



Alternative Investment Insight through
Research, Training and Increased Efficiency

FAQ: Alternative Mutual Funds

Complex investments are becoming more accessible to average investors looking for new investing opportunities, especially given the recent evolution of Alternative Mutual Funds. In order to effectively include these investments within client portfolios, one should understand the complexity of the funds and meet other regulatory requirements associated with them.

Read the interview below with AI Insight's Mike Kell and Lou Johnson to help gain an understanding of Alternative Mutual Funds to better equip yourself to answer client's questions and feel more confident in applying these investments.

Q: From an investment objective perspective, how do Alternative Mutual Funds differ from traditional Mutual Funds?

Mike Kell: Alternative Mutual Funds use more complex strategies than traditional mutual funds. By investing in alternative strategies like long-short, arbitrage and trend following, among others, they offer the potential for diversified returns relative to traditional funds investing long only in stocks or bonds. We recently launched a CE course, "Introduction to Alternative Mutual Funds", that addresses this and other related topics such as risks, fees and expenses.

Q: From a regulatory perspective, how do Alternative Mutual Funds differ from traditional Mutual Funds?

Mike Kell: As the number of complex products available to investors increases, so does the regulatory focus. The non-traditional strategies and investments Alternative Mutual Funds use increase the risk and complexity compared to traditional mutual funds. The SEC has been focused on liquidity risk management and derivatives exposure with these funds. FINRA has echoed the SEC with an investor letter and e-learning course cautioning the risks of these strategies in an open-end '40 Act structure.



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Q: How can financial firms address the SEC and FINRA alerts when working with Alternative Mutual Funds?

Mike Kell: When we see increased regulatory focus in a direction like this, we want to provide a solution to help our clients remain regulatory-compliant. When considering a solution, we focus on the gap that exists between what's available today and a reasonable approach to meeting regulatory requirements while considering operational efficiencies. There are various entities providing quantitative data at high levels but fall short of delivering enough information to meet a reasonable threshold of understanding the complexities of Alternative Mutual Funds.

We've created an enhanced framework for organizing the Alternative Mutual Fund industry inclusive of peer group, strategy and sub-strategy to better address the breadth and diversity of the space. AI Insight provides education modules at the industry and strategy-levels along with fund-level research for Alternative Mutual Funds, which helps you understand the complexities of the products and how to use them in different market conditions. Plus, we make it easy to document for regulatory-compliance purposes.

Q: AI Insight is known not just for research but for providing education modules for more traditional alternative investments. Are you providing a similar solution for Alternative Mutual Funds?

Lou Johnson: Yes, you can access education modules that cover the key features, risks and considerations of alternative strategy mutual funds but not at the fund-level as clients are familiar with traditional alternatives. We offer a comprehensive education module as well as complementary strategy-level education modules based on the strategies we cover in our research including Alternative Allocation, Alternative Credit, Equity Long Short, Equity Market Neutral, Equity Option, Global Macro, and Managed Futures.

The AI Insight platform also serves as a documentation protocol to support regulatory-compliance requirements. When you conduct research on Alternative Mutual Funds or complete the education module, it's automatically recorded in our Training, Education and Research Log for regulatory-compliance purposes. You can easily download your log and share it as needed to support any regulatory or other similar requests.



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Q: Can you discuss the fund-level research and performance data components of the tool?

Lou Johnson: We have both a quantitative and qualitative approach to the Alternative Mutual Fund research. The last thing we want to do is recreate the wheel - we don't want to be one more provider doing the same thing as everyone else. We looked at what's in the marketplace today and discovered the missing piece was third-party research focused on understanding and applying the product rather than quantitative information with a corresponding rating.

The qualitative side is where we really try to add value. Our goal is to provide a framework for breaking these funds down into their individual components in order to provide a better wholistic picture of what it is the fund does. This is the focus of our tiered grouping system including peer group, strategy, and sub-strategy as well as our comprehensive write up that targets the investment strategy and process. We then use the quantitative side, such as our exposure and performance summary, to bring the insight full circle.

We wanted to make this information very accessible as well. So, pulling from our investment review, we provide key summaries including our Analyst Key Takeaways, Category Specific Risks, and our alternative-centric Exposure Summary. When combined with the various shareholder information including portfolio management, fees, and detailed performance, it provides a complete picture of the fund which could be considered a "due diligence fact sheet" for these complex products.

Resources

- AI Insight Alternative Mutual Fund Research
- AI Insight Alternative Mutual Fund Research Target Fund List
- FINRA Investor Alert: "Alternative Funds Are Not Your Typical Mutual Funds"
- SEC Investor Bulletin: "Alternative Mutual Funds"
- White Paper: "Understanding the Complexities of Liquid Alternatives"
- AI Insight CE course: "Introduction to Alternative Mutual Funds"
- FINRA CE course: "Understanding Alternative Mutual Funds"
- Blog article: "Do you know your regulatory responsibility when working with Alternative Mutual Funds?"

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