Altegris/AACA Opportunistic Real Estate Fund RAAAX | RAAIX | RAANX

Market Commentary

The Dow Jones US Real Estate Index was up at +0.65% in Q3, and RAAAX returned -5.51% for the quarter. While RAAAX underperformed, the Fund remains ranked in the top 5% of real estate funds in the Morningstar Real Estate Category for the trailing three-year time period. This follows on the heels of the fund being up 8.01% in Q2. While we are not pleased with this quarter's performance, we believe our investment philosophy and process will continue to produce strong returns in the future. The majority of underperformance is attributable to our gaming exposure. As long time investors will know, we like the secular opportunity for gaming in Macau. We own Las Vegas Sands, Wynn Resorts, Galaxy Entertainment, and MGM China, and together they comprise 19.2% of the portfolio. Our thesis here has the following elements:

1) Gaming in Macau is an Oligopoly. There are six licensees, and we see no additional entrants.

2) New assets developed in Macau operate under Say's Law, which states that supply generates its own demand. We mean this in the sense that every new asset generates additional interest in the market and solidifies the location as a destination. Steve Jobs summarized this best by saying people don't know they want something until you show it to them. The current waves of development, mainly focused across the bridge from Macau in Coati, involves spectacular new resort casinos and are 'must visits' in our opinion. LVS's new asset, the Parisian, has drawn 15 million visitors and 5.2 billion impressions in its first year (2017) according to CEO Sheldon Adelson. I was standing in Galaxy Resorts Casino on a Thursday at about 3:00 PM local time and 'ball parked' about 70,000 people on the gaming floor. It was loud chaos with people cheering and gambling. WYNN and MGM assets are similar.

3) The customer demand is growing nicely. Visitation to Macau has increased 18.5% YoY as of August 2018 on top of 8.5% visitation growth last year. Approximately 32.6M guests visit Macau in 2017 and gamble approximately $40B USD. Gross Gaming Revenue (GGR) through September is up 15% year over year.

4) The PRC is overtly interested in Macau's success. The PRC is building major infrastructure projects in this part of the world, which they call the Pearl River Delta. These include airport expansions, border crossing expansions, high speed rail, light rail, highways, bridges, and mass urban planned developments. The crown jewel of this is the 24 Mile Hong Kong to Macau Bridge Tunnel System, which is open now for Government use and expected to open imminently for civilian use. This shortens travel time from Hong Kong to Macau from a couple hours to about 40 minutes. It also eliminates the three modes of transit issue (car to ferry to car) and a couple of border crossings. Macau realizes approximately $18B in USD in annual gaming tax, which doesn't include hotel tax, VAT, income tax or other fees. This is an enormous amount of revenue. Las Vegas by comparison receives $460M in gaming tax; about 1/40 of Macau.

5) Macau is central to the PRC building a vacation and travel destination which can attract and support MICE (meetings, incentives, conventions and expositions) for both Chinese consumption and international visitation. What makes a good market for MICE is airlift capacity, hotel capacity, amenities, catering and organized logistics. In the combination of Hong Kong, Macau and Hengqin Island (immediately east of Macau and connected by bridge), we believe the PRC is building into a multi-decade plan to create a regional and eventually global destination market. We visited Macau/Hong Kong during the quarter and toured multiple assets and met with multiple management teams. The overwhelming impression we came away

with was that, absent some sort of change in government thinking, this is an investment opportunity that should produce excellent returns over an extended time period.

6) Shares of these companies typically trade on multiples of EBITDA in the 13-14x range.[1] Since the trade war rhetoric has heated up in the third quarter, shares have traded off about 25%-45% depending on the company. The Chinese Yuan also declined versus the USD about 3.6% over the third quarter which has led to speculation that the Chinese will spend less when they visit Macau.[2] In January, a ban on tableside tobacco goes into effect and casinos are likely to upgrade existing smoking lounges. This has created a degree of uncertainly for analyst estimated revenue for 2019, but we do not see this as overly impactful.

7) Our analysis indicates that, should the current trade situation continue (10% tariffs on $200B of Chinese imports) the effect on PRC GNP will be about 30 basis points, or an estimated decline in Chinese GNP growth from 6.7% to 6.4%.Should the US implement 25% tariffs on $500M of US imports, we believe the effect would be about 1%. We think of gaming in the US as having a geared effect (think high beta) to GNP of 2-3x; in other words, 1% of movement in GNP creates 2-3% of increase or decrease in demand for gaming (all lodging and travel as well). Assuming we apply this ratio for the PRC to gaming, a 1% decline in GNP growth would reduce gaming demand 2-3% from its current run rate of 15%. The stocks are currently trading at 9-10x EBITDA, ~2-3 standard deviations cheaper than the five year average, and seem to be pricing in a 25% decline in GGR from +15% to -10%, which we view as unlikely. The transfer of this gearing factor does not seem likely as 300M Chinese are moving into the middle class, the Hong Kong/Macau bridge is opening, and the Chinese still love to gamble.

Overall, we predominantly view this as a change in sentiment, not a change in fundamentals. Should valuations return to more typical levels, we see significant upside in these companies from here.

The data center space and cell tower space remain very interesting to us. Last week we toured the PACCAR Innovation center in Silicon Valley and were briefed on the development of self-driving vehicles. PACCAR manufactures Peterbuilt and Kenilworth Trucks and is working with multiple Silicon Valley tech shops on self-driving or assisted driving vehicles. We left the tour with the reinforced idea that data centers and related communications systems (cell tower REITs, which also own distributed antenna systems, fiber and small cells) will be huge beneficiaries of the wave of data generated from self-driving vehicles and a more interconnected world in general. The amount of data that a self-driving vehicle generates, processes, and transfers is staggering. According to Intel, it is ~4000 GB/day. To give a sense of scale, my iPad has 64GB of storage. So a car, in one day, will use 62.5 times the amount of data available on my iPad. The share prices of some of the data center companies have been impacted by trade war negotiations and rhetoric as well. While there seems to be no direct linkage, the idea that technology companies manufacture in the PRC has led to reduced enthusiasm for the space on the part of some investors in the data center space, taking multiples down a couple of points. They now trade at 16x 2019 EBITDA with an average estimated growth rate of 14% in EBITDA and 12% in funds from operations (FFO).

[1] EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization.
[2] Note that MGM China and Galaxy are traded in HKD which is pegged to the USD, and LVS and WYNN are traded in USD.

We see continued strength in the US economy driving modest increases in inflation and interest rates. We have already seen a good portion of the increase in rates happen with the ten year UST increasing in yield 0.65% from 2.40% to 3.05% since the beginning of the year. We are actively hedged with a 11.4% short position in long duration US Treasuries and a 6.2% long position in NRZ, which owns mortgage service rights (which have a positive correlation to rising rates). The robust job creation and overall confidence are creating a generally healthy market for almost all types of real estate including asset types we do not own like apartments and industrial.

A final word on philosophy. We are investing in what we believe are long-term secular opportunities in oligopolistic real estate portfolios. We focus on this and the issues we care most about are related to the underpinnings of this idea. Share prices however tend to reflect a combination of fundamentals, investor liquidity preferences and rebalancing, and sentiment. We constantly re-underwrite each investment evaluating (in this order): 1) Have the facts changed? i.e. has something fundamental to our thesis changed? (given the secular nature our process – as opposed to cyclical) in this instance, the answer is no. 2) Are we interpreting the facts correctly? In other words, are we separating emotion from the investment process, differentiating between temporary and long term price drivers, and questioning and screening sell side commentary for motive (for instance, in Macau, the Government reports gaming revenue every month. This is too short a time frame in our opinion to glean anything useful from, but sell-side firms have taken to performing ‘channel checks’ in which they analyze a week, or even a couple of days, of data to extrapolate outlook. We consider this silly, but it is a common practice that may impact stock prices. 3) Lastly, are there opportunities presented to us by the decoupling of price and fundamentals that we can optimize around? The point here is that successful companies create long term value and are generally successful stocks, however, this relationship is less reliable in the near or sometimes even intermediate term.

Fund Performance

FUND RETURNS | As of 09/30/2018

				Annualized Return		
	Q3 2018	Year to Date	1-Year	3-Year	5-Year	Since Inception*
RAAAX: Class A (NAV)	-5.51%	-3.75%	4.86%	11.65%	12.09%	11.35%
RAAAX: Class A (max load)**	-10.97%	-9.29%	-1.17%	9.47%	10.77%	10.49%
RAAIX: Class I (NAV)	-5.50%	-3.67%	5.01%	11.90%	12.31%	11.49%
RAANX: Class N (NAV)	-5.58%	-3.87%	4.79%	11.60%	12.06%	11.33%
Dow Jones US Real Estate TR Index	0.65%	2.07%	4.69%	8.94%	9.39%	8.95%
S&P 500 TR Index	7.71%	10.56%	17.91%	17.31%	13.95%	13.39%

** The inception date of the Predecessor Fund was February 1, 2011. 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 2.59% for Class A, 2.34% for Class I and 2.57% for Class N. The Adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund as described in the Fund Summary, until at least December 31, 2019, to ensure that total Annual Fund operating expenses after fee waiver and/or expense reimbursement will not exceed certain levels. Waived fees and absorbed expenses are subject to possible recoupment from the Funds in future years on a rolling three-year basis (within the three years after the fees have been waived or reimbursed) if such recoupment can be achieved within the foregoing expense limits. This agreement may only be terminated only by the Board of Trustees, on 60 days written notice to the 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 costs. 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.

It is important to note that the Fund inherited the track record of its predecessor, the American Assets Real Estate Securities, L.P. ("Predecessor Fund"), which was managed by AACA, the Fund's sub-adviser. The Predecessor Fund was not registered under the Investment Company Act of 1940. The Predecessor Fund, since its inception on February 1, 2011, was managed by AACA in the same style, and pursuant to substantially identical real estate long short strategies, investment goals and guidelines, as are presently being pursued on behalf of the Fund by AACA as its sub-adviser.

The performance quoted for Class A, Class I and Class N shares for periods prior to 1/9/2014 is that of the Predecessor Fund (while it was a limited partnership), and is net of applicable management fees, performance fees and other actual expenses of the Predecessor Fund. From its inception on February 1, 2011 through January 9, 2014, the Predecessor Fund was not subject to the same sales loads applicable to certain classes of Fund shares or the investment restrictions, diversification requirements, limitations on leverage and other regulatory or Internal Revenue Code restrictions of the Fund, which might have reduced returns. The performance of each class of shares of the Fund will differ as a result of the different levels of fees and expenses applicable to each share class.

Portfolio Performance Review

The portfolio's top five attributors this quarter were: Macquarie Infrastructure, CyrusOne, GDS Holdings, Interest Rate Short position, and New Residential Investment.

- **Macquarie Infrastructure ("MIC") (Infrastructure)** — 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. The stock gapped down on that news but has rallied since then as MIC has successfully executed on their business plan.

- **Cyrusone ("CONE") (Data Centers)** — CONE owns and develops purpose-built high-quality data centers leased to Fortune 1000 users. The company, in our opinion, has a unique development approach called 'massively modular', which allows it to scale development more accurately to leasing speed. They also have a unique approach to selling electrical capacity to different types of users with different redundancy needs. CONE and the Data Centers sector consolidated in Q1 but we remain constructive on the stock and on the strong "Internet of Things" trend.

- **GDS Holdings ("GDS") (Data Centers)** — GDS is a developer and operator of data centers in the People's Republic of China (PRC). GDS operates as a private carrier and is cloud neutral, which enables its customers to connect to all PRC's telecommunications carriers and to access a number of the PRC's cloud service providers, whom it hosts in its facilities. GDS serves more than 550 customers including top Chinese companies such as Alibaba and Baidu. The PRC is an emerging market with a robust pipeline of data center demand growth that GDS is well positioned to capture and cross connect clients to the USA with their strategic partnership with CyrusOne, a USA based data center operator. We are constructive on the growth prospects for GDS.

- **Interest rate short ("TLT") (Short Position) (Interest Rates)** — this is a hedge position for long-term interest rates. It moves in the opposite direction as interest rates with the goal of insulating the portfolio from changes in rates. This position moved in our favor as the Fed tightened and interest rates increased.

- **New Residential Investment ("NRZ") (Excess Mortgage Servicing Rights)** — 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.

The portfolio's top five detractors this quarter were: Drive Shack, MGM China Holdings, Wynn Resorts, Las Vegas Sands, and Galaxy Entertainment Group.

- **Drive Shack ("DS") (Golf)** — DS is a former Fortress company that invests in and manages a variety of real estate related investments including debt securities and golf properties. The company is winding down its debt portfolio and expects to re-deploy the assets into both traditional golf courses (they have 74 currently) and new concept golf entertainment facilities which are a combination of food and beverage and high end driving range. DS opened their first location in Orland on April 7th and has 5-7 more sites under development currently. The stock traded down in Q3 after trading up in Q2 as sentiment fluctuates on the first Orlando location, but year-to-date the stock is somewhat flat. The investment thesis is intact and we remain constructive as the company executes on their business plan.

- **MGM China Holdings ("MGM") (Gaming) —** MGM China is gaming company with all of its exposure in Macau. Gross gaming revenue has been growing in Macau, however the market has been jittery over fears of trade tariffs potentially slowing or otherwise negatively impacting gross gaming revenue growth. We believe these fears are exaggerated and we are constructive on the gaming sector. MGM has proven to be an excellent operator.

- **Wynn Resorts ("WYNN") (Gaming)** — WYNN is a US based gaming company with the majority of its exposure in Macau and to a lesser extent, Las Vegas. Gross gaming revenue has been growing in Macau and in Las Vegas, however the market has been jittery over fears of trade tariffs potentially slowing or otherwise negatively impacting gross gaming revenue growth. Like MGM, we believe these fears are exaggerated and we are constructive on gaming sector. WYNN has de-risked by replacing their CEO, refreshing their board, and settling their lawsuit with Universal Entertainment Corp. ("UE"), and the overall investment thesis remains intact. WYNN also announced the Paradise Park project in Las Vegas, which will unlock the land bank value of WYNN's 130-acre golf course on the strip.

- **Las Vegas Sands ("LVS") (Gaming)** — LVS is a US based gaming company with the majority of its exposure in Macau and, to a lesser extent, Singapore and Las Vegas. Gross gaming revenue has been growing in all markets, however the Macau market has been jittery over fears of trade tariffs potentially slowing or otherwise negatively impacting gross gaming revenue growth. Like WYNN and MGM, we believe these fears are exaggerated and we are constructive on the gaming sector. We believe LVS is the most diversified gaming company with the best balance sheet.

- **Galaxy Entertainment Group ("27") (Gaming)** — 27 is a Macau based gaming company. All the gaming stocks sold off in the quarter as the market has been jittery over fears of trade tariffs potentially slowing or otherwise negatively impacting gross gaming revenue growth. We believe these fears are exaggerated and we are constructive on 27, which has been posting company record numbers, and on the overall Macau gaming sector.

Portfolio Positioning

The portfolio is positioned in secular real estate growth opportunities that offer exposure to high-quality same store net operating income growth which, in turn, results in higher asset value cash flow and dividends. We have no exposure to sectors that are facing significant structural headwinds such as retail or sectors which we feel would fare worst in the Fed tightening cycle such as Triple Net Lease. In our opinion, these sectors are dependent on raising new capital and buying new assets as their primary means to increase earnings. These types of business plans typically underperform in rising rate environments.

Many REITs have adjusted in price and more than 74% of the SNL REIT Index names are trading at a discount to NAV as of 9/30/2018. In our opinion, this is the market's acceptance of higher rates down the road influencing long-term cap rates.

Recall that our focus is on ownership of companies that own real estate where the tenant is denied choice. This is most prevalent when some subset (or all) of these characteristics is in place:

1) the sub-sector of real estate is a monopoly, duopoly, or oligopoly,
2) there are high barriers to entry for new competitors,
3) there are high barriers to tenants leaving/exiting buildings, and
4) the basic underlying economics of the tenant's business is healthy

We have found that when these four characteristics are present, companies in that space can potentially generate consistently higher same store net operating income growth over long time periods. Typically, 65% to 80% of the portfolio is invested in sectors and companies that exhibit these characteristics.

This commentary reflects the views of the sub-adviser portfolio manager through 9/30/2018. 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.

*The **MORNINGSTAR RATING™** for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics.*

Morningstar Rating is for the I share class only; other classes may have different performance characteristics.

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.

CBOE Volatility Index. Commonly known as the VIX Index, a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500 Index call and put options.

	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 Opportunistic Real Estate Fund. This and other important information is contained in the Fund's 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. 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. Any ETFs held reflect the risks and additional expenses of owning the underlying securities.

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.

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.