

Q4 2012 MARKET COMMENTARY

January 2013

With the end of a historically challenging year for alternative investment strategies, signs emerge of a potentially more favorable environment.

OVERVIEW

One by one, the uncertainties that hampered economies and roiled markets in 2012 seemed to recede a bit in the fourth quarter. It started with the central bankers: Chairman Mario Draghi's Q3 announcement of unlimited sovereign debt purchases by the European Central Bank (ECB) dramatically reduced the short-term tail risk of a Eurozone break-up. The result: A quarter that, unlike the previous three, was *not* driven by a steady stream of market-moving, crisis-related news from the European Union.

Across the Atlantic, US stocks spent the early weeks of Q4 on a stimulus high, fueled by the Federal Reserve Bank's announcement of open-ended quantitative easing under QE3 in September. The event that disrupted that rally in the short-term—the US presidential election—actually helped set the market on more solid long-term footing, as investors found some measure of certainty in the reelection of Barack Obama. Renewed fears that US politicians would fail to reach a compromise to avoid a plunge over the so-called “fiscal cliff” pushed equities lower in the last week of 2012, but stocks rallied on the final trading day on word that a deal was at hand.

In spite of these developments, sentiment at year-end had not yet turned entirely positive. Investors are keeping a wary eye on some contrary indicators, including a Q4 downturn in commodities markets that seems out of place if the global economy is truly in recovery mode. Additional fiscal battles loom in Washington as well. More broadly, the market has yet to receive convincing data indicating that the good news in Q4 has enticed companies to resume capital expenditures. Investors are therefore left to wonder if the improving picture reflects real fundamental strength, or merely a market riding an unsustainable tide of stimulus.

As shown in *Figure 1*, equities (S&P 500 Total Return Index) were down -0.38% in Q4, and bonds (Barclays US Aggregate Bond Index) were up a modest 0.22%. Among alternative investment strategies, managed futures (Altegris 40 Index®) were down -2.88% during the quarter, while global macro (Barclay Global Macro Index) was up 0.02%. Long/short equity (HFRI Equity Hedge [Total] Index) was up 1.82% and long/short fixed income (HFN Fixed Income [Non-Arbitrage] Index) was up 2.72%.

FIGURE 1.

ALTERNATIVE INVESTMENT INDEX PERFORMANCE VERSUS TRADITIONAL INDICES | Q4 2012

Mixed performance by alternatives and major indices during the fourth quarter.

	2012 Quarterly Return				Annual Return					10-Year Return Jan 2003–Dec 2012			
	Q4	Q3	Q2	Q1	2012 YTD	2011	2010	2009	2008	Total Return	Ann ROR	Std Dev	Max DD
Altegris 40 Index®	<i>-2.88%</i>	0.98%	-1.34%	-1.56%	<i>-4.75%</i>	-3.23%	11.33%	-7.98%	15.47%	55.05%	4.48%	9.85%	-13.24%
Barclay Global Macro Index	<i>0.02%</i>	2.46%	-2.63%	2.78%	<i>2.57%</i>	-3.65%	6.74%	7.49%	-0.65%	79.88%	6.05%	5.31%	-6.42%
HFRI Equity Hedge (Total)	<i>1.82%</i>	3.44%	-4.62%	6.89%	<i>7.39%</i>	-8.38%	10.45%	24.57%	-26.65%	75.90%	5.81%	8.77%	-30.59%
HFN Fixed Income (Non-arbitrage)	<i>2.72%</i>	4.22%	1.17%	3.32%	<i>11.90%</i>	3.90%	11.17%	22.37%	-13.78%	105.40%	7.46%	3.88%	-14.56%
HFRI Fund Weighted Composite Index	<i>1.27%</i>	3.02%	-2.83%	4.71%	<i>6.16%</i>	-5.25%	10.25%	19.98%	-19.03%	90.53%	6.66%	6.47%	-21.42%
S&P 500 Total Return Index	-0.38%	6.35%	-2.75%	12.59%	16.00%	2.11%	15.06%	26.46%	-37.00%	98.58%	7.10%	14.77%	-50.95%
Barclays US Aggregate Bond Index	<i>0.22%</i>	1.59%	2.06%	0.31%	<i>4.23%</i>	7.86%	6.56%	5.93%	5.24%	65.85%	5.19%	3.55%	-3.82%
MSCI EAFE Index (Net)	6.57%	6.92%	-7.13%	10.86%	17.32%	-12.14%	7.75%	31.78%	-43.38%	120.21%	8.21%	18.42%	-56.68%
FTSE NAREIT Composite Total Return Index	<i>2.03%</i>	1.79%	4.45%	10.36%	<i>19.72%</i>	7.31%	27.55%	27.79%	-37.84%	180.88%	10.88%	24.48%	-68.17%
S&P GSCI Total Return Index	<i>-3.28%</i>	11.53%	-12.38%	5.88%	<i>0.06%</i>	-1.18%	9.02%	13.67%	-46.49%	31.28%	2.76%	25.10%	-67.65%

SOURCE: Pertrac; Figures in italics represent fourth quarter estimates as of January 10, 2013. There is no guarantee that any investment product or strategy will achieve its objectives, generate profits or avoid losses.

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WITH EUROPE QUIET, THE US AND JAPAN TAKE CENTER STAGE

The fourth quarter of 2012 was particularly notable for a lack of headlines from Europe. The ECB's Q3 commitment to unlimited sovereign bond purchases defused the Eurozone crisis at least temporarily by removing the near-term risk of a breakup of the European Union.

With those concerns moved to the side, four other developments drove market direction and sentiment in Q4 2012:

- 1 The victory of President Obama over Mitt Romney in the US presidential election, which triggered a brief but sharp equity market selloff.
- 2 Continued stimulus from central banks in Europe and the United States, including a December announcement by the US Fed that it would maintain historically low interest rates as long as the US unemployment rate was above 6.5% and inflation below 2.5%.
- 3 The "fiscal cliff," the looming combination of automatic tax increases and government spending cuts that acted as a drag on economic and investment activity in the US throughout the quarter.
- 4 The return of the Liberal Democratic Party (LDP) to power in Japan and the subsequent assumption that the Bank of Japan (BoJ), one of the last holdouts for tight monetary policy, would join the major Western powers in their historic stimulus binge.

CENTRAL BANKS AND POLICY EXPECTATIONS SET THE TONE

Freed from the Eurozone-related volatility that had whipsawed markets for the prior year, activity in Q4 was largely driven by stimulative policies put in place by central banks the previous quarter. After a difficult October in the equities market, stocks continued to sell off in November in the wake of Obama's victory over Romney and the assumption that tax increases were inevitable. Hit hardest were the stocks that had performed especially well in 2012, including many blue-chips, as investors took profits ahead of the expected expiration of Bush-era tax cuts. As expected, US interest rate futures rallied as the stock indices faltered. That selloff proved transitory, however, and the traditional late-year "Santa Rally" took hold before the Thanksgiving holiday. In December, the Fed provided the market with even more fuel by announcing that, for the first time in its history, it was explicitly linking its interest-rate policy to specific quantitative metrics of unemployment and inflation—feeding into a late-quarter equity market recovery. Accordingly, interest rate futures reversed course and yields rose from mid-November through mid-December.

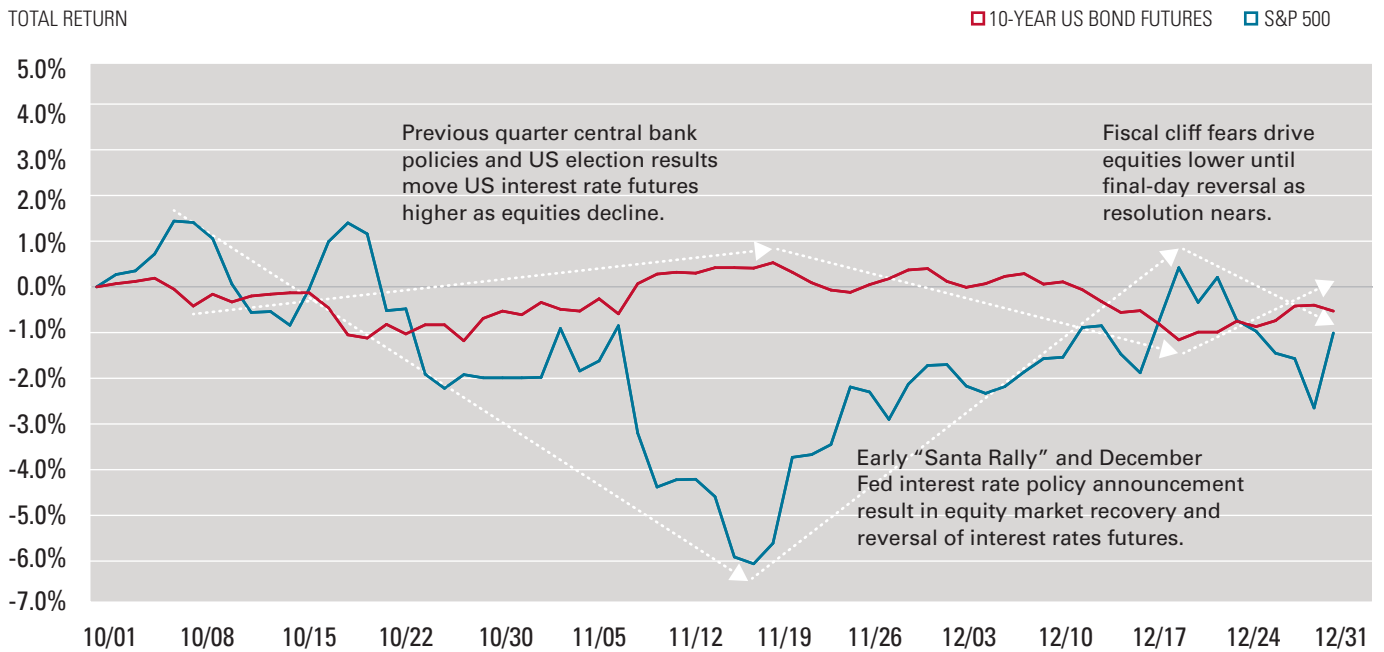
Hanging over all this was the fiscal cliff—which the US Congressional Budget Office estimated could knock half a percentage point off US GDP in 2013 if allowed to take effect. There is no doubt that concerns about the fiscal cliff acted as a drag on economic and investment activity during the quarter. The approaching end-of-year deadline for congressional action actually stopped the equity rally in its tracks and the S&P 500 TR notched five consecutive losing days, culminating with a ~1.1% drop on Friday, December 28. Interest rate futures rose as equity markets fell, but the movement in rates was relatively modest in comparison. By the time domestic equity markets opened the following week, word had begun to spread that a deficit deal was imminent and the S&P 500 TR rose 1.7% on the final day of trading for 2012, while interest rates fell in nearly the same proportion. Interestingly, as represented in *Figure 2*, it appears as if equity and interest rate markets were nearly negatively correlated, moving in almost exactly the opposite direction as macro sentiment ebbed back and forth.

The final major market driver in Q4 was Japan, where the ascendancy of the LDP and presidential candidate Shinzo Abe convinced investors that the Bank of Japan's foray into monetary stimulus would not only continue, but accelerate in 2014. Throughout the presidential campaign, Abe called on the BoJ to double its inflation target from 1% to 2%. When the central bank announced its third round of stimulus in the past four months in the wake of Abe's landslide election victory as Prime Minister in

December, it also signaled that it would indeed set a higher target at its January meeting. While the BoJ's actions were certainly a direct response to signs that a fledgling economic recovery might be flagging, Abe's role in pushing the bank to move has called into question the bank's historic independence. These developments—and Abe's promise to deliver a big fiscal stimulus package to jump-start the economy—threatened and ultimately did send the yen into a tailspin.

FIGURE 2.
CORRELATION OF EQUITY MARKETS AND INTEREST RATE MARKETS | Total Returns Q4 2012

Equities and interest rate futures moved in opposite direction on central bank policies, US election results and the fiscal cliff.



SOURCE: Altegris, Bloomberg.

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PRIMARY MARKET EFFECTS

The impact of the events described above was most obvious in currency markets. The achievement of at least temporary stability in Europe opened the door to a strong November recovery in the euro that caught many managed futures managers off guard. An early November decline in the euro seemed to indicate that the short euro trade was still solid. But as Europe found its political footing and markets shifted to more of a risk-on environment, the euro rallied hard in late November and into December. The rapid appreciation of the euro against nearly every other currency in the world erased prior gains from short positions and made the euro a negative attributor for a number of managed futures managers.

Many macro managers were long the yen moving into Q4. But troublingly weak data releases and the increased certainty that Abe would be swept into office with a mandate for both monetary and fiscal stimulus sparked a selloff, with the currency falling 10% against the dollar and 12% against a recovering euro over the three months. Among managed futures managers nimble enough to put on short positions ahead of the dramatic move, the short yen trade proved to be one of the quarter's biggest winners.

Long/short equity managers faced a challenge in the form of the post-election downturn in US stocks, in which names that had traded up strongly in the first three quarters of the year sold off disproportionately as investors took profits ahead of seemingly unavoidable tax increases. Included in that list of losers were many companies classified by managers as long-term holds. A rebound in US stock indices later in the quarter made up some of the lost ground.

If there was one asset class that stood out in Q4 as a potential cause for concern about future market direction, it was commodities. Commodity futures essentially traded sideways through the first three quarters of 2012, with a few notable exceptions, such as the drought-driven rally in grains in Q3. In Q4, however, that rally reversed course and grains joined other commodities in a downturn. This reversal represented a pain point for macro and managed futures managers, and, perhaps more importantly, raised an interesting yet possibly troubling question: If the global economy is gaining strength, why are commodities selling off?

Against this backdrop, following is a detailed assessment of the managed futures, global macro, equity and fixed income markets.

Managed Futures Strategy Summary

FOR BATTERED TREND FOLLOWING MANAGERS, HOPE SPRINGS FOR A BOUNCE-BACK IN 2012

For the first three quarters of the year, foreign exchange was the worst-performing asset class for managed futures. In Q4, however, it was the best performer for many managers, due primarily to the fact that the market yielded two persistent trends to which trend followers could capture. Profits largely came from big wins on the short yen trade and smaller, but still significant, gains in long Australian dollar positions.

Stock index futures also represented a source of positive attribution for trend following managers who were generally positioned long at the beginning of Q4. Due in part to the medium- to long-term nature of their strategies, these managers largely stayed the course when the market took a downward turn after the US presidential election, and they benefited from their positioning during the subsequent equity market rebound in November and most of December. Some managers also capitalized on growing confidence in the European Union, reflected in the performance of Germany's DAX Index, which was up 29% for the year.

Most trend following managed futures managers came into the quarter long interest rate futures, yet these contracts ended the quarter modestly lower and had a small negative impact on performance. Managers also generally entered the quarter bullish on commodities, and thus saw sizable losses as the asset class fell in Q4.

The performance of trend-following managers in Q4 and 2012 as a whole must be judged in the context of conditions that rank among the most unfriendly in history for these strategies. To say that markets lacked consistent trends this year would be an understatement. With only interest rates and stock index trends providing some relief for most of 2012, as *Figure 3* shows, markets have been "mean-reverting" more than at any point in the past 20 years—posing a sizable challenge to managers looking to exploit identifiable directional trends. As a result, managers pursuing "pure" trend following strategies underperformed counterparts following shorter-term strategies or employing counter-trend, non-trend or mean-reversion systems. Trend followers with a commodity bias had a particularly difficult year given the lack of directionality in most commodity futures, with the exception of grains over the summer.

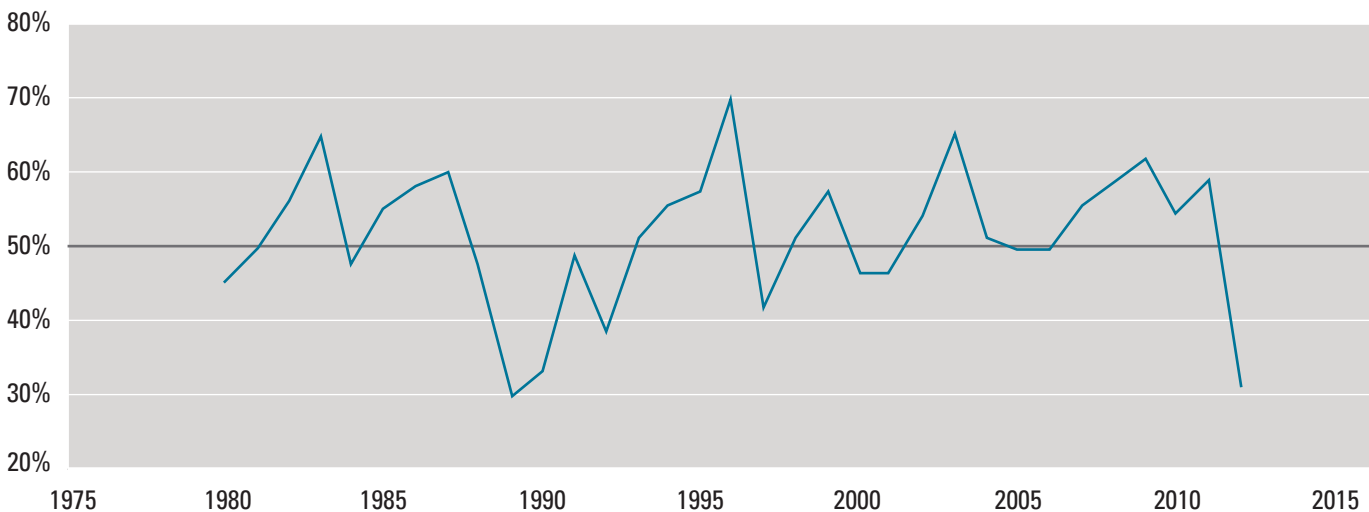
The good news: As *Figure 3* illustrates, this is not the first time that markets have behaved in this manner, and all prior periods of exceptional mean reversion have proven themselves short-lived. Many were followed by environments characterized by more durable trends. Indeed, Q4 2012 brought signs that such a transition might be in store. In particular, the improved situation

in Europe put at least a temporary stop to the string of sudden and dramatic policy interventions related to the crisis. That positive development could clear the way for market trends to play out in a more normal course and provide better opportunities for trend followers in the months to come.

FIGURE 3.

PERSISTENCE OF QUARTERLY MARKET TRENDS | As of November 2012

Quarterly mean reversion greater than any time over the past 20 years.



SOURCE: Winton Capital Management, Winton Futures Fund November 2012 Fund Update. Winton neither represents nor warrants the accuracy or completeness of the information contained in this exhibit and accepts no liability for any inaccuracy or omission.

Based on Winton's research, this graph shows for each year on the x-axis how often an "up" was followed by another "up," or a "down" followed by another "down" across 16 major markets, expressed as a percentage. Major markets used: "SANDPE," "TNOT10Y," "EURO," "JYEN," "CRUDE," "CORN," "WHEAT," "DAX," "BUNDS," "GOLD," "COPPER," "ALUMIN," "NIKKEI," "JGBT," "EURO\$," and "EURIBOL." The further a data point lies above the 50% line, the more quarterly trends there were in a year.

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Global Macro Strategy Summary

AS POLICY INTERVENTIONS RECEDE, COULD A RETURN TO FUNDAMENTALS BE IN THE OFFING?

Macro managers as a group struggled to deliver positive performance in Q4 amid a high degree of macroeconomic uncertainty.

The equity rally stumbled in Q4, with the S&P 500 TR losing 1.85% in October, falling again in the wake of the US presidential election and yet again ahead of the year-end fiscal cliff deadline. These slides, however, were offset by a post-election rally and a strong surge on word of a fiscal cliff deal in the last trading days of 2012. For macro managers with significant equity exposure, the equity rally in November and December proved to be quite profitable, as it has been over the course of the year.

Nevertheless, with equities ultimately moving sideways in Q4, FX emerged as perhaps the major driver of performance among global macro managers during the period—for better or for worse. Many macro managers suffered losses as the short euro trade—a favorite throughout the year—turned against these investors in Q4 with the ebbing of concerns about a Eurozone breakup. The Japanese yen also emerged as a major determinant of manager performance last quarter, with long positions inflicting significant pain on some and

short positions driving profits for others, following rumors of the BoJ increasing its inflation target from 1% to 2%.

In general, opportunities in the G7 currencies were limited due to the simple fact of less differentiation among the major global economies. Indeed, all with the exception of Canada have been pursuing significant monetary easing, with most experiencing modest GDP growth. In addition, the Swiss franc being pegged to the euro effectively reduced the opportunity set to five currencies to trade against the US dollar. The result was a highly correlated set of currencies, which with the exception of the yen over recent months has experienced choppy price action as delineated in *Figure 4*.

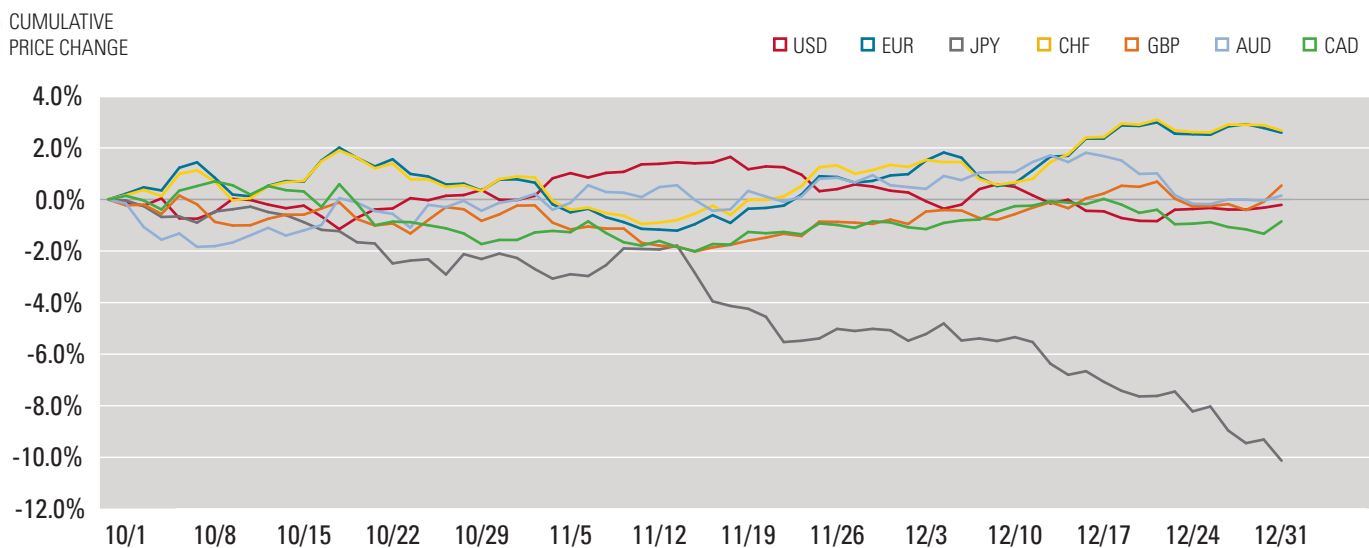
The fourth quarter ultimately proved to be a disappointing end to a disappointing year for many macro managers. In a period chock full of important “macro” events, managers—including many of the largest and most well-known macro funds—failed to capitalize.

One reason for this underperformance was the unpredictability of the political situation in Europe. With the Eurozone debt crisis in a constant state of flux, even those working to craft policy responses could not predict what would happen next. In such an environment, it proved difficult—if not impossible—for managers to derive significant informational advantages or to put any such advantages to use. With markets often

gyrating based upon the whims of politicians rather than underlying economic fundamentals, many managers opted to sit on the sidelines, keeping exposures relatively low, rather than play in a game where they didn't know the rules—a justifiable stance, but one which led to relatively underwhelming results in a strong year for the major global stock indices.

FIGURE 4.
G7 CURRENCY CHART | Price Movement % Q4 2012

Choppy price movement and high correlation between currencies, excluding the yen, provide limited opportunities for macro managers.



SOURCE: Altegris, Bloomberg.

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Equities and Long/Short Equity Strategy Summary

MANAGERS SAW EXPOSURES RISE LATE IN 2012, BUT NEW YEAR COULD BE A STOCK-PICKER'S GAME

Throughout much of 2012, long/short equity managers kept exposures lower than average in a market driven largely by risk-on and risk-off trading stemming from macro factors that at times trumped underlying fundamentals. During Q3 and most of Q4, however, this trend was reversed as managers increased both net and gross exposures in the wake of the Fed's announcement of unlimited quantitative easing and near-zero interest rates for the foreseeable future. The increase in exposures was seen notably in cyclical sectors such as energy and industrials, alluding to an improved risk appetite by managers. Furthermore, in Q4, the number of long-short equity funds that were net short was at its lowest point in more than a year—also a sign of improved market sentiment. But the upward trend in exposures stalled in December as managers treaded with caution ahead of the impending fiscal cliff.

On a sector basis, the biggest performers for long/short equity managers in Q4 were long positions in consumer discretionary, financial and healthcare. Contributing to that performance was Fed support of consumer spending and financials—especially in the mortgage sector—the elimination of doubts about the future of Obamacare with the reelection of the President, and increasing clarity about the outcome of the Dodd-Frank Act and other financial regulations.

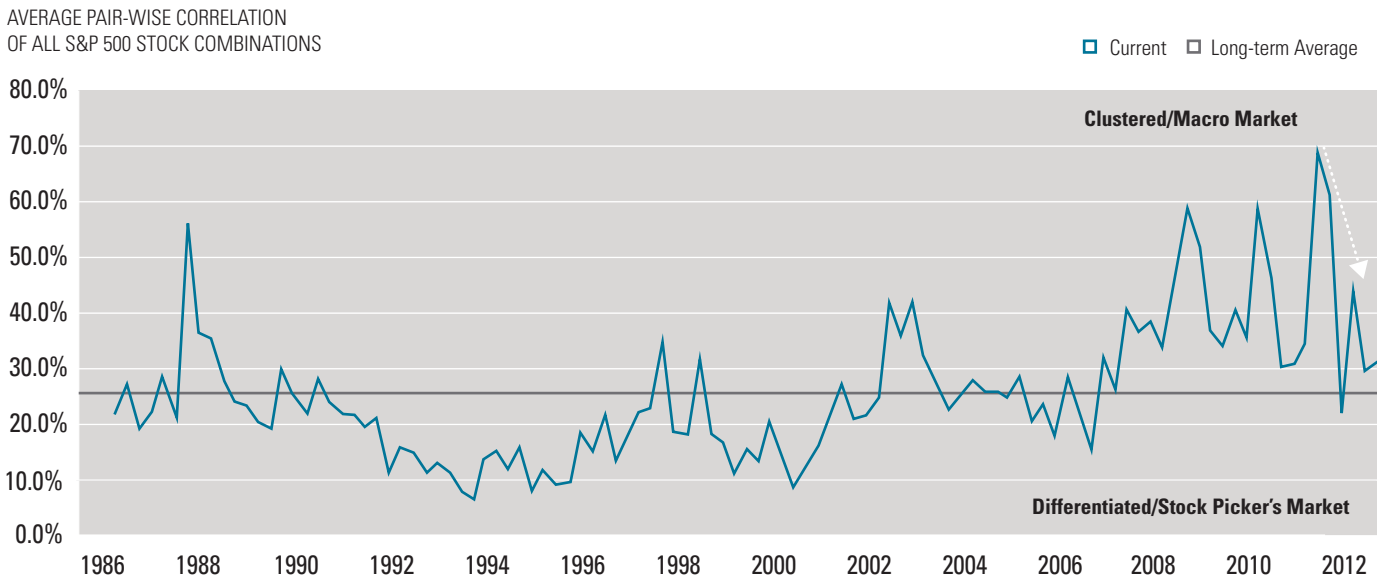
It is important to bear in mind that many of the most experienced and respected long/short equity managers focus not on the beta that served other investors so well in 2012, but rather on alpha. Even with contentious US government spending decisions still to be made in 2013, central bank stimulus and at least temporary stability in Europe has seemingly reduced tail risk from recent,

crisis-induced levels. Thus, there is ample reason to believe that the sweeping risk-on/risk-off moves that have dominated market action for the past two years might also recede, allowing individual company fundamentals

to shine through and potentially creating better opportunities for stock-pickers to differentiate themselves from the broad equity market indices. *Figure 5* suggests that the market is indeed moving in that direction.

FIGURE 5.
PAIR-WISE CORRELATIONS OF ALL S&P 500 STOCK COMBINATIONS¹ | Q4 2012

Market moving toward a potentially better environment for stock-pickers to differentiate themselves.



SOURCE: BofA Merrill Lynch US Equity and US Quant Strategy.

¹ Correlation is a statistical measure of how returns of two securities move together over time; a correlation of 1 indicates the two returns move perfectly together, 0 indicates movements are random, and -1 indicates opposite movements. Pair-wise correlation is the correlation between each set of securities found in a correlation matrix.

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Fixed Income Strategy Summary

A POSITIVE OUTLOOK AMONG INVESTORS IS TEMPERED BY QUESTIONS ABOUT RATES

The near-unanimous view of the fixed income market as the year closed was that the major central banks are committed to doing whatever it takes—for as long as it takes—to sustain modest economic growth. This position gained strength from the December announcement by the Fed that it planned to hold short-term interest rates at historic lows for as long as the US unemployment rate remained above 6.5% and inflation below 2.5%. In response to increased optimism regarding growth and inflation expectations during Q4, long-term interest rates ended the quarter slightly higher.

While government bond returns were slightly negative during Q4, corporate credit again produced gains as credit spreads continued to tighten during the quarter. Mortgages were also positive, with higher-yielding non-agency bonds outperforming agencies despite continued government-driven bond purchases from QE3.

Conditions at quarter's end seemed bullish for credit assets. However, one key question remains unanswered: How much credit spread tightening is needed to sustain positive returns if the long-term tailwind of falling interest rates finally becomes a headwind? Many have predicted a bursting bubble, and if that proves to be the case, having access to a portfolio of managers who can truly short fixed income could become particularly valuable.


Conclusion

There is no escaping the fact that many alternative investment strategies delivered disappointing results both in Q4 and in 2012 as a whole. But it is crucial to understand the context of this performance. For the past several years, policy interventions related to serious economic and political crises have been the dominant drivers of financial markets, contributing to the most difficult environment for managed futures funds in history. The magnitude of the Eurozone crisis and the sideways price action caused by day-to-day political gyrations in Europe and, to a lesser degree, the US, has posed similar challenges to macro managers. In the face of daunting tail risk, many macro managers maintained defensive stances throughout 2012, and that strategy as a whole failed to exploit an environment teeming with macro events.

The past year has been characterized by wild swings between risk-on and risk-off positioning among investors reacting to the most recent political developments. The sizable increase in stock indices in 2012 was in many ways a function of this dynamic: Actions by the European Central Bank and the US Fed helped reduce the risks of a near-term Eurozone breakup or double-dip recession in the United States, triggering a strong shift to risk-on and driving up valuations on virtually all risk assets. For long/short equity funds and other alternative investment managers holding low net exposure to the market, however, these increases took the form of broad-based beta and produced limited opportunities for alpha generation. In the context of this historically unfavorable set of conditions, the recent performance of strategies such as managed futures, global macro, long/short equity

and long/short fixed income is within expectations. After all, most alternative investment strategies seek to avoid tail risk, even if it means missing out on some potentially lucrative short-term trading opportunities.

Of course, these strategies are also designed to potentially enhance returns, and, to that end, the developments of Q4 could set the stage for more favorable conditions in 2013. With central bankers in Europe and the United States committed to aggressive, long-term stimulus policies, and the ECB finally taking strong action to defuse the Eurozone crisis, it appears that political interventions could recede in importance in the coming months, allowing fundamentals to reassert themselves, giving trends time to materialize and play out, and presumably presenting more opportunities for stock-pickers and other alpha-generating strategies.

At the same time, tail risk has certainly not been defeated. A Q4 downturn in commodities could be a warning sign for troubles down the road. More broadly, until corporate investments and consumer spending pick up, investors will not know for sure whether central bank stimulus has translated into true economic strength, or if 2013 will bring yet another false start and subsequent stall. In this context, we remain firm in our conviction that flexible, opportunistic alternative investment strategies that have demonstrated the ability and potential to both limit downside risk in such uncertain markets and generate alpha will serve an important role in investor portfolios in 2013 and beyond. 

ABOUT RISK

Alternative investment strategies that utilize managed futures, global macro, long/short equity and long/short fixed income strategies are subject to risks such as market risk, commodity risk, potential loss due to adverse weather and geological conditions or regulatory and political developments. Other risks include concentration risk, derivatives risk, foreign investment risk, foreign currency risk, emerging market risk, higher expenses, liquidity risk, interest rate risk, credit risk, and significant use of leverage risk which can magnify gains or losses.

INDEX DESCRIPTIONS

An investor cannot invest directly in an index. Moreover, indices do not reflect commissions or fees that may be charged to an investment product based on the index, which may materially affect the performance data presented.

Commodities. The S&P GSCI Total Return Index measures a fully collateralized commodity futures investment. Currently the S&P GSCI includes 24 commodity nearby futures contracts.

Global Macro. The Barclay Global Macro Index track the performance of ~175 global macro programs, by ending monthly values, net of fees, as reported to Barclay Hedge.

Hedge Funds. The HFRI Fund Weighted Composite Index is an equal-weighted return of all funds in the HFR Monthly Indices, excluding HFRI Fund of Funds Index.

Implied Correlation. The CBOE S&P 500 Implied Correlation Index is a market-based estimate of the average correlation of the stocks that comprise the S&P 500 Index. Using SPX options prices, together with the prices of options on the 50 largest stocks in the S&P 500 Index, the CBOE S&P 500 Implied Correlation Index shows the relative cost of SPX options compared to the price of options on individual stocks that comprise the S&P 500.

International Stocks. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

Long/Short Equity. The HFRI Equity Hedge (Total) Index tracks funds that maintain positions both long and short in primarily equity derivative securities. Equity hedge managers would typically maintain at least 50% exposure, and may in some cases be entirely invested in, equities — both long and short. HFRI Equity Hedge (Total) is a fund weighted index and reflects monthly returns, net of all fees, of funds that have at least \$50 million under management or been actively trading for at least twelve months.

Long/Short Fixed Income. The HFN Fixed Income (non-arbitrage) Index includes funds that are invested in fixed income instruments and tend to be long-biased holders of securities. Funds may employ long/short strategies attempting to benefit from under or overvalued fixed income securities. These funds may be highly leveraged. The Index uses equal weighted averages of monthly returns funds reported by US and international investment managers and are grouped together based on primary strategy classifications contained in the HedgeFund.net Database.

Managed Futures. The Altegris 40 Index® tracks the performance of the 40 leading managed futures programs, by ending monthly equity (assets) for the previous month, as reported to Altegris by the over 500 managed futures programs that report performance to Altegris' proprietary database. The Altegris 40 index represents the dollar-weighted average performance of those 40 constituent programs. The index started in July 2000; data is available back to 1990.

REITs. The FTSE NAREIT® Composite Total Return Index includes both price and income returns of all publicly traded REITs (equity, mortgage, and hybrid).

US Bonds. The Barclays Capital US Aggregate Bond Index covers the US Investment grade fixed rate bond market representing taxable US dollar securities.

US Stocks. The S&P 500 Total Return Index is the total return version of S&P 500 index. The S&P 500 index is unmanaged and is generally representative of certain portions of the US equity markets. For the S&P 500 Total Return Index, dividends are reinvested on a daily basis and the base date for the index is January 4, 1988. All regular cash dividends are assumed reinvested in the S&P 500 index on the ex-date. Special cash dividends trigger a price adjustment in the price return index.

IMPORTANT RISK DISCLOSURES

Hedge funds, commodity pools and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. They can be highly leveraged, speculative and volatile, and an investor could lose all or a substantial amount of an investment. Alternative investments may lack transparency as to share price, valuation and portfolio holdings. Complex tax structures often result in delayed tax reporting. Compared to mutual funds, hedge funds and commodity pools are subject to less regulation and often charge higher fees. Alternative investment managers typically exercise broad investment discretion and may apply similar strategies across multiple investment vehicles, resulting in less diversification. Trading may occur outside the United States which may pose greater risks than trading on US exchanges and in US markets. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

There are substantial risks and conflicts of interests associated with managed futures and commodities accounts, and you should only invest risk capital. Mutual funds involve risk, including the possible loss of principal.

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ABOUT ALTEGRIS

Altegris searches the world to find what we believe are the best alternative investments. Our suite of private funds, actively managed mutual funds and futures managed accounts provides an efficient solution for financial professionals and individuals seeking to improve portfolio diversification.

With one of the leading Research and Investment Groups focused solely on alternatives, Altegris follows a disciplined process for identifying, evaluating, selecting and monitoring investment talent across a spectrum of alternative strategies including managed futures, global macro, long/short equity, event-driven and others.

Veteran experts in the art and science of alternatives, Altegris guides investors through the complex and often opaque universe of alternative investing.

Alternatives are in our DNA. Our very name, Altegris, highlights our singular focus on **alternatives**, the highest standards of **integrity**, and a process that constantly seeks to minimize investor **risk** while maximizing potential returns.

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