BALTER
— LIQUID ALTERNATIVES —

125 High Street
Oliver Street Tower, 8th FL
Boston, MA 02110

T: 857.383.3472
F: 617.742.4226
www.balterliquidalts.com

May 20, 2016

Discrediting Liquid Alternatives Won't Save the Hedge Fund Establishment

Balter Liquid Alternatives' Response to Skybridge Capital on Liquid Alternatives Risks and Performance

Recently, Senior Portfolio Manager Troy Gayeski of Fund of Hedge Funds manager Skybridge Capital, broadly warned investors of the risks and performance shortfalls of liquid alternatives ('40 Act). This appears conveniently self-serving given their focus on higher fee Fund of Hedge Fund products rather than acknowledging the merits of the growing liquid alternatives universe.

Earlier this week, HFM Week polled investors asking the following question: "Do You Agree with Skybridge Capital's concerns about liquid alternatives vehicle?" As of 5/19/16, the results are as follows:

50.35%	Yes, many alt '40 Act funds run strategies that are not suited for daily liquidity and investors are unlikely to get the performance they are after, or worse.
29.08%	Maybe, US liquid alternatives structures have been used as an aggressive asset gathering vehicles in certain instances but there are other strategies than CTAs and l/s equity where the liquidity can be matched.
20.57%	No, alt '40 Act funds offer a broad range of strategies and fulfill the needs of investors looking for portfolio diversification alongside mutual fund liquidity standards.

Source: HFM Week

In our view, the survey results reinforce the importance and need for investor education, as it leads us to believe that investors are ill-informed about the overall liquid alternatives universe. More importantly, we think investors trust is misplaced when being educated on liquid alternatives from a Fund of Hedge Funds manager whose best interests are gravely at stake. As a result, we decided that it is necessary to challenge Skybridge's claims head on, set the record straight, and provide investors with a better understanding of the liquid alternatives universe.

De-Mystifying Liquid Alternatives

We can't say we're shocked by the results from HFM Week's 30 Second Survey, as liquid alternatives is an investment category that is widely misunderstood. The universe historically has been dominated by watered down vehicles, coupled with confusion as to the methodology to evaluate them. Given Balter Capital Management and Balter Liquid Alternatives' roots of conducting deep hedge fund research over the past decade, we believe we have a unique and honest perspective on the liquid alternatives industry. In our view the industry is at a crossroads where hedge fund LP vehicles and mutual funds have the opportunity to intersect, both playing distinct roles in investor's portfolios. In particular, we recognize the importance of strategies that are managed pari passu with their hedge fund LP vehicles which differentiates us from many of our peers. We are also firm believers that the more commoditized a given hedge fund strategy is, the more competitive those fee levels should be versus niche strategies.

So why the lingering confusion over the liquid alternatives? Our guess is that because liquid alternatives are structured as mutual funds, many investors have made the mistake of defaulting to categorizing and evaluating those strategies alongside traditional "long-only" mutual funds. They often times are ignorant to the fact that mutual funds can invest both long and short in a myriad of asset classes and can utilize some degree of leverage. It should be clear to most sophisticated investors that viewing these as long only mutual funds is not the correct methodology. We share Goldman Sachs view that liquid alternatives are better served by being evaluated through a "hedge fund lens." Furthermore, what most investors forget is that the goal of liquid alternatives and hedge funds are often the same. Goldman Sachs highlighted the objectives of liquid alternatives in their *Liquid Alternative Investments Market Analysis & Performance Summary for 2015*:

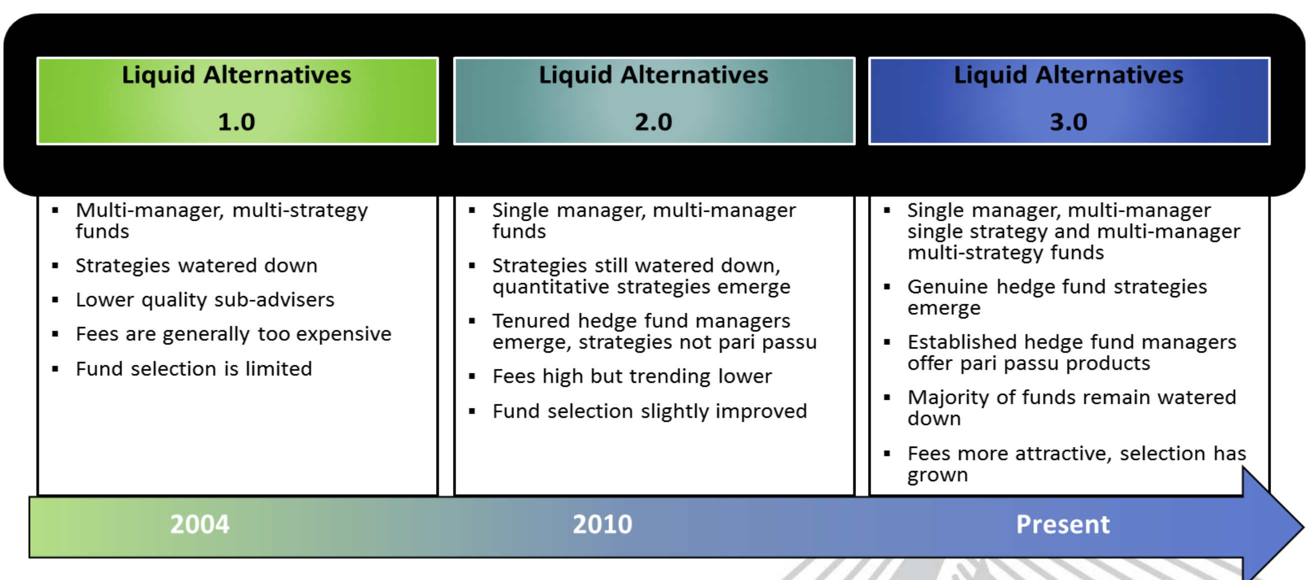
1.) The potential for differentiated returns versus widely owned (i.e., long-only) asset classes, such as core equity and fixed income.
2.) The potential to reduce overall portfolio risk.
3.) The potential to mitigate the effects of severe drawdowns, particularly in equities. Also, like hedge funds, these (alternative) mutual funds attempt to reshape the risk of their underlying investments using techniques such as shorting, derivatives, and leverage.

In other words – liquid alternatives should not be evaluated alongside their long-only mutual fund counterparts. Instead, they should be evaluated with a "hedge fund lens", given that their objectives and goals align closely with that of a hedge fund – simply in a different wrapper.

The Evolution of Liquid Alternatives

So exactly how did we get here? Given our deep research experience across the hedge fund spectrum, we scrutinized the evolution of the space and distilled it into three generations:

The Evolution of Liquid Alternative Mutual Funds



Source: Balter Liquid Alternatives LLC

Version 1.0: When liquid alternatives first emerged, they fell into two distinct categories; multi-manager multi-strategy funds and quantitative funds. The common connection however was lower quality sub-advisors, watered down portfolios, limited selection, and high fees.

Version 2.0: "Brand name" managers began to enter the space but were unwilling to offer strategies managed pari passu to their hedge funds, still leaving watered down portfolios. Fees remained high but were trending lower. Single strategy funds started to emerge but overall fund selection remained limited.

Version 3.0: This is the convergence of traditional hedge fund strategies and mutual funds. *The only difference is the change in the wrapper*. These funds can either be strategies managed pari passu to existing hedge fund offerings, or outright conversions of hedge funds into mutual funds with a moderation of fees.

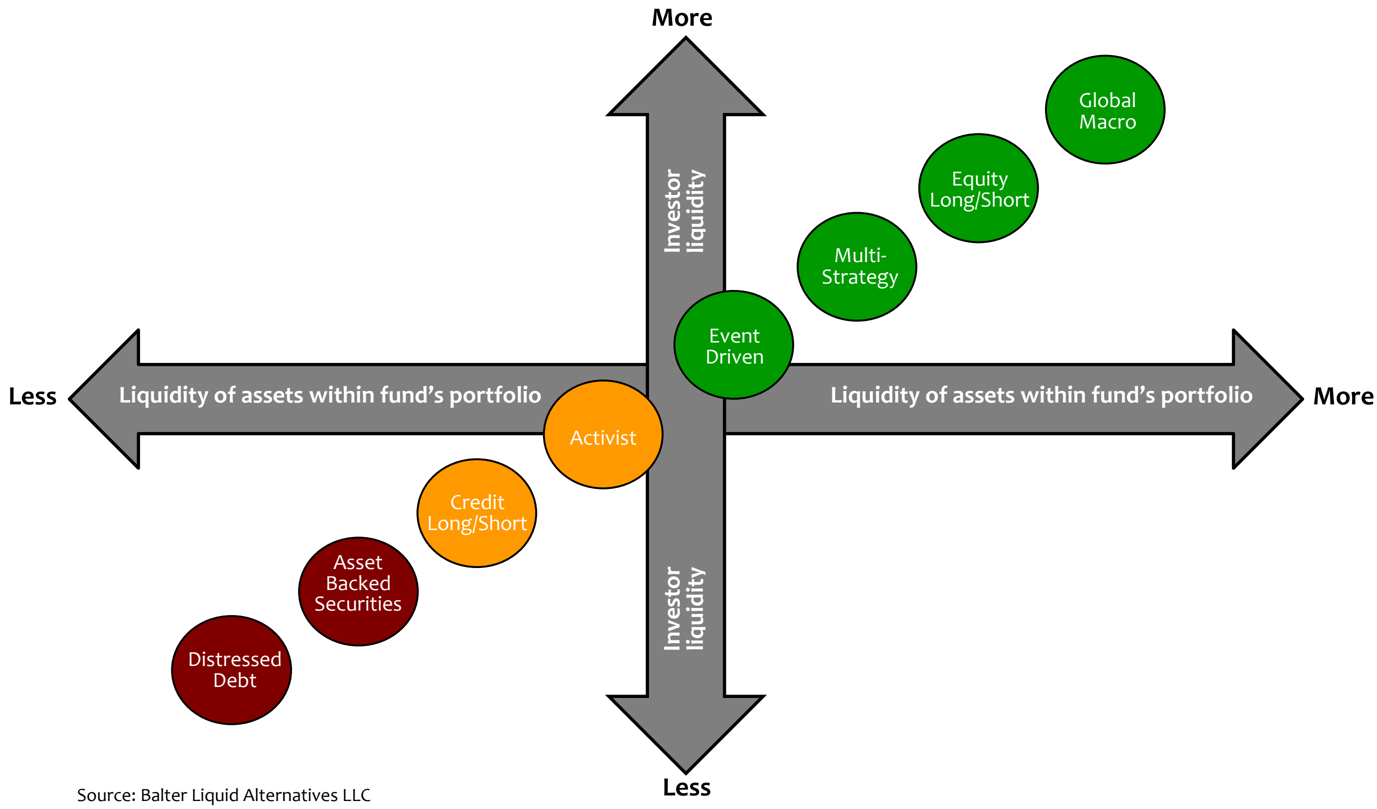
As Version 3.0 eventually becomes the standard, we believe that investors will begin to look at liquid alternatives and traditional alternatives on an all-inclusive basis in constructing optimal portfolios. We believe that both traditional hedge fund LP structures and liquid alternatives can co-exist and complement one another in a portfolio, but first we must clearly delineate and define what strategies best fit in each structure.

Strategies: So, What Exactly Fits in a '40 Act Wrapper? What Doesn't Fit?

While the turmoil over Third Avenue management's $700 million high yield fund prompted great concern over liquidity in the credit markets in late 2015, to be clear, Third Avenue Focused Credit fund was never launched as a liquid alternative, as initially insinuated by Skybridge in their attempt to further discredit liquid alternatives. Let us repeat that again: *Third Avenue Focused Credit was never launched as a liquid alternative fund*. It was launched as a high yield mutual fund, and progressively engaged in concentrating its portfolio in highly illiquid junk bonds that became increasingly illiquid as the credit markets softened. In fact, in our view this further highlights the importance of investors looking under the hood to conduct the necessary due diligence and focus on manager selection – whether it is a traditional hedge fund LP structure, a liquid alternative, or a mutual fund. While Skybridge has a very narrow interpretation as to what fits in a '40 Act wrapper, limiting it only to CTAs and long/short equity, we believe that this also potentially includes additional highly liquid strategies such as:

- Futures, Commodities & Foreign Exchange
- Event-Driven
- Market Neutral
- Hedged Credit (Credit Long/Short)
- Multi-Strategy

We are cognizant that not all strategies are going to fit in a '40 Act wrapper, but it's not just narrowly limited to CTAs and long/short equity strategies. We think that the list of appropriate strategies is materially larger but as we point out above, traditional hedge fund LP vehicles will still be utilized for certain types of funds. Specifically, we strongly believe that LP structures will be reserved for those strategies that are trading in illiquid securities, running high leverage, or have a high degree of concentration – all of which are the core tenets of the tools that hedge funds have readily at their disposal to appropriately exploit. In our view, the strategies highlighted in green below are best suited for AMFs because the underlying assets they invest in are liquid and the strategies do not typically require leverage or concentration to execute.



Source: Balter Liquid Alternatives LLC

Liquid Alternatives Outperform Hedge Funds

Turning our attention to Gayeski's public claim of the following: "*Over two out of 10 years then liquid alternatives may perform better but we are pretty sure that it is very difficult for liquid alternatives to generate comparable returns over a 10 year period.*" To challenge Gayeski's claim, we present recent findings from Goldman Sachs Asset Management ("GSAM"), namely from their 2015 year end Liquid alternatives MAP report where they have taken considerable effort to pare down the liquid alternatives universe into relevant hedge fund strategy peer groups and evaluate their relative performance. This includes five standard hedge fund "buckets" that include equity long/short, event driven, relative value, macro/CTA, and multi-strategy.

When comparing the Goldman Sachs Liquid Alternative Investments ("LAI") Peer Groups to corresponding HFRX and HFRI Indices, *liquid alternatives outperformed hedge funds in 9 of 10 instances in 2015 (based on annualized total returns), a year characterized by a particularly volatile and turbulent investing environment*.

2015	HFRX Index	HFRI Index	Goldman LAI Peer Group
Equity Long/Short[1]	-2.3%	-0.9%	-0.4%
Event Driven[2]	-6.9%	-3.7%	-1.4%
Relative Value[3]	-3.1%	-0.3%	1.5%
Macro/CTA[4]	-2.0%	-1.2%	-0.7%
Multistrat/Global Hedge[5]	-3.6%	-0.2%	-2.0%

Source: Goldman LAI Market Analysis & Performance Summary

We have also taken the liberty of summarizing the universe over the last 5 years given Gayeski's skepticism of liquid alternatives' longer term performance. Not surprisingly to us, *liquid alternatives outperformed hedge funds in 7 of 10 instances from 2011 to 2015 (based on annualized total returns)*.

2011-2015	HFRX Index	HFRI Index	Goldman LAI Peer Group
Equity Long/Short[1]	-1.4%	2.6%	4.5%
Event Driven[2]	0.5%	2.9%	2.0%
Relative Value[3]	-0.8%	4.2%	2.0%
Macro/CTA[4]	-0.9%	-0.1%	1.9%
Multistrat/Global Hedge[5]	-0.7%	2.1%	1.6%

Source: Goldman LAI Market Analysis & Performance Summary

While liquid alternatives are a relatively "new" asset class and as a result data points are fairly limited when compared to its traditional mutual fund and hedge fund counterparts, based on the 5 year results alone Gayeski is clearly misinformed about the merits of liquid alternatives' ability to generate meaningful returns. In our view the numbers clearly speak for themselves. We would strongly suggest that going forward Gayeski does his homework before making such bold and uninformed statements to protect their interests. As with any security the investor must determine if it is appropriate for their portfolio and liquid alternatives are no different; all liquid alternatives should be assessed for their individual merits and fit for the investor. But using a broad brush to paint the liquid alternatives industry as too risky and likely to underperform should remind all investors that they should consider the motivation of any financial advice they receive.

[1] HFRX Equity Hedge Index, HFRI Equity Hedge Index, LAI Equity Long/Short Peer Group
[2] HFRX Event Driven Index, HFRI Event Driven Index, LAI Event Driven Peer Group
[3] HFRX Relative Value Arbitrage Index, HFRI Relative Value Index, LAI Relative Value Peer Group
[4] HFRX Macro/CTA Index, HFRI Macro Total Index, LAI Tactical Trading/Macro Peer Group
[5] HFRI Global Hedge Index, HFRI Fund of Funds Composite Index, LAI Multistrategy Peer Group

For definitions of these indices, please visit www.hedgefundresearch.com and www.assetmanagement.gs.com

Investors should carefully consider the investment objectives, risks, charges and expenses of the Balter Funds. This and other important information about the Funds is contained in the prospectus, which can be obtained at www.balterliquidalts.com or by calling 844-322-8112. The prospectus should be read carefully before investing. The Balter Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC.

References to other mutual funds or products should not be interpreted as an offer of these securities. Fund Holdings are subject to change and should not be considered a recommendation to buy or sell any.

Mutual fund investing involves risk. Principal loss is possible. The Fund is non-diversified and may hold a significant percentage of its assets in the securities of fewer companies, and therefore events affecting those companies have a greater impact on the Fund than on a diversified fund. The Fund may use derivatives which may not perform as anticipated by the Sub-Advisers, may not be able to be closed out at a favorable time or price, or may increase the Fund's volatility. Increases and decreases in the value of the Fund's portfolio may be magnified when the Fund uses leverage. The fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. When the Fund invests in ETF's or mutual fund's, it will bear additional expenses based on its pro rata share of the ETF's or mutual fund's operating expenses, including the potential duplication of management fees. The Fund also will incur brokerage costs when it purchases ETFs. The value of the Fund's investments in REITs may change in response to changes in the real estate market such as declines in the value of real estate, lack of available capital or financing opportunities, and increases in property taxes or operating costs.

Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investing in foreign securities exposes investors to economic, political and market risks, and fluctuations in foreign currencies. These risks are enhanced in emerging markets. The fund may invest in the securities of small and medium sized companies. Small and medium company investing subjects investors to additional risks, including security price volatility and less liquidity than investing in larger companies. Investments in IPOs can be volatile and can fluctuate considerably. IPOs can have a magnified impact on funds with a small asset base. Certain Sub-Advisers may be purchasing securities at the same time other Sub-Advisers may be selling those same securities, which may lead to higher transaction expenses compared to the Fund using a single investment management style.

The Fund is offered only to United States residents, and information on this site is intended only for such persons. Nothing on this web site should be considered a solicitation to buy or an offer to sell shares of the Fund in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction.