

## Introduction and Methodology

The challenging financial environment of the past decade and the growing sophistication of the marketplace have caused many financial advisors to reexamine and refine how they invest. A significant element of this shift has been the growing use of alternative strategies available through mutual funds, ETFs, and variable annuity sub-accounts. These liquid alternatives provide an ever increasing range of investment opportunities to financial advisors and their clients. These strategies include more familiar solutions such as real estate or commodities products as well as more esoteric approaches such as hedged equity, private equity, and currency/foreign exchange. Much has been written regarding the overall growth of assets in liquid alternatives. Our goal in this report is to provide an updated data driven view that examines in-depth the use of liquid alternatives from the singular perspective of financial advisors serving retail investors. This report – following on similar analyses produced in 2012 and 2013 – combines distinct research insights with practical, consulting oriented perspectives. The report is designed and written to provide relevant and actionable information for a range of constituents including asset managers, broker-dealers, distribution platforms, insurance companies, and other service providers interested in how advisors use liquid alternatives.

**“Financial Advisors and Liquid Alternatives 2014 – Insights and Opportunities”** examines the ways advisors are changing how they employ liquid alternatives. The analysis looks in detail at specific elements of how liquid alternatives are being implemented, including extent of use, specific strategies employed, drivers of use, preferred providers, and support needs. It also provides a detailed profile of different types of advisors using liquid alternatives to help product providers and distributors develop and execute more targeted and effective sales and communications programs.

Among the key questions addressed in this report are:

- How much do advisors invest in liquid alternatives and what share does that represent of total assets managed?
- For what proportion of their retail client base are advisors typically using liquid alternatives?
- What is advisor preference for packaged or multi-strategy approaches versus using individual strategies to build portfolios?
- Who are the heaviest users of liquid alternatives and how do they differ?

- How has advisor use of liquid alternatives changed in the past year and what growth can be anticipated going forward overall and for specific strategies?
- What factors do advisors focus on in selecting liquid alternatives?
- Which vehicles do advisors prefer to use to access liquid alternatives?
- What enhancements do advisors desire so that liquid alternatives can better meet their needs?
- How familiar are advisors with various types of liquid alternatives and which strategies are they using for retail clients?
- How satisfied are advisors with how specific strategies performed?
- Which factors are most important in supporting advisors using liquid alternatives and how satisfied are they with current support provided by asset managers, insurance companies and broker-dealers?
- How does advisor use of liquid alternatives differ by channel?
- What alternative product providers have the greatest “mindshare” among users?
- What sources do advisors rely on when identifying and evaluating liquid alternatives?

This report is based on input from a broad cross-section of advisors across key channels including Wirehouse, Regional, Independent, and RIA. In March 2014, advisors were asked to participate in an on-line survey regarding portfolio construction and the role of liquid alternatives. Advisors were randomly solicited across all delivery channels. Input from more than 500 advisors was used as the basis for this report. Advisors did not receive any compensation for participation in the survey.

In addition to the on-line quantitative survey, data was gathered through interactions with advisors and industry experts. These meetings provided the opportunity to learn more about the issues and concerns facing advisors using liquid alternatives. These discussions helped inform the development of the on-line survey.

In reviewing this report, note that all data presented is sourced through proprietary research unless otherwise noted. Given the confidential nature of the input, none of the respondents is identified by name or firm.

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