JAMES ALPHA GLOBAL REAL ESTATE INVESTMENTS FUND

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

PERFORMANCE REVIEW

Global REITs performed poorly in January as they were negatively impacted by both fears of slowing global growth (following events in China) and a decelerating domestic economy. The latter concern was underlined by news that GDP had expanded by a disappointing 0.7% in the fourth quarter of 2015. The Financials sector lagged as expectations moderated about the number of times the Fed would increase rates in 2016 after December's 25 basis point rise. Specialty and medium-sized REITs underperformed as the flight to safety drove the 10-Year Treasury yield below 2%, causing yield-starved investors to sell their bonds and buy the higher-yielding (and lower quality) REITs, while the prevailing "risk-off" sentiment caused REIT-dedicated investors to seek the perceived safety of the large-cap blue chip REITs. While December U.S. non-farm payrolls were robust, both retail sales and industrial production fell as a precursor to the poor fourth quarter GDP print. Against this backdrop, defensive property types performed relatively well, including healthcare, net lease, and self storage.

In Europe, global concerns were a significant factor in the decline in REIT share prices, with weaker Chinese data and the ongoing oil price slump putting pressure on equity markets. There was some respite towards month-end after Mario Draghi indicated that the European Central Bank (ECB) could reconsider its policy in March, leading some in the market to expect another 10 basis point cut in the deposit rate. Eurozone annual inflation (consumer price index) ticked up to 0.4% in January from 0.2% in December.

In Japan, real estate stocks were very weak in the first few weeks of 2016 before recovering some of the lost ground to close the month above the intra-month low. Market dynamics were dominated by a single event on the final trading day of the month when the Bank of Japan (BoJ), against all expectations, moved to implement a negative interest rate policy on excess reserves held at the central bank. In essence this is designed to incentivize banks to put excess cash to use in the economy. While the move is clearly in line with the BoJ's aim to increase inflationary expectations, the new policy will also have repercussions throughout the financial system and the real economy. In the process, BoJ Governor Kuroda has again demonstrated his ability to surprise financial markets, as he himself clearly ruled out such a move just a week ahead of the decision. Investors had limited time to price in this change before the end of the month, thus performance for January as a whole tells us almost nothing. The new policy appears to be bad for banks and, potentially, good for real estate. The bank sector did indeed close January down by 15.3%. Conversely, the real estate sector, which had been having a lackluster month, jumped 9.5% in the month's final session.

In China, property stocks had a turbulent start to 2016. Chinese stock markets were forced to close early twice within a week after a new circuit-breaking mechanism was triggered. The impending expiration of selling restrictions on major shareholders and a weakening of the Chinese Yuan by the People's Bank of China (PBoC) were blamed for the heavy markets. Continued weak data for the Chinese economy also weighed on sentiment. Meanwhile, in Hong Kong stocks also saw declines as market fears in China spilled over into the local stock market.

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.

One month 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 in 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, while the early stages of the Fed tightening cycle should 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 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 general election in the U.S.

The recent drop in oil prices poses two related risks for 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 close. 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) average.

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 the 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 the 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 assets under management of all REIT funds (domestic-only plus global) is ~$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.

Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

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.

Gross Domestic Product (GDP): The monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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.

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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

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.

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