JAMES ALPHA GLOBAL REAL ESTATE INVESTMENTS FUND

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

Performance Review

Global real estate stocks advanced in the third quarter, with gains from Europe and Asia Pacific more than countering a modest decline in the U.S. The big news for global real estate in the quarter was its much-anticipated move into its own Global Industry Classification Standard (GICS) sector. While it's essentially a reclassification that removes real estate stocks from the financials sector where they've been buried since inception, real estate now stands alone as the eleventh GICS sector. The most important consequence of this move, in our view, is the heightened awareness expected from generalist equity managers and pension funds, who have been chronically underweight in the sector for years. While somewhat obscured up until now, that sort of positioning will be glaringly obvious going forward, and much more difficult to defend given real estate's historically strong performance. Already, there is abundant anecdotal evidence of elevated interest from generalist investors and institutions, and the strong flows into the sector over the last six months suggest that many were making an effort to better position their portfolios ahead of the official move on September 1. We strongly believe it will prove very beneficial over the long term, now that real estate is firmly established in the mainstream where it has long belonged.

Around the world, central banks remained highly accommodative. The Bank of Japan introduced a new yield-targeting policy (including an effort to maintain a 0% yield on the 10-year government bond) and reiterated its pledge to continue monetary easing until a sustainable 2% inflation rate is reached. On the economic front, China saw some positive surprises, including better-than-expected industrial production data and a stabilization in GDP growth. Europe's overall growth remained subdued, but manufacturing activity in the region picked up in September. The U.S. expansion continued at a modest pace, driven largely by consumer spending. In the U.S., concerns over the potential for near-term monetary tightening by the Federal Reserve pressured REITs after their strong year-to-date performance through July.

Returns varied by property type for the quarter. The self-storage sector had a sizable decline on concerns that strong cash flow growth may be decelerating due to rising supply in certain markets. Data center REITs, which continued to see strong demand for their services, fell back after posting very strong year-to-date gains. Apartments were lackluster on the prospect of softer fundamentals. Industrial REITs rallied on strength in demand from e-commerce tenants. The office sector also outperformed.

European markets were mostly positive. U.K. real estate stocks gained back some of the sharp losses they posted in the days following the Brexit decision in late June. The country's economy so far has appeared resilient to Brexit, and demand for U.K. commercial properties has remained generally healthy at both the tenant and direct investment levels. On the retail front, the significant decline in the U.K. pound since the vote has aided consumer spending, thanks in part to increased foreign tourism.

Good performers in Germany included residential landlords, which continued to benefit from solid fundamentals. Germany's real estate stocks struggled in September, however, with sentiment toward lending activity hindered by news surrounding Deutsche Bank. News circulated that the U.S. Department of Justice (DoJ) would seek a $14.5 billion fine to settle litigation related to the bank's residential mortgage securities business. The DoJ quickly lowered expectations as to the possible size of the payment. France saw signs that occupancies were slowly improving, benefiting rent growth. Italy was hampered by concerns that the country's banking sector will continue to struggle indefinitely.

Asia Pacific had mixed performance. Hong Kong rallied on stabilizing growth in mainland China. Residential developers saw some encouraging trends; September unit sales were strong in the primary market, exceeding an already solid August, while secondary market volume edged up.

In Japan, developers declined on signs of continued economic weakness and a lack of confidence in ongoing stimulus programs. However, several J-REITs benefited from demand for reliable income. Their appeal seemed to increase following the Bank of Japan's announcement of its yield-targeting strategy, which lowered the chances for an interest rate hike in the near term. Australia underperformed. In August, the Reserve Bank of Australia (RBA) cut the official interest rate by 25 basis points to 1.5%, a record low, after also cutting earlier this year in May. The RBA pointed to a softer inflation outlook as the key consideration underpinning the cut. Singapore performed well despite a supply overhang — available space has been rising in most property sectors in the country.

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 the steady growth of the U.S. economy. However, after strong performance from February's lows, valuations are not as compelling as they were, and we are harvesting gains to redeploy the capital into non-U.S. markets. 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 November's U.S. presidential election at the earliest (with only a small increase when it does hike). Low rates should continue to support property valuations. 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.

We remain cautious toward London office and residential companies, due to their potential vulnerability to Brexit consequences, and we have virtually no exposure to those sectors. Instead, we favor U.K. companies that we believe exhibit more defensive or structural growth characteristics. These include landlords in sectors such as logistics, student housing and healthcare. The logistics sector in the U.K. has seen rising demand driven by the growth of e-commerce, which is in secular expansion. The student housing market is economically insensitive and experiencing steadily greater demand for space. Further, the weakening of the British pound will likely strengthen demand from non-U.K. students. And healthcare property owners should benefit from relatively steady, economically defensive cash flow growth, owing to the fact that rents are essentially guaranteed by the National Health Service, an arm of the U.K. government.

On the continent, Brexit has raised political risks, as the Leave vote might encourage other European countries to consider their own exits. The interim negotiations between the U.K. and the EU will be watched closely for potential consequences. In this light, we expect the European Central Bank (ECB) to at least maintain recent levels of quantitative easing (QE), given the bank's aim to protect the region from external shocks, including threats related to this new development. While we are monitoring events closely, for now we maintain a generally constructive view of Europe's property markets, particularly dominant shopping centers in major city centers 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 currently exceeds supply.

Valuations remain undemanding in Asia Pacific. In Hong Kong, overall retail sales are likely to stabilize in coming months, following a two-year period of sharp declines due to a slowdown in tourist spending, supported by signs of a bottoming in tourist arrivals. 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 central business district have been supported by low vacancies and strong demand from Chinese companies. In our view, 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.

In Japan, developers continue to trade at attractive valuations, even as most of them reported solid earnings in their latest results announcements. We remain positive on selective J-REITs and developers that we believe may offer attractive valuation and deliver strong dividend yields and/or earnings growth. The dividend growth prospects for some leading J-REITs appear to be improving, backed by rent increases and lower interest costs. Australia's economy has stabilized in recent months at a modest 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 has encouraged residents to spend at home rather than abroad. In other sectors, we are particularly encouraged by the Sydney office market, which has exhibited strong net occupancy and rental growth, and we believe these trends should continue. In Singapore, we prefer quality retail landlords that may be able to deliver resilient earnings in the lackluster economic environment. We remain cautious toward Singapore office REITs, as the strong pipeline of new supply continues to pressure market rents.

Going forward, Brexit uncertainty, currency wars, and a worldwide epidemic of negative interest rates will be key economic drivers. Economic growth in the four largest economies (Eurozone, U.S., China, and Japan) is expected to slow somewhat in 2016 but remain above recessionary levels.

On balance, our outlook for the remainder of 2016 and into 2017 is for a continuation of the bull market in global REITs, predicated on:

1. Continued strong industry fundamentals;
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 have recently declined and 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, RBA) are still in an easing cycle.

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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 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.

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.

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.

Reserve Bank of Australia (RBA): The Reserve Bank of Australia is Australia’s central bank and its main responsibility is to be involved in Australia’s monetary policy. In addition, the RBA is also involved in banking and registry services for federal agencies and some international central banks. The RBA is tasked with contributing to three objectives: a) The stability of Australia’s currency, b) Maintenance of full employment in Australia and c) The economic prosperity of the people of Australia.

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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.

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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