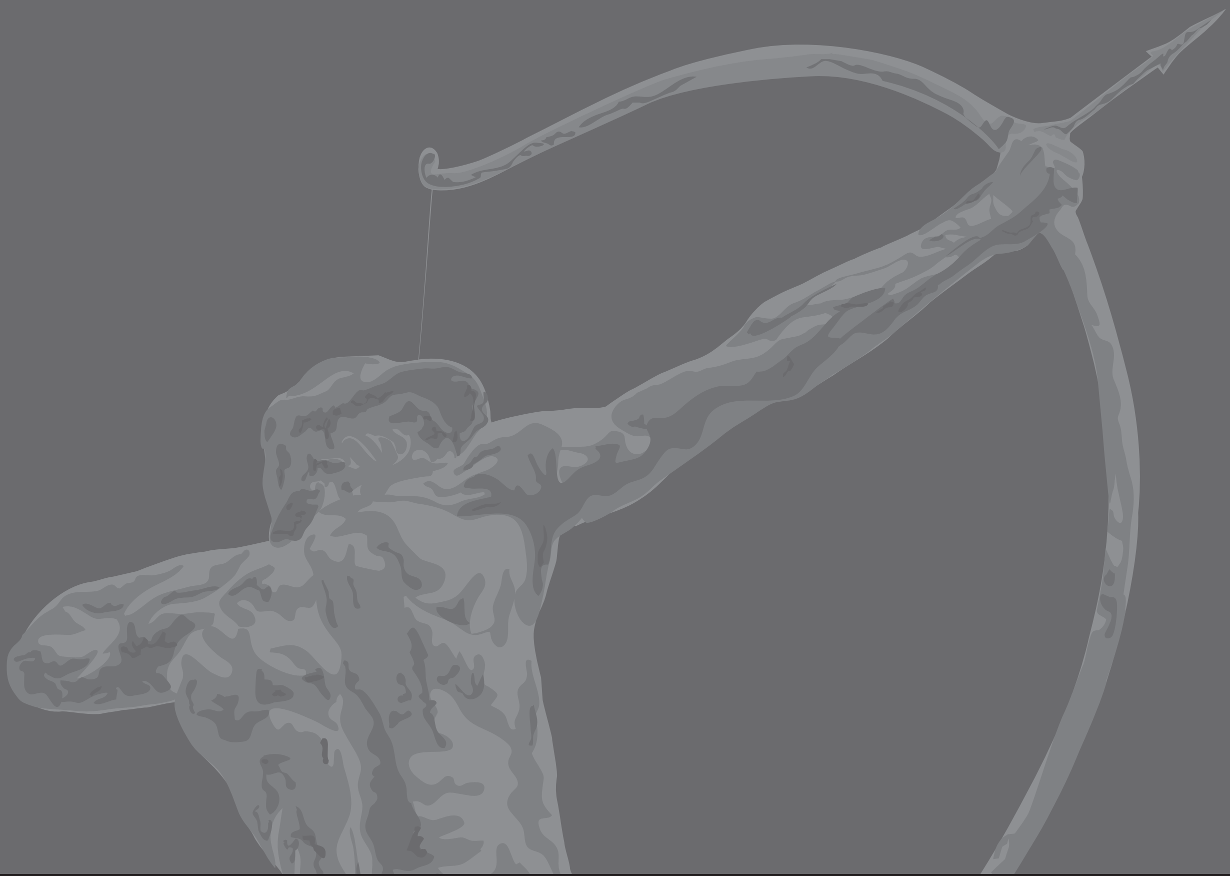
altegris

ALTEGRIS ACADEMY
FUNDAMENTALS



AN INTRODUCTION TO **ALTERNATIVES**

TRUSTED ALTERNATIVES.
INTELLIGENT INVESTING.

Important Risk Disclosure

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. 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 U.S. exchanges and in U.S. markets. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Diversification of an investment portfolio makes good sense to most investors on a purely intuitive level.

- However, it wasn't until a 25-year old doctoral candidate named Harry Markowitz published a now-famous article in 1952 that this concept became a formalized part of sound investment practice. His Nobel Prize-winning "Modern Portfolio Theory" argued that one should not simply invest in an asset based on its own merits, but also on how that asset performed relative to other investments in a portfolio
- Together, these diverse assets had the potential to smooth out the ups and downs of the market so that losses in some investments would, in theory, offset the gains in others within the portfolio, thus making the whole potentially more favorable than the individual parts.

The Key to Modern Portfolio Theory. The revelation that the combined risk of a group of investments can potentially be reduced and/or performance increased by constructing a portfolio with diverse, non-correlated assets.

It is important not just to seek a variety of asset types, but also to seek assets that perform differently than each other, or have low or near zero correlation to one another.

Correlation is a measure of how closely in tandem investments move together over time, so "non-correlation" indicates that the returns of two asset classes are random to each other—a desirable attribute when building a diversified portfolio.

–1	0	+1
Negative Correlation	**Zero Correlation**	**Positive Correlation**
A correlation of -1 indicates opposite movements	A correlation of 0 indicates movements are random	A correlation of +1 indicates two returns move perfectly together

This point would seem to make good common sense: holding a number of different investments that all are highly correlated, and thus their performance tends to move either up or down together, may not provide the benefits of diversification. While the performance of highly correlated investments may be enjoyed when markets are up, when markets are down (often when diversification is most needed) it may be cause for concern.

A popular category of non-correlated assets is alternative investments. Historically, these non-traditional investments have exhibited low correlation with stock and bond markets making them a potentially attractive consideration to help diversify a portfolio.

Diversification does not ensure profit or protect against loss in a positive or declining market.

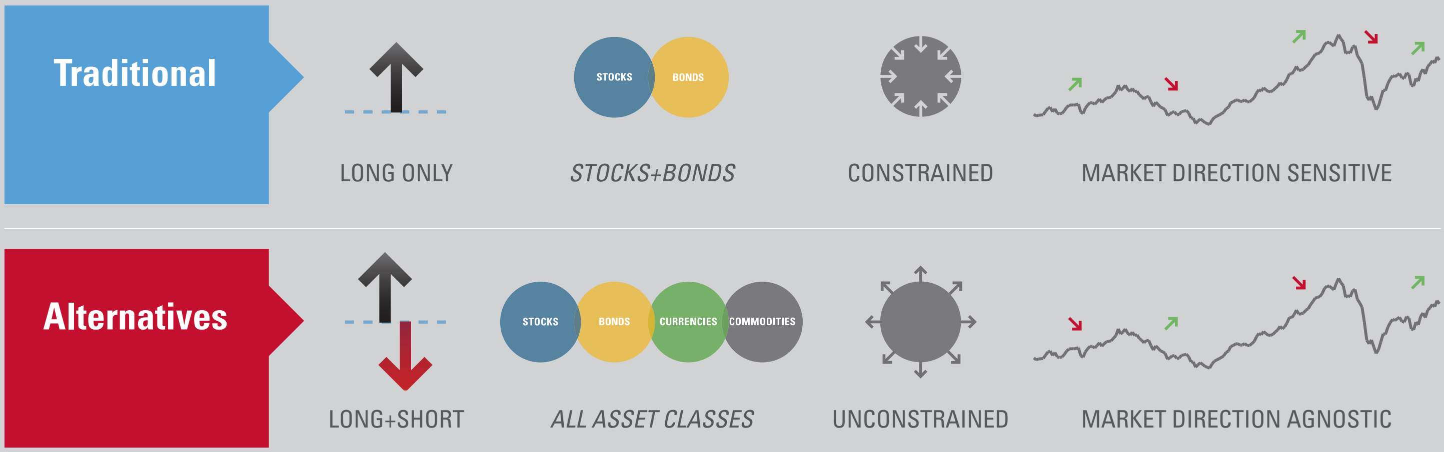
› What are alternative investments?

Simply put, alternatives are investments that don't fall into the categories of traditional investments (or assets)—namely stocks, bonds, cash or mutual funds that invest in these securities.

Alternatives refer to investments that:

+ **Have the ability to invest long and short**
+ **Have the ability to invest in various asset classes (stocks, bonds, currencies and commodities)**
+ **Are not restricted to an investment style (trading and market strategies)**
+ **Have the potential to achieve positive returns in up or down markets**

TRADITIONAL VERSUS ALTERNATIVE INVESTMENTS



Because managers of alternatives can go long or short in different asset classes, alternative investments don't necessarily follow the same performance path as traditional investments.

As a result, we believe that alternative investments can help build more risk-managed portfolios. Although alternative investments have a track record of historically offsetting gains and losses in traditional investments, and have often done so with less volatility and/or increased returns, it is important to remember that past performance is not indicative of future results.

Unfortunately, alternatives overall have suffered widespread misperception due to years of negative press involving hedge funds. Many people have been led to believe that "alternative investment" is synonymous with illiquidity, poor disclosure, overpriced fees, and unreachable minimum investments, which is not necessarily the case.

Long: *Buying an asset/security that gives partial ownership to the buyer of the position. Long positions profit from an increase in price.*

Short: *Selling an asset/security that may have been borrowed from a third party with the intention of buying back at a later date. Short positions profit from a decline in price. If a short position increases in price, covering the short position at a higher price may result in a loss.*

What does all of this mean for average individual investors?

For years, private funds (also known as hedge funds) and other alternative investments were the exclusive domain of institutional and high-net-worth investors due to, among other things, income requirements, limited liquidity, and high minimum investments. But in the past couple of years, a few investment companies have made some alternatives available to individual investors through mutual funds. These liquid alternative funds offer similar risk/return characteristics to alternatives programs, but the investment process is the same as investing in a traditional mutual fund, with low minimum initial investments, daily liquidity and no income or net-worth pre-qualifications.

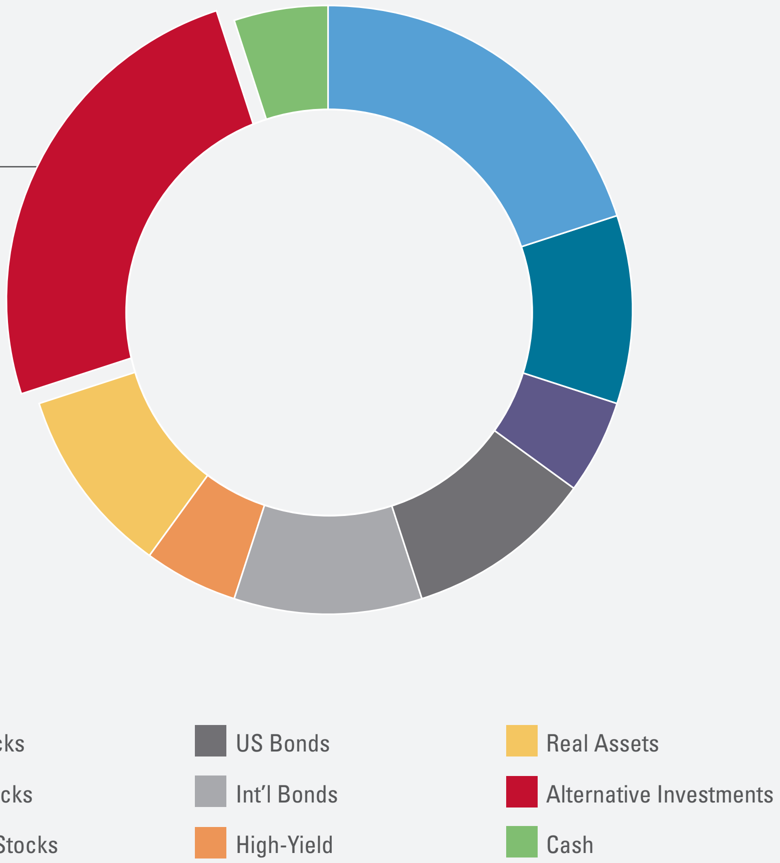
› Types of alternatives

There are many types of alternative investments, each with their own distinct risk and reward characteristics.

We believe it is important to have an overall understanding of what makes each alternative investment different, as their distinct features are related to their performance potential and may contribute to increased portfolio diversification.

ALLOCATION MODEL | For illustrative purposes only

- Managed Futures
- Global Macro
- Long/short Equity
- Emerging Markets
- Event-driven



An overview of some of the alternative strategy types and general descriptions.

Managed Futures.

Managed futures represent an asset class managed by professional money managers, known as Commodity Trading Advisors (CTAs), who use their own trading systems to identify and react to market trends. This trend-following strategy alerts managers when to take long or short positions, giving them the opportunity to potentially profit from both positive and negative developments in multiple markets and asset classes simultaneously.

Over the long-term, managed futures have provided investors with strong historical returns and low historical correlation to traditional asset classes.

Key risks include market risk, leverage risk and country/regional risk.

Global Macro.

While managed futures react to trends, global macro managers seek to predict them by anticipating changes in world trade, commodity supply and demand, and currency values. Global macro managers can utilize both fundamental and quantitative approaches to formulate trade ideas. While broad investment themes are typically longer-term in nature, trades can range from intra-day to several year holding periods depending upon the manager's investment strategy and risk/reward profile. The flexible and unrestrictive nature of this investment strategy allows global macro managers to search for profits without regard to borders, economies or politics.

Key risks include market risk, leverage risk and country/regional risk.

Long/short equity.

Long/short equity funds seek to generate equity-like returns that are not dependent on the market going up. These managers take long positions in stocks (buying the stock) that are expected to increase in value and short positions in stocks (selling a borrowed stock) that are expected to decrease in value with a goal of buying it back at a lower price and returning it to a lender.

Investment decisions are typically driven by fundamental analysis of individual companies or other securities. Long/short equity funds can be broadly diversified or focused on specific regions, sectors, market capitalizations, or investment styles.

Key risks include stock market risk, industry risk and leverage risk.

Emerging Markets.

Emerging markets (EM) funds invest in countries with developing economies in Eastern Europe, Africa, the Middle East, Latin America, the Far East and Asia. The largest of which include Brazil, Russia, India and China ("BRIC" countries). These funds may seek to invest in both long and short positions across a variety of EM asset classes, including equities, interest rates, currencies, and/or credit markets. The potential for rewarding investment opportunities in this category is generally accompanied by relatively high risk.

Key risks include country/regional risk, currency risk and leverage risk.

Event-driven.

Event-driven funds principally invest in the equity and debt securities of companies involved in a wide variety of corporate actions and "special situations." These actions include (but are not limited to) mergers, spin-offs, restructurings, litigations, debt exchanges, shareholder buybacks, proxy contests, security issuance, or other capital structure adjustments.

In addition, event-driven funds may invest in companies that are stressed or in various stages of the bankruptcy process.

Key risks include stock market risk, industry risk and leverage risk.

There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses. Past performance is not necessarily indicative of future results.

› Finding the right alternatives.

At Altegris, our sole mission is to provide access to what we believe are best-of-breed alternative investment managers. Alternatives have only recently gained popularity with financial advisors and individual investors, and, in turn, many investment management firms have jumped on the bandwagon. But our specialized team has been solely focused on alternatives for nearly two decades.

Alternatives are all that we do, so we know what to look for. Through a rigorous research process, we cut through the clutter, then identify and select the few alternative managers that we feel can be classified as best of breed.

We have also made strides to improve the accessibility of alternatives for individual investors. We offer our selected alternative investments in various formats, including actively managed mutual funds, private funds, and futures managed accounts. Through Altegris, there are often lower minimum requirements and a streamlined application process.

Through the Altegris Academy we teach financial advisors and investors. Our educational materials show you how to use alternatives to construct what we believe is a portfolio with the potential to perform in different market conditions—especially during crisis periods.

We believe that adding alternatives results in a portfolio that may:

- **Be more flexible and opportunistic**
- **Not follow the same path as traditional investments because of lower historical correlation**
- **Yield returns that are lower in risk than traditional investments (using standard risk measures)**

There is no guarantee that any investment product will achieve its objectives, generate profits or avoid losses.

Glossary

Asset classes. *A group of investments that have similar characteristics and behavior in the marketplace. Types of asset classes include stocks, bonds, cash and real estate.*

Commodities. *Hard assets that are basic goods used in commerce such as agriculture (e.g. corn, wheat), metals (e.g. silver, gold), and natural resources (e.g. timber).*

Correlation. *Correlation is a statistical measure of how returns of two strategies 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.*

Diversification. *Combining different types of securities with the objective of achieving consistent returns with lower risk over time.*

Fundamental analysis. *Involves analyzing a business or a company's financial statements and health, its management and competitive advantages, and its competitors and customer markets. The analysis is performed on both historical and present data with the goal of making financial forecasts and determining the true value of the security. Fundamental analysis also includes economic analysis, industry analysis and company analysis.*

Hedge funds. *Privately managed investment funds that utilize sophisticated strategies in both international and domestic markets designed to offset losses during a market downturn and or generate returns higher than traditional stock and bond investments. Hedge funds utilize a wider range of investment trading activities than traditional long-only investment funds that invest exclusively in stocks and bonds. There are several types of hedge funds that vary in structure, investment approach and objective.*

Investment style. *The investment approach that a fund manager uses to make choices in the selection of securities for a fund portfolio. The major investment styles can be broken down into three dimensions: active management versus passive management, growth investing versus value investing, and small cap versus large cap companies.*

Proprietary trading systems. *Individual company-designed computer code which analyzes market price action and other data to create trading signals on when to buy or sell securities. Trading systems are known by many names, including: automated trading trend following, algorithmic, pattern trading, etc. All of these have the same basic make -up; they are a compilation of rules usually programmed into computer code, for how to trade a market. The market can be anything from an individual stock, bonds, ETFs, commodities, future exchange rates and more.*

Trend following. *A strategy that seeks to potentially profit from recognizing price trends and investing to follow them, which is typically most successful when prices continue to follow the same direction, either up or down, for an extended period.*

Volatility. *A measurement of the change in price for a security or index over a given time period.*

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.

As 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.

The Altegris Companies—wholly owned subsidiaries of Genworth Financial, Inc. and affiliated with Genworth Financial Wealth Management, Inc.—include Altegris Investments, Altegris Advisors, Altegris Funds, and Altegris Clearing Solutions. As of March 31, 2012 Altegris had approximately $3.27 billion in client assets, and provided clearing services to $997 million in institutional client assets.

Altegris and its affiliates are subsidiaries of Genworth Financial, Inc. and are affiliated with Genworth Financial Wealth Management, Inc., and include: (1) Altegris Advisors, LLC, an SEC registered investment adviser; (2) Altegris Investments, Inc., an SEC-registered broker-dealer and FINRA member; (3) Altegris Portfolio Management, Inc. (dba Altegris Funds), a CFTC-registered commodity pool operator, NFA member and SEC-registered investment adviser; and (4) Altegris Clearing Solutions, LLC, a CFTC-registered futures introducing broker and commodity trading advisor and NFA member. The Altegris Companies and their affiliates have a financial interest in the products they sponsor, advise and/or recommend, as applicable. Depending on the investment, the Altegris Companies and their affiliates and employees may receive sales commissions, a portion of management or incentive fees, investment advisory fees, 12b-1 fees or similar payment for distribution, a portion of commodity futures trading commissions, margin interest and other futures-related charges, fee revenue, and/or advisory consulting fees.

Genworth Financial, Inc. (NYSE: GNW) is a leading Fortune 500 insurance holding company dedicated to helping people secure their financial lives, families and futures. Genworth has leadership positions in offerings that assist consumers in protecting themselves, investing for the future and planning for retirement — including life insurance, long term care insurance, financial protection coverages, and independent advisor-based wealth management — and mortgage insurance that helps consumers achieve home ownership while assisting lenders in managing their risk and capital.

Genworth has approximately 6,400 employees and operates through three divisions: Insurance and Wealth Management, which includes U.S. Life Insurance, Wealth Management, and International Protection segments; Mortgage Insurance, which includes U.S. and International Mortgage Insurance segments; and the Corporate and Runoff division. Its products and services are offered through financial intermediaries, advisors, independent distributors and sales specialists. Genworth Financial, Inc., which traces its roots back to 1871, became a public company in 2004 and is headquartered in Richmond, Virginia. For more information, visit genworth.com. From time to time, Genworth Financial, Inc. releases important information via postings on its corporate website. Accordingly, investors and other interested parties are encouraged to enroll to receive automatic email alerts and Really Simple Syndication (RSS) feeds regarding new postings. Enrollment information is found under the "Investors" section of genworth.com.

Important Risk Disclosure

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. 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 U.S. exchanges and in U.S. markets.

There are substantial risks and conflicts of interests associated with managed futures and commodities accounts, and you should only invest risk capital. The success of an investment is dependent upon the ability of a commodity trading advisor (CTA) to identify profitable investment opportunities and successfully trade. The identification of attractive trading opportunities is difficult, requires skill, and involves a significant degree of uncertainty. CTAs have total trading authority, and the use of a single CTA could mean a lack of diversification and higher risk. The high degree of leverage often obtainable in commodity trading can work against you as well as for you, and can lead to large losses as well as gains. Alternative investments may be subject to substantial charges for management and advisory fees. Compared to mutual funds, hedge funds and commodity pools are subject to less regulation and often charge higher fees. It may be necessary for accounts that are subject to these charges to make substantial trading profits in order to avoid depletion or exhaustion of their assets. Mutual funds involve risk including the possible loss of principal. An investment in an alternatives strategy mutual fund should only be made after careful study of the prospectus, including the description of the objectives, principal risks, charges and expenses of the fund.

Altegris Advisors

Altegris Advisors, LLC is an SEC-registered investment adviser that advises alternative strategy mutual funds that may pursue investment returns through a combination of managed futures, equities, fixed income and/or other investment strategies.

altegris®

ALTEGRIS ADVISORS
888.524.9441
www.altegris.com

Printed June 2012
290892_061512