



Alternative Investment Insight through
Research, Training and Increased Efficiency

Sourcing, Applying and Documenting Alternative Mutual Funds in Advisor Practices

Get unbiased research reports, education modules and documentation of your firm's training efforts to help you stay regulatory-compliant.



Find out what your firm needs to do to implement consistent training – and why you need to do it.



Help your firm define Alternative Mutual Funds and understand when further due diligence is needed.



Create an action plan leveraging AI Insight's resources to help your firm stay compliant.

Target Fund List

The initial universe consists of mutual funds with:

- An alternative strategy,
- 3-year track record, and
- \$500 million in assets under management.

We will continue to expand coverage while also considering subscriber requests.



Alternative Mutual Fund Universe

Alternative Mutual Funds experienced significant growth in total assets during and after the Great Recession as investors scrambled for investment options with a lower correlation to the equity/bond markets in order to protect their investments from increased volatility.

Currently, there are more than 450 Alternative Mutual Funds available and more advisors are considering these investments as a part of a client's diversified portfolio rather than as an opportunistic investment as they were considered years ago. Given this, it's important for advisors to have the resources they need to conduct the appropriate level of due diligence on these products.

“Regulatory focus is on Alternative Mutual Funds. FINRA has positioned them as a separate investment class highlighting the complexity, risk and need for awareness. SEC has placed liquidity rules and considered limits on use of derivatives.”

Regulatory Focus

Regulators followed the capital flows with heightened suitability concerns to the retail investor focused '40 Act structure given the non-traditional strategies and investments alternative mutual funds use. This increases the risk and complexity profile compared to traditional mutual funds.

- **The SEC** has been focused on liquidity risk management and derivative exposure with these funds as demonstrated in their *Investor Bulletin: Alternative Mutual Funds*.
- **FINRA** echoed the SEC with an investor letter and e-learning course cautioning the risks of these strategies in an open-end '40 Act structure in its *Investor Alert: Alternative Funds Are Not Your Typical Mutual Fund*. More recently, FINRA identified alternative mutual funds as a unique product set and introduced an e-learning course, *“Understanding Alternative Mutual Funds”*, highlighting unique characteristics, potential risks, and the importance of suitability analysis.

Due diligence is a necessary obligation

FINRA's e-learning course calls out, *“Some firms might not review Alternative Mutual Funds through a new product vetting process because they already have a relationship with a fund company...”*. Now we've determined:

- **All-encompassing fund company approvals** do not allow for the level of required due diligence necessary on Alternative Mutual Funds as compared to traditional Mutual Funds.
- **Additional scrutiny is needed** prior to advisors offering Alternative Mutual Funds to clients to make them aware of possible risks and help them understand these complex fund strategies.
- **An efficient solution can help firms** establish and enforce best practices. AI Insight's Alternative Mutual Fund Research can help with due diligence based on continued regulatory guidance.

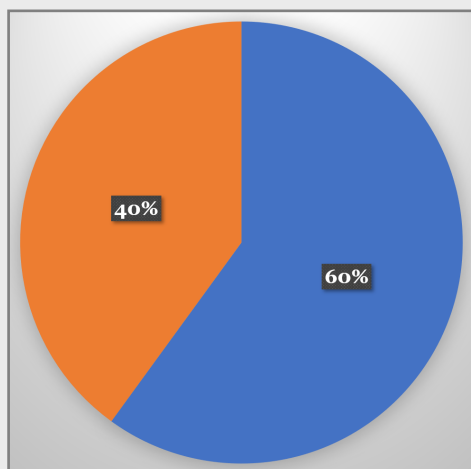
Define Universe – Train Consistently – Monitor Ongoing

One of the key research difficulties is organizing the breadth of Alternative Mutual Fund strategies while capturing the complexity of the space. There are several third-party research firms that provide high-level data. However, the current category system does not address the breadth and diversity of alternative funds, nor the nuances within the underlying categories.

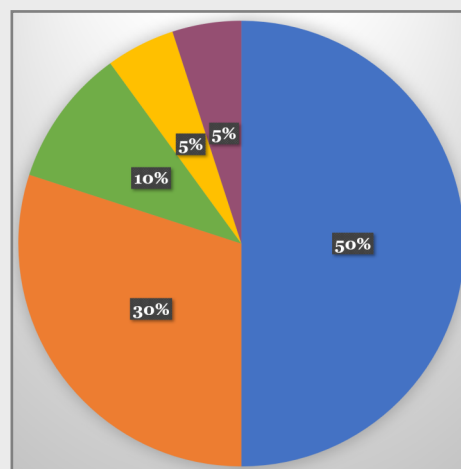
AI Insight's Alternative Mutual Fund Research provides a system that helps you readily identify what a fund is by the peer group, category and strategy. This includes Company and Infrastructure Insight, Analyst Insight, an Alternative-Centric Portfolio Exposure Summary, Performance Reporting and Insight, and an in-depth overview of the investment strategy and process.

Alternative is a broad label. Education and due diligence is the number one component to suitability. Alternative Mutual Funds present a higher risk compared to traditional mutual funds.

Investment Portfolio with Traditional Mutual Funds



Investment Portfolio with Alternative Mutual Funds



Use AI Insight's two-tiered approach to help you identify what funds are considered complex and ensure advisors understand the complexities of these types of mutual funds so they can clearly position them in a diversified portfolio.

- 1. Training and Education:** It's important to offer consistent training and education at the firm-level. For advisors who utilize Alternative Mutual Funds, consider requiring the comprehensive *"Introduction to Alternative Mutual Funds"* course, which qualifies for 1 CFP® CE credit.
- 2. Initial and Ongoing Monitoring:** Address the requirement to monitor complex products on an initial and ongoing basis. Advisors can access Research Reports that are fund- and share-class specific, including both quantitative and qualitative information.

Implement advisor best practices at the firm-level and conduct ongoing monitoring

- **Stay current** with Alternative Mutual Funds your firm is currently working with or considering by setting up customized alerts on AI Insight according to your preferences.
- **Recommend** requiring advisors to use Alternative Mutual Fund Research Reports to create continuity and proactively present complex solutions to clients in a compliant way.
- **Monitor** advisor activity using the Training, Education and Research log, which automatically documents advisor research, training and education efforts.

Create a path to help you stay regulatory-compliant

Use this checklist to help your firm get started with AI Insight's Alternative Mutual Fund Research:

Assess what your firm is currently doing

- Review the fund families you're currently working with and identify Alternative Mutual Funds.
- Meet with your firm's mutual fund due diligence analyst or training desk to see which funds they are monitoring.

Help your firm better understand Alternative Mutual Funds

- Understand how selling agreements are approved and which funds are included in each agreement. If Alternative Mutual Funds are included, then further due diligence is needed, and these should be approved separately*.
- Use AI Insight's Comparative Reports functionality to conduct side-by-side comparisons of Alternative Mutual Funds based on extensive and specific criteria you select.
- Set up alerts on AI Insight to be notified of ongoing updates for Alternative Mutual Funds your firm currently works with or may consider working with in the future.

Implement best practices within your firm

- Start advisor training: Access AI Insight's *Introduction to Alternative Mutual Funds* course.
- Help advisors source, compare and understand how to use Alternative Mutual Funds in a portfolio using AI Insight Research Reports.
- Supervise advisor efforts and demonstrate a consistent approach using AI Insight's Training, Education and Research log.

*According to FINRA as stated in their CE course, "*Understanding Alternative Mutual Funds*".

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Questions?

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