JAMES ALPHA GLOBAL REAL ESTATE INVESTMENTS FUND

Market Commentary Newsletter
Provided by Ascent Investment Advisors, LLC
April 2016

PERFORMANCE REVIEW

Global REITs posted a flat total return in April. Following strong gains in March, when stocks rallied off of their mid-February lows, performance for the month was more subdued. However, the drivers of the market turnaround remained largely in place, with further signs of stabilization in China, a continued rise in commodity prices and a pattern of dovish signals from the U.S. Federal Reserve.

U.S. REITs gave back some of their strong March gains in April. Economic data indicated that the U.S. economy was decelerating again, which, combined with an uptick in Treasury yields, cooled sentiment toward the group. Performance varied by property type. Apartments struggled amid a deceleration of rental growth, particularly in robust markets like New York and San Francisco. The office sector was among the better performers. Industrial REITs also advanced as demand for logistics and warehouse space accelerated, in part to support the expedited delivery requirements of e-commerce.

Canada had another positive month. Sentiment toward the resources-dependent economy remained positive as oil prices continued to recover. The recovery was also reflected in a further rise in the country's currency, which appreciated more than 3% against the U.S. dollar in the month.

The U.K. continued to recover from the EU exit-related worries that weighed on the market in January and February. An "in or out" referendum is scheduled for June 23, 2016, with uncertain implications for trade, employment and other factors relevant to commercial real estate. While the overhang seems to have temporarily restrained transaction activity in property markets, leasing activity has remained relatively strong. The best performers in the month were generally stocks that had been hurt the most earlier in the year, including London-focused office companies that have the most exposure to a "Brexit."

Performance on the continent was mixed. In France, first-quarter results showed a trend of improving rents in central business districts, although overall rental growth was lackluster. Spain, which has been generating above-average GDP growth in the region, also outperformed. The Netherlands declined despite some better-than-expected retail spending data. Germany underperformed amid concerns about slowing economic growth.

Real estate stocks in Hong Kong benefited from a stabilizing China as well as a continued decline in the U.S. dollar, which suggested lower interest rates as Hong Kong's monetary policy is tied to U.S. policy. Developers and REITs both performed well in this environment. Office landlords had strong performance, aided by improving sentiment toward financial markets.

Australia outperformed amid better sentiment toward China, a key export destination for the country. A deceleration in inflation pressures also helped, as it raised the possibility of further monetary easing the Reserve Bank of Australia (RBA) did in fact reduce interest rates shortly after month end).

In Japan, a continued decline in core inflation, to near zero, raised speculation that the Bank of Japan (BoJ) would step up its monetary easing. Stocks broadly rose in the first half of the month, but fell back when the BoJ disappointed markets by not announcing new stimulus measures. In the end, large J-REITs were among the best performers, aided by a strengthening yen (given their domestic focus) and drawing support from share purchases by regional banks and individual investors searching for yield in a low yield environment.

MARKET OUTLOOK

Looking ahead, we retain our broadly constructive outlook for global real estate fundamentals and listed REIT returns. Some 30% of global government bonds are now yielding below 0%, while 70% of the global government bond market yields less than 1%. This suggests that finding income will remain a challenge and that investors will still want to focus on areas of the market that may offer attractive yields - like global REITs.

The rebound in REIT share prices has only brought valuations vs. the private market back to a modest discount to estimated net asset value (NAV). In the U.S. the discount to NAV has tightened to 6% on average. U.K. REITs with portfolios concentrated in London continue to trade at discounts exceeding 20%. Many Asian developers still trade at more than a 35% discount to NAV, materially below their long-term average. A key insight is that cap rates have not budged given continued low bond yields and wide spreads between cap rates and the cost of capital. A significant amount of capital from investors in the private markets, including private equity and sovereign wealth funds, is holding cap rates steady. Over $250 billion of estimated “dry powder” is available in the U.S. alone for investment in commercial property.

Geographically, we are less sanguine about the U.S., where after strong recent outperformance valuations on average have become less compelling compared with many opportunities found in Europe and Asia Pacific. We are overweight the U.K., where we believe investors have overly discounted the probability of an EU exit, and favor selected countries in continental Europe, which is trading at historically discounted valuations.

In the U.S., we believe operating fundamentals will remain healthy amid the steady growth of the domestic economy and constrained new supply. Cash flows should continue to grow at a moderate pace consistent with improvements in occupancy and rents. We see multiple rate hikes in 2016 as less likely given concerns regarding China's growth challenges and persistently soft U.S. inflation. Historically low interest rates should continue to provide support for property valuations.

We generally favor property sectors that offer above-average growth supported by favorable demand and supply dynamics and that trade at attractive valuation discounts. More recently we have increased holdings in less cyclical REITs trading at attractive valuations, based on their defensive growth characteristics at a time of heightened uncertainty.

Some of the more specialized U.K. small- to mid-cap REITs continue to offer attractive growth potential, with room for the current expansion cycle to continue creating capital and cash-flow growth, albeit at a slower pace than in the previous expansionary cycle. Tenant demand has been strengthening, while new supply remains generally tight, driving rents and property values higher. Lower energy costs and higher real wages should aid the consumer, resulting in better conditions for retail landlords, despite the challenges from internet retailers.

We are more cautious on large-cap, London-focused office landlords that trade at historically low cap rates and have peaking growth rates, as moderating economic growth, Brexit risk, or a U.K. interest-rate hike could dampen future growth and thus reverse the yield compression cycle. In this environment, we favor companies with defensive business models and low leverage, including student housing and certain health care property companies.

On the continent, the European Central Bank (ECB) remains in the middle stages of its easing cycle given the weak recovery in the European economy and the ECB's aim to protect the region from external shocks. We maintain a constructive view of Europe's property markets and expect that the modest recovery should particularly benefit owners of retail properties. We favor companies with exposure to dominant shopping malls in major city centers that offer attractive valuations and the opportunity to benefit from a recovery in retail spending.

Office fundamentals in Hong Kong are positive, especially in the core Central business district. However, deceleration in China's economy and continued pressure on global banks may eventually lead to lower incremental demand. Meanwhile, retail sales in Hong Kong have been declining rapidly due to a slowdown in tourist spending. Against this backdrop, valuations for retail owners have been adjusted downward, in some cases to levels we find compelling. The large, diversified landlords we favor own some of the most dominant office and retail properties in Hong Kong, and as such have attractive defensive characteristics. For the residential market, we are seeing some initial signs of a rebound in transaction volume driven by pent-up demand.

In Japan, we maintain our positive view on J-REITs. The internal growth prospects for some office J-REITs appear to be improving, backed by rent increases. The Tokyo office market is experiencing solid growth in occupancy rates to historically high levels. We remain positive on selected J-REITs and developers that offer attractive valuation and deliver strong earnings growth and dividend yields.

Australia's economy has stabilized in recent months albeit at a below-trend rate of growth. This has driven healthy retail spending at shopping centers in major cities, a trend that has been accelerated by the country's weak currency, which encourages residents to spend at home rather than abroad, including less online shopping.

Our outlook for 2016 is for a continuation of the bull market in global REITs, predicated on:

1) Continued strong industry fundamentals (cash flow growth);
2) Long-term rates remaining a tailwind (10-Year Treasury yield below 3.5% and likely to stay below 3% as Fed tightening acts to "tap on the brakes" and slow an already-weak economy, reducing the marginal demand for (and cost of) capital;
3) Muted supply, as additions from development are still tracking below the rate of demolition of old, obsolete space; and,
4) Geographically, non-U.S. will outperform U.S. as the major foreign central banks (ECB, BoJ, PBoC) are still in the early stages of easing cycles.

With global central bankers still willing to provide support until job creation broadens and growth becomes self-sustaining, we believe the bull case for global REITs remains intact. Despite the length of the current bull market, we remain focused on the truism that bull markets don't die of old age, they die of excesses. For real estate, that means excess new supply from development, which continues to be muted. Gains will be tougher to come by which means that selectivity and stock-picking have become increasingly important.

We note that the only scenario wherein the Fed would begin to actually tighten is a scenario of sustainable economic growth — which is also inherently bullish for commercial real estate fundamentals, thus offsetting much of the negative impact of higher interest rates. We expect there will be occasional corrections as equities adjust to higher rates, but we intend to use those pullbacks to add to growth-oriented REITs, particularly in Europe and Asia-Pac.

There's also the wild card in the form of S&P's announced plan in mid-2016 to elevate REITs as a standalone category in their Global Industry Classification Standard (GICS). Currently, REITs are classified under Financials where they've been "hidden" from institutional allocators, allowing most of them to ignore REITs and get their real estate exposure via direct real estate and private equity funds. When REITs are placed in the S&P GICS spotlight, institutions will then be forced to take a stand on REITs and justify their lack of exposure if they have none. If we assume that the institutions that have been ignoring REITs simply adopt a neutral-weight position, that alone would drive inflows of many tens of billions. Indeed, one estimate published in *Pensions & Investment* placed the number as high as $100 billion. To put that in context, the total AUM of all REIT funds (domestic-only plus global) is approximately $140 billion. Clearly, this could be a game changer for REITs and keep a strong bid under REIT shares as investors acknowledge the higher profile of listed real estate. The creation of a dedicated real estate sector also acknowledges that there are fundamental differences between real estate companies and other businesses. Segmenting coverage and performance attribution of real estate will promote awareness of the sector's distinct investment characteristics and serve as a catalyst for continued growth of the listed real estate market, giving investors access to a wider range of opportunities.

DEFINITIONS

Bank of Japan (BoJ): The Bank of Japan is the Japanese central bank. The bank is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

Brexit: An abbreviation of "British exit" that mirrors the term Grexit, refers to the possibility of Britain's withdrawal from the European Union.

European Central Bank (ECB): The central bank of the euro and administers monetary policy of the Eurozone, which consists of 19 EU member states and is one of the largest currency areas in the world.

Global Industry Classification Standard (GICS): A standardized classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's. The GICS methodology is used by the MSCI indexes, which include domestic and international stocks, as well as by a large portion of the professional investment management community.

Net Asset Value (NAV): A mutual fund's price per share or exchange-traded fund's (ETF's) per-share value.

People's Bank of China (PBoC): The central bank of the People's Republic of China with the power to control monetary policy and regulate financial institutions in mainland China. The PBoC has more financial assets than any single public institution, and is second only to the Federal Reserve System of the United States in terms of overall central bank assets.

Reserve Bank of Australia (RBA): The Reserve Bank of Australia (RBA) is Australia's central bank. Its duty is to contribute to the stability of the currency, full employment, and the economic prosperity and welfare of the Australian people. It does this by setting the cash rate to meet an agreed medium-term inflation target, working to maintain a strong financial system and efficient payments system, and issuing the nation's banknotes.

S&P 500 Index: An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

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Andrew Duffy is the Senior Portfolio Manager of the Global Real Estate Investments Fund (JAREX/JACRX/JARIX), a mutual fund that invests in publicly-traded global REIT securities. Mr. Duffy has more than 20 years of global real estate securities investment experience.

Prior to joining Ascent Investment Advisors, Mr. Duffy was a Managing Director with Citigroup Principal Strategies, where he managed a long/short portfolio of global real estate securities. From February 2005 until January 2008 he was with Hunter Global Investors, L.P. where he was the Co-Portfolio Manager of the Hunter Global Real Estate Fund, LP. Before that he was a portfolio manager at TIAA-CREF for over six years, during which time he was directly responsible for managing over $3 billion in global real estate equity and debt securities. Between 1993 and 1999, Mr. Duffy was a Senior Research Analyst at Eagle Asset Management, where he launched and managed a dedicated real estate securities investment program.

Prior to his career in investments, Mr. Duffy served for five years as an officer in the United States Army, where his assignments included serving in the 7th Special Forces Group and the 82nd Airborne Division. Mr. Duffy received a BS from the United States Military Academy at West Point in 1979 as a Distinguished Graduate (top 5% of class) and an MBA from Harvard Business School in 1986. He earned the Chartered Financial Analyst designation in 1996.

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As with any investment, there are multiple risks associated with REITs. Risks include declines from deteriorating economic conditions, changes in the value of the underlying property, and defaults by borrowers, to name a few. Please see the prospectus for a full disclosure of all risks and fees.

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