

The 7 Key Features of Trend Following

THE ALTEGRIS STRATEGY SERIES

JULY 2009



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MANAGED FUTURES: The Low Correlation Advantage

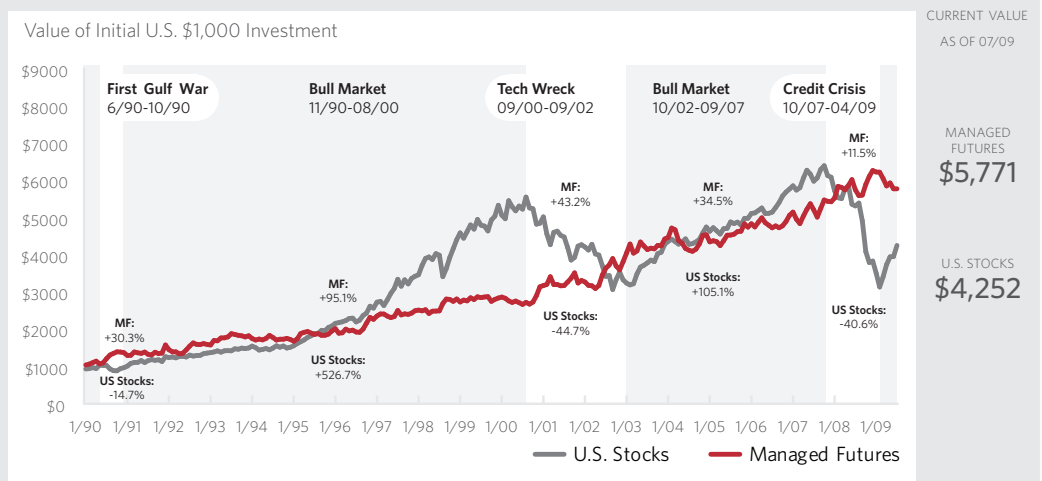
Trend following in managed futures offers suitable investors a flexible, highly liquid investment strategy that can potentially profit in any market environment. Given their historically low correlation with traditional assets, managed futures can provide additional diversification for an appropriate investment portfolio, within a context of disciplined risk management.

We believe trend following strategies exhibit seven key features which may offer investors advantages versus traditional asset management.

- 1 Potential to Profit from the Trend: Whether Up or Down
- 2 Exposure to Four Major Asset Classes
- 3 Access to Highly Liquid Global Investments
- 4 Flexible Investment Timeframes
- 5 Historic Outperformance Versus Equities
- 6 Historically Low Correlation to Traditional Assets
- 7 The Potential to Reduce Portfolio Risk and Enhance Returns

When combined with a balanced allocation of equity and fixed income, trend following strategies in managed futures may enhance returns and decrease overall portfolio volatility thereby potentially improving long-term compound performance.*

HISTORICAL COMPARISON: U.S. STOCKS VS. MANAGED FUTURES, JAN 1990 TO JUL 2009



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Indices: Managed Futures: Altegris 40 Index; US Stocks: S&P 500 Total Return Index.

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1

The Potential to Profit from the Trend: Whether Up or Down

Trend following managers typically utilize directional trading strategies in managed futures with the aim of capturing profits over the short-, medium-, and long-term in both up and down markets. In many cases, trend following managers are systematic traders, applying one or more sets of trading models or quantitative algorithms built upon highly automated trading platforms.

The majority of systematic trend followers derive their trading signals exclusively from statistical analysis of price movements, often augmented by technical inputs such as volume and open interest — all designed to identify and capture momentum and market trends. These programs are essentially agnostic to overall market direction and have the ability to take positions across all major asset classes.*

KEY TERMS

Managed Futures

The active use of futures contracts to gain exposure to various asset classes, including equities, fixed-income, currencies, and commodities.

Trend Following

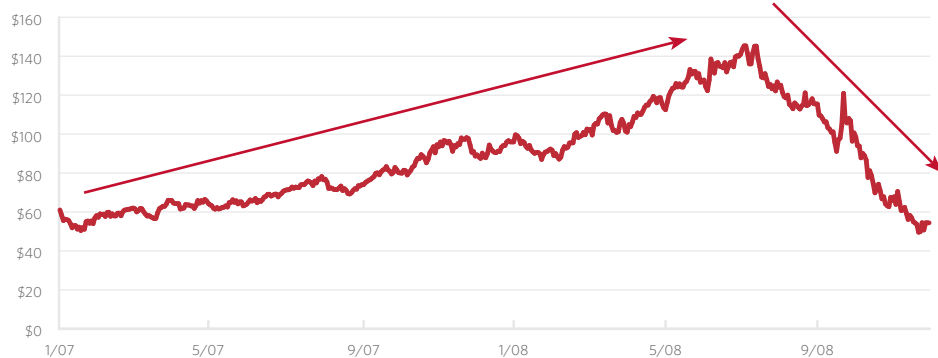
The use of systematic trading to potentially profit from short-, medium-, and long-term market trends.

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THE EXAMPLES BELOW ILLUSTRATE THE IDEA THAT TREND FOLLOWERS CAN POTENTIALLY BENEFIT FROM BOTH PRICE APPRECIATION AND RAPID REVERSALS IN DIFFERENT ASSETS OVER THE SAME TIMEFRAME. THESE CHARTS ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DO NOT REPRESENT ACTUAL TRADES.

CRUDE OIL FUTURES

U.S. Dollar Price per Barrel



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DOLLAR TO EURO 1 MONTH FORWARD RATE

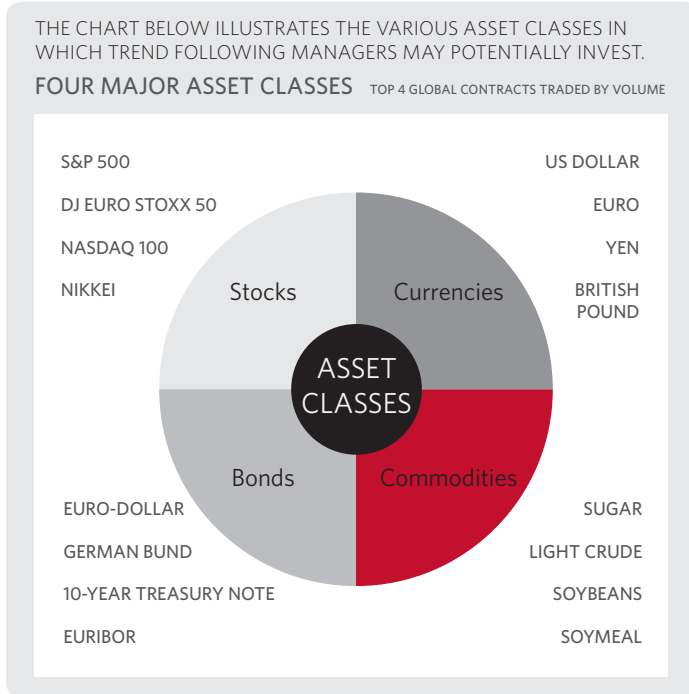
Value of Euro to USD



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Exposure to Four Major Asset Classes

Trend following managers in managed futures have the ability to gain exposure to all four major asset classes: equities, fixed income, commodities, and currencies. This diverse exposure allows trend followers to potentially profit from both positive and negative developments in multiple markets at once. As a result, trend followers may be better positioned to benefit from these developments than more traditional asset managers.*

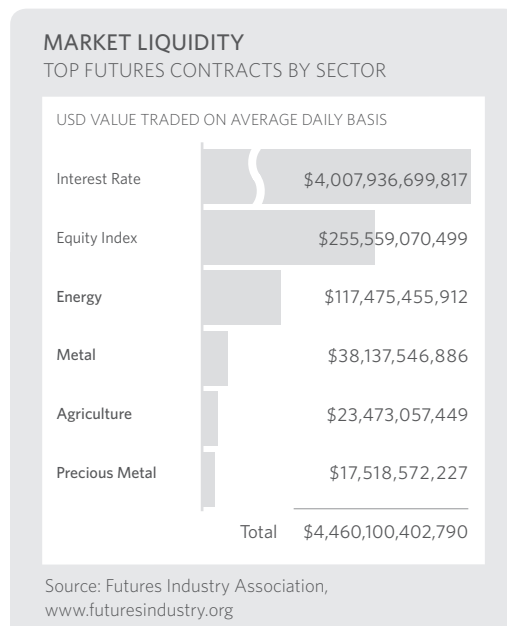


“A good portfolio is a balanced whole, providing the investor with protections and opportunities with respect to a wide range of contingencies.”

—Harry Markowitz, Nobel-Prize Winning Economist, *Portfolio Selection*, 1959

Access to Highly Liquid Global Investments

Today, trend following managers have the ability to actively participate in more than 150 futures markets worldwide. Highly fluid futures exchanges provide central clearing mechanisms along with daily liquidity for most markets. This may offer the investor the benefit of reduced counterparty risk and allows the manager the ability to respond rapidly to changing conditions, which may help limit losses and protect profits.*



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Flexible Investment Timeframes

Unlike many traditional asset managers, trend followers trading managed futures often have the flexibility to trade over the short-, medium-, and long-term. In fact, many trend followers employ proprietary trading models that are specifically designed to exploit market opportunities over various timeframes. In some cases, these models are optimized to quantify position sizes, risk exposure, and loss limits, among other factors. While flexible investment horizons are not a guarantee against loss, they may allow trend followers to take advantage of futures market opportunities that are not available to their more traditional peers.

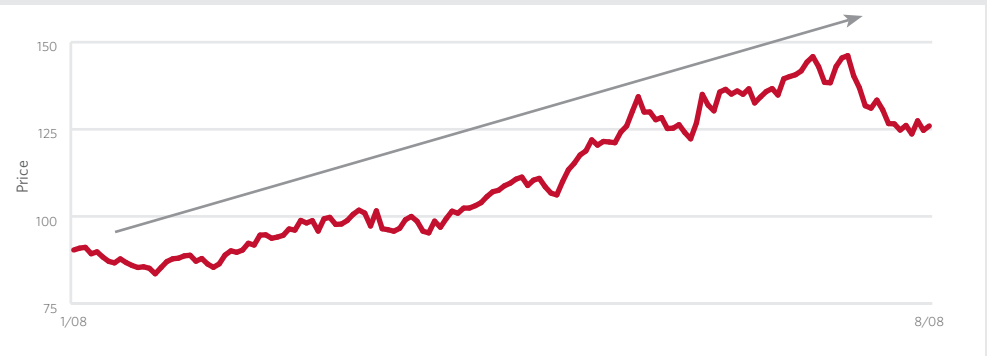
Trend following programs tend to perform well when distinct trends dominate price patterns, even in volatile markets. On the other hand, the strategy may underperform during periods of erratic markets, in which trends are indistinct for the relevant investment timeframe.

“Managed futures funds can fare particularly well in times of wild and extended price swings, in part because computers can make calculated, emotionless reversals to seize on market changes that human traders may be slower to accept.”

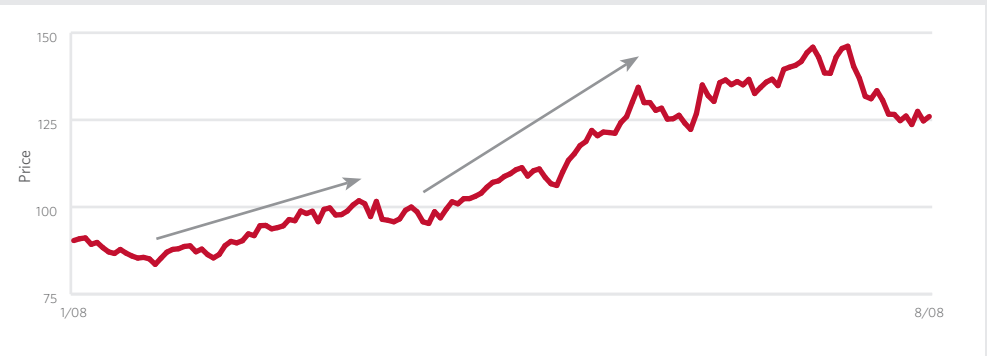
-The Wall Street Journal
November 5, 2008

THE SAMPLE GRAPHS BELOW ILLUSTRATE THE TIME RANGES THAT TREND FOLLOWING MANAGERS MAY POTENTIALLY EXPLOIT. THESE CHARTS ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DO NOT REPRESENT ACTUAL TRADES.

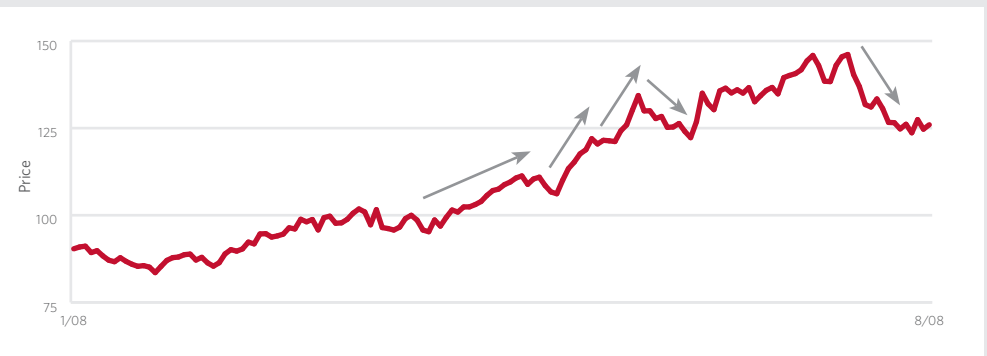
LONG-TERM TREND CRUDE OIL FUTURES JAN 2008 TO AUG 2008



MEDIUM-TERM TREND CRUDE OIL FUTURES JAN 2008 TO AUG 2008



SHORT-TERM TREND CRUDE OIL FUTURES JAN 2008 TO AUG 2008



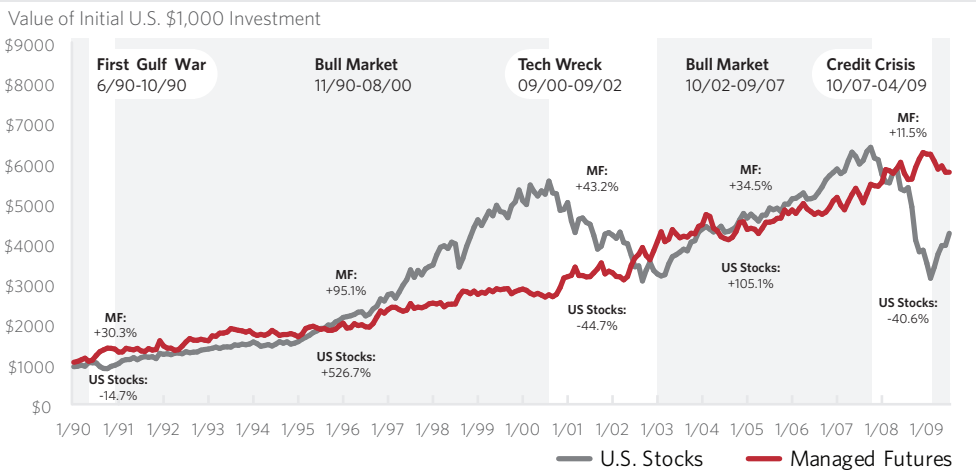
Source: Bloomberg, www.bloomberg.com

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Historic Outperformance Versus Equities

Since 1990, the managed futures index, primarily comprised of trend following managers, has outperformed equity markets. Over this time, managed futures have returned 9.36% annualized while U.S. equities have returned 7.67%. †*

HISTORICAL COMPARISON: U.S. STOCKS VS. MANAGED FUTURES, JAN 1990 TO JUL 2009



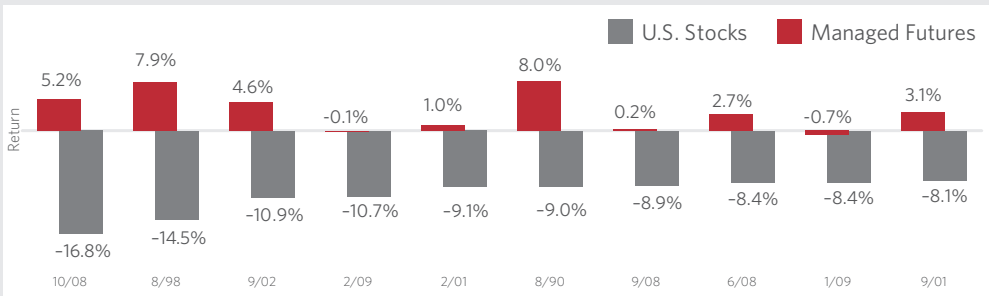
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Importantly, managed futures, predominantly trend followers, have consistently outperformed equities during periods of substantial loss in the equity markets while experiencing limited losses during periods of equity strength. While there is no guarantee that these dynamics will continue, managed futures may represent an effective portfolio hedge against equity exposure for appropriate investors.

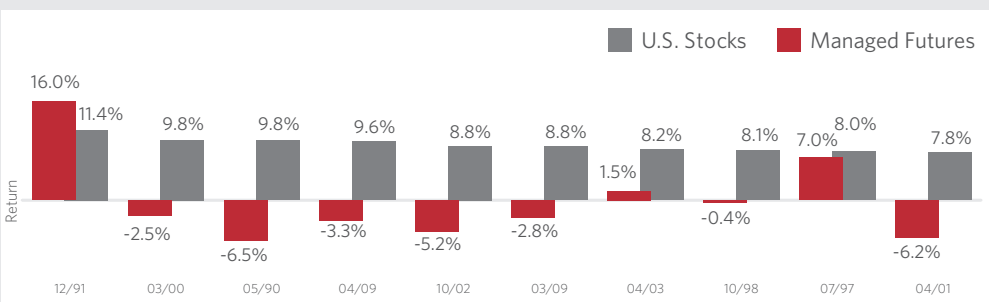
“Many prospective investors have turned to managed futures as a means by which to harness the best professional trading talent in the pursuit of profitable futures trading opportunities.”

-CME Group, “Why Managed Futures?”

TOP 10 US STOCK WORST MONTHS: U.S. STOCKS VS. MANAGED FUTURES, JAN 1990 TO JUL 2009



TOP 10 US STOCK BEST MONTHS: U.S. STOCKS VS. MANAGED FUTURES, JAN 1990 TO MAY 2009



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† Based on the relative returns of the Altegris 40 Index and the S&P 500 Total Return Index for the period January 1990 through Jul 2009.

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Historically Low Correlation to Traditional Assets

Historically, managed futures, predominantly trend followers, have exhibited low to slightly negative correlation with traditional investments such as equities and fixed income. In part, this historically low correlation to the respective market indices is the result of global diversification and the fact that managed futures programs can trade on both upward and downward directional moves in the underlying assets.*

ASSET CLASS CORRELATION TABLE, JAN 1990 TO JUL* 2009

	U.S. STOCKS	MANAGED FUTURES	U.S. BONDS
U.S. STOCKS	1.00	-0.15	0.18
MANAGED FUTURES		1.00	0.22
U.S. BONDS			1.00

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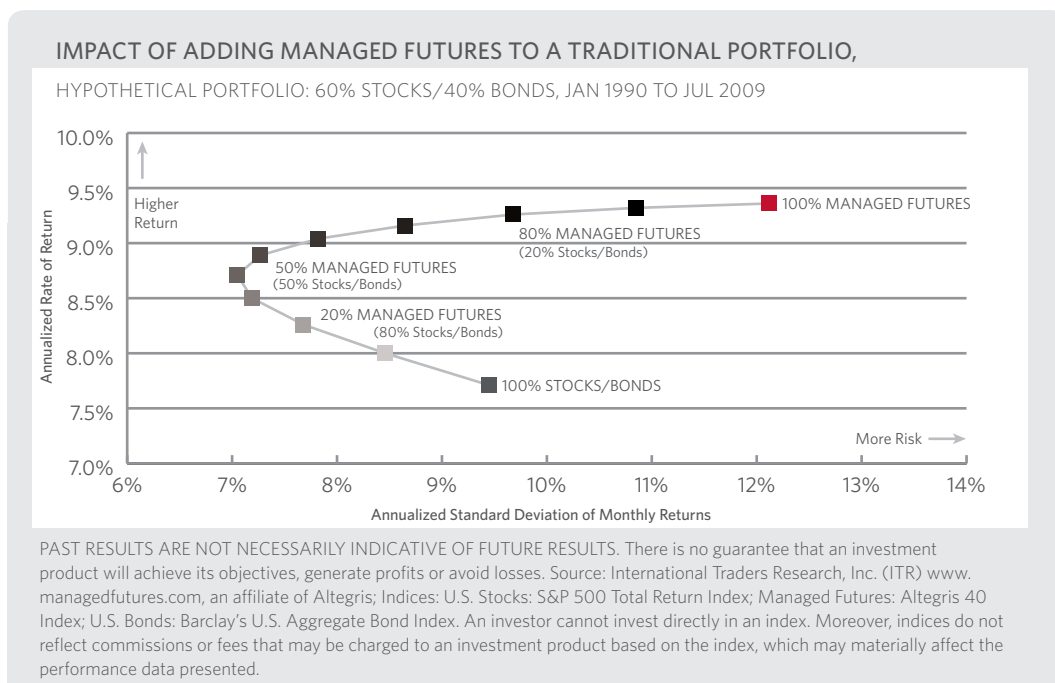
Source: International Traders Research, Inc. (ITR) www.managedfutures.com, an affiliate of Altegris; Indices: U.S. Stocks: S&P 500 Total Return Index; Managed Futures: Altegris 40 Index; U.S. Bonds: Barclays U.S. Aggregate Bond Index.

Correlations may vary with time and market conditions.

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The Potential to Reduce Portfolio Risk and Enhance Returns

As a result of this historically low correlation, the addition of managed futures to a traditional portfolio may help reduce overall portfolio volatility and improve returns. This viewpoint is supported by a landmark 1983 study by Dr. Jon Lintner of Harvard University.* This potential for increased returns may represent a significant benefit to suitable investors whose portfolios have historically been limited to traditional asset classes.



“The combined portfolios of stocks (or stocks and bonds) after including judicious investments in leveraged managed futures accounts show substantially less risk at every possible level of expected return than portfolios of stocks (or stocks and bonds) alone.”

— Dr. John Lintner, “The Potential Role of Managed Futures Accounts in Portfolios of Stocks and Bonds”, 1983

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Put Managed Futures to Work in Today's Volatile Market

The Keys to Manager Selection

Effectively incorporating managed futures into a diversified portfolio depends on careful selection of the appropriate manager(s). Many factors must be precisely evaluated in order to assess each manager's skill set and the opportunities available in their respective markets, as not all managers trade in all markets or across all time frames.

Some of these factors in manager selection may include:

- » Ongoing research to maintain a sustainable trading edge
- » Broad diversification across markets to effectively balance risk and return potential
- » Deep experience in trade execution and monitoring
- » Effective operational systems to minimize business risk

In addition, the decision must take into account the risk/return profile of each investor, as managed futures are not appropriate for everyone. It is important to evaluate how the selected manager(s) may complement other aspects of the overall investment portfolio to potentially meet each investor's specific investment objectives.

Altegris Investments

Altegris Investments provides access to a platform of alternative investments designed to meet the needs of sophisticated investors and their wealth managers. The Altegris team of over 60 professionals is dedicated to finding, selecting, and negotiating capacity with managed futures and alternative investment funds. Currently, investors have allocated more than \$2 billion in trading levels to investments available through the Altegris platform.

APM Funds, an affiliate of Altegris, is the sponsor of a family of alternative investment strategies, including managed futures. The funds are distributed through Altegris Investments.



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deserve and demand
trusted access to
the best investment
professionals in the
alternatives industry."**

-Jon Sundt, President of APM
Funds and Altegris Investments

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RISKS OF INVESTING IN ALTERNATIVE INVESTMENTS

Alternative investment products, including hedge funds and managed futures, are not for everyone and entail risks that differ from more traditional investments. When considering alternative investments you should consider the fact that some products use leverage and other speculative investment practices that may increase the risk of investment loss, can be illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees including incentive fees, and in many cases have underlying investments that are not transparent and are known only to the investment manager. With respect to alternative investments in general, you should be aware that:

- » Returns from some alternative investments can be volatile.
- » There may be a substantial risk of loss: you may lose all or portion of your investment.
- » The high degree of leverage often attainable in alternative investments can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
- » With respect to single manager products, the manager has total trading authority. The use of a single manager could mean a lack of diversification and higher risk.
- » Many alternative investments are subject to substantial expenses that must be offset by trading profits and other income. A portion of these fees includes payments to Altegris.
- » Trading may take place on foreign exchanges that may not offer the same regulatory protection as U.S. exchanges. Such trading may also entail exchange rate risk.
- » Past results are not necessarily indicative of future results.

A fund's Offering Memorandum or a manager's Disclosure Document describes the various risks and conflicts of interest relating to an investment and to its operations. You should read those documents carefully to determine whether an investment is suitable for you in light of, among other things, your financial situation, need for liquidity, tax situation, and other investments. You should only commit risk capital to alternative investments. You should obtain investment and tax advice from your advisors before deciding to invest.

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