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Alts Offer Open Opportunity for Upstart Firms: Study

By Mariana Lemann December 14, 2011

Alternative investments may be upstart asset management firms' best opportunity in a long time to make a splash with advisors.

That's according to a new survey of retail investment advisors by **Cogent Research**. The survey gives shape to the market potential of alternative products. The upshot of the survey is that there are no dominant players and, according to Antonio Ferreira, the report's co-author, "Advisors are happy to use anyone that has a good story, process and great relative performance."

The survey polled a nationally representative sample of 1,642 retail investment advisors in April and May about their usage of alternative investments. That included which providers they'd consider using. Their responses included the names of almost 300 providers.

"This is a very fragmented industry with a lot of players specialized in niche categories," says Ferreira, who is managing director at Cogent.

The majority, or 78%, of financial advisors sell some form of alternative investments, according to Cogent. Of those advisors, 11% of their assets are in alternatives. For the most part, advisors are using a combination of mutual funds and exchange-traded funds (ETFs) to put alternatives in their clients' portfolios. Advisors with larger books of business with high-net-worth and qualified investor clients are still accessing alternatives through single hedge fund managers, according to the study.

The survey results suggest there is plenty of room for growth in terms of advisor use of alternatives.

To wit: Only 15% of financial advisors who sell such products are considered "heavy" users, or those who allocate more than 15% of their assets under management to the alternative investing category. Categories covered by Cogent in the survey included investments such as venture capital, private equity, exchange-traded notes, hedge funds, limited partnerships, managed futures and commodities.

The study also details the distribution sweet spots for alternative products. Managed futures, for example, are of greater interest among national wirehouse advisors. In fact, 40% of those advisors indicated plans to increase their use of managed futures, according to Cogent.

Assets in managed futures, which invest in the global currency, interest rate, equity, metal, energy and agricultural markets, jumped to \$ 7.1 billion in assets under management at the end of November, according to

Morningstar. That's up from \$4 billion at the end of 2010.

Another hot spot appears to be multi-strategy funds, according to the survey. Nearly one third of all advisors surveyed plan to increase allocations to multi-strategy.

"Multi-strategy funds are an efficient and convenient way to access multiple strategies in one vehicle," Ferreira says.

Morningstar pegs those assets, which it categorizes as "multialternative," at \$13.4 billion at the end of November, a jump from \$9.5 billion at the end of 2010.

While multi-strategies and managed futures are well positioned to gain market share, long/short and market-neutral funds are not among the top choices for advisors, according to Cogent.

Beyond offering the right mix of products, education is another key to selling alternatives, according to the survey. The advisors who indicated that they are not selling alternatives cited a lack of knowledge and lower comfort level as the primary barriers to utilization.

That is bound to change, according to Gary Black, CEO of **Black Capital** and former CEO of **Janus Capital**. He sees alternative funds eating away at the traditional asset classes.

"You are going to see the plain-vanilla, large-cap growth and large-cap value categories lose share," he says.

Black Capital launched its first hedge fund in the summer and is expected to launch a fundamental-based equity long/short mutual fund that will be distributed through advisors in the first quarter 2012.

Meanwhile, **Virtus Investment Partners** is one example of a firm that has hit pay dirt with an alternative fund. One of its multi-managed funds, the Premium Alpha Sector fund, has grabbed assets hand over fist, growing from \$222 million at the end of 2010 to \$2.34 billion at the end of October, according to Morningstar. The fund is subadvised by **F-Squared Investments**.

The firm is banking on the growing interest in alternatives and is beefing up its sales force with six new people to increase sales of its funds in the registered investment advisor and independent broker-dealer channels.

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