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INTELLIGENT INVESTING.

INTEREST RATES & REIT PERFORMANCE

SEARCHING FOR A CORRELATION. SEPTEMBER 2017

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"How do REIT share prices perform while interest rates are increasing?" This is a logical question, as the returns associated with traditional fixed income oriented products, like bonds, are strongly correlated with rate changes. Many looking for income oriented products wonder if REITs behave the same way. After examining eight distinct periods of rising Federal Funds rate, we believe the simple answer is no.

A REIT (real estate investment trust) is a type of real estate company that mainly owns and operates income-producing real estate; some engage in financing real estate. REITs trade on major exchanges.

**AACA is a trade name for American Assets Investment Management, LLC (doing business as "AACA").*

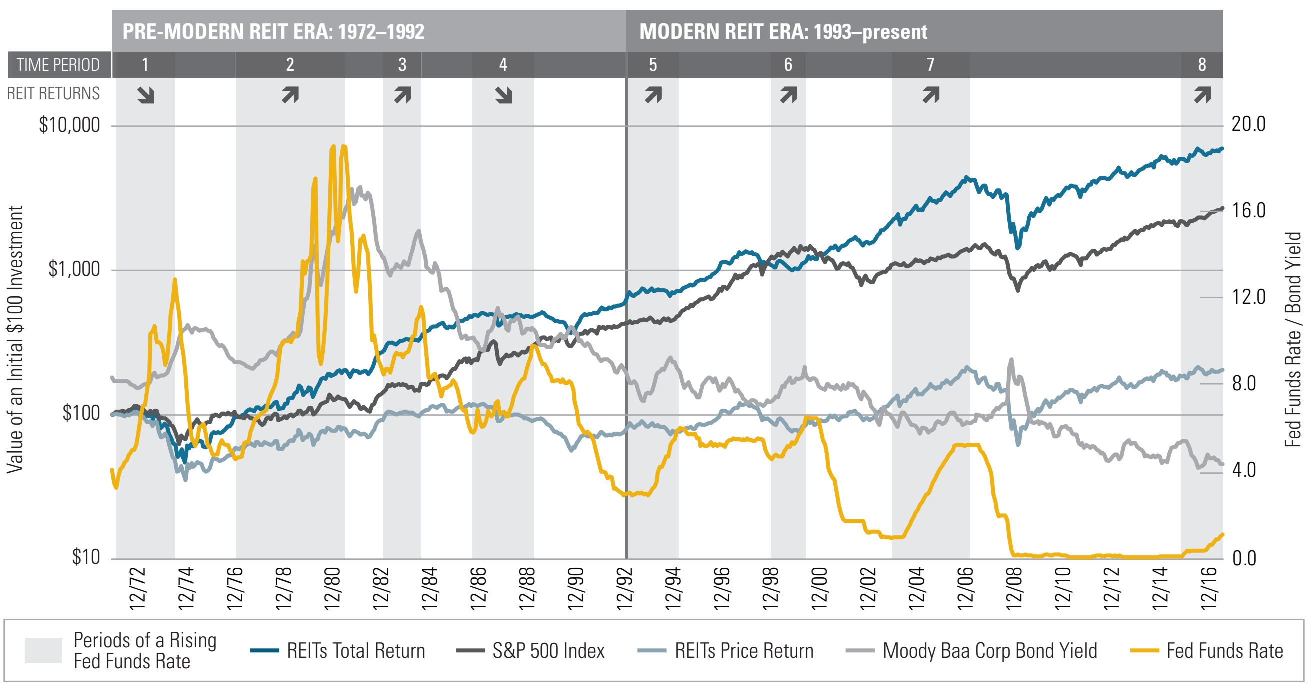
Eight Periods of Rising Rates

We believe that a rising Fed Funds rate represents tightening and usually corresponds to the Federal Reserve ("Fed") fighting inflation or the threat of inflation. In order to examine the relationship between rates and REIT share prices, we compiled 46 years of data.

Figure 1 shows the history of REIT returns, S&P 500 performance, Moody's Baa corporate bond yield and the Fed Funds rate since 1972.* The data suggests an increase in the Fed Funds rate may not be a driving force behind the movement of REIT prices.

FIGURE 1.

IMPACT OF FED FUNDS RATE ON HISTORICAL PERFORMANCE | January 1972–July 2017



Past performance is not indicative of future results. There is no guarantee that any investment will achieve its objectives, generate profits, or avoid losses. Returns are represented by benchmark indices for general market comparisons and are not meant to represent any particular Fund. 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. REITs Total Return represented by FTSE NAREIT US Real Estate Total Return Index; REITs Price Return represented by FTSE NAREIT US Real Estate Price Return Index. Moody's Baa corporate bond yield reflects the average yield of corporate bonds that have been given a Moody's Baa credit rating. Fed Funds rate is the interest rate in which depository institutions lend funds to each other overnight. Fed Funds rate used in this analysis is based on a monthly average. Source: Bloomberg, NAREIT.

**Date range based on inception date of the FTSE NAREIT US Real Estate Total Return Index.*

PRE-MODERN REIT ERA — 1972 TO 1992

The pre-modern REIT era was characterized by fewer, smaller REITs that were essentially passive owners. This era saw four periods of dramatic and sustained increases in the Fed Funds rate. REITs experienced a positive return in two of these periods and negative returns in the other two.

- **Period 1: 1972 to 1974** ↘
  During this period, the Fed Funds rate increased from 3.3% to 12.9% and REIT returns were dismal. REITs (Total Return) were negatively correlated with the increase in the Fed Funds rate, losing 39% of their value.This, of course, corresponds to the 1974 bear market, which up until now, was the worst downturn since the depression.

- **Period 2: 1977 to 1981** ↗
  This was the Volker Squeeze. Interest rates made any financed transaction essentially impossible, as turbulent monetary and fiscal policy, end of the Vietnam War, a massive recession, an oil shock, and a paralyzed government (sound familiar?) all contributed to a spike in the Fed Funds rate from 4.6% in 1977 to 19.1% in 1981. During these turbulent times, REITs (Total Return) were positively correlated with rate changes and gained 110%.

- **Period 3: 1983 to 1984** ↗
  During this period, the Fed Funds rate increased from 8.5% to 11.6%. REITs (Total Return) gained 23%.

- **Period 4: 1986 to 1989** ↘
  During this period, REITs (Total Return) lost 3.3% as the Fed Funds rate increased from 5.9% to 9.9%.

MODERN REIT ERA — 1993 TO PRESENT

The modern REIT era began in 1993 when the Umbrella PaReturnership (UPREIT) was codified, allowing large real estate companies with low-basis assets to access the public market in a tax-efficient fashion. This unleashed the market we now see — with larger, vertically integrated, professionally managed real estate operating companies.

These companies have more sophisticated capital raising and allocation models, and are typically more adaptable to changes in credit conditions. Most publicly traded REITs around today were not formed before 1993. This era saw four distinct periods of rising Fed Funds rates, in which REITs experienced positive returns in all four.

- **Period 5: 1993 to 1995** ↗
  The Fed Funds rate increased from 2.9% to 6.1% during this period, and REITs (Total Return) gained 21%.

- **Period 6: 1999 to 2000** ↗
  The Fed Funds rate increased from 4.6% to 6.5% during this period, and REITs (Total Return) gained 17%.

- **Period 7: 2004 to 2007** ↗
  The Fed Funds rate increased from 1.0% to 5.3% during this period, and REITs (Total Return) gained 99%.

- **Period 8: 2015 to 2017** ↗
  The Fed Funds rate increased from 0.12% to 1.15% during this period, and REITs (Total Return) gained 17.99% as of June 30, 2017.

Past performance is no guarantee of future results.

Conclusion

Throughout the eight periods of rising rates since 1972: REIT (Total Return) share prices increased in six and declined in two. Therefore, unlike other traditional fixed income products, an increase in the Fed Funds rate will not necessarily cause falling prices. Rather, strong underlying assets, possible inflation, and increases in growth of key operating metrics drive increases in REIT prices.

KEY REAL ESTATE OPERATING METRICS

Each period analyzed has its own unique business conditions, which play a larger role than the Fed Funds rate in the performance of both the REITs' assets and shares. The underlying fundamentals, such as Funds from Operations ("FFO"), NAV, rents, and occupancy were increasing in the periods when REIT shares were performing well. The positive returns were due, in part, to strong metrics at a fundamental level.

THE EFFECTS OF INFLATION

Inflation is an important consideration in the pricing of REITs. We believe the Fed may be attempting to engineer more inflation into the system in order to aid the nation's economic recovery. We think that housing prices and bank lending are crucial factors in an increase in our economic health, both of which would be positively impacted by inflation. Furthermore, the threat of inflation causes consumers to make large purchases more quickly, before prices rise. In an inflationary economic environment, the incentive to borrow, rise in housing prices and strengthened banking system would all provide a lift in the prices of REIT shares.

Our theory can be examined by looking at the REIT index in the late 1970s. Throughout this period of extreme inflation, REIT shares rose dramatically. We believe that inflation is necessary in the current economic environment, and if the Fed pursues inflationary monetary policy, FFO will typically increase, and REIT share prices and distributions should rise as a result. Distributions, of course, are a major component to REIT total returns and important to those seeking yield as well as capital preservation. However, even without distributions REIT prices still generated strong returns during periods of rising rates (as depicted by REITs Price Return) showcasing the capital preservation potential of REITs.

FINAL THOUGHTS

Currently, real estate operating metrics are generally improving across most of the subsectors of the market: vacancies are declining, rents are increasing (albeit slowly and from depressed levels), and FFO is increasing for the majority of companies. As long as we continue to see positive GNP growth, an increase in the Fed Funds rate may correspond to positive REIT share performance. However, a continuously increasing Funds rate will dampen demand for real estate and the metrics that are now increasing may also stall. Once rates reach a certain level, economic decline can set in. This has a negative impact on REIT operations and performance, although, returns would likely recover as rates decrease to spur economic growth. We have shown that an increase in the Fed Funds rate will not necessarily cause falling prices.

Rather, strong underlying assets, possible inflation, and increases in growth of key operating metrics drive increases in REIT prices.

RISKS AND IMPORTANT CONSIDERATIONS

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Past performance is not indicative of future results. The analysis herein is based on numerous assumptions and past market conditions. Different benchmarks, market conditions and other assumptions could result in materially different outcomes. 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 in any forward-looking statements. There can be no assurance that any investment product or strategy will achieve its objectives, generate profits or avoid losses.

All investments carry a certain degree of risk including the possible loss of principal. Complex or alternative strategies may not be suitable for everyone and the value of any portfolio will fluctuate based on the value of the underlying securities. Equity securities are subject to the risk of decline due to adverse company or industry news or general economic decline. REITs are affected by the market conditions in the real estate sector, changes in property value, and interest rate risk. Bonds are subject to risk of default, credit risk, and interest rate risk; when interest rates rise, bond prices typically fall.

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Altegris Advisors 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.

The Altegris group of affiliated companies is wholly-owned and controlled by (i) private equity funds managed by Aquiline Capital PaReturners LLC and its affiliates ("Aquiline"), and by Genstar Capital Management, LLC and its affiliates ("Genstar"), and (ii) certain senior management of Altegris and other affiliates. Established in 2005, Aquiline focuses its investments exclusively in the financial services industry. Established in 1988, Genstar focuses its investment efforts across a variety of industries and sectors, including financial services. The Altegris group of companies (Altegris) includes Altegris Investments, Altegris Advisors and Altegris Clearing Solutions. Altegris and AACA are not affiliated.

Appendix

PERIOD 1 | February 29, 1972 – July 31, 1974

DATA	Feb 1972	Jul 1974	Delta	% Change
FF Rate	3.30%	12.92%	9.62%	291.5%
Moody's Baa	8.23%	9.48%	1.25%	15.2%
REIT Total Return	102.18	62.19	-39.99	-39.1%
REIT Price Return	101.25	49.29	-51.96	-51.3%
S&P 500 Index	104.39	77.69	-26.70	-25.6%

PERIOD 2 | January 31, 1977 – June 30, 1981

DATA	Jan 1977	June 1981	Delta	% Change
FF Rate	4.61%	19.10%	14.49%	314.3%
Moody's Baa	9.08%	15.80%	6.72%	74.0%
REIT Total Return	96.68	203.40	106.72	110.4%
REIT Price Return	58.95	80.92	21.97	37.3%
S&P 500 Index	99.94	128.53	28.59	28.6%

PERIOD 3 | February 28, 1983 – August 31, 1984

DATA	Feb 1983	Aug 1984	Delta	% Change
FF Rate	8.51%	11.64%	3.13%	36.8%
Moody's Baa	13.95%	14.63%	0.68%	4.9%
REIT Total Return	279.05	343.79	64.74	23.2%
REIT Price Return	94.08	101.64	7.56	8.0%
S&P 500 Index	145.03	163.27	18.24	12.6%

PERIOD 4 | October 31, 1986 – March 31, 1989

DATA	Oct 1986	Mar 1989	Delta	% Change
FF Rate	5.85%	9.85%	4.00%	68.4%
Moody's Baa	10.24%	10.67%	0.43%	4.2%
REIT Total Return	490.89	474.58	-16.31	-3.3%
REIT Price Return	118.13	90.59	-27.54	-23.3%
S&P 500 Index	239.00	288.84	49.84	20.9%

PERIOD 5 | December 31, 1992 – April 30, 1995

DATA	Dec 1992	Apr 1995	Delta	% Change
FF Rate	2.92%	6.05%	3.13%	107.2%
Moody's Baa	8.81%	8.60%	-0.21%	-2.4%
REIT Total Return	593.49	718.71	125.22	21.1%
REIT Price Return	74.78	76.15	1.37	1.8%
S&P 500 Index	426.82	504.20	77.38	18.1%

PERIOD 6 | January 31, 1999 – July 31, 2000

DATA	Jan 1999	July 2000	Delta	% Change
FF Rate	4.63%	6.54%	1.91%	41.3%
Moody's Baa	7.29%	8.35%	1.06%	14.5%
REIT Total Return	1,077.24	1,260.66	183.42	17.0%
REIT Price Return	88.91	91.90	2.99	3.4%
S&P 500 Index	1,253.53	1,401.61	148.08	11.8%

PERIOD 7 | December 31, 2003 – February 28, 2007

DATA	Dec 2003	Feb 2007	Delta	% Change
FF Rate	0.98%	5.26%	4.28%	436.7%
Moody's Baa	6.60%	6.28%	-0.32%	-4.8%
REIT Total Return	2,177.53	4,325.12	2147.59	98.6%
REIT Price Return	122.68	206.71	84.03	68.5%
S&P 500 Index	1,089.23	1,378.14	288.91	26.5%

PERIOD 8 | November 30, 2015 – July 31, 2017

DATA	Nov 2015	Jul 2017	Delta	% Change
FF Rate	0.12%	1.15%	1.03%	858.3%
Moody's Baa	5.46%	4.39%	-1.07%	-19.6%
REIT Total Return	5,913.56	6,977.24	1,063.68	17.99%
REIT Price Return	185.76	204.47	18.72	10.1%
S&P 500 Index	2,198.18	2,703.75	505.57	23.0%

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INDEX DEFINITIONS

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. The referenced indices are shown for general market comparisons and are not meant to represent any particular investment.

Moody's Baa Corporate Bond Yield: Moody's Baa Corporate Bond Yield reflects the average yield of constituent corporate bonds that have been given Moody's Baa credit rating. Bonds rated Baa and above are considered investment grade.

REITs (Price Return): The FTSE NAREIT US Real Estate Price Return Index includes the price of US REITs (equity, mortgage, and hybrid) and publicly-traded real estate companies. The Index began on December 31, 1971 with a base value of 100. is designed to present investors with a comprehensive family of REIT performance indexes that spans the commercial real estate space in the US economy. The index series provides investors with exposure to all investment and property sectors.

REITs (Total Return): The FTSE NAREIT US Real Estate Total Return Index includes both price and income returns of US REITs (equity, mortgage, and hybrid) and publicly-traded real estate companies. The Index began on December 31, 1971 with a base value of 100.

S&P 500 Index: The S&P 500 index is comprised of 500 US stocks. The index is unmanaged and is generally representative of certain portions of U.S. equity markets.

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