JAMES ALPHA GLOBAL REAL ESTATE INVESTMENTS FUND

Market Commentary Newsletter
Provided by Ranger Global Real Estate Advisors, LLC
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PERFORMANCE REVIEW

Global real estate stocks retreated in the fourth quarter as generally positive economic data was not enough to compensate for a sharp rise in bond yields amid a rising inflation outlook. While yields had been trending higher in recent months, Donald Trump's surprise victory in the U.S. presidential election accelerated growth and inflation expectations due to the anticipated impact of changes in fiscal and tax policies. The FTSE EPRA/NAREIT Developed Real Estate Index (the "Index") had a total return of -5.39% for the quarter, while the James Alpha Global Real Estate Investments Fund (the "Fund") demonstrated its resilient positioning and superior stock selection by posting a positive total return of 0.23%, outperforming the Index by 563 basis points. For the year, the Fund posted a total return of 7.58%, outperforming the Index.

Returns in the quarter were negative for all major regions. U.S. REITs traded down as investor expectations of rising interest rates outweighed further indications that the economy was accelerating, leading to increased demand for commercial real estate and cash flow growth for listed real estate. Amid these cross-currents, the more cyclical sectors produced favorable returns while those that are more defensive generally declined, resulting in a wide dispersion in returns.

Hotels were the biggest beneficiary from improving economic conditions. After underperformance in the first three quarters of the year, bargain-hunters turned to the sector in anticipation that industry fundamentals would recover with the economy. Offices enjoyed healthy gains driven by New York landlords, which benefited from an improving outlook for banks, the city's largest tenants. The steeper yield curve resulting from rising long-term interest rates is expected to boost banks' net interest margins and therefore their profits. Additionally, investors viewed the Republican sweep in the November national election as potentially leading to reduced bank regulations. Washington, DC property owners also got a boost from the election results, on speculation that increased defense spending could strengthen demand for offices in the nation's capital.

Apartments were mixed. A number of companies overcame ongoing supply concerns amid a brighter economic outlook. However, student housing landlords underperformed, as they are not likely to benefit from a stronger economy due to the stable nature of their business. Net lease REITs retreated, as the long duration of their leases are viewed by investors as bond proxies. Higher rates mean these property owners' cost of capital may rise, which could affect their external growth prospects. Healthcare REITs likewise declined along with bonds due to the long-term nature of the sector's leases. Further pressuring healthcare was the prospect for reduced demand should the Republicans follow through on their pledge to roll back aspects of the Affordable Care Act.

Canada's economy continued to struggle with crude oil prices stuck below $50 a barrel. Investors also grew concerned about the possible impact should President-elect Trump carry out a pledge to renegotiate the North American Free Trade Agreement (NAFTA). Half of Canadian REIT net operating income comes from retail real estate. Uncertainty over the future of NAFTA may cause U.S. retailers thinking of expanding into Canada to put their plans on hold.

European real estate stocks declined in the quarter, with negative returns generated in most countries. Economic growth generally continued to improve at a modest pace; Eurozone GDP increased 0.3% in the third quarter and rose 1.6% year over year. The European Central Bank (ECB) remained committed to substantial monetary accommodation. However, long-term interest rates rose along with U.S. rates while the euro weakened against the dollar. Despite what could be viewed as advantageous factors for the industry, real estate securities were hurt by their perceived interest-rate sensitivity. Stocks in Europe also declined amid increased uncertainty ahead of several national elections.

The U.K. economy continued to perform above expectations in the wake of Brexit. Retail sales rose at the fastest annual pace in nearly 15 years while unemployment declined to an 11-year low. Nevertheless, there remains broad consensus that the economy will slow in the coming months. In addition, the sharp decline in the pound sterling was reflected in rising import prices. As British manufacturers signaled that additional price hikes are likely to follow, accelerating inflation could result in consumers curbing their spending.

Germany saw a pick-up in economic sentiment in the quarter but stock prices declined on rising rate expectations. Although the residential market showed continued strength, Vonovia, the largest and most liquid name in the space, declined in the month. TLG Immobilien fell by an even greater amount despite a still healthy Berlin office market. In France, shopping center owners declined despite favorable retail spending as investors continued to rotate out of the most liquid income-oriented names. The Paris office market displayed an improving supply/demand picture, but companies that previously were strong performers sold off as investors took profits. Italy declined sharply ahead of the contentious December constitutional referendum. The "No" vote rejecting a proposal to reduce the Senate's power prompted Prime Minister Matteo Renzi to resign, raising concerns that a replacement government would lack a mandate to effectively govern the country. Also pressuring stocks, several of the country's largest banks are in need of substantial capital injections ahead of a mandate set by the ECB.

In Japan, equities benefited from better economic data as well as a weaker yen, which could help to boost the country's exports. The improving economic outlook generated strong buying interest in developers, which outperformed the more defensive REITs. Tokyo office demand was stable with supply expected to remain balanced, at least through 2017. Australian stocks benefited from an improving economic outlook resulting from firmer commodity prices and better data out of China. While these conditions are broadly favorable for commercial real estate, investors used real estate stocks, which are viewed as a defensive sector, as a source of funds to commit to other investments. Office plays continued to outperform on the back of improving Sydney office fundamentals and increased takeover speculation. Singapore continued to feel the effects of a slow economy and an increasing supply of developed real estate, along with rising interest rates. Malls underperformed as retail fundamentals disappointed and as rising interest rates globally underpinned a selloff in the more bond-like proxies.

In Hong Kong, the recent imposition of regulations to reduce capital outflows from China and the Hong Kong government's efforts to cool the housing market weighed on companies. Landlords outperformed developers as both primary and secondary residential sales volumes fell sharply following the cooling measures, although prices remained resilient. The office and retail sectors declined as well. Stocks also traded lower in response to higher interest rates in the U.S., which effectively tightens credit due to the currency peg to the U.S. dollar.

MARKET OUTLOOK

We maintain a cautiously positive view of the U.S. property market based on healthy operating fundamentals that reflect muted levels of new supply in most markets and more clarity on growth of the U.S. economy in recent months. We recognize that there are still many uncertainties that are unlikely to be clarified until after Trump takes office. In the long term, however, we believe the prospect of more infrastructure spending, lower taxes, less regulation and a more pro-business attitude from the government will likely be positive for the economy and drive incremental demand for commercial space. Cash flows generally should continue to grow at a moderate pace, although some property types, particularly apartments, hotels and self-storage are facing increased new supply, which may lead to lower rent and occupancy growth rates. Interest rates remain near historically low levels, and we believe the Fed will be reluctant to raise rates until after it has more visibility on the amount and timing of any fiscal stimulus. In this environment, we generally favor U.S. property sectors that offer an attractive combination of growth and value, as well as specialty REITs trading at attractive valuations, based on their higher growth rates.

In Europe, Brexit has raised political risks, as the vote might encourage other Eurozone countries to consider their own exits. The negotiations between the U.K. and the European Union (EU) will be watched closely for potential consequences. It's too early to worry about higher interest rates, as the EU still has problems to work out, including below-trend economic growth. This is likely to ensure the ECB maintains its accommodative monetary policy, at least through the first half of 2017. While we are monitoring events closely, for now we maintain a generally constructive view of Europe's property markets. We particularly favor several European office markets (notably in Germany, Spain and France), along with dominant shopping centers in major cities that offer the opportunity to benefit from a recovery in retail spending. We are also positive on the medium-term growth potential for German residential properties, particularly in major cities like Berlin, where demand far exceeds supply.

We remain cautious toward London office and residential companies, due to their potential vulnerability to Brexit consequences, and we have very little exposure to those sectors. Instead, we favor U.K. companies that we believe exhibit more defensive or structural growth characteristics that are likely to remain insulated from a downturn. These include landlords in sectors such as logistics, student housing and health care. The logistics sector in the U.K. has seen rising demand driven by the growth of e-commerce. The student housing market is economically insensitive and experiencing steadily rising demand from growing enrollment. Further, the weakening of the British pound will likely strengthen demand from non-U.K. students. Healthcare property owners should benefit from relatively steady, economically defensive cash flow growth with rents that are essentially guaranteed by the government's National Health Service.

Increased policy uncertainty in the U.S. could affect Asian economies, in particular those related to trade policy toward China. Any new trade barriers would likely hurt both China and Japan, the two major economies in the region. That said, valuations in Asia-Pacific real estate are undemanding. In Japan, developers continue to trade at attractive valuations. We also remain positive on selective REITs that we believe offer attractive valuations and the ability to deliver strong dividend yields and/or earnings growth.

In Hong Kong, high-end retail sales have shown some signs of stability following their previous declines due to the slowdown in mainland Chinese tourist spending and Premier Xi Jinping's anti-corruption drive. The non-discretionary retail landlords have continued to perform well as their best-in-class operations have delivered strong cash flow growth. Office fundamentals in Hong Kong's core business district have been supported by low vacancies and demand from Chinese companies that remains healthy as the mainland economy improves. We continue to prefer the large-cap diversified property companies that own some of the most dominant office and mall properties offer attractive valuations, and have dividends that are supported by growing rental income.

Australia's economy continues to show signs of improvement, aided by firmer commodity prices and a healthier China. While favorable for commercial real estate fundamentals in the intermediate and long term, this has recently had an adverse impact on real estate securities. The accelerating Chinese economy is beneficial to Australia's natural resource producers, which dominate the Australian stock market. As investors rotate into this sector, some have reduced their exposure to REITs, which investors view as more defensive. Nevertheless, we expect the Sydney office market to experience net demand growth in the coming quarters, making office landlords potentially more attractive. Meanwhile, retail spending has accelerated, in part due to the country's weak currency. This has improved the earnings growth prospects for shopping center landlords.

We remain cautious toward Singapore. Domestic conditions are soft (although not recessionary), but the government is reluctant to ease monetary conditions. REIT fundamentals remain challenged. A worsening supply outlook and flattish demand could result in further declines in office market rents, and valuations in the sector remain uninteresting. Likewise, retail landlords are contending with weak retail sales and declining rents.

We believe that policy changes under the Trump administration could speed up the U.S. economy and drive higher inflation, potentially causing commercial real estate fundamentals to improve at a critical time. Trump's key policy goals are more infrastructure spending, lower corporate and individual tax rates and a reduction of the regulatory burden. With Republicans in control of Congress, we see a high probability that many of Trump's legislative priorities will be implemented to some degree. Gauging from the post-election spike in Treasury yields, markets are already anticipating higher inflation and more growth. We believe REITs could perform well in such an environment, as faster growth and higher inflation could essentially reset the cycle by accelerating demand and slowing new supply. On the demand side, more fiscal spending and lower taxes could drive job growth, corporate profits and increased consumption. On the supply side, higher inflation would drive higher costs for labor, raw materials and financing which would constrain new supply and raise the value of existing properties. With occupancy rates already at high levels, a tailwind of incremental demand amid reduced supply growth could be an important driver of REIT fundamentals over the long term. *For now, we believe REITs have become more attractive due to the potential for better growth.*

Regarding the impact of tax reform, lower corporate tax rates would generally not benefit REITs as they might for other companies, since REITs are not taxed on distributed income. However, because REIT dividends are taxed as ordinary income for investors, *lower personal income tax rates would result in improved after-tax returns on dividends.*

What about rising interest rates? We believe that as long as the rise in long-term rates is commensurate with better economic growth, REITs can perform well. In fact, *REITs have historically delivered strong returns in periods of rising yields, as these periods are generally characterized by accelerating economic growth*. Looking at the past 20 years, there have been seven periods in which 10-year Treasury rates experienced a sustained rise of 50+ basis points over a period of one year or more. REITs had positive returns in six of those periods, and they outperformed the S&P 500 in five. When the economy is improving and fundamentals are strong, yield-driven corrections are often a time to consider adding allocations to real estate securities. While REIT prices may be sensitive to changes in interest rates in the short term, long-term performance depends more on real estate fundamentals and the strength of the overall economy. We believe that investors who are positioned to take advantage of temporary dislocations resulting from rising interest rates will be rewarded in the long term.

As investors look to construct portfolios suited for the current environment, we believe REITs offer attractive attributes:

- Yield with growth potential.
- Inflation protection: REITs have historically been positively correlated to changes in inflation, compared to the negative correlation to inflation associations with broad stocks and bonds.
- Potential diversification benefits: Since 1990, REITs have had a 0.55 correlation with broad equities and a 0.19 correlation with bonds. *Combining assets with different performance drivers offers the potential to improve risk-adjusted returns.*

On balance, our outlook for 2017 is for a continuation of the bull market in global REITs, predicated on:

1) continued strong industry fundamentals;
2) muted supply, as additions from development have recently declined and *are tracking below the rate of demolition of old, obsolete space*; and,
3) long-term rates remaining a tailwind (10-year Treasury yield below 4% and likely to stay below 3.5% as Fed tightening acts to "tap on the brakes" and slow the economy, reducing the marginal demand for (and cost of) long-term debt capital.

Thus, 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.

DEFINITIONS

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.

FTSE EPRA/NAREIT Developed Global REIT Index: An index whose constituents include publicly-traded real estate investment trusts ("REITs") located on both domestic and foreign exchanges in developed countries. The Index includes securities of companies that derived in the previous full fiscal year at least 75% of its total earnings before interest, depreciation and amortization ("EBIDA") from the ownership, trading and development of income-producing real estate.

North American Free Trade Agreement (NAFTA): A regulation implemented January 1, 1994 in Mexico, Canada and the United States to eliminate most tariffs on trade between these nations.

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ABOUT THE AUTHOR, ANDREW J. DUFFY, CFA

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.

Mr. Duffy co-founded Ranger Global Real Estate Advisors, LLC in 2016 and serves as the Chief Investment Officer. Prior he served as the Senior Portfolio Manager with Ascent Investment Advisors. 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.

RISKS AND DISCLOSURES

Past performance is not a guarantee or a reliable indicator of future results. As with any investment, there are risks. There is no assurance that the portfolio will achieve its investment objective. Mutual funds involve risk, including possible loss of principal. Certain members of James Alpha Advisors are also registered representatives of FDX Capital, LLC, member FINRA/SIPC. Saratoga Capital Management, LLC, FDX Capital, LLC and Ranger Global Real Estate Advisors, LLC are not affiliated with Northern Lights Distributors. The Saratoga Advantage Trust's Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. 11/11

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund. This and other information is contained in the Fund's prospectus, which can be obtained by calling 888.814.8180 and should be read carefully before investing. Additional Fund literature may be obtained by visiting www.SaratogaCap.com or www.JamesAlphaAdvisors.com.

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.

THE OPINIONS STATED HEREIN ARE THAT OF THE AUTHOR AND ARE NOT REPRESENTATIVE OF THE COMPANY. NOTHING WRITTEN IN THIS COMMENTARY OR WHITE PAPER SHOULD BE CONSTRUED AS FACT, PREDICTION OF FUTURE PERFORMANCE OR RESULTS, OR A SOLICITATION TO INVEST IN ANY SECURITY.

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