Altegris/AACA Real Estate Income Fund INMAX | INMIX | INMNX

Market Commentary

The S&P US Preferred REIT Stock TR Index was down -6.26% in Q4, while INMAX underperformed at -13.23% in the quarter. While we are not pleased with this quarter's performance, we believe our investment philosophy and process will produce strong returns in the future. Additionally, we believe the outlook is positive from here with attractive valuations and macro trends that appear to set up well for REIT preferred stocks.

This year's performance has been one of the worst for preferred stock REITs since the financial crisis, and we believe the market is behaving inefficiently, creating an opportunity for institutionally-minded investors.

As a quick refresher; we are investing to maximize yield while balancing yield with risk. We invest primarily in preferred stock of real estate investment trusts ("REITs") which have a priority claim on assets before common equity holders and pay a perpetual dividend. REIT Preferred stocks typically have cumulative dividend covenants which mean preferred stocks receive all cumulative dividends before equity dividends are played out. We believe that real estate preferred stocks offer attractive risk-adjusted returns because most publicly traded REITs have about 40% debt and thus a 60% equity cushion before preferred stocks would theoretically lose value, and REIT preferred typically offer yields in excess of high-yield debt with, we believe, less risk. Lastly, unlike high-yield bonds, REIT preferred stocks are backed by a portfolio of real assets.

Credit spreads widened in Q4 from fears of a global slowdown or recession sparked by fears from the trade war with the People's Republic of China (PRC). In a flight to safety rally, the 10-year UST yield dropped from a high of 3.24% in early November to 2.68% at year end while high-yield spreads widened from about 350bps in early November to 527bps at year end.[1] We believe that, in the long-term, spreads will normalize. We see these as an investment opportunity and good entry point. Additionally, since the end of 2018, the Fed has turned more dovish and signaled a slowing in the pace of rate hikes which should help any asset with a yield.

Many REITs have adjusted in price and more than 85% of the SNL REIT Index names are trading at a discount to NAV as of 12/31/2018. At year end the REIT Index stock price discount to NAV was 13%, which is almost always a harbinger of positive forward returns. Two of the quarters top five performance detractors were in our common stock portfolio, New Residential Investment, Inc. (NRZ) and Macquarie Infrastructure Corporation (MIC). Both companies, considered high yielding stocks, were caught in the flight to quality/credit spread widening trading environment. We are comfortable with the underlying fundamentals of both and see share prices as overly discounted.

In our opinion, investors are preparing for the great recession and any piece of info that confirms that idea is over-reacted to at an absurd level. The Dow Jones US REIT Index hit a high of 1262 on December on December 6th. By December 24th, the index had declined to 1102, a decline of 12.6% over 12 trading days. This level of volatility is somewhat self-reinforcing as it is atypical in the universe, the volatility seems to beget more volatility as panicked investors make ill-informed decisions.

[1] CSI BARC Index on Bloomberg

It's our opinion that the US/PRC trade renegotiation will lead to mutually satisfactory results in Q1 and this should greatly stem the rampant fears in the market. As for the Fed's tone, Chairman Powell's comments in January have calmed markets that were previously thinking that an aggressive Fed was going to cause the next recession.

Assuming a successful PRC deal and neutral Fed we can see a return to pre-Trump economy 2-3% GNP growth and 2-3% 10 Year US Treasuries. Thus, we see the Q4 drawdown predominantly as a fear-induced change in sentiment, not a change in fundamentals. Should valuations return to more typical levels, we see significant upside in the portfolio from here. Overall, we believe the macro backdrop for REIT Preferred Stocks is favorable, as they usually prosper in accommodative, expansionary environments. We are seeing all these matched with attractive relative valuations.

It is also noteworthy that as part of the 2018 Tax Cuts and Jobs act, investors are now able to exclude 20% of REIT preferred stock dividends are free from federal tax. Lastly, we believe the market drawdown is more reflective of investment outflows and not reflective of the underlying REIT credit quality or collateral value, which is largely unchanged and stable.

Fund Performance

FUND RETURNS | As of 12/31/2018

	Q4 2018	Year to Date	1-Year	5-Year	Since Inception*
INMAX: Class A (NAV)	-13.23%	-13.83%	N/A	N/A	-13.83%
INMAX: Class A (max load) ‡	-18.25%	-18.79%	N/A	N/A	-18.79%
INMIX: Class I (NAV)	-12.26%	-12.78%	N/A	N/A	-12.78%
INMNX: Class N (NAV)	-12.72%	-13.33%	N/A	N/A	-13.33%
S&P US Preferred REIT Stock (TR)	-6.26%	-7.10%	N/A	N/A	-7.10%

** The inception date of Class A, Class I, and Class N is 7/25/18. 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 1.35% for Class A, 1.10% for Class I and 1.35% for Class N. The Fund's adviser has contractually agreed to reduce its fees and to reimburse expenses, at least until October 31, 2019 to ensure that total annual Fund operating expenses after fee waiver and reimbursement will not exceed 1.30%, 1.05%, and 1.30% of average daily net assets attributable to Class A, Class I, and Class N 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 Fund's adviser. 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. Results shown reflect the waiver, without which the results would 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

The portfolio's top five attributors this quarter were: Pebblebrook Hotel (Preferred Stock), Digital Realty (Preferred Stock), Arbor Realty Trust (Preferred Stock), Taubman Centers (Preferred Stock), and Apollo Commercial Real Estate (Preferred Stock).

- **Pebblebrook Hotel ("PEB") (Lodging) (Preferred Stock)** — PEB owns and operates more than 30 hotel properties focused on major costal gateway cities in 11 states with an emphasis on California. PEB's revenue and profits have grown recently as the company has expanded through acquisition and increased room rates.

  Digital Realty Trust ("DLR") (Data Centers) (Preferred Stock) — DLR owns and develops high-quality hyperscale data centers and has created one of the largest portfolios in the sector through acquisition and organic growth. DLR and the data centers sector are well positioned to benefit from the strong data and "Internet of Things" trend.

- **Arbor Realty Trust ("ABR") (Commercial Mortgage) (Preferred Stock)** — ABR invests in diversified portfolio of structured finance assets in the multifamily and commercial real estate markets, with a focus on bridge and mezzanine loans.

- **Taubman Centers ("TCO") (Retail) (Preferred Stock)** — TCO owns, develops, and operates high-quality regional malls. TCO's portfolio of 20-plus malls has some of the highest sales-per-square-foot metrics in the industry. TCO has expanded internationally into primarily Asia in recent years.

- **Apollo Commercial Real Estate ("ARI") (Commercial Mortgage) (Preferred Stock)** — ARI manages a portfolio of commercial real estate mortgage loans, commercial mortgage-backed securities (CMBS), commercial real estate cooperate debt and other real estate-related debt investments in the United States. ARI focuses on investing in senior performing commercial loans.

The portfolio's top five detractors this quarter were: Wheeler Real Estate Investment (Preferred Stock), New Residential Investment Corp, CBL & Associates Properties (Preferred Stock), Macquarie Infrastructure, and Colony Capital (Preferred Stock).

- **Wheeler Real Estate Investment ("WHLR") (Shopping Centers) (Preferred Stock)** — WHLR develops and manages a portfolio of income producing properties in the mid-Atlantic and southern United States. The company is diversified across shopping centers, grocery-anchored centers and free-standing retail properties.

- **New Residential Investment ("NRZ") (Excess Mortgage Servicing Rights) (Common Stock)** — NRZ focuses on investing in, and actively managing investments related to residential real estate, primarily targeting investments in excess mortgage servicing rights. This position serves as a hedge against rising interest rates as excess mortgage servicing rights increase in value when interest rates increase. NRZ acquired their closest competitor and we believe there will be significant economies of scale which will be very accretive to earnings and dividends.
- **CBL & Associates Properties ("CBL") (Shopping Centers) (Preferred Stock)** — CBL owns more than 150 market-dominant regional shopping malls and community shopping centers in the United States. CBL has recently cut its dividend to common equity and has been focused on paying down debt both of which improves the credit quality of the preferred stock.

- **Macquarie Infrastructure ("MIC") (Infrastructure) (Common Stock)** — MIC owns and operates infrastructure projects that provide critical services through four business segments: International-Matex Tank Terminals (liquid/gas tank terminals), Atlantic Aviation (airports), Contracted Power (power generation and transmission) and MIC Hawaii (gas and power in Hawaii). On their earnings call in February, MIC announced that they were taking fixed oil storage tanks off-line, as the fixed oil market is in decline, and repurposing the tanks for other oil products. This action, while necessary, put a damper on earning during the transition years and MIC cut the dividend 31% to fund the transition and other reinvestments in the business which should lead to growth. We believe the Tank refurbishment will wind down over the next two quarters and that cash flow per share should rebound to about $6.50 or by mid-2020 and dividends are likely to be gradually increased as well. All this leads us to think a mid-$50 share price is reasonable.

- **Colony Capital ("CLNY") (Asset Managers) (Preferred Stock)** — CLNY invests in a widely diversified portfolio of real estate including but not limited to health care, industrial and the hospitality.

Portfolio Positioning

The portfolio is focused on generating a high current yield while balancing yield with risk. We believe REIT preferred stocks are structurally mispriced with a predominantly retail investor base which adds up to a somewhat inefficient market. AACA seeks to bring an institutional approach to this largely retail market. REIT preferred stocks have a higher yield and higher credit quality than high-yield debt which creates the opportunity for better risk adjusted returns. The strategy seeks to deliver high-quality, durable income in excess of the benchmark while producing less volatility than the benchmark. The fund has a target net yield of about 7% without the use of fund leverage.

The portfolio is typically about 3-parts preferred stock and 1-part REIT common stock. The Fund is broadly diversified with about 50-120 holdings across 3 asset classes (REIT preferred stocks, Equity REITs and Mortgage REITs) and a dozen or more real estate sectors.

AACA employs a quantitate screening methodology including but not limited to:

- Current yield metrics
- Fundamental credit quality and sustainable income metrics
- Asset and corporate quality metrics

And a fundamental bottom-up qualitative and quantitate selection methodology seeking to enhance income, capital appreciation and inflation hedging.

This commentary reflects the views of the sub-adviser portfolio manager through 12/31/2018. The manager's views are subject to change as market and other conditions warrant. This commentary is provided for informational purposes only and should not be construed as investment advice. No forecasts are guaranteed. There is no guarantee that any investment will achieve its objectives, generate profits or avoid losses.

Fund Objective

The Fund seeks to provide total return through long-term capital appreciation and current income by investing, both long and short, in equity securities of real estate and real estate related companies.

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.

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.

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.

	Representative Index	Characteristics	Key Risks
Real Estate	*Dow Jones US Real Estate Total Return (TR) Index*	*Comprised primarily of real estate investment trusts (REITs)*	***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.*
US Stocks	*S&P 500 Total Return (TR) Index*	*500 US stocks; Weighted towards large capitalizations*	***Stock market risk.*** *Stock prices may decline.* ***Country/regional risk.*** *World events may adversely affect values.*

PLEASE REVIEW THE FOLLOWING RISK DISCLOSURES.

Risks and Important Considerations

Please carefully consider the investment objectives, risks, charges and expenses of the Altegris/AACA Real Estate Income 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.

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. In addition to the risks of investing in foreign securities, ADRs carry additional risks that are not found in investments in U.S. companies. 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.

Funds that are new have a limited history of operations. 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.

The Fund has a limited history of operations.

Altegris Advisors

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

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