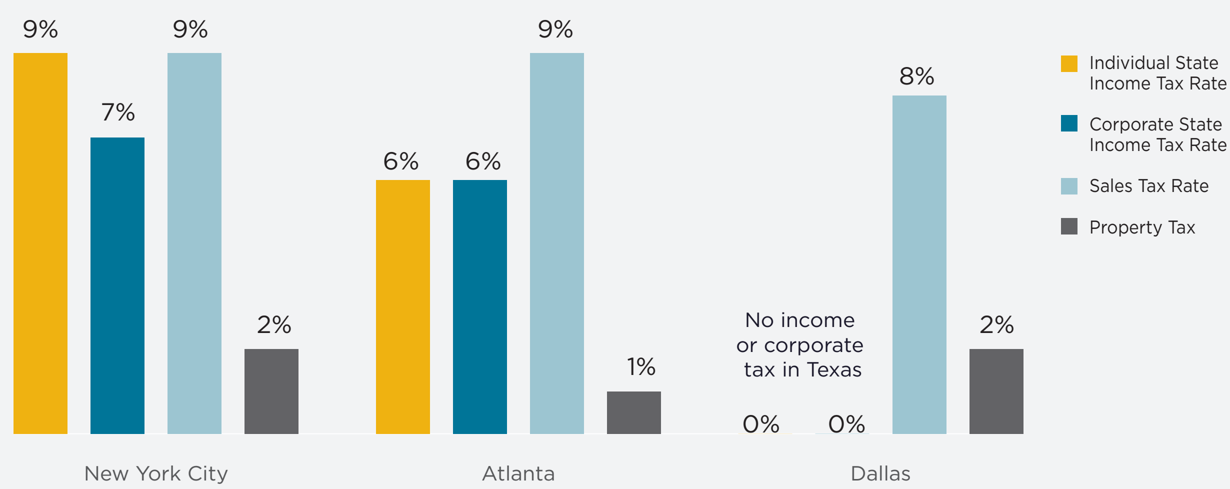
Financial Costs (high vs. low-tax). It is interesting to note that the states hit hardest by COVID-19 (New York, California, etc.) also have some of the highest tax burdens in the nation for employers and employees (Figure 3). These states are also running significant budget deficits, suggesting there will be additional tax hikes in the future to cover the shortfall.

There is already a net domestic migration out of high-tax states with more regulation to low-tax states with less regulation, and we believe COVID-19 will only accelerate that trend. Employers and employees fleeing markets like New York may significantly hurt office demand and rents in that market.

FIGURE 3

Tax Rates are Low, Deep in the Heart of Texas

TAX RATES BY MARKET



Source: smartassets.com.

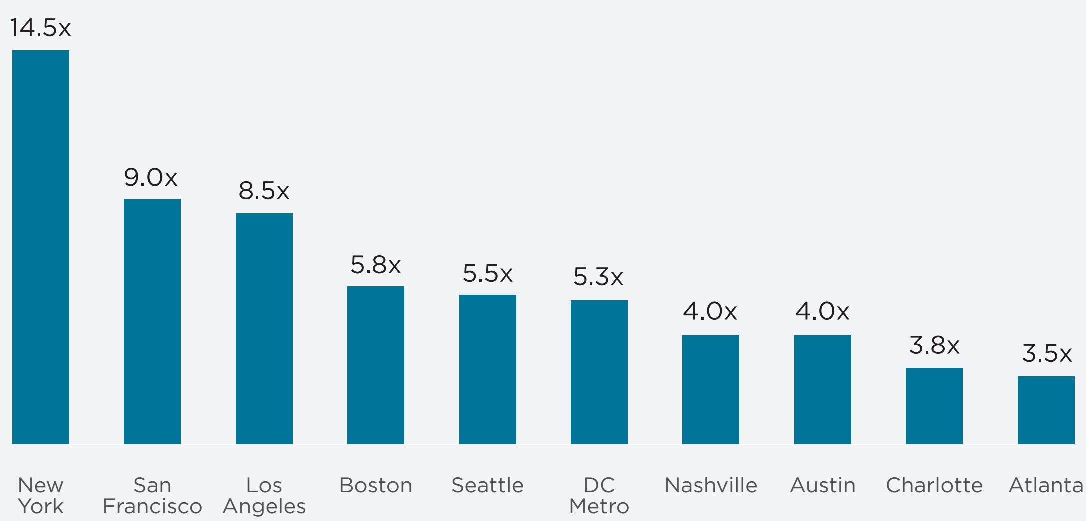
Home affordability is another financial cost that influences demand for office space. For a company to successfully recruit and retain employees, they must offer them an attractive quality of life; and home affordability is often a big part of that. Currently, homes in New York City are about 15 times the US median household income, while they are less than four times US median household in Atlanta. Going forward, we believe the Sunbelt markets will see much higher job growth and office space demand growth than New York City (Figure 4).

Non-Financial Costs: There are a host of other "costs" that are difficult to measure, but which we intuitively know to be true. Americans generally prefer warmer over colder weather and, over time, we expect the population to migrate from the north and northeast to the Sunbelt. From a health and safety "cost" perspective, we also expect some subset of the population to migrate from gateway cities to less urbanized areas post-COVID. We also expect employers to generally migrate from more-regulated to less-regulated regions for ease of use.

FIGURE 4

Home Affordability and Quality of Life may Shift Demand for Office Space to Sunbelt States

MEDIAN HOME PRICE TO MEDIAN HOUSEHOLD INCOME RATIO



Source: Green Street Advisors as of June 30, 2020.

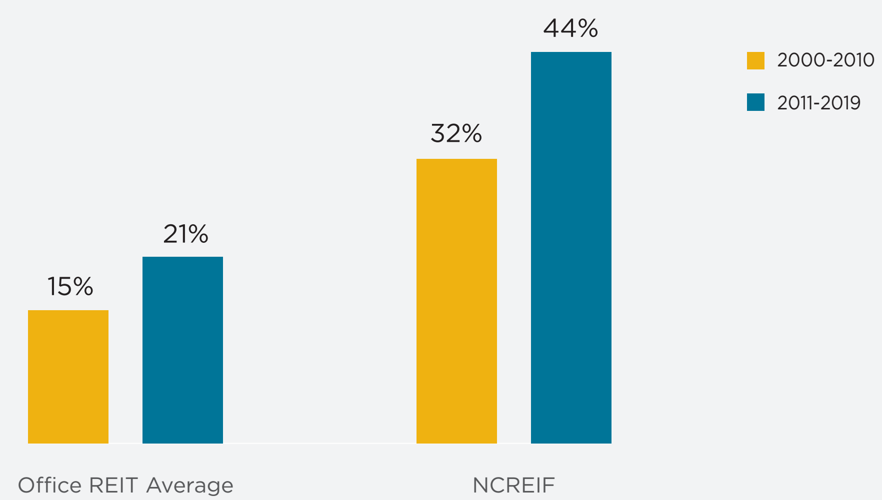
5 Landlords will be Forced to Spend more Money to Retain Tenants post-COVID

Capital expenditures in the office sector have steadily increased over the past two decades, with landlords having to sacrifice capital and offer concessions to fill vacancy. We expect office landlord expenses (which includes tenant improvements, lease commissions, free rent, and maintenance costs) will continue to increase in the COVID-19 environment as office landlords compete for fewer tenants. Green Street Advisors estimates that, in the public market, total capital expenditures (CAPEX) has increased from 15% to 21% of net operating income (NOI) in the last decade, and NCREIF estimates that in the private market CAPEX has increased from 32% to 44% of NOI (Figure 5).[8]

FIGURE 5

We Believe that Office Landlord Profit will be Eroded from both Sides by Declining Revenue and Increasing Costs

OFFICE TOTAL CAPEX AS A % OF NOI | 2000 - 2019 [8]



[8] *Source: Green Street Advisors, "Office Insights," June 30, 2020.*

Summary of Relative Winners and Losers

As stated previously, the structural shifts of the office sector may benefit certain markets more than others.

Relative Winners

SUBURBAN/NON-GATEWAY MARKETS

Generally *more* business friendly: lower taxes, cheaper labor, lower cost of living, better fiscal health, and less regulation.

Remote workers are no longer tied to gateway markets, and may be able to achieve a comparable quality of life at a lower cost in non-gateway markets.

HIGHER QUALITY, NEWER BUILDINGS

Better amenities/overall building quality may hold up better in weak demand, but all office layouts could be subject to redesign post-COVID.

Relative Losers

URBAN GATEWAY MARKETS

Generally *less* business friendly: higher taxes, more expensive labor, higher costs, worse fiscal health, and more regulation.

Urban markets rely on density and public transportation, which are disrupted by modern social distancing requirements.

LOWER QUALITY, OLDER BUILDINGS

Lower quality buildings will be the first space to go unleased as supply exceeds demand.

Valuation

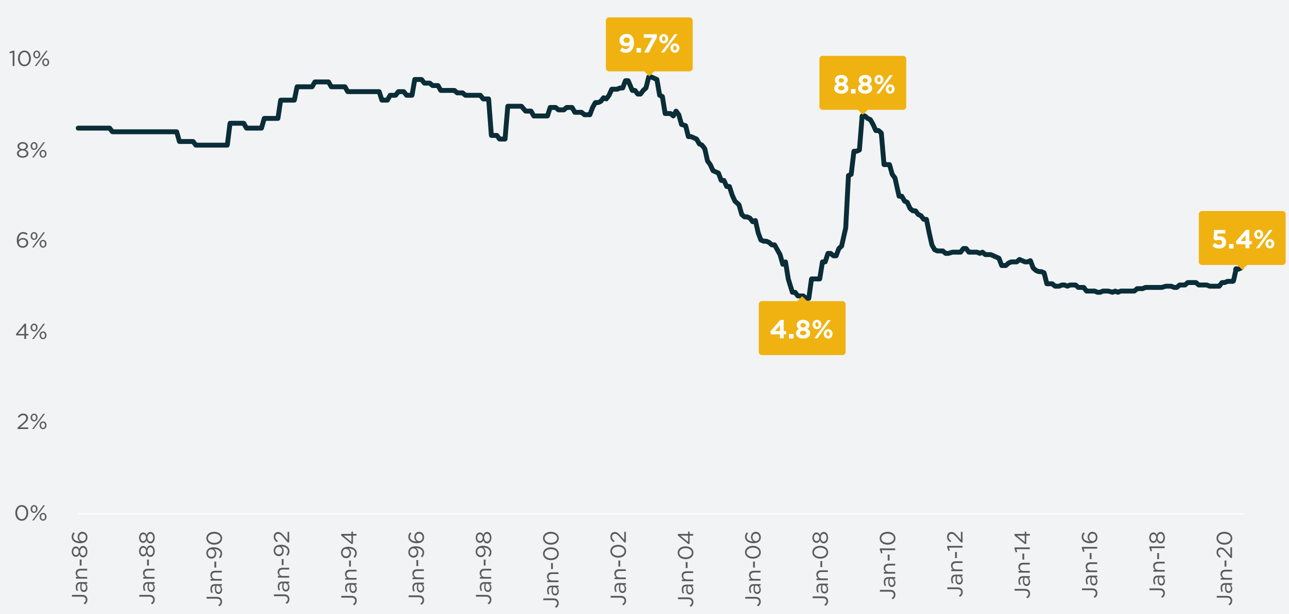
You may recall that as portfolio managers of our real estate mutual fund, we always look at valuation last. The first thing we do is ask ourselves, *"Is this a good business?"* and the last thing we do is ask, *"What is the valuation?"*

We have already established that we do not believe office is a good sector to invest in, and it also strikes us as expensive given that cap rates are near historical lows (Figure 6).

FIGURE 6

Higher Cap Rates May Mean Lower Investor Returns; Currently Near All-Time Lows

OFFICE SECTOR NOMINAL CAP RATE | 1986 - 2020



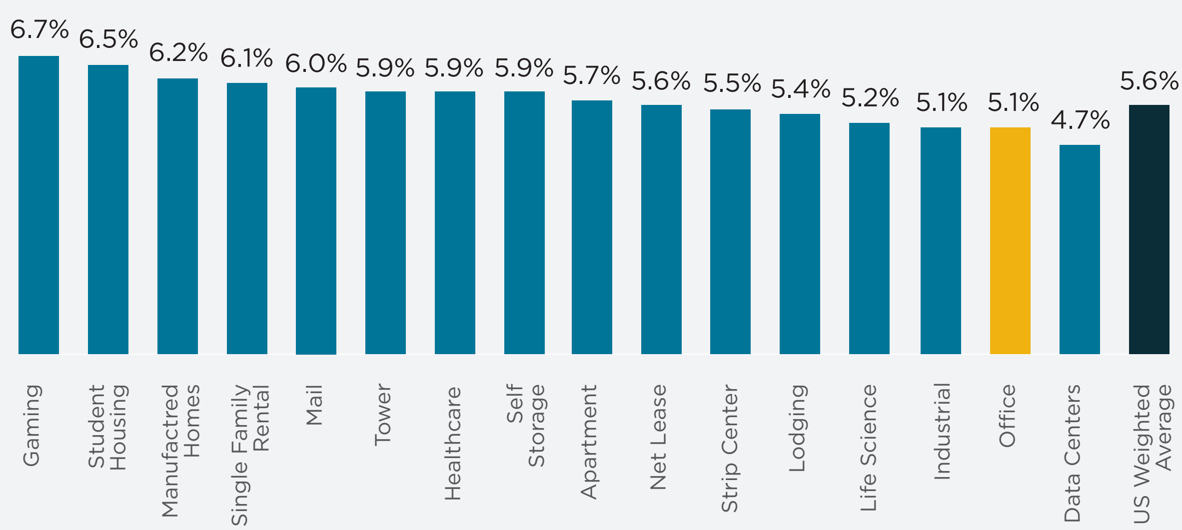
Source: Green Street Advisors as of June 30, 2020.

Relative to other real estate, office is priced to deliver lower returns than other property sectors. We believe the price is too high (and thus the return too low) to fairly compensate investors for the structural headwinds that may impair NOI growth (Figure 7).

FIGURE 7

Office is Priced to Deliver Lower Returns than Other Real Estate Sectors

REIT SECTOR EXPECTED RETURNS



Source: Green Street Advisors as of June 30, 2020.

Valuation

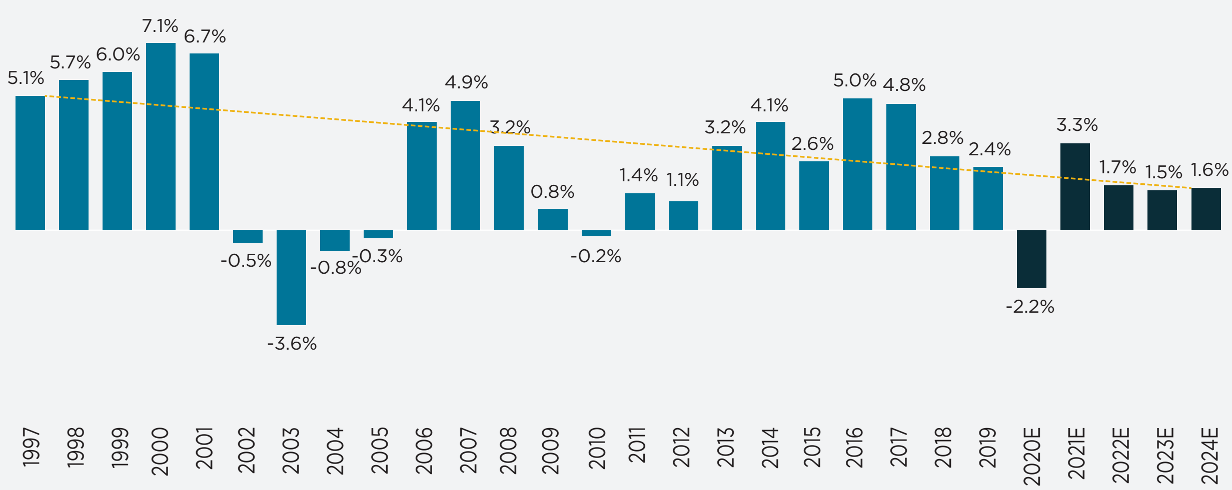
Same Store Net Operating Income (SSNOI), a measure of income generated from the same space year-over-year, is expected to be lower than in the pre-COVID era.

Notably, the current drop in SSNOI is expected to be worse than it was in the global financial crisis recession (Figure 8).

FIGURE 8

Real Estate Income is Expected to be Lower than Pre-COVID Era

OFFICE SAME STORE NOI GROWTH | 1997 - 2024E



Source: Green Street Advisors as of June 30, 2020.

The two main drivers of office valuation are 1) rent collected (net operating income or "NOI") and 2) required rate of return (cap rate) to discount the NOI. In a hypothetical example, if office rents in NYC were to decline 20% and cap rates were to expand from 5% to 9% (this is the historical range—higher cap rates would be required to compensate investors for the loss of future NOI growth), the office building's value would drop by more than half (Figure 9)!

FIGURE 9

Net Operating Income and Cap Rate are the Main Levers that Drive Real Estate Valuation

HYPOTHETICAL EXAMPLES

	Rent or NOI	**Required Rate of Return** Cap Rate	**Stock Price**
BEFORE	**$1.00**	**5.0%** + 3%-4% expected future growth	**$20.00**
AFTER	**$0.80**	**9.0%** + 0%-1% expected future growth	**$8.89**
RESULT	Collected rents drop ~20% *Recession, taxes, vacancy, bankruptcies, layoffs*	Rent growth rates decline, and cap rates increase about 4% *Structural shift to remote working and WFH*	**-56% drop in office building value**

Source: AACA.

A Side Note on Recent Events

ANOTHER POTENTIAL HEADWIND FOR DOWNTOWN OFFICE SPACE: CRIME

Crime is rising in the urban core of many gateway cities. According to CNN (on July 14th), homicide rates were up 23% over last year in New York City and up 39% in Chicago during the last week of June and first week of July as compared to last year.[9]

While we do not venture to guess what impact the “defund the police” movement will have, it is our opinion that any increase in violent crime may likely have a negative impact on demand for commercial real estate space in that market.

Crime may be one of the many metrics to keep an eye on in markets like New York City going forward.

[9] *Source CNN; https://www.cnn.com/2020/07/14/us/police-violence-defund-debate-trnd/index.html*

What is AACA Doing?

AACA HAS LONG HAD A 0% POSITION IN OFFICE REAL ESTATE

Recall that our focus is investing in companies with portfolios that are as close to monopolies as possible.

This is most prevalent when some subset (or all) of these characteristics is present:

- The sub-sector of real estate is a monopoly, duopoly, or oligopoly
- There are high barriers to entry for new supply
- There are high barriers to tenants leaving/exiting buildings
- The basic underlying economics of the tenant's business is healthy

We have found that when these four characteristics are present, companies in that space can generate favorable same-store net operating income growth over long periods.

In our opinion, office has zero out of these four characteristics. It has:

- Thousands of institutional-quality providers
- Low barriers to new supply
- Almost no barriers to tenant exit
- Negative secular demand

As such, AACA has established a short position in older "Class B" offices primarily in dense, urban, high-tax markets such as New York City.

Performance

ALTEGRIS/AACA OPPORTUNISTIC REAL ESTATE FUND

	As of June 30, 2020					
FUND PERFORMANCE	Q2 2020	YEAR TO DATE	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION*
RAAAX: Class A (NAV)	17.64%	2.26%	15.87%	10.90%	11.12%	11.92%
RAAAX: Class A (max load)**	10.90%	-3.63%	9.19%	8.73%	9.82%	11.22%
RAAIX: Class I (NAV)	17.70%	2.35%	16.18%	11.18%	11.39%	12.10%
RAANX: Class N (NAV)	17.67%	2.29%	15.91%	10.91%	11.15%	11.92%
Dow Jones US Real Estate TR Index	13.91%	-13.86%	-6.84%	3.40%	6.29%	7.70%
S&P 500 TR Index	20.54%	-3.08%	7.51%	10.73%	10.73%	11.93%

** Inception date of the Predecessor Fund was 2/1/11. Returns for periods longer than one year are annualized.*

*** The maximum sales charge (load) for Class A is 5.75%. Class A share investors may be eligible for a reduction in sales charges.*

The total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements, is 2.30% for Class A, 2.02% for Class I and 2.17% for Class N. The Adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund as described in the Fund Summary, until at least December 31, 2021. This agreement may only be terminated only by the Board of Trustees, on 60 days written notice to the Adviser. See Fund's Prospectus for details.

The performance data quoted here represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original costs. A Fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. For performance information current to the most recent month end, please call (888) 524-9441.

It is important to note that the Fund inherited the track record of its predecessor, the American Assets Real Estate Securities, L.P. ("Predecessor Fund"), which was managed by AACA, the Fund's sub-adviser.

The Predecessor Fund was not registered under the Investment Company Act of 1940. The Predecessor Fund, since its inception on February 1, 2011, was managed by AACA in the same style, and pursuant to substantially identical real estate long short strategies, investment goals and guidelines, as are presently being pursued on behalf of the Fund by AACA as its sub-adviser.

The performance quoted for Class A, Class I and Class N shares for periods prior to 1/9/2014 is that of the Predecessor Fund (while it was a limited partnership), and is net of applicable management fees, performance fees and other actual expenses of the Predecessor Fund. From its inception on February 1, 2011 through January 9, 2014, the Predecessor Fund was not subject to the same sales loads applicable to certain classes of Fund shares or the investment restrictions, diversification requirements, limitations on leverage and other regulatory or Internal Revenue Code restrictions of the Fund, which might have reduced returns. The performance of each class of shares of the Fund will differ as a result of the different levels of fees and expenses applicable to each share class.

ABOUT THE AUTHOR

BURLAND B. EAST III, CFA
CEO, AMERICAN ASSETS CAPITAL ADVISERS (AACA)

Thirty years of experience on Wall Street as a Managing Director and as a NASD Broker-Dealer member-owner. Raised approximately $15 billion in capital (mostly equity) from sophisticated investors globally in 142 large-scale real estate transactions including 26 IPOs, 40 follow-on offerings, and 19 private equity transactions as well as numerous converts, preferred stocks, bond offerings, tenders, mergers, strategic advisory assignments, and mezzanine debt placements.

Burl serves on the Board of Advisors of Comunidad Realty Partners, a dynamic real estate investment firm specializing in multifamily apartment communities in densely-populated Hispanic neighborhoods. Previously, Burl served on the Leadership Council at USC's Lusk Center for Real Estate and the Board of Directors of Excel Trust, Inc., a NYSE listed equity REIT. Prior Board Associate for NAREIT. Burl spoke at over 250 large real estate industry events in the U.S., Europe, and Asia and chaired events like NAREIT's Annual Convention. Mr. East has been interviewed in the financial press and on TV dozens of times and authored numerous articles for major publications like *Barron's.*

Other significant investment experience includes: Dow Jones/Realty Stock Review Outstanding Sell Side Analyst, Honorable Mention, 1996, 1997, and 1998; Lectured at USC Marshall School of Business, Northwestern University, University of San Diego, and University of Wisconsin.

Has authored approximately 20,000 pages of widely distributed research; MBA from Loyola University, Baltimore, MD; Chartered Financial Analyst (CFA); Series 24: General Securities Principal; Series 27: Financial Operations Principal; Series 7: Registered Representative; and Series 63: State Blue Sky. (The foregoing are currently in inactive status).

American Assets Capital Advisers

American Assets Capital Advisers, LLC (AACA) is an SEC-registered investment adviser specializing in real estate securities, including investments in real estate investment trusts (REITs), gaming, lodging, real estate operating companies (REOCs), home-building, real estate services, real estate finance companies, land, infrastructure and equity-related derivatives, and may also invest in debt, convertible debt, and preferred securities. AACA manages separate accounts and a mutual fund as the sole sub-adviser. AACA is wholly-owned and controlled by Soledad Realty Capital, Inc. and American Assets Investment Management, LLC.

Altegris is not affiliated with AACA.

FOREWORD

MATT OSBORNE
CHIEF INVESTMENT OFFICER
ALTEGRIS

Matt Osborne oversees the Altegris investment research, product structuring, and portfolio strategy teams.

With more than 30 years of finance, international business, and investment industry experience, Matt is responsible for investment product development and is co-portfolio manager of several award-winning alternative funds.

As a senior member of the Altegris Investment Committee, Matt is responsible for the qualification, approval, and ongoing review of all alternative strategies and managers.

Matt co-founded Altegris in 2002. Prior, Osborne was the director of research for the managed investments division of Man Financial, with responsibility for manager selection and research. Previously, Matt had a 12-year career with a prominent family investment office in his native New Zealand. In his role as senior investment manager, Osborne was responsible for formulating investment policies and implementing a global asset allocation program that focused on alternative investments, including hedge funds, managed futures, private equity, and real assets.

Osborne has significant trading expertise in equities, fixed income, foreign currencies, global futures, and options, among other securities. Matt currently holds FINRA Series 3, 7, 24, and 63 licenses.

Altegris is not affiliated with AACA.

RISK DISCLOSURES AND OTHER IMPORTANT CONSIDERATIONS

Please carefully consider the investment objectives, risks, charges and expenses of the Altegris/AACA Opportunistic Real Estate Fund. This and other important information is contained in the Fund's Prospectus, which can be obtained by calling (888) 524-9441. Read the prospectus carefully before investing.

Funds are distributed by Northern Lights Distributors, LLC. Altegris Advisors and Northern Lights Distributors, LLC are not affiliated.

MUTUAL FUNDS INVOLVE RISK INCLUDING POSSIBLE LOSS OF PRINCIPAL

Equity securities such as those held by the Fund are subject to market risk and loss due to industry and company news or general economic decline. Equity securities of smaller or medium-sized companies are subject to more volatility than larger, more established companies. The concentration in real estate securities entails sector risk and greater sensitivity to overall economic conditions as well as credit risk and interest rate risk.

The Fund will engage in short selling and short position derivative activities, which are considered speculative and involve significant financial risk. Short positions profit from a decline in price so the Fund may incur a loss on a short position if the price increases. The potential for loss in shorting is unlimited. Shorting may also result in higher transaction costs which reduce return. The use of derivatives, such as futures and options involves additional risks such as leverage risk and tracking risk. Long options positions may expire worthless. The use of leverage will cause the Fund to incur additional expenses and can magnify the Fund's gains or losses.

Foreign investments are subject to additional risks including currency fluctuation, adverse social and economic conditions, political instability, and differing auditing and legal standards. These risks are magnified in emerging markets. Preferred stock and convertible debt securities are subject to credit risk and interest rate risk. As interest rates rise, the value of fixed income securities will typically fall. Credit risk, liquidity risk, and potential for default are heightened for below investment grade or lower quality debt securities, also known as "junk" bonds or "high-yield" securities. Any ETFs held reflect the risks and additional expenses of owning the underlying securities.

Higher portfolio turnover may result in higher costs. The manager or sub-adviser's judgments about the value and potential appreciation or depreciation of a particular security in which the Fund invests or sells short may prove to be inaccurate and may not produce the desired results. The Fund is non-diversified and may invest more than 5% of total assets in the securities of one or more issuers, so performance may be more sensitive to any single economic, business or regulatory occurrence than a more diversified fund.

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IMPORTANT NOTE REGARDING HYPOTHETICAL PERFORMANCE

To the extent performance results of any index, product or sector are included in this presentation, such results are presented as "hypothetical" unless otherwise specified. The use of hypothetical performance is subject to inherent limitations. As compared to actual performance, hypothetical results do not reflect the results of actual trading, and may under- or over-estimate the impact of real factors such as market illiquidity or overall market conditions prevalent during the period in which hypothetical performance is presented. There can be sharp differences between hypothetical and actual trading performance results. Hypothetical performance presentations are also limited by the fact that they are typically prepared with the benefit of hindsight, and cannot factor in financial risks or limitations unique to an actual account, such as specific investment limitations, risk tolerances and abilities to withstand losses. These factors will impact how actual trading and trading strategies are executed and implemented, and are not reflected in hypothetical trading presentations. No representation is made that any account will or is likely to achieve profits or losses similar to that reflected in a hypothetical presentation.

Past performance is not indicative of future results. There is no guarantee that any forecasts made will come to pass. Due to various risks and uncertainties, actual events, results, or performance may differ materially from those reflected or contemplated. There can be no assurance that any investment product or strategy will achieve its objectives, generate profits, or avoid losses. Diversification does not ensure profit or protect against loss in a positive or declining market.

It is important to note that all investments are subject to risks that affect their performance in different market cycles. Equity securities are subject to the risk of decline due to adverse company or industry news or general economic decline. Bonds are subject to risk of default, credit risk, and interest rate risk; when interest rates rise, bond prices fall. REITs are affected by the market conditions in the real-estate sector, changes in property value, and interest rate risk.

Alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative, and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency as to share price, valuation, and portfolio holdings. Complex tax structures often result in delayed tax reporting. Compared to mutual

RISK DISCLOSURES AND OTHER IMPORTANT CONSIDERATIONS

funds, hedge funds and commodity pools are subject to less regulation and often charge higher fees. Mutual funds involve risk, including possible loss of principal. Alternative investment managers typically exercise broad investment discretion and may apply similar strategies across multiple investment vehicles, resulting in less diversification. Trading may occur outside the United States which may pose greater risks than trading on U.S. exchanges and in U.S. markets.

Altegris Advisors is an affiliate of Altegris Investments. Altegris Advisors is a SEC-registered investment adviser and a CFTC-registered commodity pool operator, NFA member that sponsors and/or manages a platform of alternative investment products. All brokerage services are provided by Altegris Investments, LLC, a SEC-registered broker-dealer and member of FINRA/SIPC.

Altegris is not affiliated with the underlying investment manager of the Master Fund.

The MORNINGSTAR RATING™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. Morningstar Rating is for the A share class only; other classes may have different performance characteristics.

INDEX DESCRIPTIONS

An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented.

Real Estate: NCREIF Property Index (NPI). The NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment.

KEY RISKS: Stock market risk—stock prices may decline; Industry risk—adverse real estate conditions may cause declines; interest rate risk—prices may decline if rates rise.

Real Estate: Dow Jones US Real Estate Total Return (TR) Index. Total return version of the Dow Jones US Real Estate Index, and is calculated with gross dividends reinvested. The base date for the index is December 31, 1991 with a base value of 100.

KEY RISKS: Stock market risk—stock prices may decline; Industry risk—adverse real estate conditions may cause declines; interest rate risk—prices may decline if rates rise.

Real Estate: The S&P 500 Total Return Index. The S&P 500 Total Return Index is the total return version of S&P 500 index. The S&P 500 index is unmanaged and is generally representative of certain portions of the US equity markets. For the S&P 500 Total Return Index, dividends are reinvested on a daily basis and the base date for the index is January 4, 1988. All regular cash dividends are assumed reinvested in the S&P 500 index on the ex-date. Special cash dividends trigger a price adjustment in the price return index.

KEY RISKS: Stock market risk—Stock prices may decline; Country/regional risk—Stock prices may decline.

ABOUT US

Altegris is a pioneer in providing access to alternative sources of income and growth. With one of the leading research and investment teams focused solely on alternatives, Altegris follows a disciplined process for identifying, evaluating, selecting and monitoring investment talent across a spectrum of alternative strategies including managed futures, real estate, global macro, long/short equity, and event-driven, among othersw.

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