JAMES ALPHA GLOBAL REAL ESTATE INVESTMENTS FUND

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

PERFORMANCE REVIEW

Global REITs rebounded sharply in March, recovering from their February lows as investor sentiment turned strongly positive in what was a macro-driven month. Catalysts of this positive change in sentiment were a combination of accommodative central bank policy in Europe and Asia, bond yields which remained low and a rebounding energy market with crude oil finishing the month above $38/barrel, up nearly 50% from the low in mid-February. Central bank policy remained both a critical input to as well as reflective of economic trends, including the Bank of Japan’s move to negative rates, a series of monetary policy stimulus measures announced by the European Central Bank (ECB) and dovish comments from the U.S. Fed which implied that the Fed would rather be late in raising rates than early. The Fed’s stance was well-received by the market, with bond yields moving lower and equities including real estate stocks moving higher. The yield on the 10-Year Treasury finished the month at 1.77%, sharply lower from 2.27% at year-end 2015.

The U.S. performed in-line with the global REIT benchmark index but with a wide disparity of returns generated across property types. The net lease sector outperformed, as did the specialty sectors of data center REITs and self-storage, both of which have steady growth profiles. Office, apartments and healthcare companies underperformed despite fundamentals which remain relatively strong. Healthcare REITs, a traditional safe haven for investors seeking yield and stability, failed to deliver on this reputation as the result of concerns regarding the financial stability of healthcare operators which lease and pay rent to the healthcare REITs, particularly in the skilled nursing sector.

European property companies generated positive performance in Continental Europe, supported by a modest improvement in property fundamentals and accommodative ECB policy. The U.K. posted negative returns as Brexit concerns overwhelmed fundamentals. While the current consensus is that U.K. voters will elect to remain in the EU, uncertainty abounds as politicians highlight concerns surrounding immigration policy. Acts of terrorism have added to these fears and heightened volatility. We believe the sell-off in the U.K. to be overdone given the strength of underlying fundamentals, and that the “Remain” vote will prevail. That said, we recognize the risks associated with either potential outcome.

In the Asia-Pacific region, returns were positive with the exception of Hong Kong where property companies continue to experience the headwinds of a decelerating China, soft retail sales and drifting residential fundamentals. Australia outperformed as investors continued to favor the country's stability of earnings. Japan and Singapore were helped by a strong local currency.

MARKET OUTLOOK

Looking ahead, we retain our broadly constructive outlook for global real estate fundamentals and listed REIT returns. 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 — like global REITs.[1]

We expect REIT earnings will generally be solid, with a continuation of trends seen over the past several years including improving occupancies, higher rents and an active transaction market. Low levels of new construction globally suggest that owners of existing properties should continue to enjoy pricing power as incremental demand for space exceeds incremental new supply. Earnings growth will be generated by a combination of "internal" growth from improving operating fundamentals, as well as "external" growth, which includes value-adding acquisitions, development and re-development. Companies with management teams which intelligently deploy capital will be rewarded with premium valuations.

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 8% 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.[1]

In the Asia-Pacific region, we like Australia and the Japanese REIT sector. Australian investments are benefiting from an attractive combination of yield and growth, plus merger & acquisition activity which has recently increased given access to attractively-priced capital. In Japan, we prefer REITs with exposure to the Tokyo office market, which continues to experience improved rental growth as vacancies decline. We also favor retail landlords in urban locations who are benefiting from strong inbound tourism and consumer spending. We are cautious on Hong Kong and Singapore due to the indirect impact of weaker demand from mainland China.

Despite the potential impact of Brexit, we continue to like the prospects for property companies in the U.K. and selectively in Europe. In the U.K., property fundamentals are improving more visibly than on the continent, although the continent presents opportunity for extra current yield, particularly as the ECB continues to provide monetary stimulus through 2016. Our investments are focused on companies with higher growth, such as London office owners, dominant continental retail companies and German residential, all of which have reported strong rental growth. The portfolio also includes select value names which offer a high level of cash flow and dividend yield.

In the U.S., we prefer discounted stocks that offer visible earnings growth, conservative balance sheets and modest development pipelines. Specifically, we favor the data center, self-storage and student housing sectors. We are less constructive on the net lease and healthcare sectors due to their more bond-like characteristics in a rising rate environment.

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 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 & 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.

[1] *Ascent Investment Advisors, 2016.*

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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.

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.

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

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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