# Altegris Managed Futures Strategy Fund MFTAX | MFTCX | MFTIX | MFTOX

## Market Commentary

Q2 was not an easy quarter for strategies that typically exhibit low correlation to traditional markets. Equities and credit were up yet again; the S&P 500 gained 3.09% during Q2 while the Barclays Aggregate Bond index gained 1.45%. Strategies that were long of equities and credit performed well during the quarter overall, particularly fundamental managers that avoided declining sectors such as technology and utilities. Unfortunately, currencies, commodities and sovereign fixed income markets experienced choppy (aka sideways) price action – the proverbial kryptonite for longer-term, momentum-based managed futures managers. These markets experienced several periods of brief, yet strong rallies, only to reverse course. For example, early in 2017, bonds yields rose and prices declined as investors were more sanguine on the economy. As the year progressed, bond investors grew more pessimistic, worrying that the economy was weaker than previously thought. Most managed futures managers were short bonds as that was the prevailing trend. As sentiment shifted, and bonds briefly rallied, momentum managers lost money on their shorts. Markets then reversed again after the Fed raised rates; bond prices declined again while yields rose. This was particularly true during the last week of June. Losses were also in currencies for similar reasons. Trend following managers held onto long positions in the US dollar versus the euro and the yen since the beginning of the year, leading to losses as the euro rallied over the quarter. We also saw strong whipsaws in some of the emerging currencies, including the Brazilian Real, which experienced a large single day sell-off on in May as President Temer found himself embroiled in corruption charges. In energy, crude oil also experienced whipsaws; WTI futures hit lows of $45/barrel, then rallied to over $50, reversed course to $42, then rallied yet again the last week of June.

## Fund Performance

FUND RETURNS | As of June 30, 2017

| | Q2 2017 | Year to Date | 1-Year | 3-Year | 5-Year | Since Inception* |
|---|---|---|---|---|---|---|
| MFTAX Class A (NAV) | -4.27% | -4.04% | -8.96% | 2.22% | -0.24% | -0.67% |
| MFTAX Class A (max load)** | -9.27% | -9.52% | -14.17% | 0.23% | -1.42% | -1.53% |
| MFTCX Class C (NAV) | -4.42% | -4.42% | -9.63% | 1.43% | -0.97% | -2.29% |
| MFTIX Class I (NAV) | -4.21% | -3.87% | -8.72% | 2.48% | 0.01% | -0.43% |
| MFTOX Class O (NAV) | -4.27% | -4.04% | -8.95% | 2.22% | N/A | -0.01% |
| BofA Merrill Lynch 3-month T-bill Index | 0.20% | 0.31% | 0.49% | 0.23% | 0.17% | 0.15% |
| MSCI World Index | 4.03% | 10.66% | 18.20% | 5.24% | 11.38% | 11.06% |
| SG CTA Index | -3.52% | -3.45% | -9.97% | 2.38% | 1.34% | 0.90% |

* *The inception date of Class A and Class I is 08/26/10; the inception date of Class C is 02/01/11; the inception date for Class O is 03/13/13. Past performance is not indicative of future results. 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 1.98% for Class A, 2.73% for Class C, 1.73% for Class I, and 1.97% for Class O.*

*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 cost. The Fund's adviser has contractually agreed to reduce its fees and to reimburse expenses, at least until October 31, 2017, to ensure that total annual Fund operating expenses after fee waiver and reimbursement will not exceed 1.90%, 2.65%, 1.65%, and 1.90% of average daily net assets attributable to Class A, Class C, Class I, and Class O shares, respectively, subject to possible recoupment in future years. This agreement may be terminated only by the Fund's Board of Trustees, on 60 days written notice to the adviser. Results shown reflect the waiver, without which the results could have been lower. 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.*

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

## Portfolio Performance Review

On the quarter, the Fund was down over 4% while the SG CTA Index was down just under 4%. This was the first quarter in five that the strategy underperformed its diversified managed futures index (SG CTA Index). Losses in foreign exchange, energies and sovereign fixed income were greater than gains from long stock index futures for the quarter. As previously mentioned, momentum-based strategies fared the worst over the quarter as multiple markets experienced several price reversals. The Fund's allocation to GSA was particularly susceptible to these reversals. Strategies with significant risk exposure to currencies also struggled as discerning the directionality of currency movements during Q2 was especially challenging.

It should be said that it has certainly been a difficult period for managed futures managers. While the Fund is diversified in terms of the underlying strategies utilized by subadvisors, the Fund does allocate in size to trend following managers. It's these managers that have come under the most pressure. We understand this and know it can be frustrating. Managed futures will go through such periods; they have historically and they likely will again. We have some solace in the fact we made what we believe are positive changes to the Fund in Q1 – by changing to a subadvisor structure versus accessing managers through a swap and/or note. These changes have the goal of maintaining a diversified managed futures portfolio in a more simplified, lower cost structure. While we are confident in the benefits of these changes, we acknowledge that losses aren't easy to bear, especially when a non-correlated strategy is the only negative print on the statement. It's important to remember why we invest in managed futures in the first place, and why having uncorrelated assets such as managed futures in one's portfolio is, in our opinion, essential to having a well-diversified portfolio.

## Manager Performance Review

GSA is a longer-term trend following manager, and one that is also more diversified than many of its trend following peers. GSA tends to allocate less to traditional markets and more to commodities and currencies. Thus the allocation to the GSA accounted for the bulk of the underperformance as they had less exposure in stock index futures and more exposure in markets that were choppy. Phase Capital and Centurion were the only managers positive over the quarter. Phase is a strategy that tends to perform well when managed futures managers struggle. Phase performed as expected with gains in equities and fixed income. Centurion is a shorter term manager which seeks to capitalize on intraday to 2-day momentum and mean-reversion price patterns. Given nearly all sectors outside of equities were choppy, Centurion was able make gains on shorter-term price moves. Three Rock was a notable detractor; currency selection during an environment of choppy currency price action was difficult for this discretionary manager.

## Portfolio Allocations

Allocations as of 6/30/2017 were as follows: 22.5% to GSA Capital Partners LLP, 15% to Millburn MCOR, 12.5% PhaseCapital, 12.5% QMS Capital Management LP, 12.5% Three Rock Capital Management, 10% to Crabel AlphaTerra Advanced Trend, 7.5% to Centurion Investment Management and 7.5% Crabel AlphaTerra Gemini. A description for all managers can be found here.

## Portfolio Positioning

*Positioning:*

From a sector positioning standpoint, the Fund has the most risk (VaR-based) in Commodities and Currencies on a net basis. The Fund is net short Commodities; short crude oil, soybean and sugar futures, while long and handful of contracts in base metals including copper and palladium. The Fund is net long Currencies; long euro currency versus the US Dollar is the largest position on a risk adjusted basis. Stock Index futures exposure remains long given prevailing trends. In Fixed Income, the Fund is also net long including long 10 year T-notes and long Gilts . Short fixed income positions include 2 year notes along with 10 Year JGBs.

*Outlook:*

Back in 2013, then Fed Chairman Ben Bernanke intimated that the Fed would cease feeding the proverbial economic beast via quantitative easing. More specifically, Bernanke was signaling that the Fed would stop purchasing bonds, which in turn caused ephemeral panic. Bond yields spiked until investors realized that tapering was not reversing the spigot. E.g. stopping massive purchases with the goal of keeping interest rates low wouldn't impact that economy as adversely as surmised; further, any rate hikes would be slow and gradual. And this was indeed the case. As of now, Fed funds sits at 1.25% (well below historical averages), with further rate hikes possible for the remainder of the year. Financial markets performed remarkably well despite lingering geopolitical uncertainty. Stability in the Eurozone along with the market's apparent imperviousness to smaller, more frequent terrorist attacks made for a relatively calm second quarter at least from a financial market perspective. We believe the concern is that the Taper Tantrum part II could be around the corner – and this time it could be more global. The ECB, the Bank of England and others have discussed reducing their bond buying programs white the Fed governors here in the US are considering reducing their balance sheet – e.g. selling bonds. Yellen and her central bank peers will need to exercise caution and precision with their public statements as asset prices can very quickly reflect panic. As we shift from an economy anchored by QE to one that is more driven by fundamentals, our view is that markets could assume some levels of normal volatility.

## Fund Objective

The Fund seeks to achieve positive absolute returns in rising and falling equity markets with less volatility than major equity market indices.

## Managed Futures Manager Exposure [2]

| | GSA Capital Partners LLP | Millburn MCOR | Phase Capital LP | QMS Capital Mgmt LP | Three Rock Capital Mgmt | Crabel AlphaTerra Advanced Trend | Centurion Investment Mgmt, LLC | Crabel AlphaTerra Gemini |
|---|---|---|---|---|---|---|---|---|
| Exposure [3] | 22.5% | 15% | 12.5% | 12.5% | 12.5% | 10% | 7.5% | 7.5% |

*The Fund's access to managers and the percentage exposures to each listed above are presented to illustrate examples of the diversity of managers accessed by the Fund through its managed futures investments, but may not be representative of the Fund's past, or its future, access and exposure to managed futures managers, sub-strategies and programs. It should not be considered a recommendation or investment advice.*

*With respect to the remainder of Fund assets not invested in managed futures investments via a wholly-owned subsidiary, the Fund pursues a fixed income strategy intended to generate interest income and to diversify returns generated by the managed futures managers listed above. The Fund's fixed income strategy investments, including holdings of fixed income securities, cash, and cash equivalents, are not reflected or included in the table above.*

*[2] The managed futures investments selected by Altegris Advisors to gain exposure to the managed futures managers, sub-strategies and programs are subject to change at any time, and any such change may alter the Fund's access and percentage exposures to each such manager, sub-strategy and program. Although the Fund currently pursues its managed futures strategy by investing up to 25% of its total assets in a wholly-owned subsidiary, the Fund may also make managed futures investments directly, outside of such subsidiary.*

*[3] As a percentage of the Fund's managed futures strategy allocation.*

## 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.*

**Global Equity.** MSCI World Index is a free float-adjusted market capitalization weighted index that measures equity market performance of 24 developed market country indices. **Managed Futures.** The SG CTA Index, an equal-weighted index reconstituted annually, calculates the net daily rate of return for a group of 20 CTAs selected from the largest managers by AUM open to new investment. **Notional Funding.** A form of leverage that allows for funding a futures account below its nominal value. The difference between the amount of cash deposited in the account and the nominal trading level of the account is referred to as notional fund. **Treasury Bills.** BofA Merrill Lynch 3-month T-bill Index is an unmanaged index that measures returns of three-month Treasury bills. **US Stocks.** 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 U.S. 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.

| | Representative Index | Characteristics | Key Risks |
|---|---|---|---|
| Global Equity | *MSCI World Index Net Return USD Index* | *Measures equity market performance of 24 developed markets* | *Market risk. Prices may decline.*<br>*Country/regional risk. World events may adversely affect values.* |
| Managed Futures | *SG CTA Index* | *Equal-weighted and reconstituted annually, calculates the net daily rate of return for a group of 20 CTAs selected from the largest managers by AUM open to new investment.* | *Market risk. Prices may decline.*<br>*Leverage risk. Volatility and risk of loss may magnify with use of leverage.*<br>*Country/regional risk. World events may adversely affect values.* |
| Treasury Bills | *BofA Merrill Lynch 3-month T-Bill Index* | *Short-term debt obligations of the US Government with a 3-month maturity* | *Interest rate risk. Value will decline if interest rates rise.* |
| US Stocks | *S&P 500 Total Return (TR) Index* | *500 US stocks; Weighted towards large capitalizations* | *Stock market risk. Stock prices may decline.*<br>*Country/regional risk. World events may adversely affect values.* |

## Risks and Important Considerations

*Please carefully consider the investment objectives, risks, charges and expenses of the Altegris Managed Futures Strategy Fund. This and other important information is contained in the Fund's Prospectus and the Summary 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*

*Investing in commodity futures markets subjects the Fund to volatility as commodity futures prices are influenced by unfavorable weather, geologic and environmental factors, regulatory changes and restrictions. Trading on foreign exchanges and foreign investments including exposure to foreign currencies, involve risks not typically associated with US investments, including fluctuations in foreign currency values, adverse social and economic developments, less liquidity, greater volatility, less developed or inefficient trading markets, political instability and differing auditing and legal standards. These risks are magnified in emerging markets.*

*The Fund's use of derivatives such as futures, swaps, structured notes, and options contracts expose the Fund to additional risks such as leverage risk, tracking risk and counterparty default risk that it may not be subject to if it invested directly in the underlying securities. Although futures contracts are generally liquid, under certain market conditions there may not always be a liquid secondary market. Option positions held may expire worthless and cause a loss.*

*An ETF may represent a portfolio of securities, or may use derivatives in pursuit of its stated objective. The risks of owning an ETF generally reflect the risks of owning the underlying securities held by the ETF, although a lack of liquidity in an ETF could result in it being more volatile. ETFs have management fees and other expenses which the Fund will indirectly bear.*

*The value of an investment in fixed income securities and derivatives will typically fall when interest rates rise. Other risks include credit risk which refers to an issuer's ability to make interest and principal payments when due, and risk of default.*

*The Fund may 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.*

*There is no guarantee that any of the trading strategies used by the managers retained will be successful. The adviser's judgments about the investment expertise of each manager may prove to be inaccurate and may not produce the desired results.*

## 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.*

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