JAMES ALPHA GLOBAL REAL ESTATE INVESTMENTS FUND

Market Commentary Newsletter
Provided by Ascent Investment Advisors, LLC
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PERFORMANCE REVIEW

February was marked by a rebound in global REITs in the second half of the month. At one point in mid-February, REIT share prices were down 9% from the end of 2015, marking the worst start to a year since 2008. From there, global REITs rallied 5% off their lows, as investor confidence began to improve. Nevertheless, sentiment remains fragile, with investors continuing to worry about the uncertain outlook for global economic growth, commodity prices and central bank policy.

In the U.S., economic releases in the month reinforced fears of a global slowdown. Although labor market data remained robust, consumer confidence fell to 91.7 in February, down from 92.0 in January, while U.S. housing showed signs of slowing too, as housing starts unexpectedly declined. The current economic soft patch, coupled with the volatility in financial assets, has resulted in investors pushing out expectations for the next U.S. interest rate increase. Markets are currently pricing in a 10% chance of a rate increase in March and only a 25% chance that the Fed will raise rates in June. It seems likely that the Fed will remain on hold at its meeting on March 16, 2016 as policymakers wait for calm to return to financial markets and for the economic outlook to improve.

In Europe, political headwinds increased as the UK announced a referendum on the country's membership in the European Union. The pound fell 1.7% against the U.S. dollar to its lowest level since 2009. The polls imply that the vote will be close and this has contributed to volatility in UK REIT share prices. Fears of a "Brexit" added to political pressures in Europe, as Spain continued to struggle to form a government and the migrant crisis continued to escalate. In addition to these political concerns, investors faced mounting worries about the health of Europe's banking system. A poor fourth-quarter earnings season for many large European lenders, combined with worries about the impact of negative interest rates on bank balance sheets, resulted in heavy selling of European financials in February.

Market volatility, rising political headwinds and concerns over bank balance sheets have taken their toll on consumers and businesses across the continent. Although the Eurozone economy expanded by 1.5% in 2015 (the fastest annual rate of growth since 2011), and the composite PMI remained well above 50 in January, Eurozone consumer confidence plunged in February to its lowest level since December 2014, while business confidence and industrial production fell sharply. The soft patch in European data has turned up the pressure on the European Central Bank (ECB) to unleash another round of monetary policy easing at its meeting on March 10, 2016. After its January meeting, ECB president Mario Draghi assured markets that additional monetary policy action was imminent. Markets expect the ECB to expand its asset purchase program and cut its deposit rate by another 20 basis points to -0.5%.

The bubble in Chinese equities continued to deflate in February. The main onshore Chinese equity index is down 23% so far this year and is now almost back to the level it was at when the bubble in equity markets began in December 2014. However, while weakness in Chinese equity markets was the culprit for much of the volatility that global equities experienced in January, investors seemed more resilient to swings in Chinese equity markets in February. Meanwhile, the Chinese authorities continued to support the economy, with the reserve ratio requirement for banks cut for the fifth time in eight months.

Although market sensitivity to moves in Chinese equities has declined, investors continue to fixate on oil and other commodity prices. Over the last 15 years the Bloomberg Commodity Index and the S&P 500 have had a correlation of -0.08, but so far this year that correlation has jumped to 0.88. Although rumors of a potential agreement between Saudi Arabia, Russia and Venezuela to freeze production at current levels looks to have evaporated, negotiators have left the door open for another deal later in the year. As long as investors continue to view oil prices as a proxy for global growth, the bumpy ride for equity markets is likely to continue.

Nervousness among investors has continued to benefit global government bonds. However, investors in government bonds are contending with a growing income challenge. As central banks begin to experiment with negative interest rates, yields in fixed income markets are starting to slide. Some 27% of global government bonds are now yielding below 0%, while 65% 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 offer attractive yields.

MARKET OUTLOOK

Looking ahead, we retain our broadly constructive outlook for global real estate fundamentals and listed REIT returns, but we also remain mindful of the risks. The emerging markets slowdown is constraining global growth, momentum in the U.S. and Europe is moderating and Japan faces stronger headwinds. The risks of policy missteps in China have manifested, raising the prospect of further volatility.

Two months into 2016, all eyes are on the Fed as it takes its first step toward policy normalization since the financial crisis. Meanwhile, concerns about China's slowdown suggest that episodes such as the risk-off sell-off that we saw last August could recur. These headwinds, however, do not imply a retreat from global REITs in the near term. The early stages of U.S. tightening have not derailed property stocks in the past. Moreover, the REIT market's eventual resilience following the Fed's decision to cease quantitative easing (QE) in October 2014 provides recent evidence of the market's relatively relaxed approach to the withdrawal of extremely loose monetary conditions. With valuations now below their long-term average, the key to the outlook for global REITs rests with earnings. Regionally, we expect the strongest earnings growth to come in Europe, at the same time as the early stages of the Fed tightening cycle will favor non-U.S. REITs.

The primary downside risks are currency-induced dislocations due to policy missteps by the Fed, the ECB and/or the People's Bank of China (PBoC), and greater than expected weakening in global growth due to further weakness in emerging markets and the disinflationary forces coming out of China. Political risks are also a concern, particularly the UK referendum on EU membership, the European migrant crisis and the primary election in the U.S.

The recent drop in oil prices poses two related risks for U.S. REITs. First, the imbalance in the oil market comes from an oversupply. The process of rebalancing global oil markets may fall heavily on U.S. energy producers, triggering layoffs and spending cuts to the detriment of an already-weak U.S. economy. Second, the latest slide in commodity prices pushes near-term inflation expectations closer to zero and towards deflation risk. If prices in the economy fall (deflation), consumers may be tempted to delay their large purchases until prices stop falling. This behavior would damage revenues, hiring, and confidence throughout the economy, adding to the risk of a recession.

Although crude oil prices could slide further, a self-correcting bottom may be at hand. Global supply and demand rebalancing are underway, and today's low prices may accelerate the adjustment. Oil prices appear to be forming a bottom, and with it, the correlation with equity prices should return to a more historical (lower) level.

We expect China's growth will remain at or below the 7% target, as China passes the turning point of its transition from a manufacturing-led to a services-driven economy. Following recent volatility we think policymakers will prioritize stability in the near term. The services sector is strengthening but not yet offsetting the slowdown in investment and manufacturing. The property market's stabilization is encouraging. Looking ahead, we expect further targeted stimulus by the PBoC as financial conditions remain tight.

Eurozone growth momentum has leveled out. The refugee crisis has replaced Greek exit risk as the dominant policy challenge. The ECB is likely to expand QE in early 2016, and we see European property stocks outperforming the U.S.

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

1. Continued strong industry fundamentals (potential cash flow growth of 4%-6%);
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 & Investments* 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 $130 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.

Bloomberg Commodity Index (BCOM): Broadly diversified commodity price index distributed by Bloomberg Indexes. The BCOM tracks prices of futures contracts on physical commodities on the commodity markets. The index is designed to minimize concentration in any one commodity or sector.

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

Composite Purchasing Managers Index (PMI): An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

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.

Monetary Policy Easing: Action by a central bank to reduce interest rates and boost money supply as a means to stimulate economic activity.

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.

Quantitative Easing (QE): An unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase money supply.

Risk-On Risk-Off: An investment setting in which price behavior responds to, and is driven by, changes in investor risk tolerance. Risk-on risk-off refers to changes in investment activity in response to global economic patterns. When risk is perceived as high, investors have the tendency to gravitate toward lower-risk investments, or attempt to reduce risk by selling existing risky positions.

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 President of Ascent Investment Advisors, LLC and 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.

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 Ascent Investment 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 © Saratoga Capital Management, LLC; All Rights Reserved.

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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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