

# In Search of Assets, Funds School Advisors on Alts

By [Hannah Glover](#) August 30, 2011

As adoption of alternative strategies accelerates, providers like **Natixis** and **SunAmerica** are working hard to ensure that advisors and their clients have all the education they need.

Education is among the greatest hurdles manufacturers of alternative-strategy mutual funds face, according to **Cogent Research's** 2011 Advisor Brandscape. Among the 1,643 retail advisors across all channels surveyed for the report, 78% said they used alternatives of some sort, but only 38% said they felt confident about effectively managing alternatives within their clients' portfolios.

Yet the appetite for alternatives among advisors looking to manage risk and diversify clients' portfolios continues to grow. Forty-seven percent of the advisors surveyed said they believe alternatives can play an important role in client portfolios. Among those who currently use alts, 52% say that a lack of client knowledge hampers their adoption. Of the 22% who do not use alternatives of any type, 47% say that they need more education to feel comfortable.

"As you think about managing volatility, alternatives have to be a part of that conversation," says Tracey Flaherty, senior VP of retirement strategies at Natixis. Advisors and their clients have seen plenty of examples of what volatility can do to a portfolio since 2008, with the most recent reminder coming [earlier](#) this month.

"People know they need to be managing risk, but they are not quite sure how," says Flaherty. "We need to do a better job of taking a topic that is perceived to be complicated and putting it in simpler terms," she says.

Natixis aims to do that through conference calls with portfolio managers who can explain their strategies, discuss why they use specific vehicles and offer ideas about how their funds might work in an investor's portfolio. The calls are recorded for advisors who cannot listen live. On its website, the firm showcases its funds and their managers. In the field, Natixis wholesalers deliver a message about diversification and risk management. "It's a lot about hand-to-hand combat," Flaherty says. "As an industry, we need to keep showing advisors [the role of alternatives] with real-life examples."

Despite growing interest in alternative strategies, allocation within client portfolios remains one of the biggest challenges for advisors, says Stephen Burke, who manages the [SunAmerica](#)

[Alternative Strategies Fund](#). Burke fields calls from advisors, and speaks at conferences and seminars.

SunAmerica also has developed a series of materials to talk about diversification, introduce different asset classes and help explain correlation and the potential risks. “The reality is, it’s not easy, largely because these products are multi-dimensional,” Burke says. Many don’t fit neatly into style boxes or have long track records, he adds.

The most important part of educating advisors is to explain what the products do and what they don’t do, and to distinguish the types of strategies and asset classes alternative managers use that differ from those used by their long-only counterparts. “It’s a mind-set that needs to be in place,” says Burke.

Mutual fund manufacturers who can fill the educational void advisors face stand to build loyalty and attract assets as more advisors look to access alternatives in mutual funds, according to Cogent. The report shows that 28% of advisors surveyed expect to increase their use of alternative-strategy mutual funds, while 41% expect to increase their adoption of alternative exchange-traded funds.

Cogent did not define for advisors what qualified as an alternative strategy. Such anticipated adoption outpaces advisors’ inclination to increase allocations to alternatives through other vehicles including private equity funds, venture capital, hedge funds, limited partnerships and structured notes.

In part, that may be because as the strategies, which were previously available only to ultra-high-net-worth individuals and institutions, come to a broader market, advisors will favor the familiarity, transparency and liquidity the ’40 Act structure offers, says John Meunier, principal and co-founder of Cogent. Working in mutual funds’ favor is a structure advisors already know and use that offers liquidity and transparency. “You need products and solutions that are trusted by investors, scalable in your practice and are fairly liquid in tradability,” he says.

Still, mutual funds have a ways to go in terms of market penetration. Among those who use alts, alternative-strategy products represented about 11% of their total books. Funds are currently not the product of choice. Only 8% of advisors “commonly” use mutual funds to access alternatives and 17% use ETFs. That compares to 83% who choose venture capital vehicles, 72% who use private equity, 49% who use limited partnerships, 64% who use hedge funds and 43% who use structured products.

Between channels, RIAs are the ones who use mutual funds to access alternative strategies most (11%), followed by national broker-dealers (10%), independent broker-dealers (7%), bank channel reps (4%) and regional broker-dealers (3%).

Performance, even over the short term, is a critical differentiator for alternative products and an essential component of brand loyalty, says Meunier.

SunAmerica's Burke says performance will also shake out the funds that don't stand up to the test of market volatility, even in the short term. "At the end of the day, what will determine a lot of these strategies will be their returns," he says.