
2009 Alternative Investment Survey of Institutions and Financial Advisors

Morningstar and Barron's



November 9, 2009

- ▶ Predominant Survey Participant
- ▶ Defining the Alternatives Universe—2009
- ▶ Retrospective and Prospective Alternative Growth
- ▶ What's Driving or Holding Back Alternatives?
- ▶ Effect of the 2008–09 Recession
- ▶ Overall Conclusions

Predominant Survey Participant

Institutions predominant respondent:

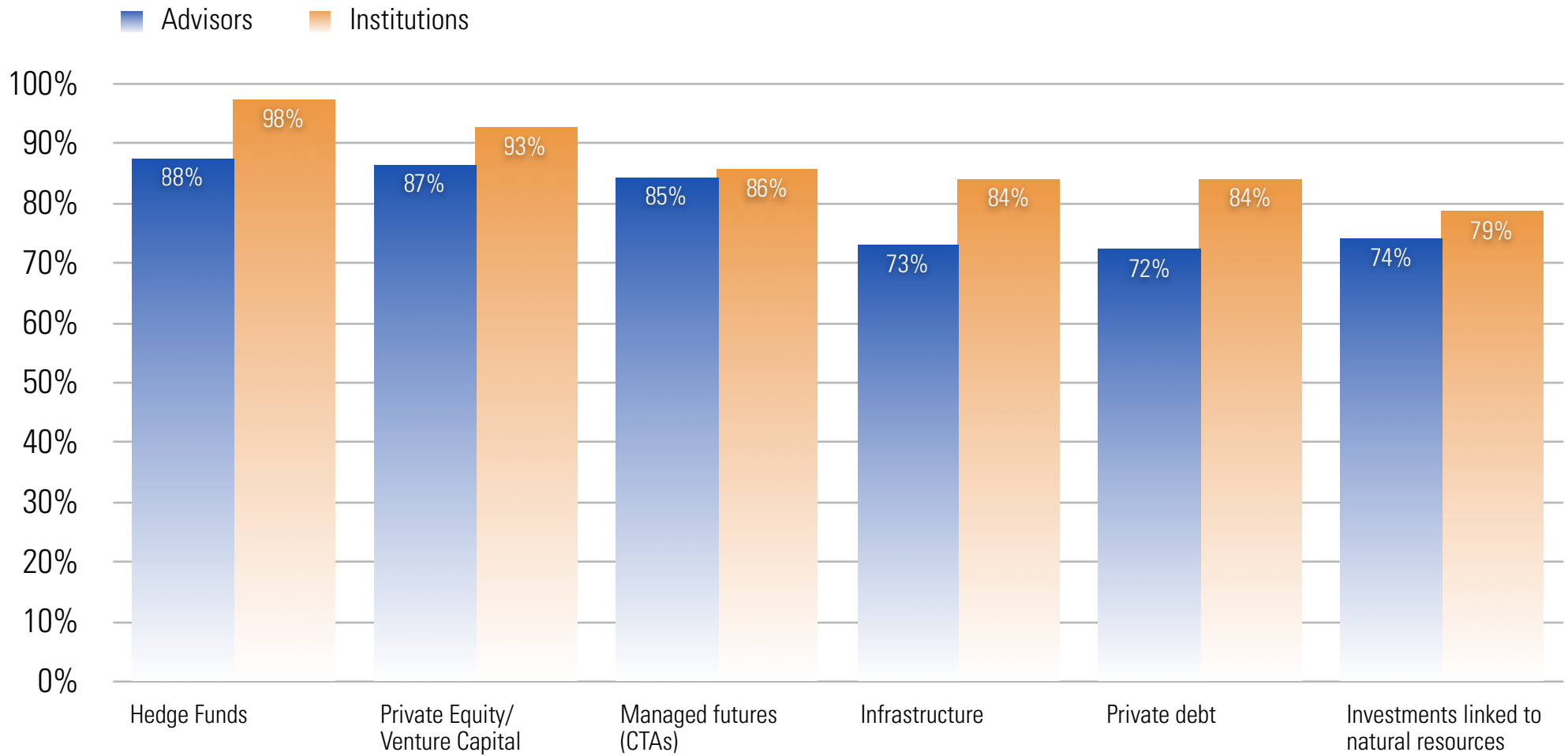
- ▶ An investment company (39%)
- ▶ Public and private pension plans, banks, endowments, consultants, RIAs, and family offices also responded
- ▶ AUM under \$11 billion (64%)
- ▶ 30% had AUM over \$30 billion
- ▶ 89 institutions

Advisors predominant respondent:

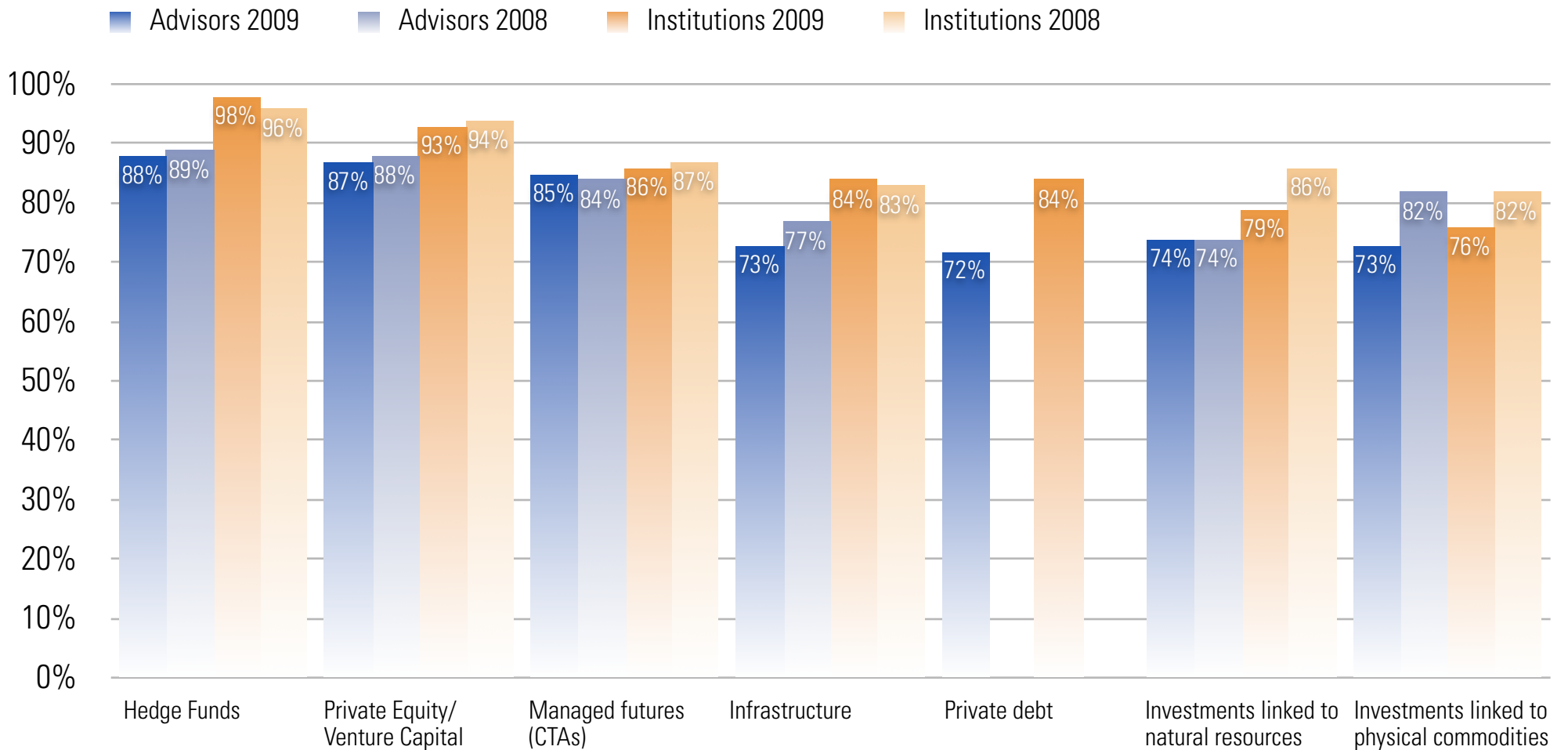
- ▶ RIAs—SEC registered (25%) and state level (15%)
- ▶ Also broker/dealers, financial planners
- ▶ 50% of time spent with individuals (less than \$1 million)
- ▶ Serves about 100 clients
 - Range = 20–100 (37%)
- ▶ Advise less than \$50 million (41%)
- ▶ Income comes from asset-based fees (63%) and commissions (25%)
- ▶ 300 advisors

Defining the Alternative Universe— 2009

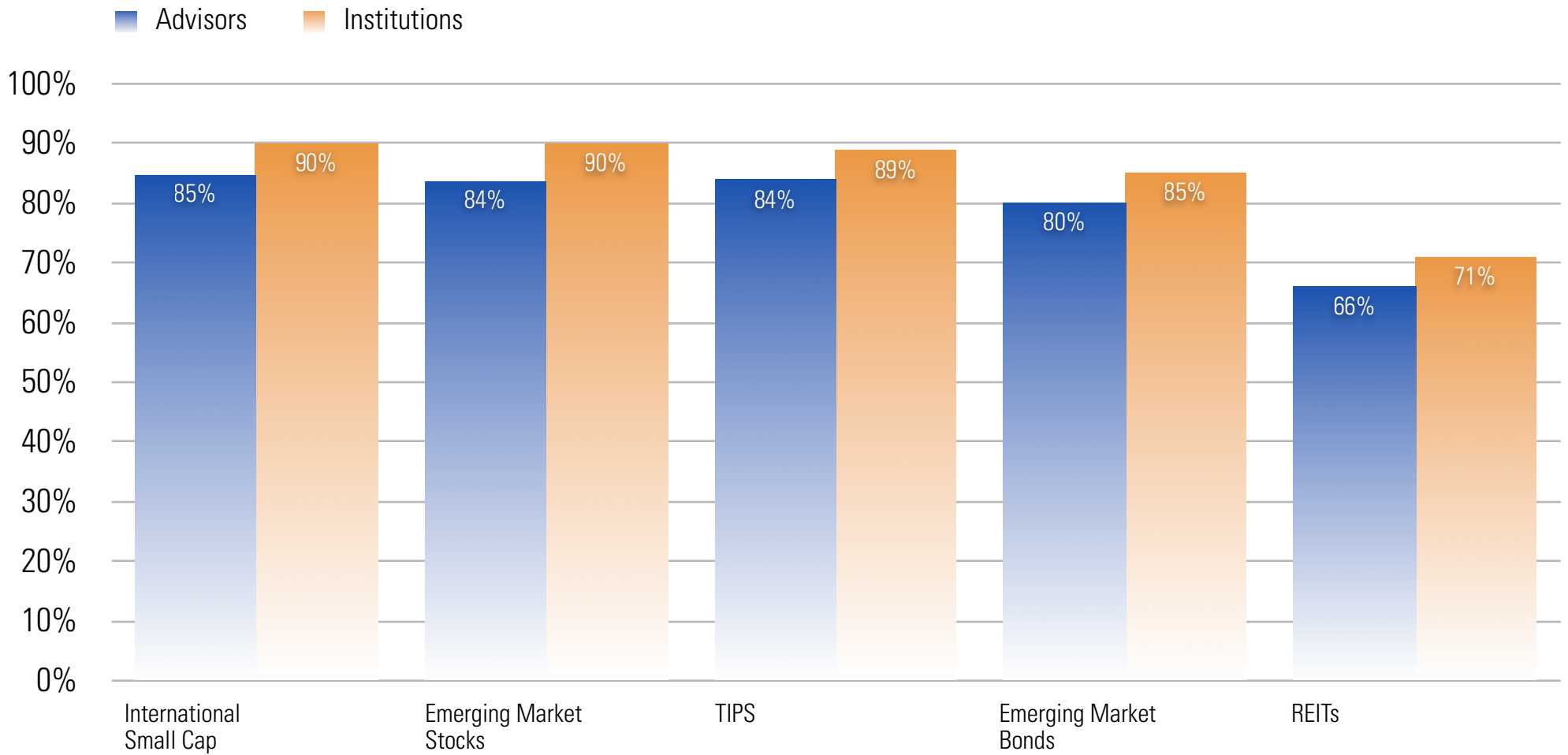
What is an Alternative Investment?



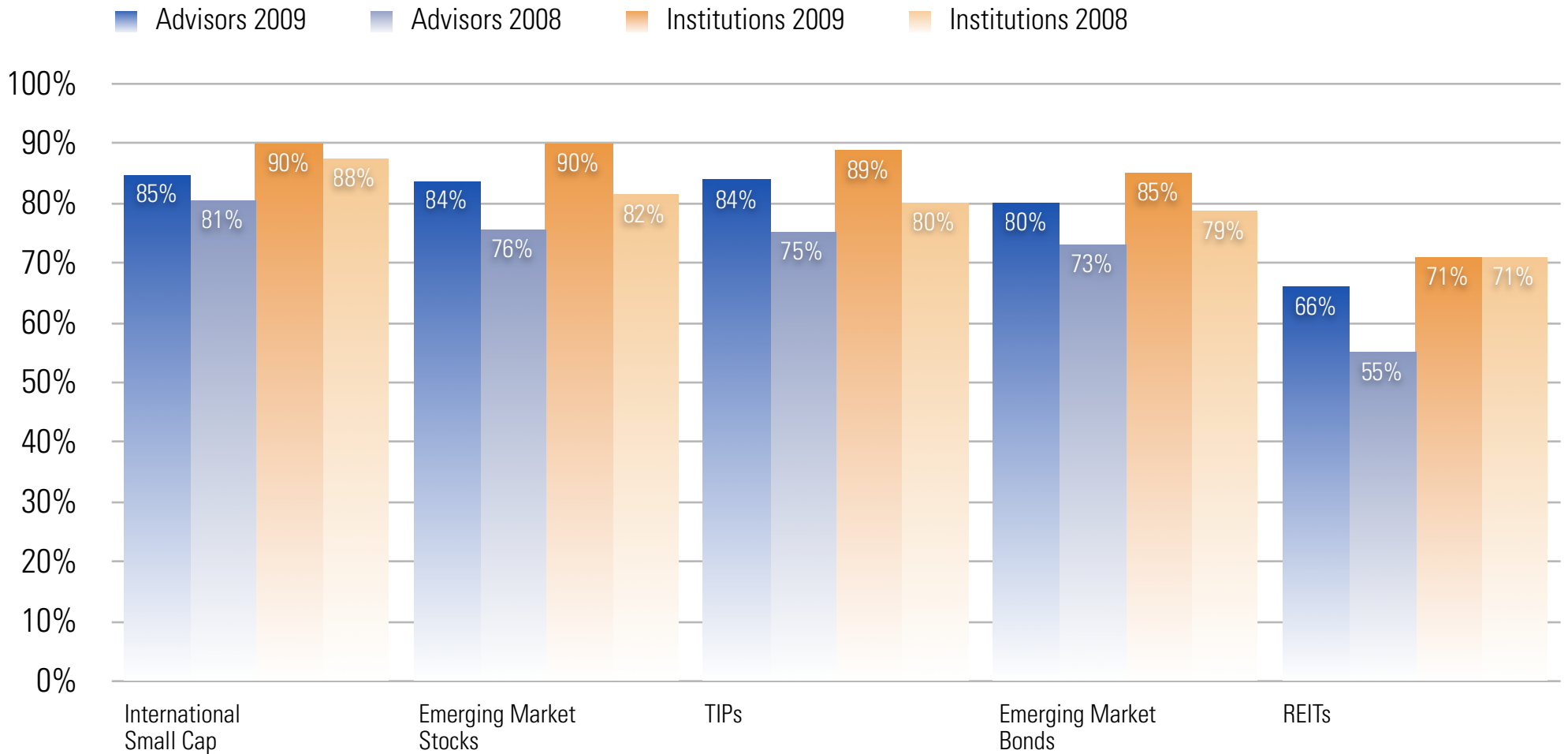
What is an Alternative Investment (Comparison to 2008)?



What are Not Alternative Investments?



What's Not an Alternative Investment (Comparison to 2008)?



Comparing Institutions to Advisors in Delineating Alternative from Non-Alternative

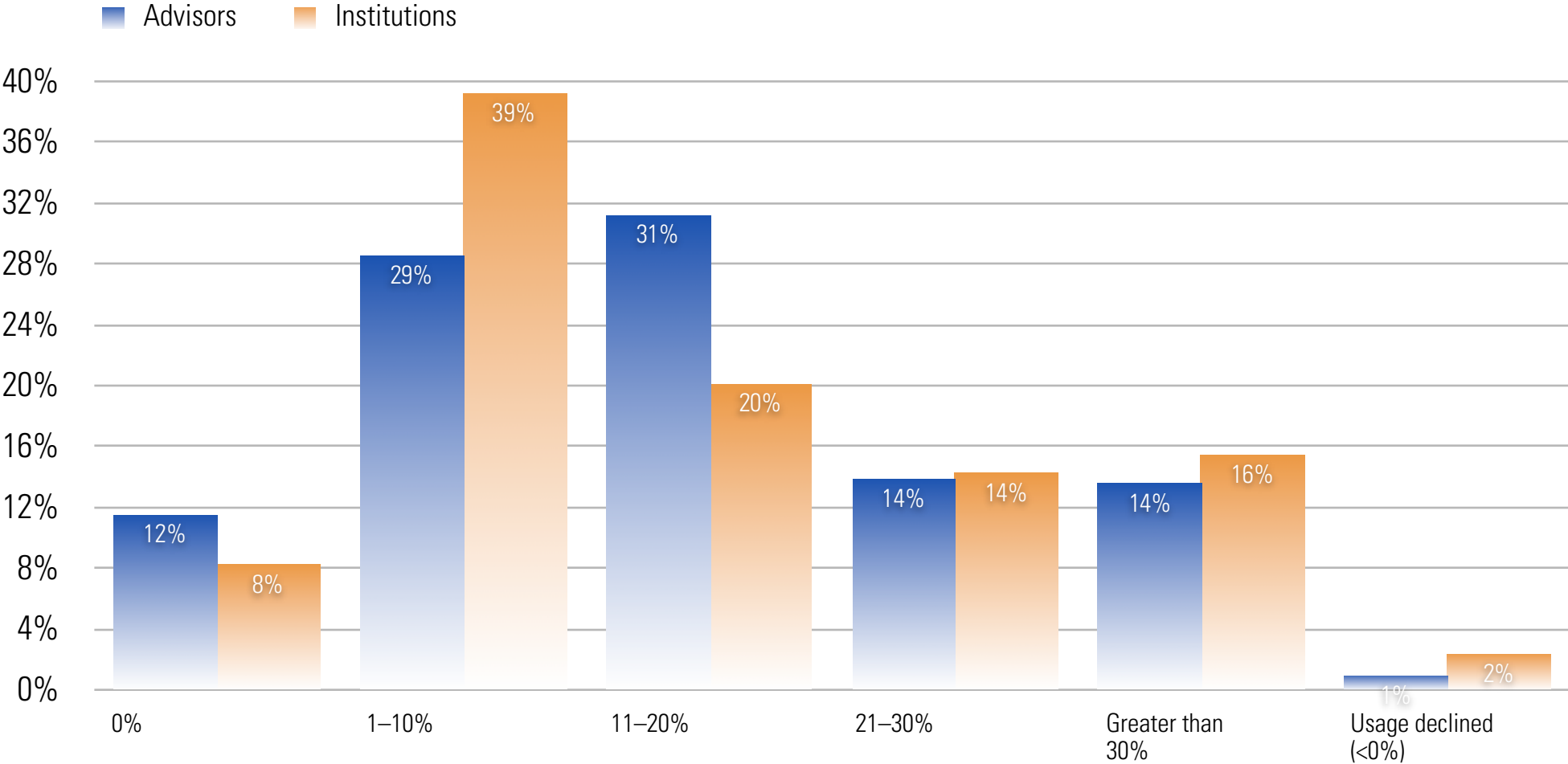
- ▶ Advisors and institutions classify alternative investments similarly
- ▶ Both groups also agree on the asset classes that do not constitute alternative investments
- ▶ And in virtually the same order
- ▶ Institutions exhibited stronger agreement/disagreement with the survey questions defining alternatives than advisors
- ▶ Advisors had increased conviction and stricter definition than they did in 2008

- ▶ GTAA (Global tactical asset allocation), Global Macro
- ▶ Market Neutral Strategies
- ▶ Hedged Equity
- ▶ Bank Loans
- ▶ Insurance-linked Bonds

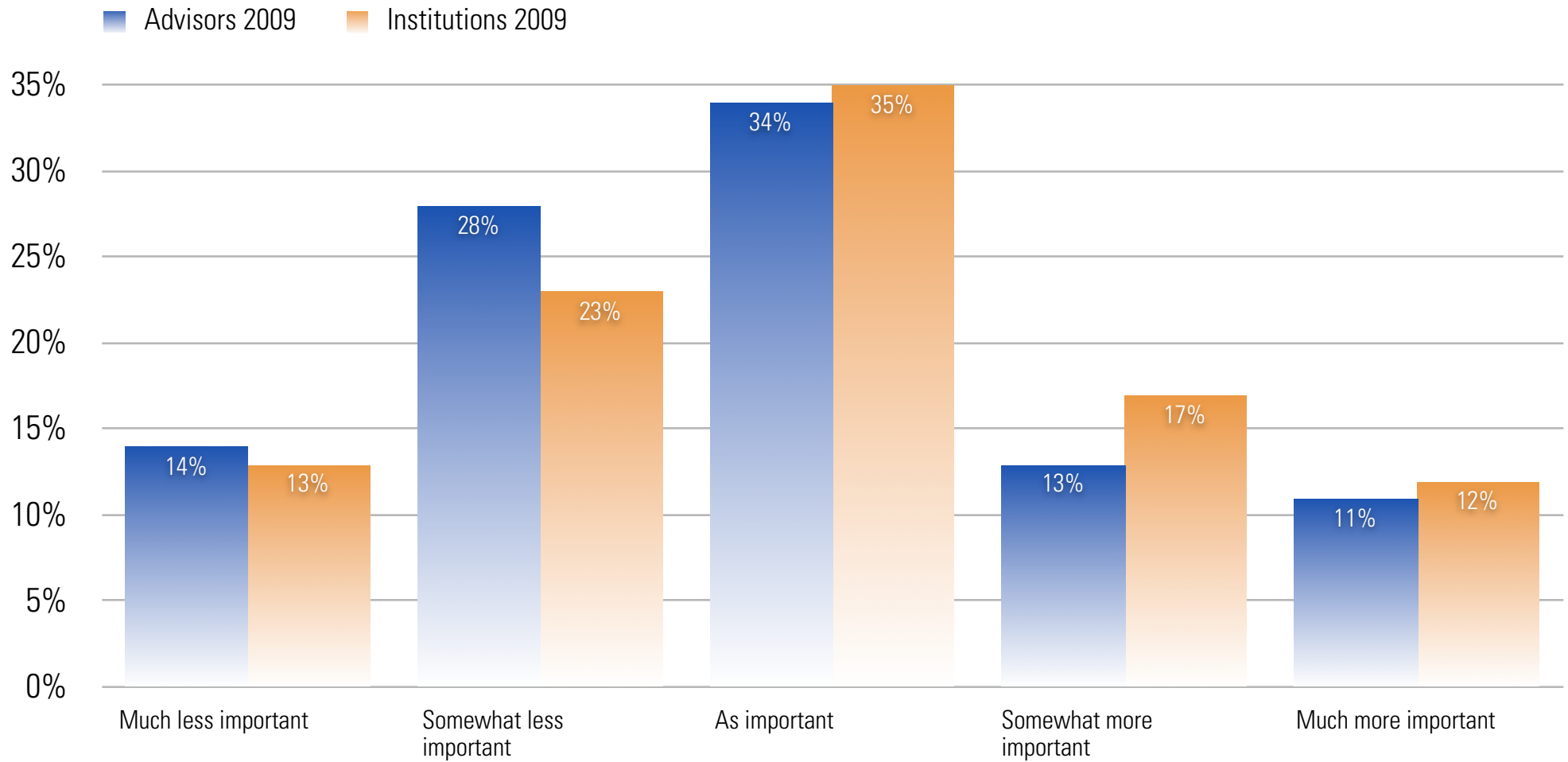
“ Anything that is illiquid and does not have a regulated marketplace ”

Retrospective and Prospective Alternative Growth

Estimated Average Annual Growth in Alternative AUM (2004–2009)



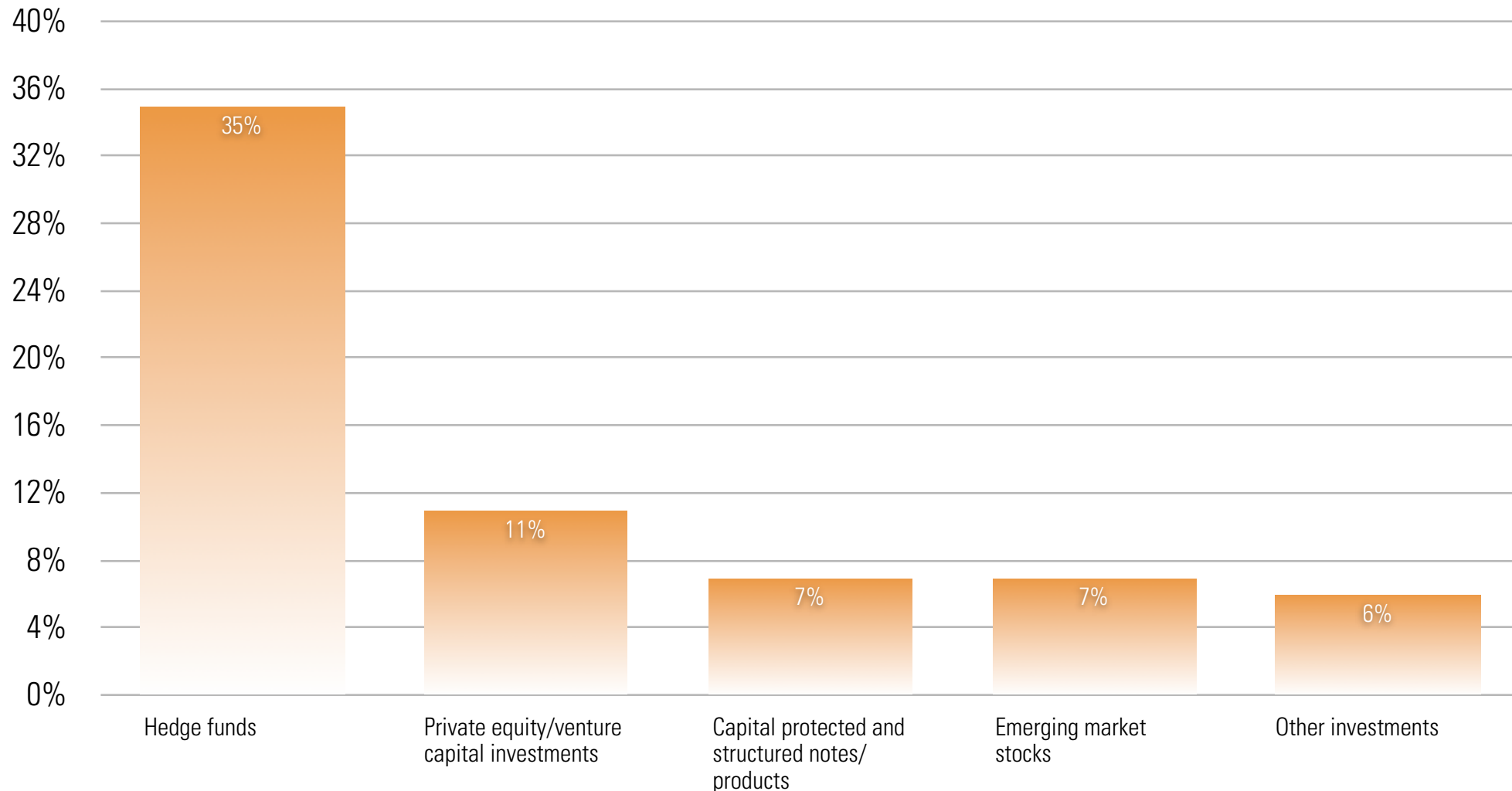
Anticipated Importance of Alternatives to Traditional Investments



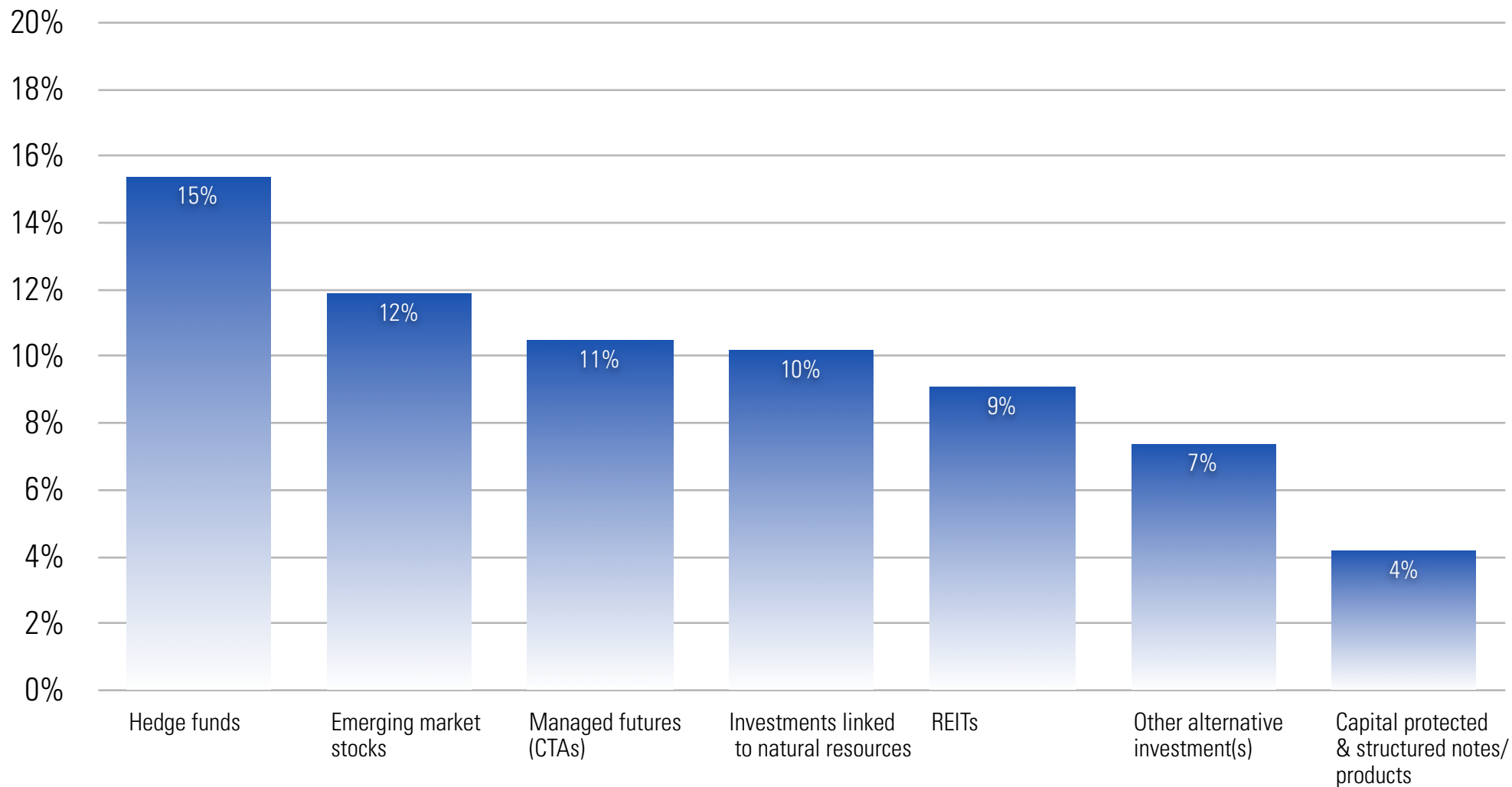
Anticipated Importance of Alternatives to Traditional Investments (Comparison to 2008)



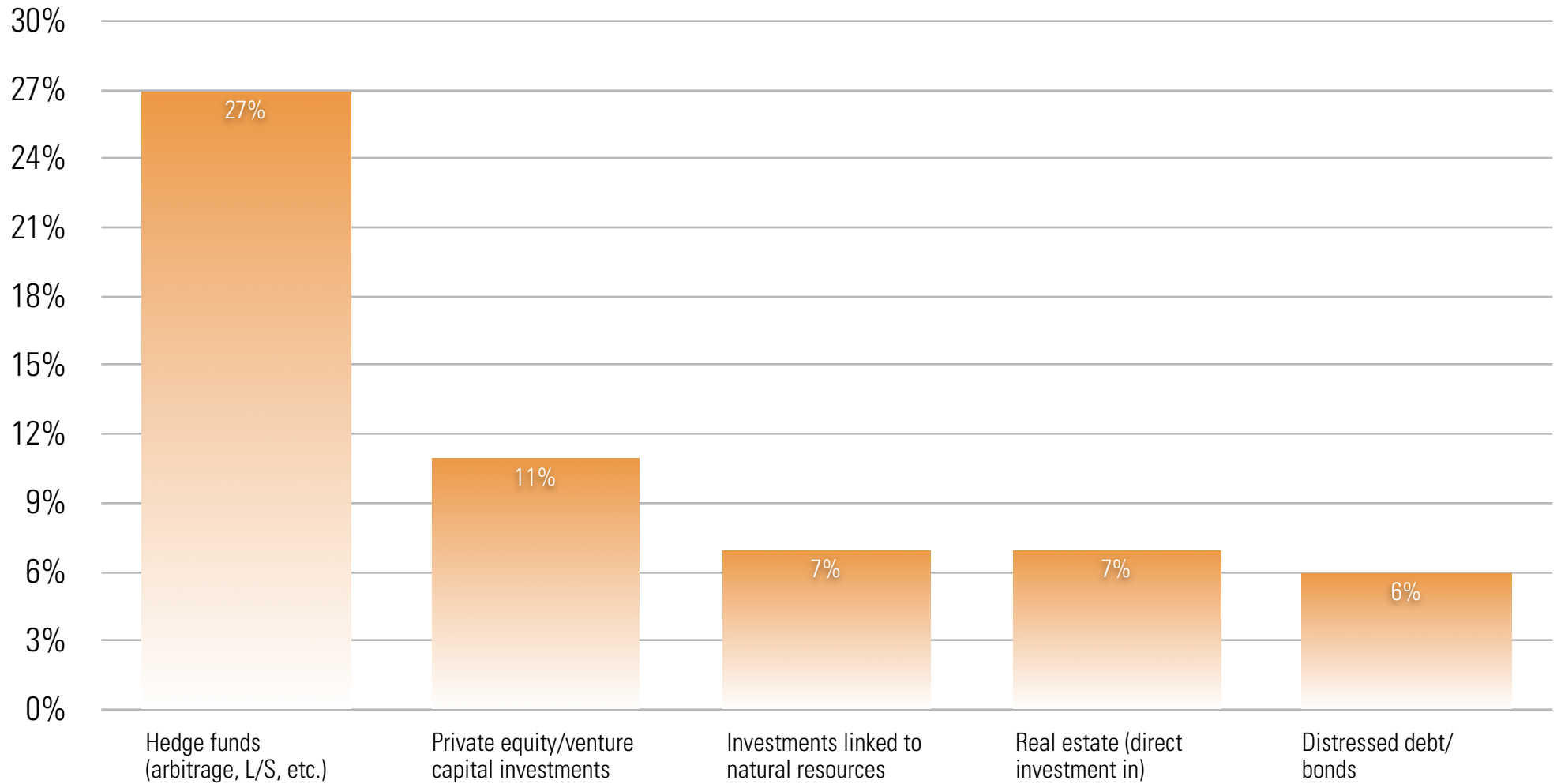
Institutions: Alternatives with Largest Proportion of Portfolio (2004–2009)



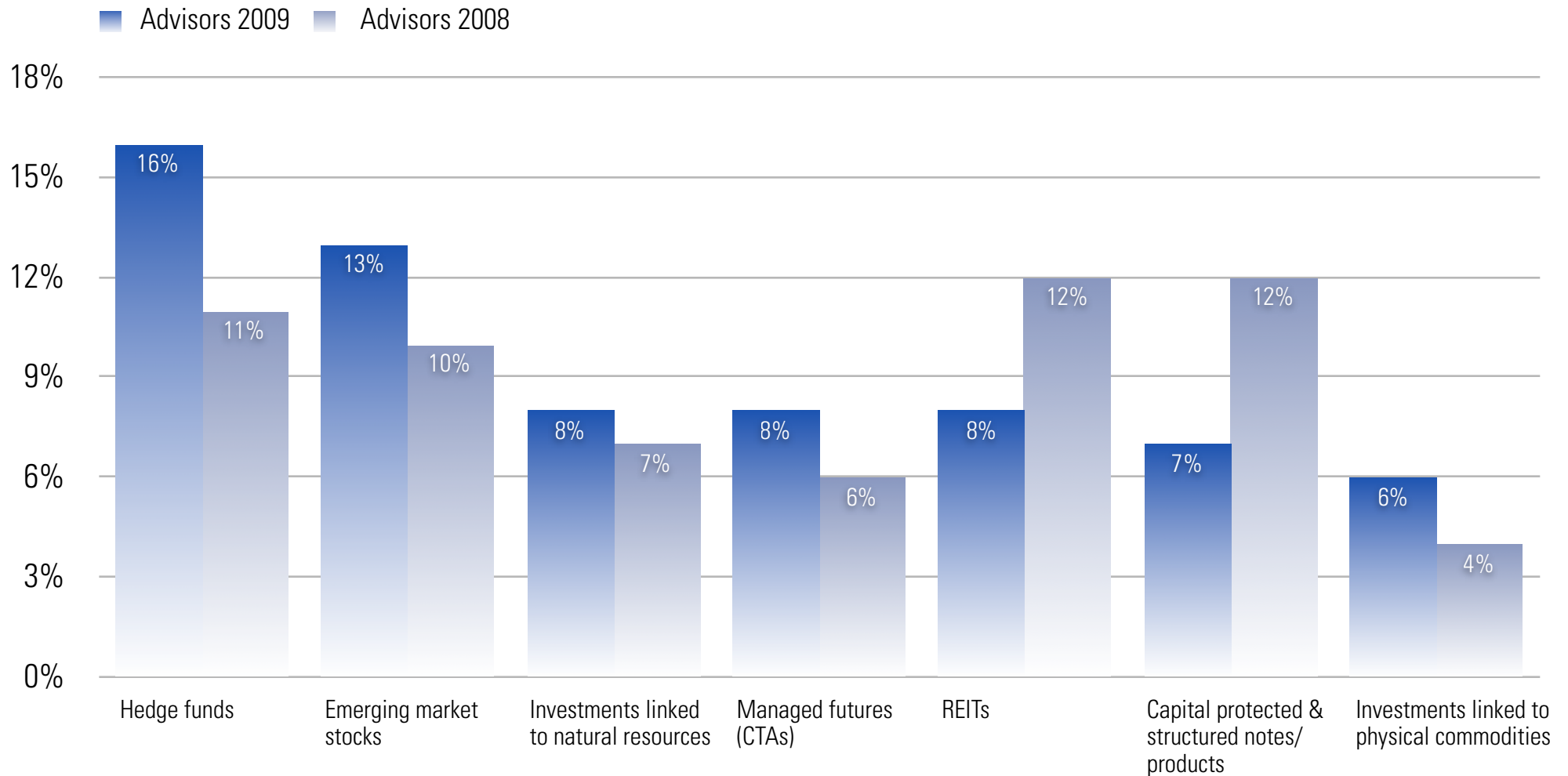
Advisors: Which Alternative Investment Has Driven Growth (2004–2009)?



Institutions: Alternative Examined for Increased Allocation (2009–2014)

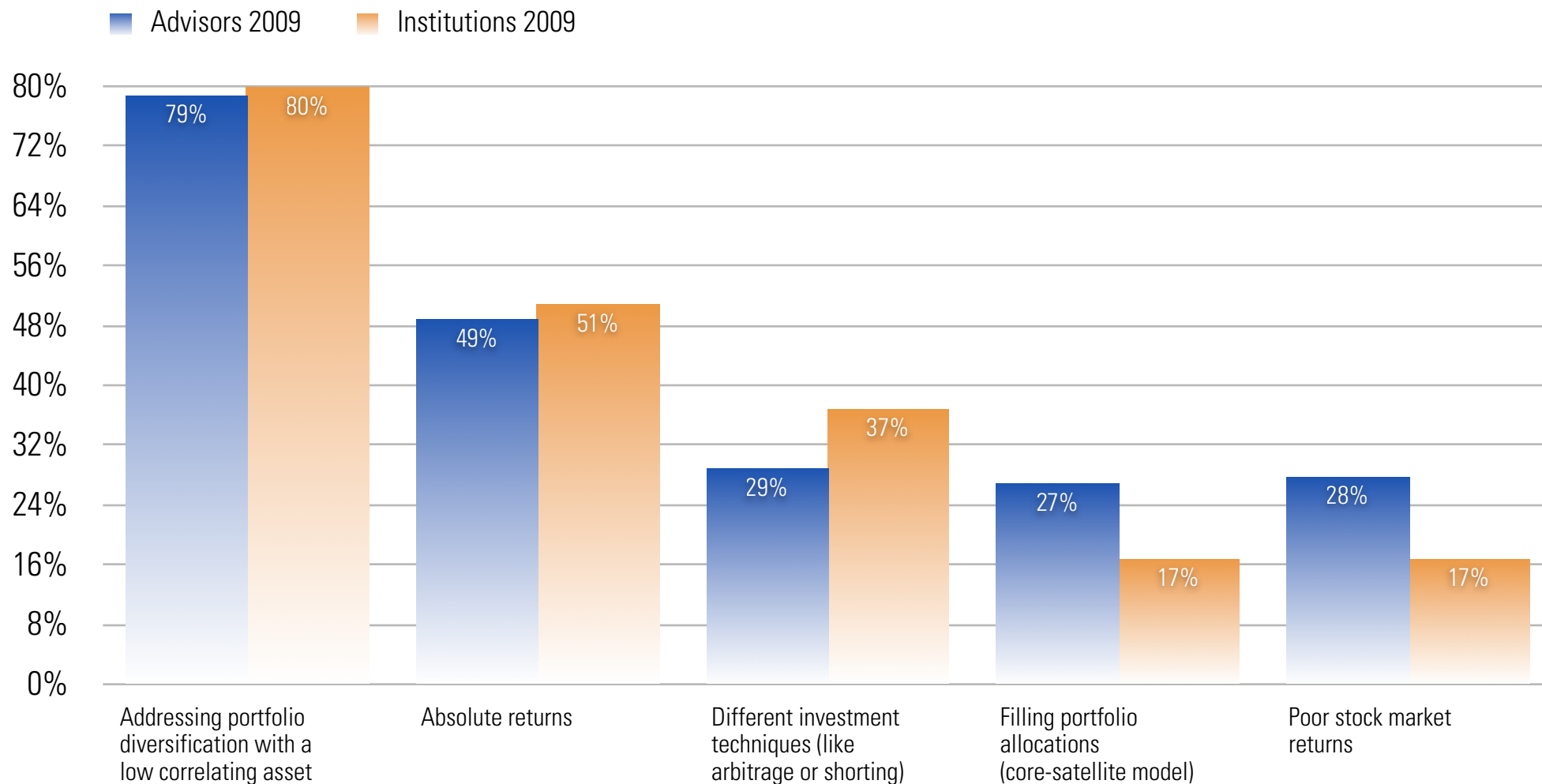


Advisors: Which Alternative Investments Offer Greatest Growth Potential Over the Next Five Years?

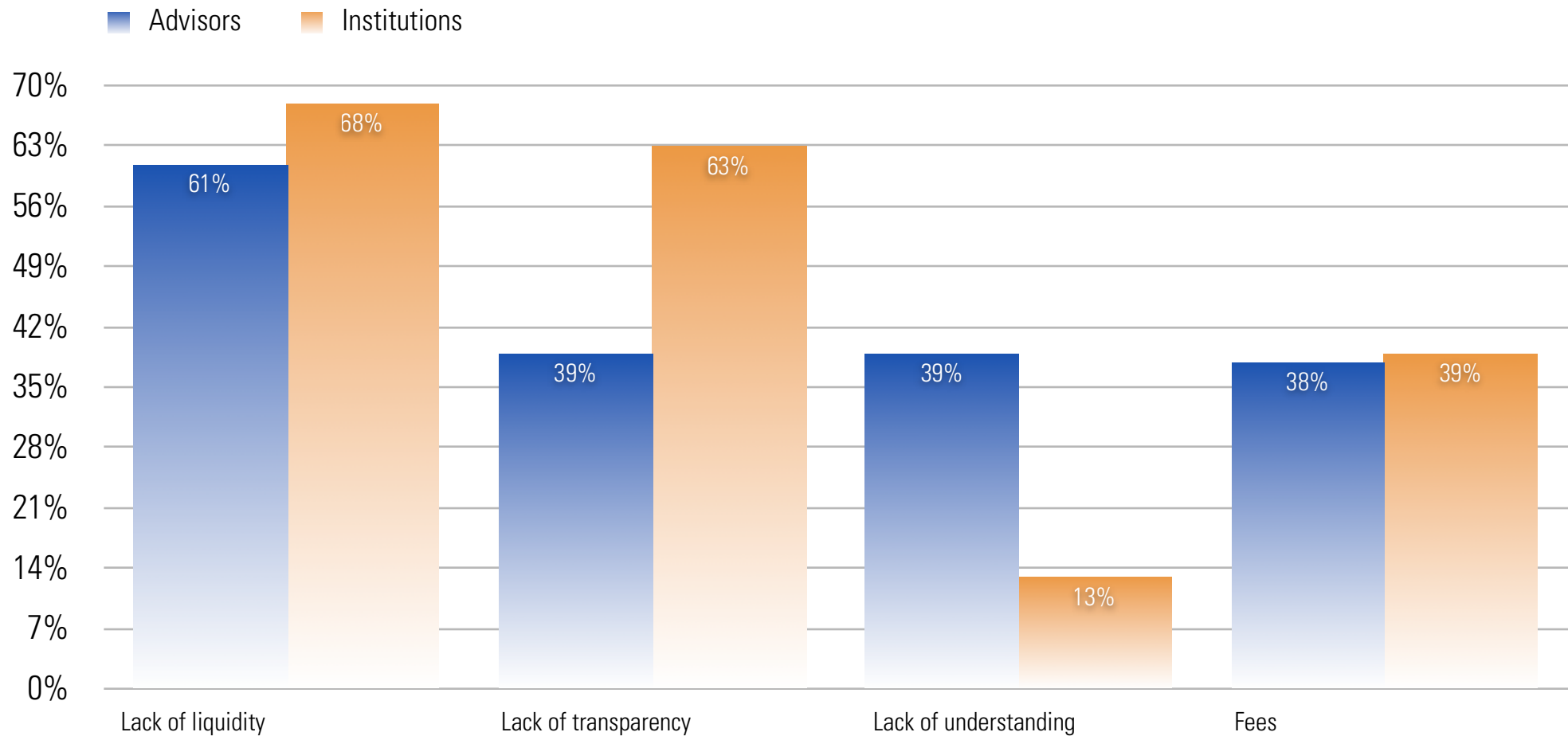


What's Driving or Holding Back Alternative Growth?

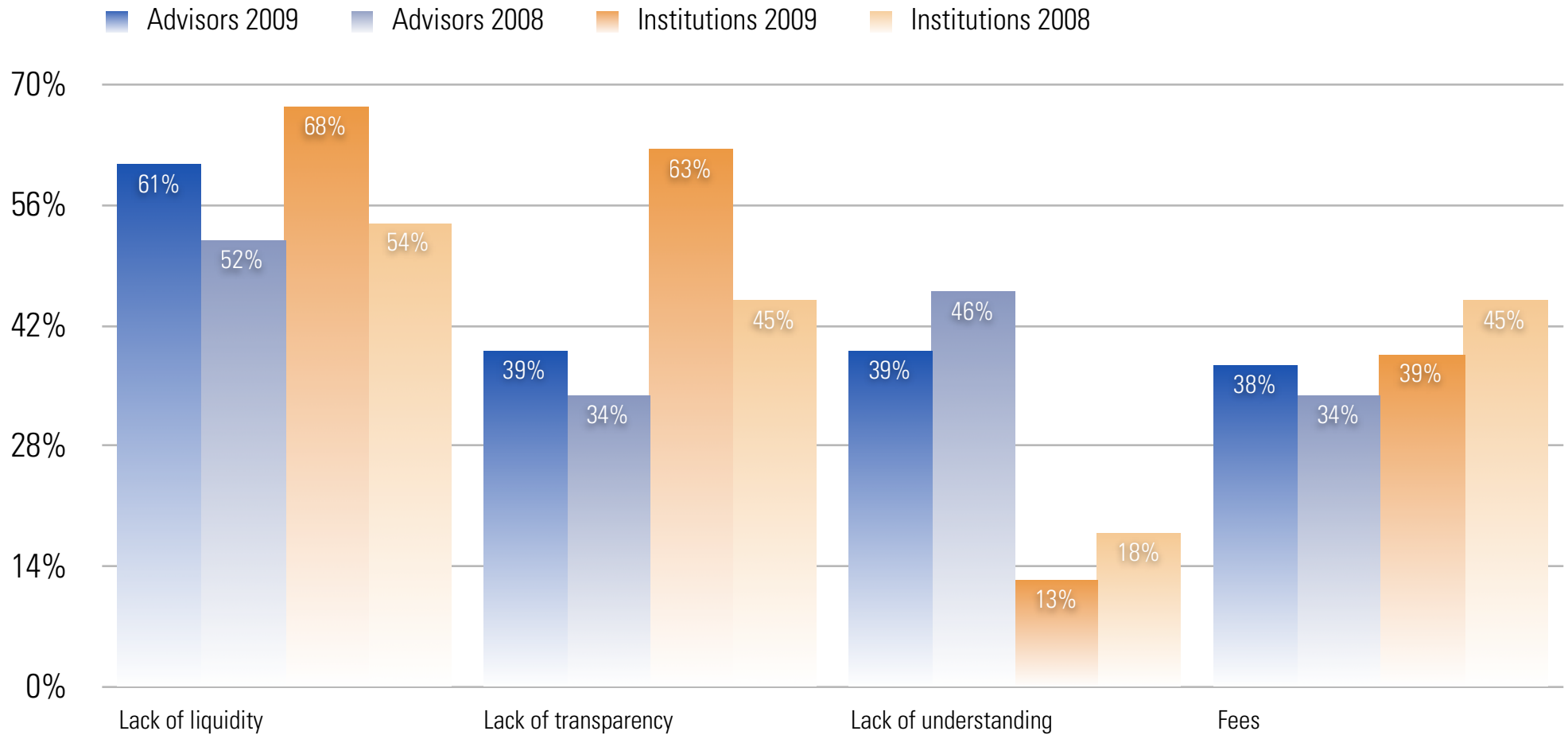
Institutions and Advisors: What Top Three Investment Objectives Are Driving Alternative Investment Growth?



Institutions and Advisors: Top Reasons to Hesitate to Invest in Alternatives

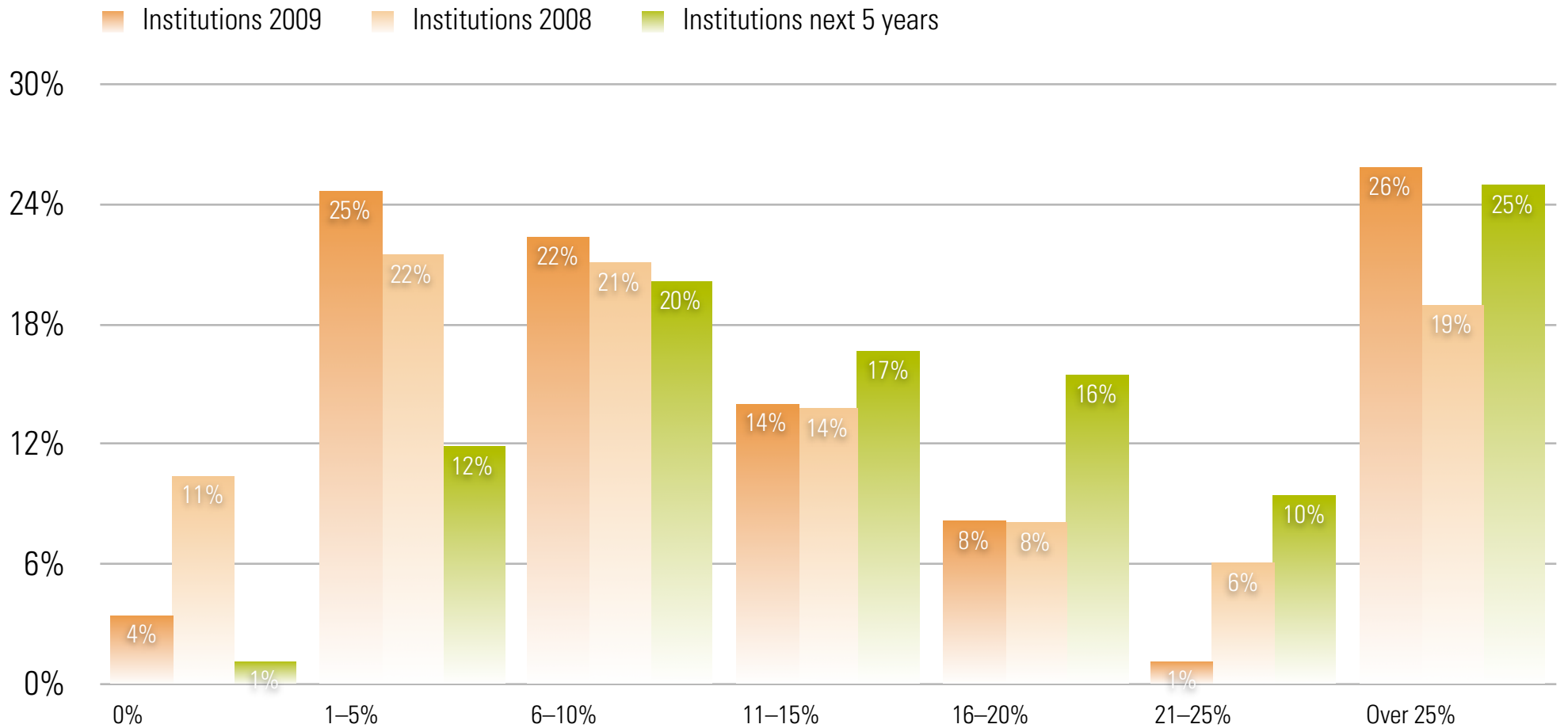


Top Reasons to Hesitate to Invest in Alternatives (Comparison to 2008)

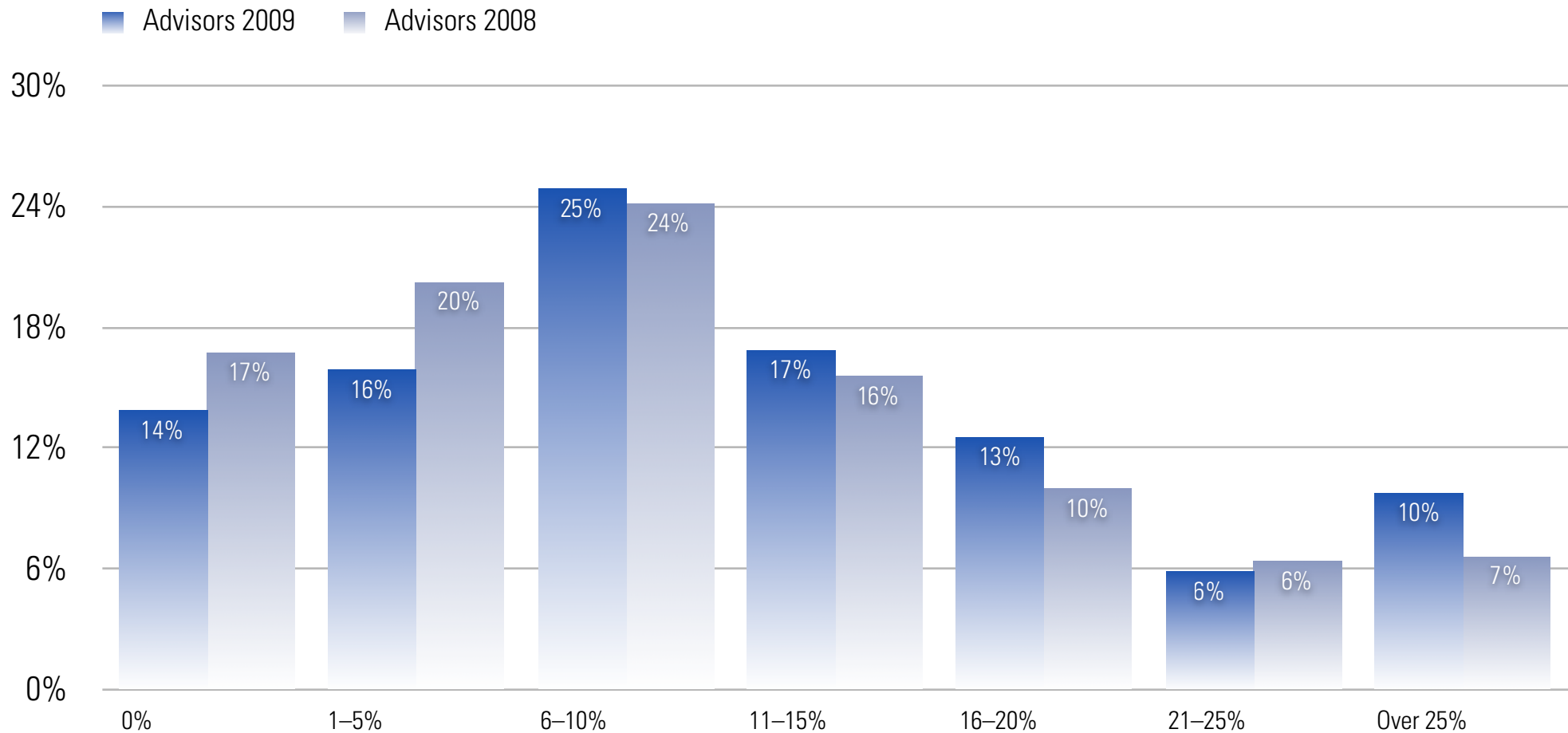


Effect of the 2008–09 Recession

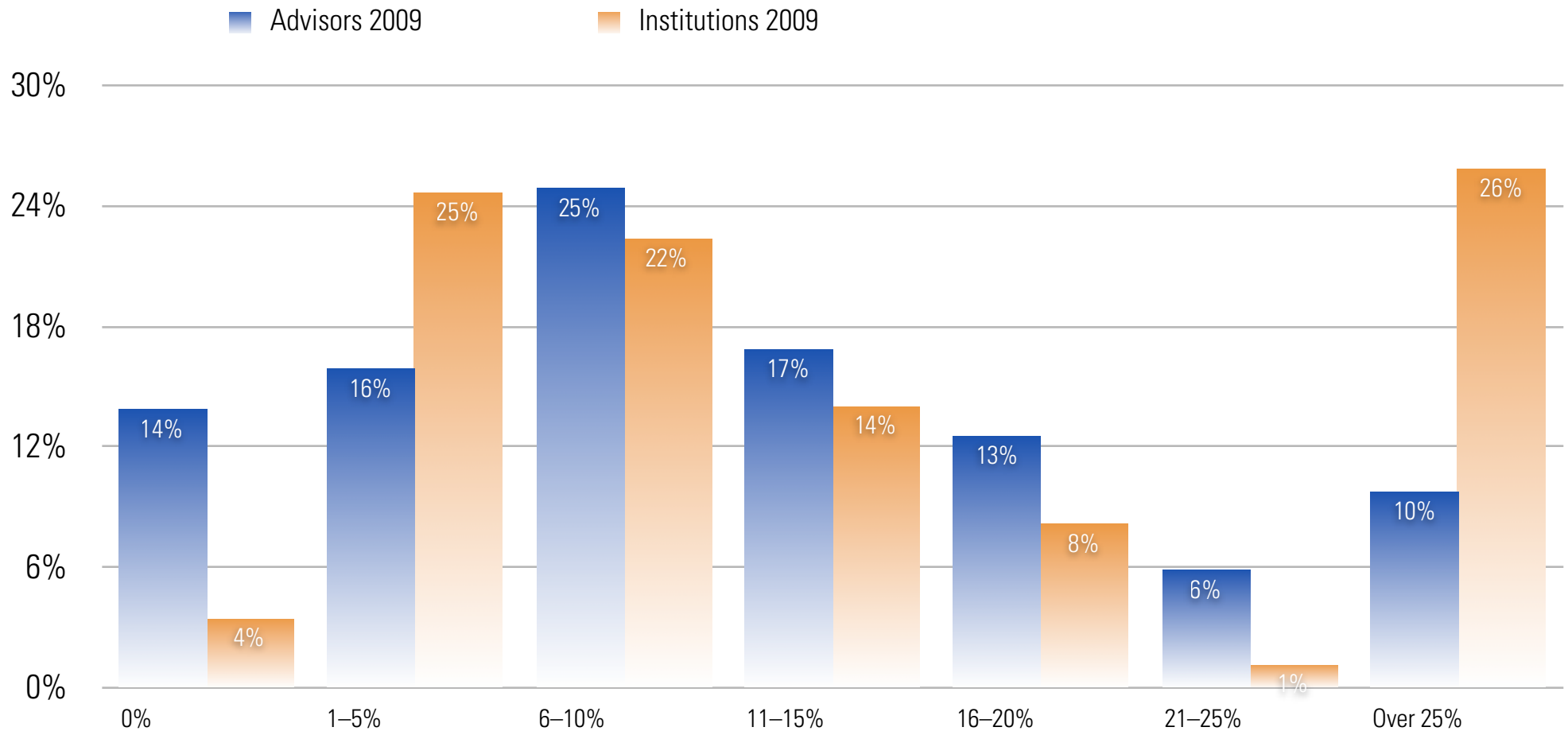
In the Wake of Recession Institutions Have Increased Allocation to Alternatives



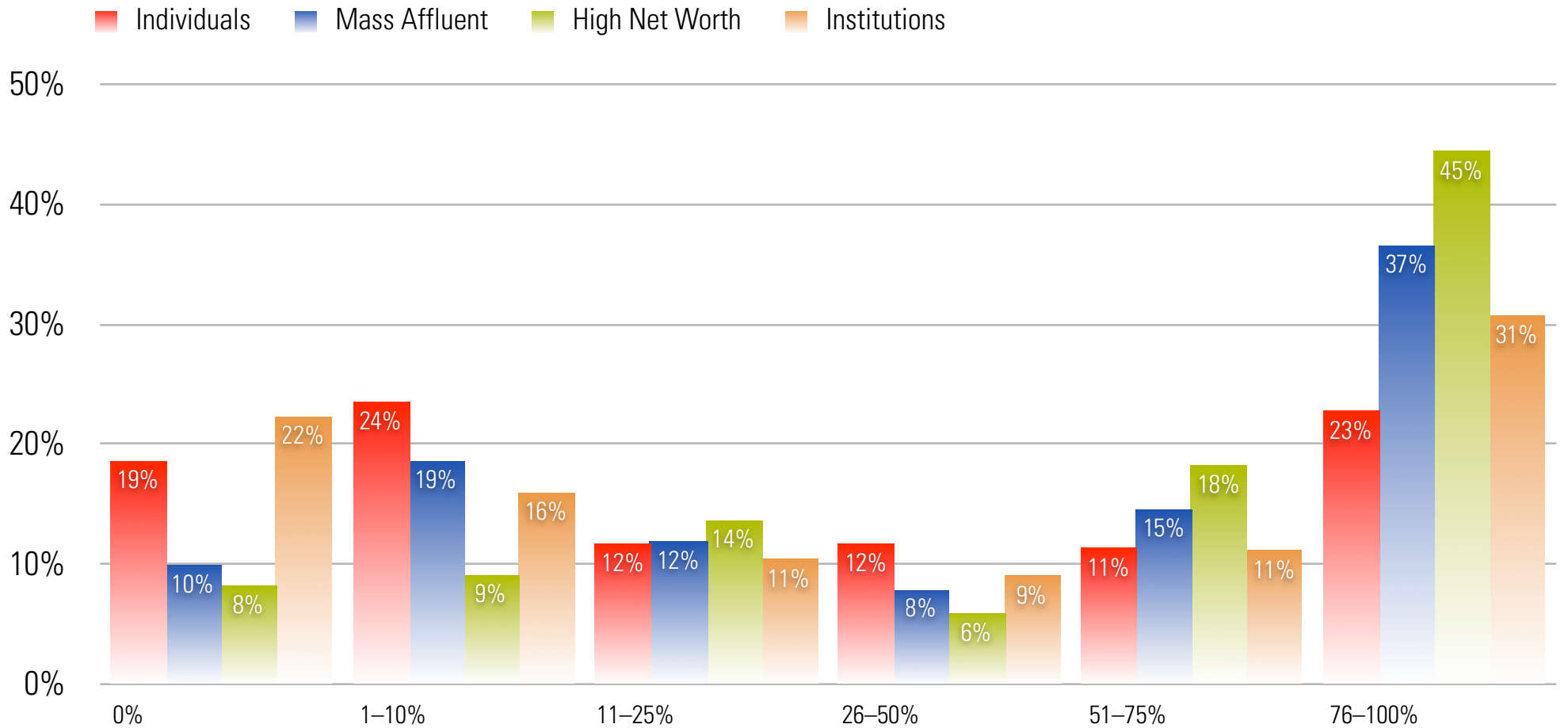
Advisors Have Increased Allocation to Alternatives Too (Comparison to 2008)



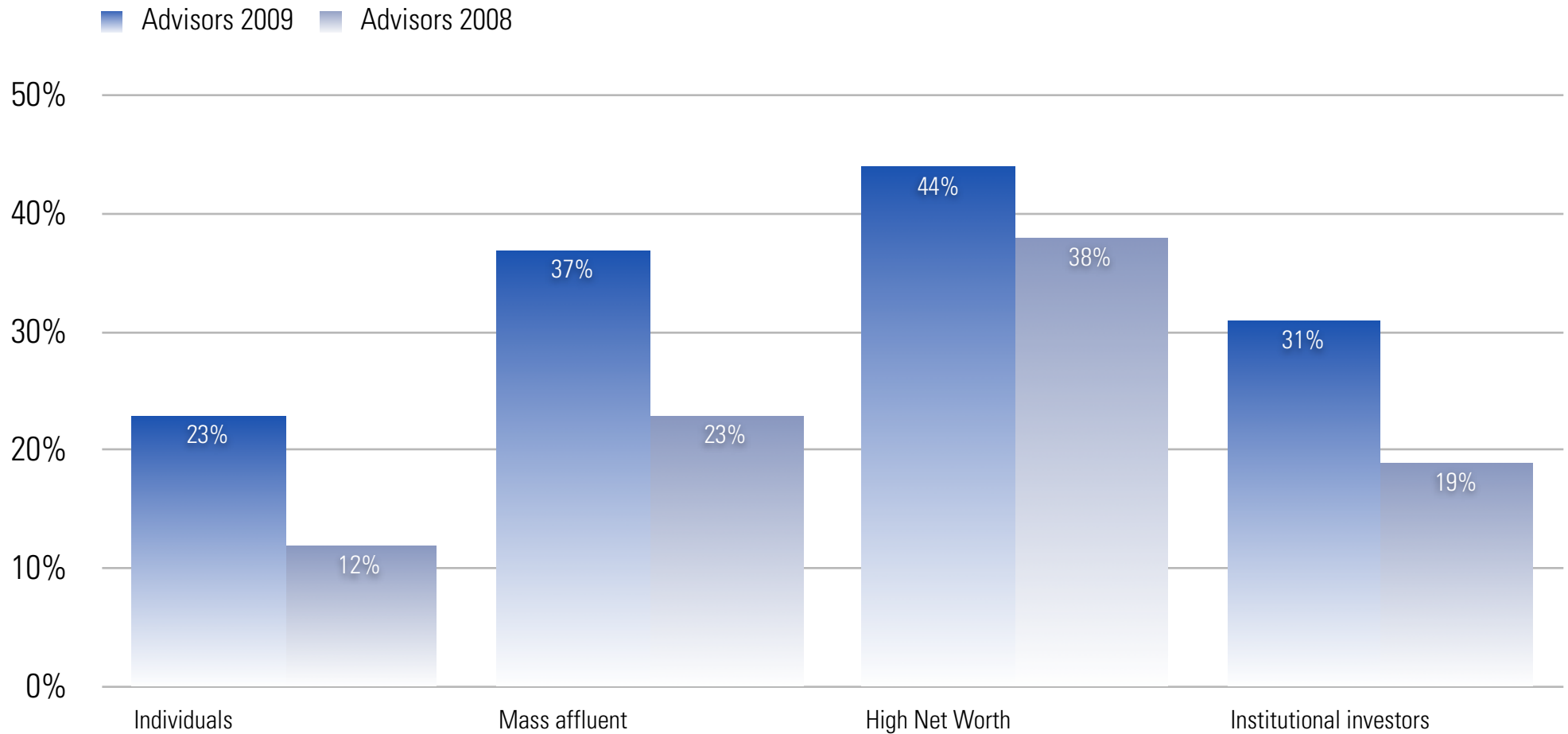
How do Allocation to Alternatives of Advisors and Institutions Compare?



Advisors: What % of Each Client Group Served is Currently Using Alternative Investments?



More Advisors Are Reporting that 76–100% of their Client Groups are Using Alternative Investments than Last Year



In Light of the Performance of Alternative Investments Since Late 2008, Has Your Institutional Investment Committee Rethought Investing In Alternatives? If Yes, How?

Institutional responses to this question were generally mixed, with a significant portion indicating that they have not made any changes

"It remains that the asset classes are as interesting as ever but better tackled in a different way: more focused and transparent products."

"More diligent review process"

Reconsidering alternative investments with respect to:

- ▶ Liquidity requirements
- ▶ Regulatory oversight
- ▶ Transparency

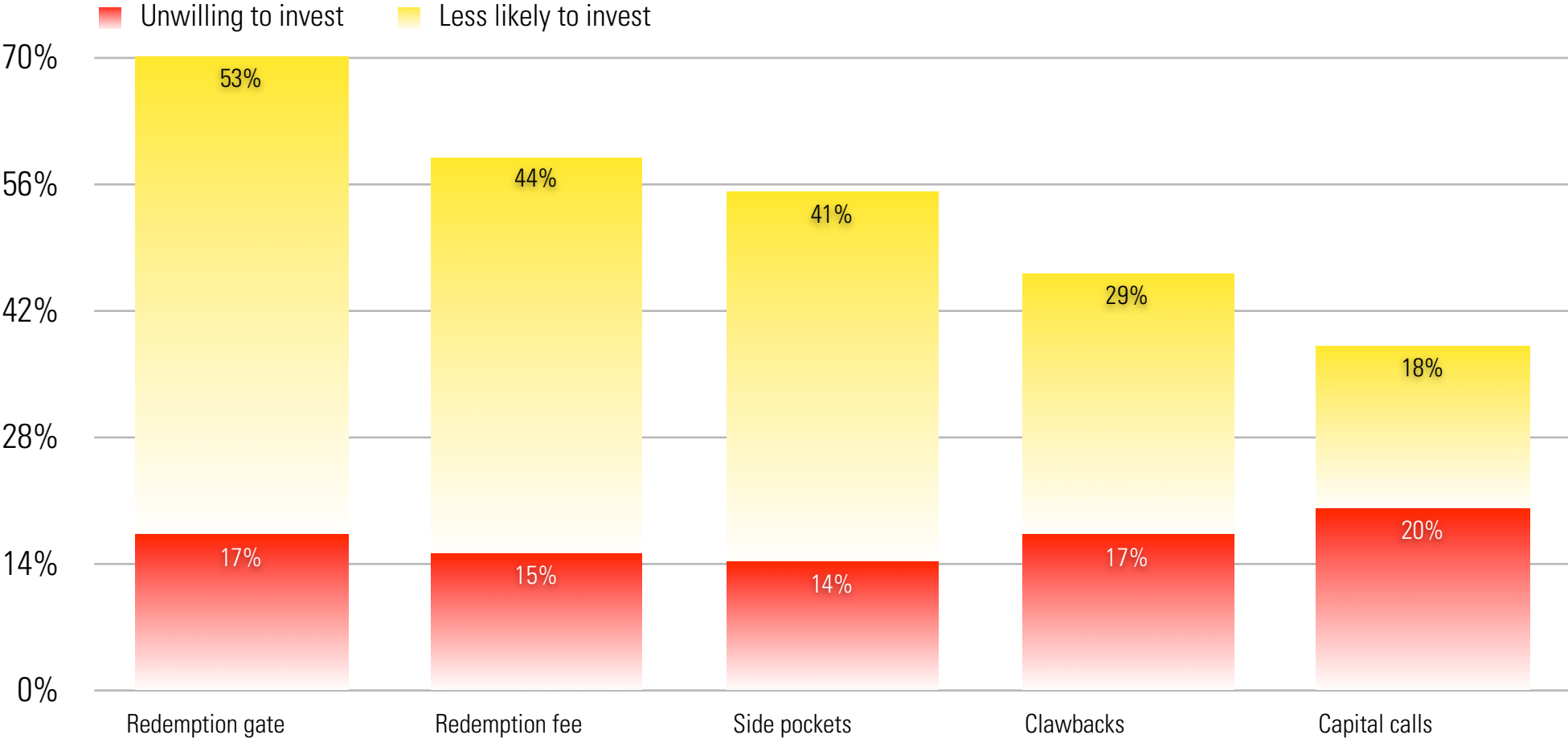
How Have Recent Market Conditions Caused Advisors to Rethink Investing in Alternatives?

- ▶ No change
 - “...our AI allocations have stood the test of time and will remain an important part of portfolio construction.”*

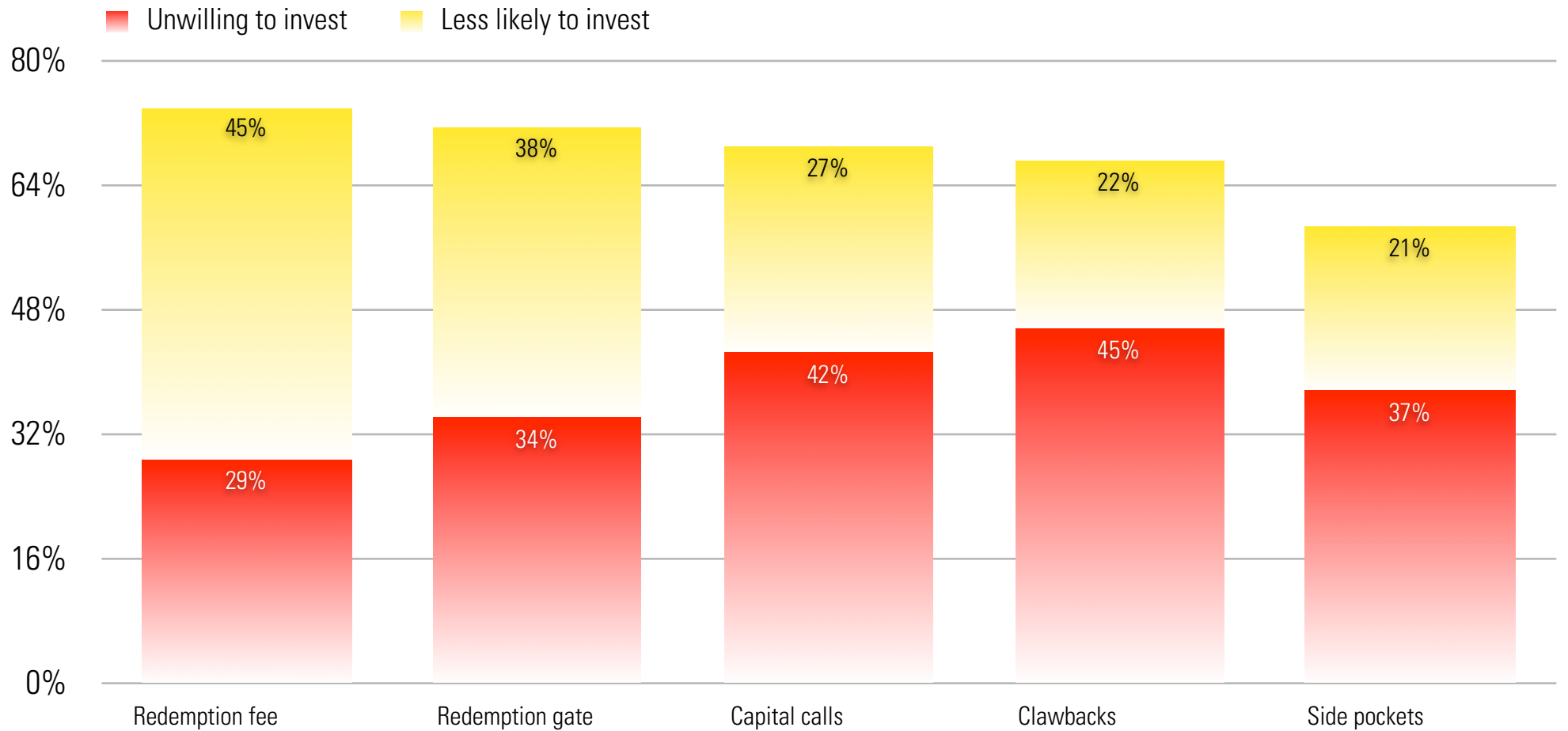
- ▶ Rethought Alternatives, particularly regarding:
 - ▶ Liquidity
 - ▶ Non-Correlation
 - ▶ Transparency in valuation, holdings
 - ▶ Fees

- ▶ Interest in Alternatives has increased
 - “Everything needs a lot more analysis, a lot more investigation, a lot more assumption testing.”*

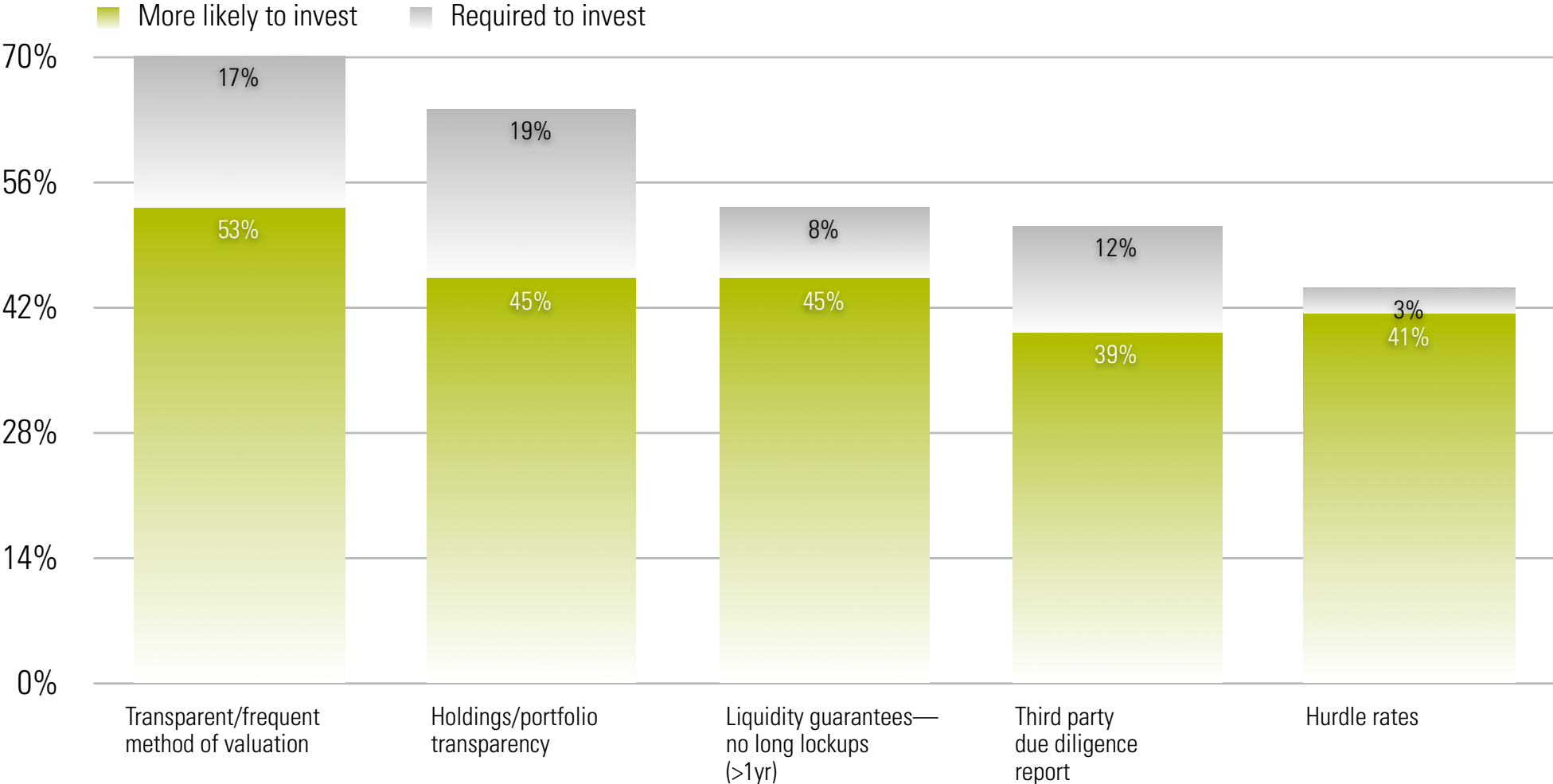
Institutions Don't Want Alternatives with Following Features



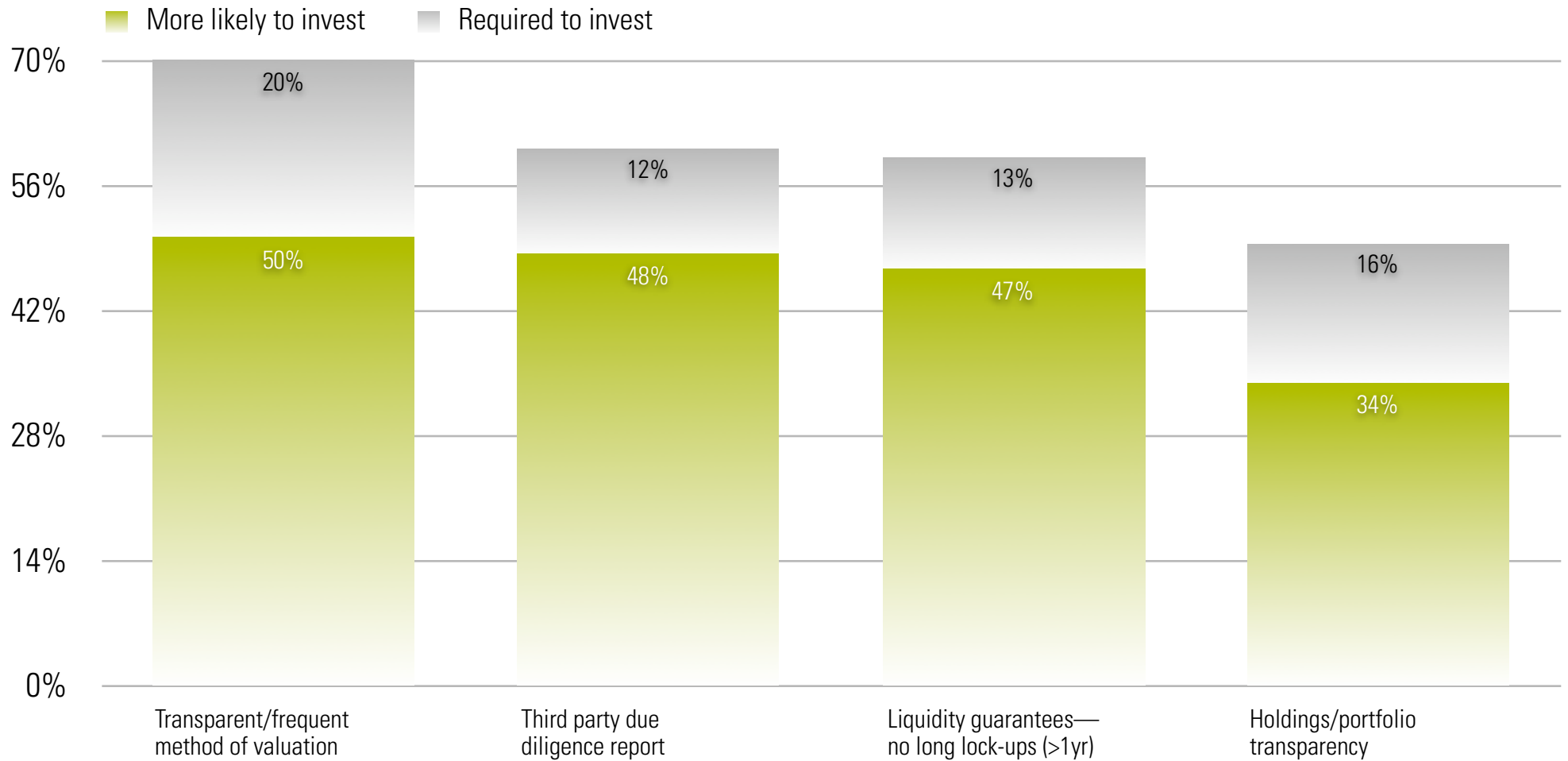
Advisors Don't Want Alternatives with Following Features



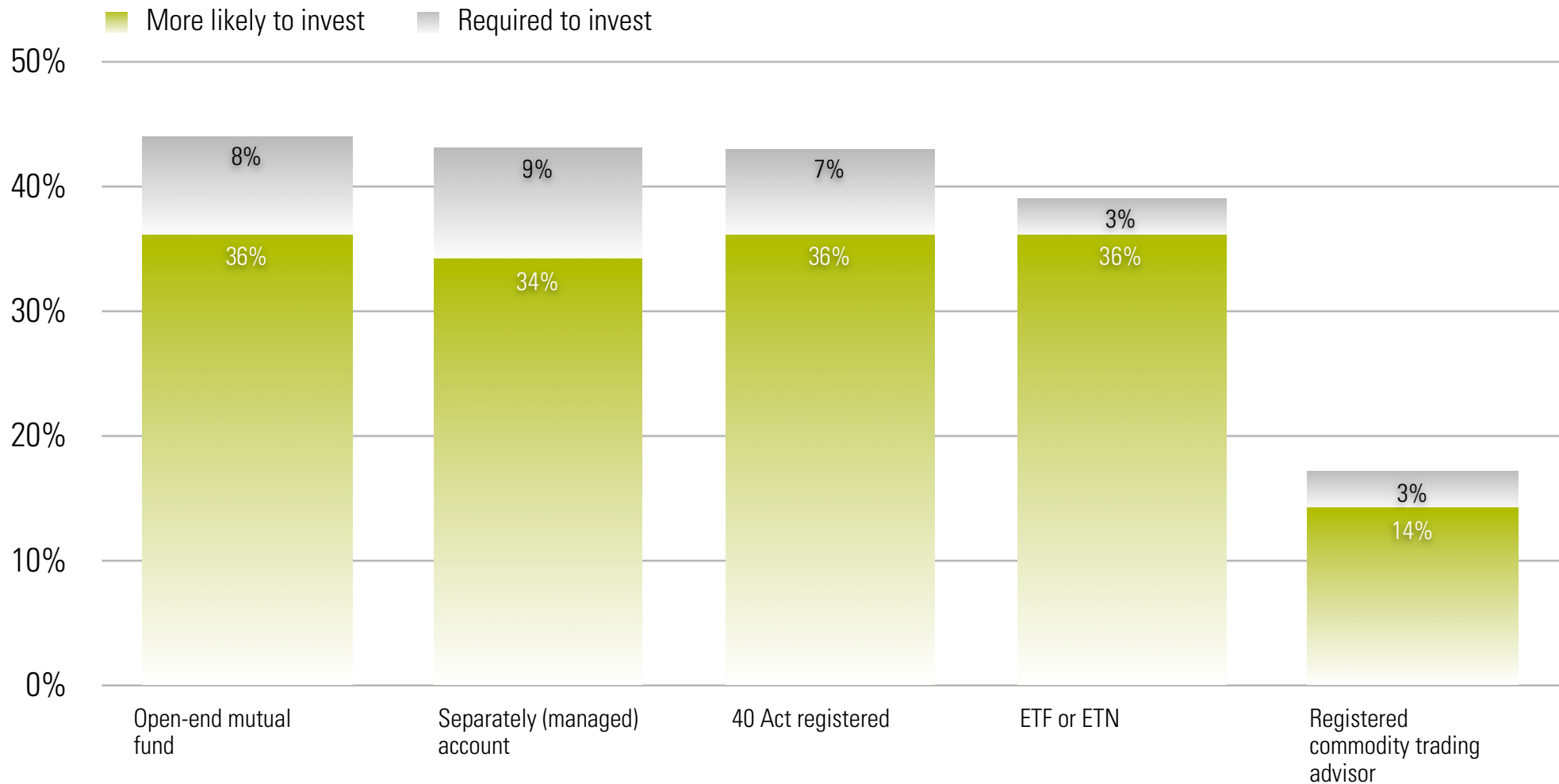
Institutions Want Alternatives with These Features



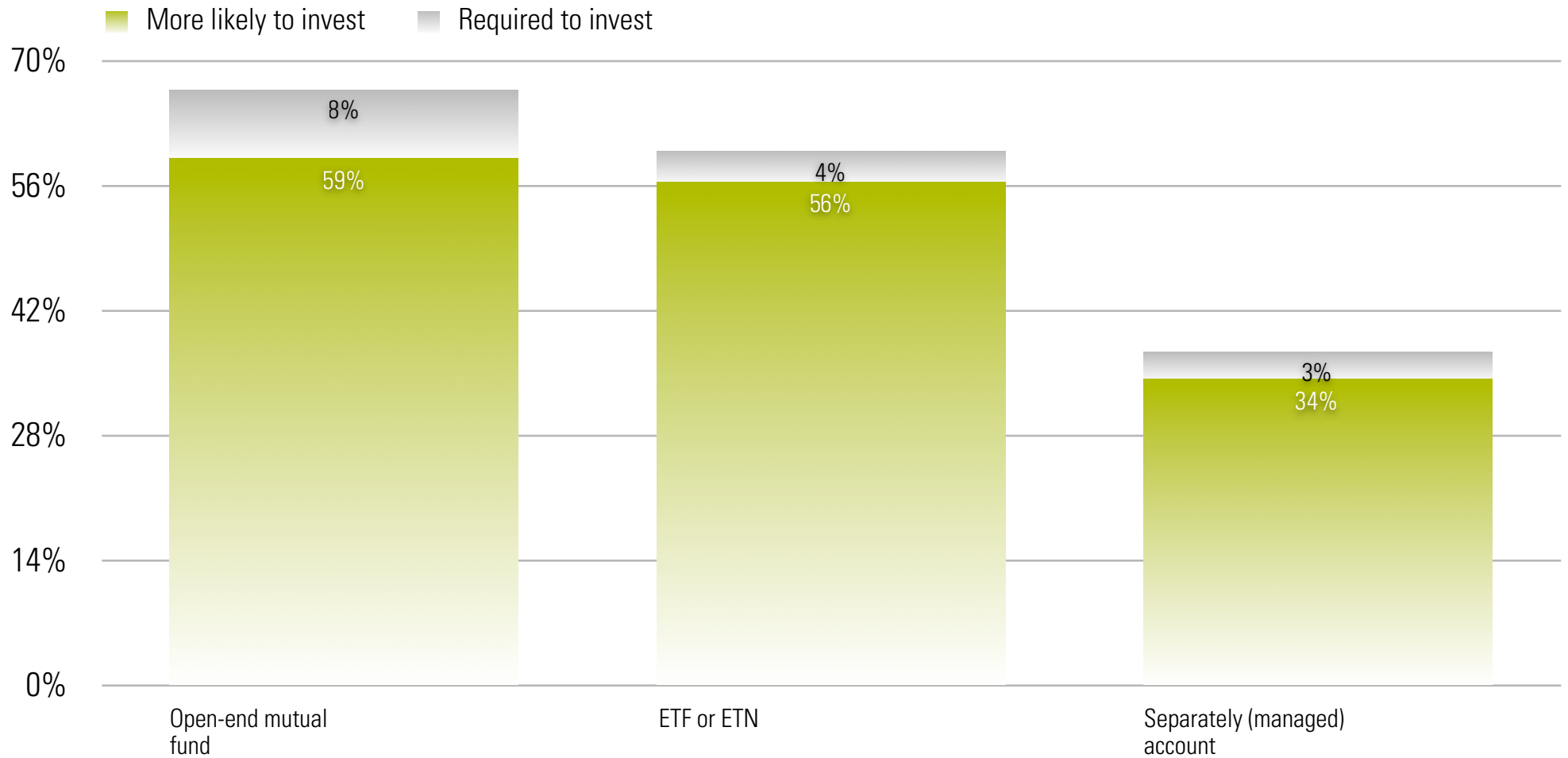
Advisors Want Alternatives with These Features



Institutions: Some Preference for Alternative Strategies Within Traditional Investment Vehicles



Advisors: Clear Preference for Alternative Strategies Within Traditional Investment Vehicles



Overall Conclusions: Morningstar/Barron's 2009 Alternative Investment Survey

- ▶ Institutions and advisors are viewing the alternative investment realm in remarkably similar manners
- ▶ Transition, adoption of alternatives still underway—shift, increased importance relative to traditional investments
- ▶ Recession has just increased diligence, research
- ▶ For institutions and advisors investing in alternatives, the predominant objective—more than ever—remains the “best of both worlds”—portfolio diversification and absolute returns, but with the positive traits of traditional investment vehicles—liquidity, transparency
- ▶ Alternatives becoming available in numerous investment vehicles despite strong association to hedge funds

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