ALTEGRIS FUTURES EVOLUTION STRATEGY FUND SUB-ADVISER

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Mr. Gundlach is the co-founder, Chief Executive Officer and Chief Investment Officer of DoubleLine. He was formerly associated with TCW, where he was Chief Investment Officer and head of fixed income activities. In 2010, Mr. Gundlach was named to the SmartMoney Power 30, one of the 17 most influential people by The Mutual Fund Wire and "Fund Leader of the Year" by Fund Action. In 2011, he was featured as "The King of Bonds" in Barron's, and named one of "5 Mutual Fund All-Stars" by Fortune Magazine. In 2012, he was named one of the "50 Most Influential" by Bloomberg Markets magazine.

ABOUT THE SUB-STRATEGY

+ Employs an actively managed approach to fixed income at both the sector and portfolio allocation levels.
+ The portfolio managers have worked together on average for more than 19 years.
+ DoubleLine is a fixed-income specialist with assets under management of $54 billion as of Jan. 31, 2013.

Actively managed, discretionary approach to fixed income Key for DoubleLine in pursuit of risk-adjusted returns

DoubleLine Capital is the sub-adviser of the Altegris Futures Evolution Strategy Fund. Following is a Q&A about DoubleLine's philosophy and expertise managing a strategy substantially similar to that of the mutual fund's fixed income strategy.

ALTEGRIS: What is the history of the firm?

DOUBLELINE CAPITAL: We launched Doubleline at the end of 2009, and we had about $54 billion in assets under management as of Jan. 31, 2013. The reason we have been successful, in my view, is we've given people a very comfortable and rewarding experience. In the investment game, you have to be around a long time before people take you seriously. It's pretty easy for people to have a good year, or even a good three years. But what really makes it clear that you can stand the test of time is going through cycles and not suffering too much during the bad periods—being able to make money when it's relatively easy but also hanging onto it when things get tough. We essentially had a front-row seat for that event, because a lot of what we do is in the credit market, particularly in mortgage-related securities. So we had the luxury of basically seeing the credit crisis coming, and I was very vocal about it. Of course, past performance is no guarantee of future results.

ALTEGRIS: What is your investment philosophy?

DOUBLELINE CAPITAL: We have very strong support from very, very wealthy people who particularly like our philosophy. Billionaires don't need to push things. They just want to make sure that the rock doesn't roll back down the hill, and they know that that's the way we think about things, too. There are times when you want to be aggressive because the market is generous, and there are times when you don't want to push it. Our clientele likes the fact that we think this way and that we alter our risk positions in sync with the market. You know, there are the return numbers that you put up and then there's the volatility, the drawdowns, the negative results—and, while past performance is certainly no guarantee of future results, we've been fortunate to have historically delivered to our investors strong risk-adjusted returns with low drawdowns and volatility.

ALTEGRIS: What are the primary competitive edges for your strategy?

DOUBLELINE CAPITAL: One is that our strategy has low turnover. Based on our analysis of industry standards, our holding periods tend to be longer than most—which means we have less turnover. We are anything but a high-frequency trading operation. I think having a longer horizon is one of the keys to success—not just in fixed income, but in investing in general. I think the longer your time horizon, the greater your probability of success. Think about if you were investing for your great-great-great grandchildren—if you just bought land in a very attractive area that was marginally outside of a major metropolitan area, I have a feeling it would do really well over that type of horizon. No one has a horizon that long, of course, so you have to balance opportunity with investor tolerances for market cycles. And we've been doing that.

Another thing that distinguishes us is we are actively managed in terms of changing our sector and portfolio mixes. We don't have a "stopped-clock" type of strategy, where we fall in love with an approach and leave it unchanged. Right now, for example, I think when it comes to US corporate credit, we have less than most of our competitors. We have more in securitized credit and mortgages—which is one of our areas of expertise—and we probably have more in emerging market corporates than most of our competitors. But the key differentiator isn't a snapshot of today—it's how we evolve things over time. When we don't like a sector, we tend to invest it down to zero, as opposed to a modest shift up and down, because we try to move with high conviction in time periods where things seem more than typically obvious or more analytically provable. So taking advantage of significant changes is one way to manage risk and potentially generate excess return.

We are also very skeptical of model-driven investing. It's quite common in fixed income for investors to use the past and apply lots of statistical regression techniques to the past to try to figure out if something happens in the future, how will it play out. However, the models that use the past to predict the future do not capture change—and investment success, I think, is dependent upon significantly capturing change that's occurring. So we like to think about things ourselves, rather than let some computer put co-efficients next to variables and try to predict how things will behave in the future.

ALTEGRIS: What are some risks involved in pursuing your strategy?

DOUBLELINE CAPITAL: Well, I wish policy-makers weren't pursuing things like quantitative easing, but we have to deal with the hand that we're dealt. What's happening is policy-makers are doing asset purchases and manipulating the markets, and that means that you don't have truly fluid or price-discovery markets. As my friend Jim Grant likes to say, we're in a house of mirrors where you're not really sure that the price discovery that you're used to relying upon is all that valid.

I think that these types of policy interventions make it tough for all markets to find opportunities, because all

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markets are being manipulated. You know, sometimes when we invest in emerging markets, investors ask the question: Do you trust the data coming out of China? And I say: Well, no. But do you trust the data coming out of the Dow Jones Industrial Average? Do you trust the data coming out of the 10-year Treasury in the United States? The answer is, you can't really trust those either, because the markets are being manipulated. For example, the effect of quantitative easing on fixed income has been to lower yields on Treasuries and, more recently, on certain mortgage-backed securities—which reduces the opportunity set, forces investors to go into other sectors and raises their prices. So the effect of quantitative easing on fixed income has been to lower the yields that are available across the board—and that's not a good thing when you're trying to make money in fixed income on a go-forward basis. But that's what everyone in the market is dealing with, so we have to deal with it too.

ALTEGRIS: You've said that we're experiencing a paradigm shift in the investment landscape. What do you mean by that?

DOUBLELINE CAPITAL: I think the starting point for investments is always: What is the basic cycle that we're in? Let's call that a paradigm. What are the ground rules? What are the expectations? How is the economy behaving? And I would divide things beginning with a long cycle that went from about 1980 to 2006 or so, which was a very stable period. But the debt got larger and larger and larger during that period. While that happened, the economy remained reasonably strong in real time. But the consequence of all that debt led to the current transition period that started in 2007—which has essentially been a credit crisis, a debt crisis, the aftermath of debt buildup.

Right now, the way to think about things is policy-makers, central planners and central bankers are trying to make things like they used to be in 1995, by throwing all manner of policy responses at the economies of the developed world whenever there's trouble. And so far, they've succeeded at keeping things kind of bumbling along. The next phase, though—the paradigm shift—will be when the policy-makers can no longer control things. And I believe that point will come within a couple of years, and that will cause great volatility and will shake things up pretty remarkably in terms of geopolitical realities, in terms of tax policy in the United States, and in terms of the ways in which people think about how a society works and how they pay for it. And I think that is going to lead to great volatility in the investment markets and that's the paradigm shift that I'm talking about. When that economic weakness comes, what will policy-makers do? Perhaps that will be the moment when society decides debasement of the dollar and printing over a lot of our problems is more attractive than going into a steep economic downturn. I think that scenario is likely, so that's one way to think about how this paradigm might play out. But we have to pay attention to how things develop.

ALTEGRIS: What role can your strategy play in a diversified portfolio for an investor?

DOUBLELINE CAPITAL: I believe our strategy is a good diversifier for investors. Most people are pretty heavily invested in traditional fixed income and domestic equities, and they tend to be under-allocated to diversifiers outside of those areas. So our approach can be beneficial in terms of being non-correlated with other assets that an investor might have and, therefore, in potentially helping to reduce their overall portfolio risk. I would say that most investors should think about diversifiers more than they do.

There is no guarantee that any investment will achieve its objectives, generate profits or avoid losses. Diversification does not ensure a profit or protect against loss in a positive or declining market.

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