ALTEGRIS ACADEMY
FUNDAMENTALS

AN INTRODUCTION TO **ALTERNATIVES**

TRUSTED ALTERNATIVES.
INTELLIGENT INVESTING.®

Important Risk Disclosure

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, and may be subject to substantial charges for management and advisory fees. Complex tax structures often result in delayed tax reporting. 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.

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Diversification of an investment portfolio makes good sense to most investors on a purely intuitive level.

- However, it wasn't until a 25-year old doctoral candidate named Harry Markowitz published a now-famous article in 1952 that this concept became a formalized part of sound investment practice. His Nobel Prize-winning "Modern Portfolio Theory" argued that one should not simply invest in an asset based on its own merits, but also on how that asset performed relative to other investments in a portfolio.
- Together, these diverse assets had the potential to smooth out the ups and downs of the market so that losses in some investments would, in theory, offset the gains in others within the portfolio, thus making the whole potentially more favorable than the individual parts.

The Key to Modern Portfolio Theory. The revelation that the combined risk of a group of investments can potentially be reduced and/or performance increased by constructing a portfolio with diverse, non-correlated assets.

It is important not just to seek a variety of asset types, but also to seek assets that perform differently than each other, or have low or near zero correlation to one another.

Correlation is a measure of how closely in tandem investments move together over time, so “non-correlation” indicates that the returns of two asset classes are random to each other—a desirable attribute when building a diversified portfolio.

–1	0	+1
Negative Correlation	**Zero Correlation**	**Positive Correlation**
A correlation of -1 indicates opposite movements	A correlation of 0 indicates movements are random	A correlation of +1 indicates two returns move perfectly together

This point would seem to make good common sense: holding a number of different investments that all are highly correlated, and thus their performance tends to move either up or down together, may not provide the benefits of diversification. While the performance of highly correlated investments may be enjoyed when markets are up, when markets are down (often when diversification is most needed) it may be cause for concern.

A popular category of non-correlated assets is alternative investments. Historically, these non-traditional investments have exhibited low correlation with stock and bond markets making them a potentially attractive consideration to help diversify a portfolio.

Diversification does not ensure profit or protect against loss in a positive or declining market.

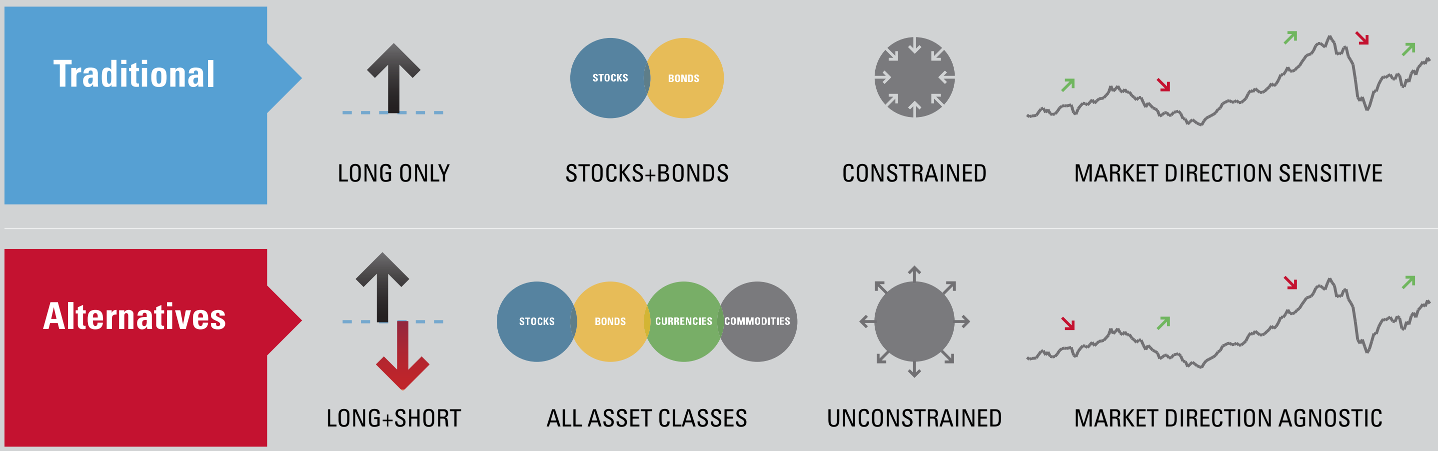
› What are alternative investments?

Simply put, alternatives are investments that don't fall into the categories of traditional investments (or assets)—namely stocks, bonds, cash or mutual funds that invest in these securities.

Alternatives refer to investments that:

+ **Have the ability to invest long and short**
+ **Have the ability to invest in various asset classes (stocks, bonds, currencies and commodities)**
+ **Are not restricted to an investment style (trading and market strategies)**
+ **Have the potential to achieve positive returns in up or down markets**

TRADITIONAL VERSUS ALTERNATIVE INVESTMENTS



Because managers of alternatives can go long or short in different asset classes, alternative investments don't necessarily follow the same performance path as traditional investments.

As a result, we believe that alternative investments can help build more risk-managed portfolios. Although alternative investments have a track record of historically offsetting gains and losses in traditional investments, and have often done so with less volatility and/or increased returns, it is important to remember that past performance is not indicative of future results.

Unfortunately, alternatives overall have suffered widespread misperception due to years of negative press involving hedge funds. Many people have been led to believe that "alternative investment" is synonymous with illiquidity, poor disclosure, overpriced fees, and unreachable minimum investments, which is not necessarily the case.

Long: *Buying an asset/security that gives partial ownership to the buyer of the position. Long positions profit from an increase in price.*

Short: *Selling an asset/security that may have been borrowed from a third party with the intention of buying back at a later date. Short positions profit from a decline in price. If a short position increases in price, covering the short position at a higher price may result in a loss.*

What does all of this mean for average individual investors?

For years, private funds (also known as hedge funds) and other alternative investments were the exclusive domain of institutional and high-net-worth investors due to, among other things, income requirements, limited liquidity, and high minimum investments. But in the past couple of years, a few investment companies have made some alternatives available to individual investors through mutual funds. These liquid alternative funds offer similar risk/return characteristics to alternatives programs, but the investment process is the same as investing in a traditional mutual fund, with low minimum initial investments, daily liquidity and typically no income or net-worth pre-qualifications.

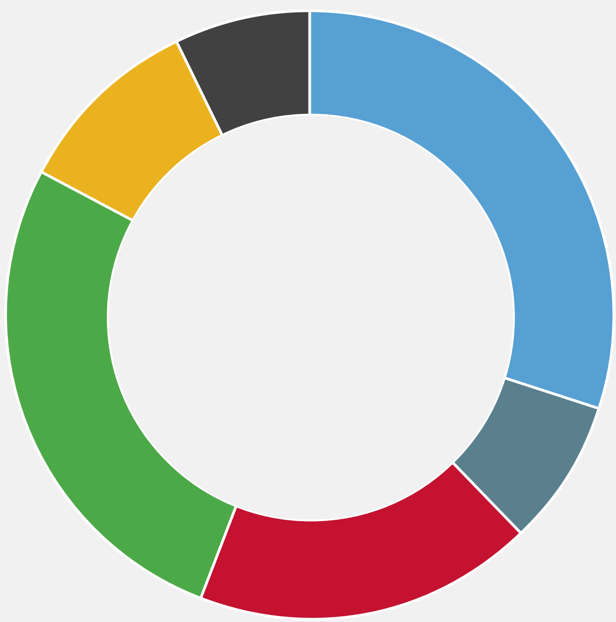
› Types of alternatives

There are many types of alternative investments, each with their own distinct risk and reward characteristics.

We believe it is important to have an overall understanding of what makes each alternative investment different, as their distinct features are related to their performance potential and may contribute to increased portfolio diversification.

DYNAMIC ALLOCATION MODEL | For illustrative purposes only

- Traditional public equity **30%**
- Private equity **8%**
- Alternative equity **18%**
- Traditional fixed income **27%**
- Non-traditional fixed income **10%**
- Macro/Managed futures **7%**



An overview of some of the alternative strategy types and general descriptions.

Emerging markets.

Emerging markets (EM) funds invest in countries with developing economies in Eastern Europe, Africa, the Middle East, Latin America, the Far East and Asia. The largest of which include Brazil, Russia, India and China ("BRIC" countries). These funds may seek to invest in both long and short positions across a variety of EM asset classes, including equities, interest rates, currencies, and/or credit markets. The potential for rewarding investment opportunities in this category is generally accompanied by relatively high risk.

Key risks include country/regional risk, currency risk and leverage risk.

Event-driven.

Event-driven funds principally invest in the equity and debt securities of companies involved in a wide variety of corporate actions and "special situations." These actions include (but are not limited to) mergers, spin-offs, restructurings, litigations, debt exchanges, shareholder buybacks, proxy contests, security issuance, or other capital structure adjustments.

In addition, event-driven funds may invest in companies that are stressed or in various stages of the bankruptcy process.

Key risks include market risk, leverage risk, off-balance-sheet risk, event risk, regulatory risk and financing risk.

Global macro.

While managed futures react to trends, global macro managers seek to predict them by anticipating changes in world trade, commodity supply and demand, and currency values. Global macro managers can utilize both fundamental and quantitative approaches to formulate trade ideas.

While broad investment themes are typically longer-term in nature, trades can range from intra-day to several year holding periods depending upon the manager's investment strategy and risk/reward profile. The flexible and unrestrictive nature of this investment strategy allows global macro managers to search for profits without regard to borders, economies or politics.

Key risks include market risk, leverage risk and country/regional risk.

There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses. Past performance is not necessarily indicative of future results. This is not intended as research or investment advice, and this information should not be construed as a complete analysis or assessment of the asset classes discussed.

Long/short equity.

Long/short equity funds seek to generate equity-like returns that are not dependent on the market going up. These managers take long positions in stocks (buying the stock) that are expected to increase in value and short positions in stocks (selling a borrowed stock) that are expected to decrease in value with a goal of buying it back at a lower price and returning it to a lender.

Investment decisions are typically driven by fundamental analysis of individual companies or other securities. Long/short equity funds can be broadly diversified or focused on specific regions, sectors, market capitalizations, or investment styles.

Key risks include stock market risk, short securities risk, and leverage risk.

Long/short fixed income.

Long/short fixed income strategies are utilized by managers who buy fixed income securities they believe to be undervalued, and sell those they consider overvalued. These managers aim to provide diversification to traditional fixed income portfolios, while looking to reduce interest rate risk associated with exposure to bonds.

Key risks include interest rate risk, credit risk, short securities risk, and leverage risk.

Long/short real estate.

Long/short real estate strategies will analyze real estate and real asset sectors for opportunities to capitalize on both improving and deteriorating market conditions. These managers take long positions in companies that are expected to increase in value and sell companies expected to decrease in value. There is potential for higher risk-adjusted returns than traditional long-long real estate strategies.

Key risks include concentration risk, short securities risk, market risk, leverage risk, and interest rate risk.

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Managed futures.

Managed futures represent an asset class managed by professional money managers, known as commodity trading advisors (CTAs), the majority of whom use their own trading systems to identify and react to market trends. This trend-following strategy alerts managers when to take long or short positions, giving them the opportunity to potentially profit from both positive and negative developments in multiple markets and asset classes simultaneously.

Over the long-term, managed futures have provided investors with strong historical returns and low historical correlation to traditional asset classes.

Key risks include market risk, leverage risk, commodities risk, currency risk, and country/regional risk.

Private equity.

Private equity firms raise funds for the purpose of investing and acquiring equity ownership in companies. They aim to add value to investors by finding companies or assets with operational inefficiencies with potential for vast improvement. By infusing a combination of talent and capital, private equity firms strive to implement a compelling business strategy to improve the company's performance, achieve significantly greater growth and increase profitability.

Investing in private equity typically requires high minimum investments and are subject to capital calls within an investment horizon between four and seven years.

Key risks include liquidity risk, leverage risk, concentration risk, market risk, and pricing risks.

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We believe that adding alternatives results in a resilient portfolio that may:

- **Be more flexible and opportunistic**
- **Not follow the same path as traditional investments because of lower historical correlation**
- **Yield returns with lower risk relative to traditional asset allocations**

There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses.

Glossary

Asset classes. *A group of investments that have similar characteristics and behavior in the marketplace. Types of asset classes include stocks, bonds, cash and real estate.*

Commodities. *Hard assets that are basic goods used in commerce such as agriculture (e.g. corn, wheat), metals (e.g. silver, gold), and natural resources (e.g. timber).*

Correlation. *Correlation is a statistical measure of how returns of two strategies move together over time; a correlation of 1 indicates the two returns move perfectly together, 0 indicates movements are random, and -1 indicates opposite movements.*

Diversification. *Combining different types of securities with the objective of achieving consistent returns with lower risk over time.*

Fundamental analysis. *Involves analyzing a business or a company's financial statements and health, its management and competitive advantages, and its competitors and customer markets. The analysis is performed on both historical and present data with the goal of making financial forecasts and determining the true value of the security. Fundamental analysis also includes economic analysis, industry analysis and company analysis.*

Hedge funds. *Privately managed investment funds that utilize sophisticated strategies in both international and domestic markets designed to offset losses during a market downturn and or generate returns higher than traditional investments. Hedge funds utilize a wide range of investment and trading strategies and they also vary in structure, investment approach and objective.*

Investment style. *The investment approach that a fund manager uses to make choices in the selection of securities for a fund portfolio. The major investment styles can be broken down into three dimensions: active management versus passive management, growth investing versus value investing, and small cap versus large cap companies.*

Proprietary trading systems. *Individual company-designed computer code which analyzes market price action and other data to create trading signals on when to buy or sell securities. Trading systems are known by many names, including: automated trading trend following, algorithmic, pattern trading, etc. All of these have the same basic make-up; they are a compilation of rules usually programmed into computer code, for how to trade a market. The market can be anything from an individual stock, bonds, ETFs, commodities, futures and more.*

Trend following. *A strategy that seeks to potentially profit from recognizing price trends and investing to follow them, which has historically been most successful when prices continue to follow the same direction, either up or down, for an extended period.*

Volatility. *A measurement of the change in price for a security or index over a given time period.*

Important Risk Disclosure

Past performance is not indicative of future results. There can be no assurance than any investment strategy or asset class will achieve its objectives, generate profits or avoid losses. Complex or alternative strategies may not be suitable for everyone. Alternative investments that utilize managed futures, global macro, private equity and long/short strategies are subject to market risk, commodities risk, currency risk, foreign investment risks, liquidity risks, higher fees and expenses, regulatory restrictions, and volatility due to speculative trading and use of leverage. Diversification does not ensure profit nor protect against loss, and the value of any portfolio will fluctuate based on the value of the underlying securities. Recent market conditions and any crises in the U.S. and global economies may result in an unusually high degree of volatility in the financial markets, both domestic and foreign.

There are substantial risks and conflicts of interests associated with managed futures and commodities accounts, and you should only invest risk capital. The success of an investment is dependent upon the ability of a commodity trading advisor (CTA) to identify profitable investment opportunities and successfully trade, which is difficult, requires skill, and involves a significant degree of uncertainty. An investment in an alternatives strategy mutual fund or hedge fund should only be made after careful study of the prospectus or offering document, including the description of the objectives, principal risks, charges and expenses of the fund.

Altegris Advisors

Altegris Advisors LLC is a CFTC-registered commodity pool operator, commodity trading advisor, NFA member, and SEC-registered investment adviser that sponsors and/or manages a platform of alternative investment products.

Altegris Mission

Driven by a culture of deep research and innovation, with clients' goals foremost, we identify superior investment capabilities and deliver effective, sustainable portfolio solutions.

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