# Altegris/AACA Opportunistic Real Estate Fund RAAAX | RAACX | RAAIX | RAANX

## Market Commentary

Fund performance during Q1 2022 was -12.45%, underperforming the Dow Jones US Real Estate Total Return Index (DJUSRET) at -6.50% and the Morningstar Real Estate Category at -5.09%. During 2021 and Q1 2022, the Fund gave back 2020's relative gains to DJUSRET despite maintaining the long-term strategy of investing in what we believe are long-term secular opportunities in oligopolistic real estate without "chasing cheap" (buying individual companies solely based on cheap valuations). In general, the Fund outperformed during the first part of the COVID period (Feb-20 to Dec-20) due to its low exposure to what we consider "COVID-sensitive" names that sold off, and subsequently underperformed the index in the latter part of the COVID period as these names subsequently rallied. As a side note, we never "chase cheap" and have high conviction in our strategy's long-term ability to generate returns above the benchmark and Morningstar category. We believe the Fund's longer-term performance stands out against the category and benchmark despite the recent underperformance. Over the last three years ended 3/31/22, Fund performance was +45.23%, amounting to +9.70% above the DJUSRET's +35.53% performance and +8.18% above the Morningstar Real Estate Category's +37.05% performance. Lastly, the Fund ranks in the top 25% of the Morningstar Category over the last five years and in the top 21% in the three years ending March 31, 2022.

## Valuation

- **The portfolio's growth forecast is still multiples of the asset class at large.** The Fund has an underlying 2022 FFO growth rate of 24.4%.[1] In comparison, the RE sector has a growth rate of 10.6%.[2,3]
- **The portfolio's valuation is very near that of the asset class at large.** Aggregate Fund FFO is 20.3x 2022 FFO, while the SNL Equity REIT Index trades at 23.0x 2022 FFO.[4,5]
- **The portfolio is less levered than the aggregate leverage in the asset class.** The SNL Equity REIT index carries an underlying leverage ratio of about 42.5%, while the Fund's leverage ratio is 25.6%.[6,7]

Put simply, the Fund's investments have significantly higher growth forecasts (about 2.3x higher, per SNL financial) with about half the risk (or leverage, per SNL Financial) while selling for about $0.88 on the dollar (price/FFO multiple valuation). At the moment, prices of shares seem unusually de-coupled from long-term prospects, perhaps reflective of global turmoil related to war, inflation, mid-term elections, energy prices, and Fed rate hikes. Many stocks' prices appear to have discounted a recession as well.

We believe a handful of the companies we own (up to 30% of the portfolio) are meaningfully mispriced. We maintain a background 'normalization' model, which re-prices the portfolio to valuation norms over a rolling 12-24 month period (It's a way of checking our math, so to speak). Normally, this model says the portfolio is

---

[1] FFO Growth rate represents an AACA estimate using S&P Global Financial data.
[2] Real Estate Sector Growth rate represented by the S&P Global Equity REIT Index.
[3] According to S&P Global
[4] Fund FFO is an AACA estimate using SNL Financial data
[5] SNL Equity REIT Index FFO sourced from SNL Financial
[6] SNL Equity REIT Index sourced from SNL Financial
[7] Fund leverage is an AACA estimate using data from SNL Financial

500 bps underpriced, which means if values return to norms, the portfolio should outperform the index by 500 bps. That model now suggests the portfolio is underpriced by 1623 basis points. It's been frustrating to own what we believe are good companies with compelling prospects that do not reflect that in their shares, and we are sure it's frustrating for you. Be aware that we are seven-figure investors in the fund, and eat, sleep, and live this performance with you. We will give specifics in the body of the letter.

## Strategy Refresher

We invest in what we believe are long-term secular opportunities in oligopolistic real estate portfolios. The issues most important to us are related to this idea's underpinnings. Share prices, however, tend to reflect a combination of fundamentals, market flow gyrations, and sentiment. We work hard NOT to use share prices to inform our decision-making process. This sentiment does not say we disregard valuation, but we FIRST underwrite ideas based on our strategy's criteria.

- Sectors with a limited number of suppliers (small club)
- Sectors with a limited ability to add supply (you cannot join my club)
- Tenants that cannot physically leave and (landlord controls the relationship with the tenant)
- Tenants experiencing underlying secular growth (tenant needs more space)

Only then does valuation enter the equation. We highlight this framework to make a point: by and large, we do not react to share prices in the short term, and neither should you.

## Top 10 Holdings

| Holding | % | Holding | % |
|---|---|---|---|
| Fortress Transportation and Infrastructure Investors LLC | 6.13% | Invitation Homes, Inc. | 5.15% |
| Caesar's Entertainment, Inc. | 6.00% | Switch, Inc. | 5.04% |
| Digital Bridge Group, Inc. | 5.99% | Prologis, Inc. | 4.98% |
| Crown Castle International Corp. | 5.57% | American Tower Corp. | 4.11% |
| WeWork, Inc. | 5.19% | New Lake Capital Partners, Inc. | 4.03% |

## Market Drivers

Thinking about 12-18 months forward, we view these as the most important market drivers:

- Fiscal stimulus. As far as we can figure, the US Government has collectively deployed about $6T into layers of stimulus for Covid over the last two years. Foreign governments have also spent similar amounts, and the world is awash in excess cash. We estimate that about 1/4 of this money sits unspent on consumers' and companies' balance sheets and continues to drive spending. At this point, it seems unlikely that another giant bucket of money is coming anytime soon.
- Endemic COVID: The end of the pandemic. COVID cases come and go while the US and the EU seem reluctant to implement further meaningful government interventions (China being the exception). The EU and US have high vaccination rates, and on a combined basis, we would guess

almost everyone is either vaccinated or was previously exposed to Covid. However, the PRC's zero-COVID approach has led to recent lockdowns in Shenzhen and Shanghai, creating huge ripple effects for global supply chains and stoking inflation. Our sense of this from our business associates in China is that the PRC has an MNRA vaccine in the final stages of approval/rollout. Assuming this goes to plan, their economy will be normal by 2H22 or 1H23.

- Federal Reserve. The market predicts eight increases in Fed Funds, which would get the US to 2.43% by the end of the year. Meanwhile, the 30-year mortgage hit 5.25% this week, the highest rate in over ten years. Combined with the massive move in home prices, home affordability has been crushed for those who do not already own.
- Inflation. On 4/12/2022, the annual CPI print came in at 8.5%, a forty-year high. Energy prices and supply chain disruptions have formed a 'harmonic resonance' with what we consider to be predictable but ugly results. I was in college during the Jimmy Carter era, and, absent the awful clothing, this feels like a re-run. Our sense as non-economists is that the CPI spike is one-third free money (CARES Act and other massive government spending), one-third logistics and manufacturing supply chain issues, and one-third real wage increases. We think the covid/logistics issues iron themselves out over 12-18 months, and the remaining free Federal money gets spent over the same time frame. So, in our opinion, inflation dissipates from here.[8]

## Migration

In our opinion, the US is undergoing one of the largest, if not the largest internal migration in history. In what we view as unprecedented numbers, the uncoupling of the workforce from the workplace has created a secular shift in our country, which we believe will go on for perhaps 5-10 years. In our opinion, key migration trends include:

| | | |
|---|---|---|
| **<u>Trends amongst Individuals</u>** | | |
| High Tax | to | Low Tax |
| Vertical (high rise/car free) | to | Horizontal (home/car) |
| Cold | to | Warm |
| Lockdown (this is waning) | to | Freedom |
| High Home Cost | to | Lower Home Cost (this is adjusting) |
| | | |
| **<u>Trends amongst Corporates</u>** | | |
| High Tax | to | Low Tax |
| High Regulation | to | Low Regulation |
| High Cost of living | to | Lower Cost of Living |
| Commute/Snarl | to | Work-from-home |

Migration is not a new phenomenon, but, in our opinion, the scope and breadth of the one currently occurring have exceeded expectations in the last two years. For example, Californians moving to Texas increased 19% in 2020 compared to 2019, according to a CBRE study (The Dallas Morning News, 2021). Nearly one-hundred thousand people migrated to Austin, TX alone over 2019-2020, and experts predict

[8] This forecast assumes no further escalation in the Russia-Ukraine conflict and the Biden administration's domestic energy policy does not change to encourage more domestic oil and gas production (which would make things better).

another 182k over 2021-2023.[9,10] This represents about 12.3% growth in aggregate or 3% per year, which is four times as fast as the national average of 0.8%.[11] Additionally, almost all are highly paid white-collar or engineering/software types. I have never seen anything like this in my 40-year career. During the massive build of strip casinos (WYNN and LVS) 20 years ago, Las Vegas experienced a similar influx due to housing for workers building the strip, but that was in many ways transitory. Once construction ended, many construction workers moved on. We believe the current situation is very different and will have several permanent structural effects.

## Political Drivers

Hundreds of corporations, including Oracle, Hewlett Packard, Telsa, CB Richard Ellis, Nestle, Digital Realty, and Toyota, relocated their headquarters away from California in 2020. California is ranked 49th in business competitiveness. [12] Large corporations leaving the state generally means highly educated, highly compensated employees are going with them. Additionally, the state legislature recently tabled a committee level attempt to raise the top rate from 13.3% to about 18% (not including extra payroll taxes on companies with more than 50 employees) and install a 2.5% gross receipts tax on businesses with more than $2M in revenue. [13] This potential legislature failed to make it out of committee, but big businesses and business owners stand warned. If you run a reasonably successful company in CA, your marginal tax rate will approach 20% if the legislature re-tables this tax increase. The Democrats control a supermajority at the state legislature, and there is effectively no balance in the actions of the State Government. Further, California's low rank in public education contributes to a list of reasons for people to leave, and, on top of that, gas prices are $6.20/gallon.

This political migration driver is also driving migration patterns in other states. New York, Illinois, and other large urban populations are losing business and families to a crucible of self-inflicted urban ills.

With all of this in mind, it's no surprise that many people continue to migrate to well-run medium-sized cities in largely conservative states. Nashville, Dallas, Austin, Atlanta, Charlotte, Tampa, Miami, Orlando, Raleigh, Houston, Phoenix, Las Vegas, Salt Lake, and Reno are becoming the relocation choices for information workers and their employers. Austin, TX, may eventually eclipse Silicon Valley.

## So, what's the real estate play?

**We believe the best opportunity lies in short duration leases in full assets with a structural possibility to capture top-line rental growth 'equal-to or better-than' inflation.** Amongst that backdrop, we believe those assets with modest to low levels of on-site labor (limiting labor and potential energy spikes) in their operating model should produce robust NOI/FFO growth and outpace inflation. Core sectors include Single Family Rental (9.4% of the portfolio), Multi-Family Rental (7.8%), Self-Storage (10.7%), Manufactured Home Communities (5.75%), and Industrial (12.2%).

## The accidental creation of a permanent or semi-permanent renter class

According to Case Shiller, home prices (Case Shiller 10 city average) in the USA have risen 30.5 % over two years. In what we would call "where I want to live locations' like Miami (41.6%), Dallas (39%), and Charlotte (38.2%), prices have surged even more. We believe several factors are driving this appreciation: the effect

[9] Source: Dallas Morning News: Welcome to Texas
[10] Source: Written Advisors
[11] Austin's current SMSA population is 2.3M
[12] Source: Tax Foundation: 2021 State Business Tax Climate Index
[13] Source: Tax Foundation: California Considers Doubling its Taxes

of millions of people funneling into information-centric jobs in a limited number of medium-sized cities, the $6T in fiscal stimulus, supply and logistics issues (higher material prices), and a labor shortage (higher wages).

Interest rates are also up, with the 30-year fixed-rate mortgage at 5.25%. Most buyers choose 7-10 year arms, which are also up from 2.85% in January to 4.37% now. The combination of high rates with high prices has forced many prospective buyers to rent as housing becomes less affordable. A larger mortgage and, perhaps more problematically, a 40% increase in down payment creates additional (perhaps insurmountable) hurdles for marginal home buyers. As a result, rent increases get turbocharged in apartments, single-family rentals, self-storage, and manufactured housing – all areas we are focused on in 2022. Accordingly, we added to our single-family rental positions, manufactured home communities, self-storage, and multi-family. Long-term investors will likely note this new addition. We typically thought of multi-family as an average business. However, the combination of the structural migration we believe is underway (and its attendant home price appreciation) and the persistence of inflation (at least for the near-term) led us to add multi-family to our 'short lease duration, high demand, high occupancy bucket' which now stands at about ½ the portfolio (to be clear, this encompasses several segments, not just multi-family). As a result, these companies should raise rent faster than inflation while growing NOI and FFO materially faster than inflation.

When people move, they frequently use self-storage on both ends of the move. In addition, work from home has created a full-scale home improvement demand driver as people re-configure their homes to allow for a more professional or comfortable space at home. As a result, move-in rental rates for new users are up 20% year over year. This number is particularly telling as self-storage move-ins are typically discounted upfront, and the self-storage operators move rates up to the level of existing tenants over time. Current rental prices foreshadow the ability to move existing tenants (a much larger cohort) up to new rent levels.

There is an additional structural driver in the industrial and warehouse sectors. During covid, e-commerce demand ramped while logistics and supply problems cropped up. E-commerce and omnichannel retailers experienced stock-outs and collectively decided not to have that happen again. So, they increased their inventory. Anecdotally, we have heard this number is as high as 20% from the industrial management teams. The higher inventory preference has collectively created a long-term, structural uptick in the square feet of warehouse space per dollar of overall commerce. According to Green St Advisors, the two-year stack in industrial market rents are up 29%. Prologis reports that in-place rents are 30% below market.

## Lab Space

Demand for wet lab space, already strong before COVID, has been off the charts since COVID. There is both a heightened demand driver from big pharma and life science for research and a concerted national effort to 're-shore' certain functions which had been offshored during the prior 30 years. Occupancy runs 95-99% in the three core markets of San Diego, South San Francisco, and Cambridge. Rents are predicted to grow 9% per year from 2021 to 2025 by Green St. The portfolio has a 5.9% exposure to this sector with a notable investment in IQHQ, a private company. The fund owns a 144A security in roughly a 3.2% position. IQHQ has expanded from about 1 million sq feet of development to a portfolio of 10 million feet today. We are very bullish on the space.

## Gaming

We have an 8% position in gaming. We think the gaming names Caesar's Entertainment "CZR" and MGM Resorts "MGM" will benefit from the return of leisure travel and group business. In addition, CZR and MGM have robust and growing iGaming and Online Sports Betting (OSB) businesses to potentially weather any potential future downturns in the ever-important Las Vegas convention business. At this point, CZR and MGM comprise all our exposure in the gaming segment. By way of refresher, CZR is 100% domestic, and MGM is about 85% domestic. Macau is still in the early phase of COVID recovery, with a run rate of about 35-40% of the prior peak. When the PRC changes its zero COVID policy, we will re-underwrite Macau's gaming opportunity.

As for the US, we believe the domestic brick-and-mortar gaming business has made a better than full recovery. Revenue and attendance levels are better than pre-COVID, and management teams have responsibly added back only the amenities that produce EBITDA. During the first pandemic wave, management teams cut costs quickly and closed assets with a watchful eye and thoughtful approach to costs when re-opening. Caesars Entertainment management noted that every buffet they were running (in normal times) lost $3M a year, which they have since closed. Margins are up more than 1000 basis points currently.

Meanwhile, estimates of the iGaming and online sports betting (OSB) market size vary from $20B to $50B, driven by various assumptions around the number of states to ultimately legalize, the preference for one or both types (OSB, iGaming) approved, and the tax rates associated with these activities. However, MGM North America's estimate for North America is approximately $32B, and we believe this is reasonable. So, we think that OSB and iGaming combined could be as big as Macau's peak, creating a potentially huge market. Assuming a 25% market share for CZR would translate to $8B in gross gaming revenue (GGR) and close to $2.8B in EBITDA, assuming a 35% margin. Assuming this is worth no more than the current multiple on core EBITDA at around 10x – 11x, that equates to roughly $30B in additional enterprise value, or $140/share using today's fully diluted share count.[14] The stock closed at $77.36 at quarter-end; therefore, we do not believe the market appreciates this opportunity.

Earlier, we spoke of mispriced stocks. We believe CZR is one of the most mispriced, and we will demonstrate why. According to SNL Financial, consensus estimates are for EBITDA of $2.87B and $4.39B for fiscal 2022 and 2024, respectively (a roughly 50% increase), current long-term debt is $13.7B, and there are approximately 214M shares outstanding.[15] Applying a 10x EBITDA multiple to the 2024 EBITDA of $44.4B less debt of $13.7B leaves a normalized equity market cap of $30.7B. On 214M shares, that would equate to a $143 price per share or approximately twice the quarter-end share price. We know management personally and believe they are very good. CZR is a 70-year-old company with the largest national footprint of physical assets, the largest user base (65 million total rewards members), and roughly $8.53/share in free cash flow today as per the SNL Financial database.

Our only explanation is that the sector has already priced in a recession. However, in our opinion, the last two downturns DO NOT provide an adequate road map for a normal recession. For example, Covid shut down nearly every asset (and also provided a live experiment for efficiency gains and cost control), and the great recession featured POTUS excoriating companies for attending conferences in Las Vegas. Neither is a useful guide for a more normal downturn.

## The Wave of Data (Our Data Center and Communication Network Exposure)

[14] Approximately 214M shares outstanding. Source: Bloomberg.

[15] Source: Bloomberg, SNL Financial

We believe demand for data – whether related to mobile, storage, reliability, transfer, or integration will play out over perhaps a decade or more. In their annual whitepaper, Cisco noted a 30% compounded annual global mobile connections growth rate from 2018 to 2023.[16] In our opinion, this growth has enormous implications and drives 5G and connectivity. We have been harping on this for about five years now, so please forgive the repetitiveness. We believe that both data centers (where all the data associated with these trends lives) and connectivity (how it gets back and forth to your devices) are high-upside investment opportunities and key themes for our team. We have a 15% portfolio exposure to data centers and 18% exposure to communications networks, commonly referred to as tower REITs. The communications networks have about 90% market share of macro towers in the US, effectively an oligopoly.

We own four communications networks companies: AMT, SBAC, DBRG, and CCI. They all own some combination of macro towers, infill small cells, backhaul fiber, and metro fiber. Except for CCI, they are all global as communication is a global business. Data usage in emerging markets is growing faster than in the US and EU.

There has been a significant roll-up in the data center space, with recent acquisitions of three out of six companies. EQIX and DLR are very large with global footprints, while SWCH is much smaller and U.S.-focused. Currently, SWCH is rumored to be considering a buyout bid[17].

We have split the overall position into domestic (Switch, Inc. "SWCH," Equinix, Inc. "EQIX") and Asia Pacific ("APAC") (GDS Holdings, Ltd. "GDS," 21 Vianet "VNET," Chindata "CD").

The APAC companies have mid-20% to low 30% EBITDA growth rates as data demand in the APAC region is about 2x the US at a forward-looking 50% CAGR. These stocks are also trading at a 70% discount to similar companies globally. The PRC-based APAC companies are expanding into Indonesia, India, Malaysia, Singapore, and Hong Kong, building larger, more diversified business bases. Over time we would not be surprised if they also added South Korea and Japan.

We are weighted 6-8% across the 3 APAC names, so it's sized in our portfolio for political risk. In the background, we view risks as:

1) PRC's link to Russia as the conflict in Ukraine plays out
2) Potential PRC moves around Taiwan
3) De-listing risks related to audit overview by the PBAOB. The PCAOB audit requirement controversy has been an issue for 20 years. Most of the 30 people we have talked to don't think this will happen – there is no playbook for one country de-listing another country's companies; it could start a cold war with PRC (or accelerate the one we have now). The SEC has a 2-year time frame for the PRC to agree to oversee the US-based accounting big 4 doing business there (EY China, KPMG, etc.) The PRC's vice Premier, Lui He, has said the PRC is moving towards this and 'has a good cooperation plan.' In addition, on each of the last two weekends, the Chairman of the Chinese Securities Regulatory Commission has stated they are working productively with the SEC and intend to comply with the audit language. So, we think the risk is de minimus.

There are 270 PRC-based ADRs traded in the U.S. wrapped up in this. We have found that the fundamentals have not mattered in the last 6-9 months, and price movements have been driven by perceptions of future

---

[16] "Cisco Annual Internet Report (2018-2023)", *Cisco*, 2020, 12.

[17] https://seekingalpha.com/article/4501713-switch-likely-acquired-digital-realty-equinix

US/PRC Policy.

The actual demand backdrop is very strong, with 50% CAGR in data demand, 25% demand in physical assets like data centers, and very high build to cap rates (20%+), which is why we invest there in the first place. All of the Fund's international data center positions reported Q4 earnings:

| Company | Revenue Growth | EBITDA Growth |
|---|---|---|
| GDS | 38% | 38% |
| CD | 55% | 65% |
| VNET | 22% | 22% |

We plan to rotate the position around a 5-7% base, i.e., if the stocks trade up, we will trim back to a ~6% if they fall, the opposite UNTIL the audit protocol is finished. Once that risk is minimal, we believe fundamentals will matter again, and all things equal, these companies' prices may return to previous highs.

### Shared Space and Co-working

We have added two new positions: WeWork (4.8%) and AirBNB (2%). We believe both are somewhat turbocharged by what we believe are permanent behavioral changes from Covid. We believe Airbnb is an amazing business model: hosts own and manage the properties while guests rent, leaving ABNB with almost no property-related labor costs. ABNB also spends minimally on marketing yet gained enough traction to have the company name transform to verb usage amongst the millennial and gen Z crowd (similar to 'google it'). EBITDA is growing at 30%, with 25% EBITDA margins. On their last investor call, they made some points we believe are notable. CEO Brian Chesky said that growth was host-driven rather than travel-driven; enabling new hosts is key. Also, with the new hybrid work model, many people are 'living on ABNB"; 50% of bookings are for a week or more, and 20% are for a month or more. Nearly 175,000 guests booked for three months or longer, which we believe indicates a change in how people think about their home, career, and life.

WeWork is a branch on the same tree. Hybrid work is here to stay, and, in our opinion, in very broad terms, 30% of people will be in the office, 30% won't, and 30% will come and go, which is a very different physical footprint than even the recent past for office workers. Flexible office space is 2% of space now, but the Fortune 500 tells WeWork it will grow to 20-25% by the end of this decade. Let's consider the hypothetical 'Giant Behemoth Bank' (GBB) with 300,000 people in 300 offices in 30 countries. GBB likely has a physical footprint of more than sixty million square feet of office space they own or lease, which, at ~$50/ft in cost, represents $3B in annual cost.

So, let's retrace the evolution of hybrid work with that in mind. First, most companies mandated work-from-home during COVID for employees who are surprisingly efficient and adaptable. Then, a couple of quarters later, the company figures out how to deal with it, but it's still considered a 'temporary' issue by most. Two weeks becomes two years, and, again, it's weirdly much easier and more efficient than they previously thought to embrace work from home. So now the CFO, CEO, and head of HR at GBB meet, and the CFO says to the CEO, 'I think 30% of our space is redundant, and we can save $1B in annual rent costs.' CEO calculates in his head 15x EBITDA and applies that to his stock options, and 'wow, what a great idea.' Then HR says we lose about 10% of our workforce per year, and when we replace them, it's typically in the same location, like New York. So, the CFO says to HR can we hire them in Tampa at ½ the cost of NY? And now they save $2B. You get the picture; this is a win-win for many (not all) companies.

So, GBB has 100,000 people at home most of the time and 100,000 people at home sometimes. This hybrid model creates complex logistical, scheduling, and access challenges; home office types still need a place to go other than Starbucks. When corporate America generally thinks about streamlining their global footprint, they realize they need to supplement controlled space with flex space, hence the idea that flex space will grow dramatically.WeWork aims to address these challenges with 'space as a service.' They have about 930,000 desks now across 762 global locations.

**They had already built the solution before the need arrived.**

When WeWork started, the tenant was typically a remote in-market salesperson without an office, startups, consultants, and people that needed a place to figure out their next job; it wasn't Citi and Novartis; it is now. This is a very important concept for investors to understand – the business they started a decade ago never envisioned Covid, WFH, or corporate America re-tooling their entire footprint. This is the first gift.

Meanwhile, there is the train wreck or the second gift. At this point, you would have to have been living under a rock not to have an opinion of Adam and Rebekah Neumann. I have seen the Netflix Docudrama and the Apple TV miniseries and have read maybe 100 articles on the bizarre excesses of the management team. None of that matters going forward. WeWork version 2 is different people, a different balance sheet, and a different operating model. But one thing does matter, these people inherited a global footprint built with someone else's money. Pre-IPO, they were targeting $47B in value; the Fund owns it today at about $7B in TEV – a valuation 85% less than Benchmark and Softbank, and their investment bankers targeted at IPO. Imagine that the over-the-top stuff hadn't happened (like defining the Company mission as 'raising the world's consciousness, the purported drug use, the generally spoiled child environment, and Covid had never existed). WeWork would likely have gone public at a much higher valuation than the $7B it trades today, even if not at the $47B they originally targeted.

New people. Nearly three-quarters of the existing workforce was let go, and a new CEO, Sandeep Mathrani, was brought in upon reorganization. Sandeep is a REIT guy, not a tech guy, and therefore tends to think in numbers and processes grounded in reality. I met Sandeep at Forest City in the '90s. He is well respected and liked in the real estate world. He served in senior roles at Forest City and Vornado and has experience in turnarounds with General Growth Properties, which he brought out of Chapter 11 with exceptional outcomes for investors. Since taking the helm at WeWork, he has cut $1.5B in SG&A expenses, $500M in operating lease expenses, and $600M in operating expenses for a total of $2.6B in expenses, what we believe is a crazy number for a company with $2.5B in revenue in 2021.

On top of the cost-cutting, they have pivoted the business into a massive tailwind helping corporate customers deal with their hybrid workforce. I visited with Sandeep in Dallas about eight weeks ago, and he walked me through the plan for the Company. They started selling all-access memberships to individuals and corporations in which a member can walk into any of the 762 global locations. They sell this for $299/month, and as we shared lunch, I asked, "Well, how many have you sold?" To which he replied, "about 1000/week." I put down my chips, fire up my trusty HP 12C and say somewhat sheepishly, "That's close to a $190M run rate business'. And then, he adds that the product has effectively almost no cost since they are using the existing footprint. He thinks the current capacity for this new line of business is 100,000 members or $360M in incremental revenue with a modest increase in operating expenses. A reasonable analogy might be a hotel moving occupancy from 60% to 80%.

So, they think they can take this platform and get it to EBITDA profitability in 2H of this year and produce $1.25B in EBITDA in '23 and $2B in '24. We are buying a business – flex space – where corporate America says its footprint will grow from 2% to >20% over the next eight years at 5.6x 2023 EBITDA and 3.5x 2024. The company has a similar business model to the old Host Marriott by way of a valuation comparison. They control long-term assets (leasehold in this case) and rent them out on a shorter-term basis like a hotel. But, of course, WeWorks has a secular growth rate of probably 15-20% based on corporate footprint rejiggering, which is far higher than lodging demand. We bring this up as Host sells at 16x 2022 EBITDA and 12.5x 2023. From here, we believe WeWork will build out a more asset lite business plan, shed a lot of leasehold interests, and replace them with management deals and franchise opportunities – like MAR. MAR, which is asset lite but shares the same basic business inputs as HST, sells for 18x 2022 EBITDA and 15x 2023. This seems to us to be a useful framework for valuing WeWork. Once they attract sell-side attention, analysts will set up models and target prices. To the extent that they are real estate analysts, they might use metrics like these. So, if 14x EBITDA makes sense on 2024's $2B in EBITDA estimate, that's $28B in TEV; subtract the $2B in debt, and that's $26B in equity on 792M shares. This is more than $30 per share.

In our opinion, the only meaningful competitor is International Work Group (IWG). IWG is best known for its Regus brand, Buick to WeWork's Tesla. IWG has 14 brands (almost all purchased) and lacks the fun factor of a WE location. I have been in maybe 10 WeWork locations, and they seem to have a higher fun and attractiveness factor than IWG.

The last interesting point is perception. Sell-side coverage, estimates, reports, or information is minimal, and the company is not covered by any of the bulge bracket investment banks. Instead, investor perception (including institutional investors) is generally aligned with media portrayal of the company's excesses in financial newspapers and journals and, in our opinion, the wildly entertaining documentaries, creating what we believe to be a near-perfect setup to invest early.

- Large global enterprise built with other people's money (that had no regard for cost) for a different and much smaller TAM
- Pandemic created significant uplift in the size of the TAM and swift adoption of WFH by corporate America
- What we believe to be new, rational management with $2.6 billion in cost reductions
- 85% markdown from Benchmark/Softbank value and an information and research vacuum likely to be solved in the near term

## Fund Performance

**Fund Returns** | As of 3/31/2022

| | | | | Annualized Return | | | |
|---|---|---|---|---|---|---|---|
| | QTD | YTD | 1YR | 3YR | 5YR | 10Y | Since Inception* |
| **RAAIX:** Class I | -12.38% | -12.38% | -6.70% | 13.54% | 10.85% | 11.76% | 11.90% |
| **RAAAX:** Class A | -12.45% | -12.45% | -6.98% | 13.24% | 10.55% | 11.54% | 11.70% |
| **RAACX:** Class C | -12.60% | -12.60% | -7.65% | n/a | n/a | n/a | 0.36% |
| **RAANX:** Class N | -12.44% | -12.44% | -6.97% | 13.27% | 10.59% | 11.55% | 11.71% |
| Dow Jones US Real Estate TR Index | -6.50% | -6.50% | 20.66% | 10.67% | 10.14% | 9.83% | 9.93% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| S&P 500 TR Index | -4.60% | -4.60% | 15.65% | 18.92% | 15.99% | 14.64% | 14.03% |
| **RAAAX:** Class A (max load)** | -17.47% | -17.47% | -12.34% | 11.03% | 9.26% | 10.88% | 11.11% |

** The inception date of the Predecessor Fund was February 1, 2011. Past performance is not indicative of future results. Returns for periods longer than one year are annualized. The inception date of Class C shares was 12/1/2020.*

*** The maximum sales charge (load) for Class A is 5.75%. Class A share investors may be eligible for a reduction in sales charges.*

*The total annual fund operating expense ratio is 2.23% for Class A, 2.98% for Class C, 1.99% for Class I, and 2.23% for Class N. The Adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund as described in the Fund Summary, until at least October 31, 2022, to ensure that total Annual Fund operating expenses after fee waiver and/or expense reimbursement will not exceed 1.80%, 2.55%, 1.55%, and 1.80% of average daily net assets attributable to Class A, Class C, Class I, and Class N shares, respectively. Waived fees and absorbed expenses are subject to possible recoupment from the Funds in future years on a rolling three-year basis (within the three years after the fees have been waived or reimbursed) if such recoupment can be achieved within the foregoing expense limits. This agreement may only be terminated only by the Board of Trustees on 60 days' written notice to the Adviser.*

*The performance data quoted here represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original costs. A Fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. For performance information current to the most recent month end, please call (888) 524-9441.*

*The Performance shown before January 9, 2014, is that of the American Assets Real Estate Securities, L.P. ("Predecessor Fund"), which was managed by AACA, the Fund's sub-adviser, from February 1, 2011, through January 9, 2014, in the same style and pursuant to substantially identical real estate long short strategies, investment goals, and guidelines, as are presently being pursued on behalf of the Fund by AACA. Because the Predecessor Fund was not registered under the Investment Company Act of 1940, it was not subject to the same investment restrictions, diversification requirements, leverage limits, and other regulatory restrictions of the Fund, which might have reduced its returns. The Predecessor Fund also was not subject to sales loads that would have adversely affected its performance. Performance shown of the Predecessor Fund is net of its applicable management fees, performance fees, and other actual expenses and is not an indicator of future results.*

## Portfolio Performance Review

The portfolio's top five attributors this quarter were: Switch, Inc., Airbnb, Inc., IQHQ, Inc., Prologis, Inc., and Drive Shack, Inc.

- **Switch, Inc. ("SWCH") |** Domestic Data Centers: SWCH owns and develops purpose-built high-tech data centers that boast more than 500 issued and pending patents on their data center designs which hold the highest reliability ratings in the industry. We recently toured their new Atlanta Campus, visited with management, and considered them among the best globally. SWCH has proven to be an excellent operator, and we believe the stock will do well in the post-COVID environment.
- **AirBnB, Inc. ("ABNB") | Lodging:** ABNB operates an online marketplace for lodging, primarily homestays for vacation rentals and tourism activities, with more than 7 million unique listings worldwide. Based in San Francisco, California, the platform is accessible via the website and mobile app. The stock has performed well with the rebound of leisure travel post-COVID.
- **IQHQ, Inc. (Private) | Lab Space:** IQHQ operates premier life science real estate and is rapidly expanding in 3 major markets: San Francisco, San Diego, and Boston. With the growing demand for life science assets and vaccine research, we have strong confidence in the company's trajectory.
- **Prologis, Inc. ("PLD") | Industrial:** PLD is engaged in the ownership, acquisition, development, and management of logistics real estate. They are the largest warehouse operator in the world. The U.S.

supply chain has been a hot topic in recent months, and PLD has benefited from unprecedented demand.

- **Drive Shack, Inc. ("DS") | Golf:** DS invests in and manages various golf properties. The company has sold its owned golf courses but retained the management contracts. They are re-deploying the cash into Puttery locations. Cash per share is more than the share price, and we think there is a decent chance they simplify the business into the only Puttery since returns are much higher than the Drive Shack concept and managed golf courses.

The portfolio's top five detractors this quarter were: GDS Holdings, Ltd., Caesar's Entertainment, Inc., 21 Vianet Group, Inc., American Tower Corp., and Digital Bridge Group, Inc.

- **GDS Holdings, Ltd. ("GDS") | Data Centers:** GDS is a developer and operator of data centers in the People's Republic of China (PRC). GDS operates as a private carrier and is cloud-neutral, enabling its customers to connect to all PRC's telecommunications carriers and access several of the PRC's cloud service providers, whom it hosts in its facilities. GDS serves top Chinese companies such as Alibaba, Tencent, and Baidu. The PRC is an emerging market with a robust demand growth pipeline for data centers. GDS is well-positioned to capture and cross-connect clients to the USA with its strategic partnership with CyrusOne, a USA-based data center operator. Additionally, data centers have fared well in the COVID-19 environment as work-from-home and stay-at-home orders have increased data usage. Therefore, despite a recent sell-off due to regulatory fear, we are constructive on the outlook for GDS and the broader data center sector in the PRC.
- **Caesar's Entertainment, Inc. ("CZR") | Gaming:** CZR is a large regional gaming company that recently merged with Eldorado Resorts to create the largest and most diverse portfolio of gaming destinations across the U.S. The new entity boasts more than 50 world-class resorts managed by Eldorado's premier management team. We estimate that the regional U.S. gaming market will recover more quickly than Las Vegas and Macau. Additionally, we believe the next frontier in gaming will be sports betting and iGaming, and CZR is in the pole position to capture a disproportionate share of this market. However, we believe the market is not yet valuing the upside of this business in CZR's current valuation. Recently, CZR has been consolidating its iGaming footprint to just the U.S., with the sale of their U.K.-based asset William Hill on the horizon.
- **21 Vianet Group, Inc. ("VNET") | Data Centers:** VNET Group is China's largest carrier-neutral Internet and data center service provider. It is the exclusive operator of Microsoft services in China. Unfortunately, both VNET and CD have been caught up in a 'risk re-rate' in China that has nothing to do with them. As a result, we think both are oversold (along with GDS), and prices do not reflect underlying earnings power.
- **American Tower Corp. ("AMT") | Communications Infrastructure**: AMT is the largest and most diverse cell tower operator globally, with a portfolio of about 220,000 sites across 25 countries. AMT has been the most aggressive operator in international expansion, with about 1/3 of revenue from outside the US. In carrier investment and mobile penetration, international markets are typically 5-10 years behind the US market. International markets have been growing faster than domestic markets over the past few years. AMT targets AFFO growth in the mid-teens (organic growth is high-single-digit returns, the rest from acquisitions) and employs a robust underwriting discipline that can generate long-term value for shareholders. Communication networks have fared well in the COVID-19 environment, and work-from-home and stay-at-home orders have increased data communication usage. However, the stock consolidated after its rally.
- **Digital Bridge Group, Inc. ("DBRG") | Communications Infrastructure**: DBRG is an investment firm transitioning from a more traditional real estate portfolio to a digital infrastructure real estate portfolio. DBRG's new CEO, Marc Ganzi, is likely to prove to be one of the best CEOs in the real estate business, in our opinion. We had a chance to meet with Marc last week at a conference and came away with more conviction in our position.

## Outlook

We believe the portfolio is positioned in secular real estate growth opportunities that offer exposure to high-quality, same-store net operating income growth, resulting in potentially higher asset value cash flow and dividends. We have no exposure to sectors that, in our opinion, face significant structural headwinds, such as the retail sector. Further, we do not have exposure to other sectors with long-duration leases with an inability to capture inflation, which we believe would fare worse in the Fed tightening cycle. We believe these sectors are dependent on raising new capital and buying new assets as their primary means to increase earnings. These types of business plans typically underperform in rising rate environments.

Many REITs have adjusted in price as more than 68% of the SNL REIT Index names traded at a discount to NAV on 3/31/2022. The average REIT traded at a 6.0% discount to NAV at quarter-end, well within the long-term historical average's range.

Our focus is on ownership of companies that own real estate where the tenant is denied choice. This is most prevalent when some subset (or all) of these characteristics is in place:

1) the sub-sector of real estate is a monopoly, duopoly, or oligopoly;
2) there are high barriers to entry for new competitors;
3) there are high barriers to tenants leaving/exiting buildings; and
4) the basic underlying economics of the tenant's business is healthy.

We have found that when these four characteristics are present, companies in that space can potentially generate consistently higher same-store net operating income growth over long periods. Typically, sectors and companies that exhibit these characteristics comprise 65% to 80% of the portfolio.

---

*This commentary reflects the views of the sub-adviser portfolio manager through 3/31/2022. The manager's views are subject to change as market and other conditions warrant. This commentary is only for informational purposes and should not be construed as investment advice. No forecasts are guaranteed. There is no guarantee that any investment will achieve its objectives, generate profits, or avoid losses.*

## Fund Objective

The Fund seeks to provide total return through long-term capital appreciation and current income by investing, both long and short, in equity securities of real estate and real estate-related companies.

## Index Descriptions

*An index is unmanaged, not available for direct investment, and its performance does not reflect transaction costs, fees, or expenses.*

**Dow Jones US Real Estate Total Return (TR) Index** tracks the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in real estate through development, management, or ownership, including property agencies.

**The S&P 500 Total Return Index** is a broad-based index, the performance of which is based on the performance of 500 widely held common stocks chosen for market size, liquidity, and industry group representation.

| | Representative Index | Characteristics | Key Risks |
|---|---|---|---|
| **Real Estate** | Dow Jones US Real Estate Total Return (TR) Index | Comprised primarily of real estate investment trusts (REITs) | **Stock market risk:** Stock prices may decline<br>**Industry risk:** Adverse real estate conditions may cause declines<br>**Interest rate risk:** Prices may decline if rates rise. |
| **US Stocks** | S&P 500 Total Return (TR) Index | 500 US stocks; Weighted towards large capitalizations | **Stock market risk:** Stock prices may decline<br>**Country/regional risk:** World events may adversely affect values |

**Carefully consider the Fund's investment objectives, risks, charges, and expenses as detailed in its Prospectus and Summary Prospectus, which can be obtained by calling (888) 524-9441. Before investing, read the Prospectus carefully for additional information about the Fund and its risks.**

## IMPORTANT DISCLOSURES

*Funds are distributed by Northern Lights Distributors, LLC. Altegris Advisors and Northern Lights are not affiliated.*

*The Fund may not be suitable for all investors. Investing involves risk, including possible loss of principal. You may have a gain or loss when you sell shares. • There can be no assurance that the Fund will achieve its investment objectives. • Concentrating the Fund's investments in real estate securities subjects it to the same risks as direct investments in real estate, and real estate is particularly sensitive to economic downturns. • The Fund will leverage investments, as deemed appropriate, to the extent permitted by its investment policies and applicable law, which will magnify the impacts of increases or decreases in the value of Fund investments. • The Fund's investment in ETFs or other investment funds will subject it to the risks and expenses affecting those funds. • The Fund's use of short selling involves increased risks and costs, as the Fund may pay more for a security than it receives in a short sale, with potentially significant and possibly unlimited losses. • Investments in non-US securities pose additional risks to the Fund, as compared to U.S. securities, due to currency fluctuation, adverse political or economic conditions, and differing audit and legal standards (risks that are magnified for investments in emerging markets). • The Fund may invest in options and derivative instruments, which can be more volatile. less liquid and increased risk of loss, as compared to traditional securities. • Derivatives and options can be subject to counterparty default risks and adverse tax treatment. • Investing in sector funds is more volatile as compared to broadly diversified funds, as there is greater concentration risk due to investing in the same or similar issuers and offerings. • The Fund is non-diversified and can invest a greater portion of its assets in securities of the same issuers than a diversified fund, and therefore a change in the value of a single security could cause greater fluctuation in the Fund's share price than would occur if it were diversified. • The Fund trades actively, which can increase volatility and costs due to high turnover.*

### Altegris Advisors

*Altegris Advisors, LLC is a CFTC- and NFA-registered commodity pool operator and SEC-registered investment adviser that manages funds pursuing alternative investment strategies.*

*The MORNINGSTAR RATING™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity, variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, emphasizing downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics.*

*Morningstar Rating is for the A-share class only; other classes may have different performance characteristics.*

2006364_041822 | 6369-NLD-04/25/2022