The Cerulli **Report**

U.S. Alternative Investments 2020

The Path Forward

CERULLI ASSOCIATES

Research | Analytics | Consulting

OVERVIEW & METHODOLOGY

Cerulli's 2020 Alternative Investments report provides holistic coverage of alternative investments—including those used by both retail and institutional investors—and covers the broad range of vehicles through which allocations can be delivered, with a focus on the democratization of alternatives.

Research from this report includes a deep dive into liquid alternatives products, which have struggled to gather assets, as well as in-depth coverage of convergence zone products, such as non-traded real estate investment trusts (REITs), business development companies (BDCs), and especially interval funds, which are increasingly used to provide innovative exposures that have some but not daily liquidity.

The report also evaluates advisor use of alternative investments and makes recommendations for advisor education. Distribution channels for alternative products are carefully evaluated—including information on those channels that asset managers report they are most likely to target.

USE THIS REPORT TO

- Learn about the state of liquid alternatives product development, performance, barriers to adoption, and growth opportunities
- Analyze thorough sizing of the alternative investment market
- Understand the distribution landscape for alternatives, including outlook, opportunities, challenges, and key recommendations
- Evaluate the distribution and use of liquid alternatives products
- Review new data surrounding non-traded REITs (NTRs), BDCs, and interval funds

QUESTIONS ANSWERED

- How can alternative investment managers raise assets via retail client channels?
- How much are advisors allocating to alternative investments and to which types of products (*e.g.*, liquid alternative strategies, hedge funds, private equity) do they plan to increase or decrease allocations?
- Which structures should alternative investment product manufacturers consider for launching their products?
- What fees can managers expect to charge on alternative investments and what types of fee structures are clients requesting?
- What are the key industry challenges across the alternative investment landscape?

PRODUCT DETAILS

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- Exhibits in Excel
- Key findings
- Analyst support
- Interactive Report Dashboards

Interactive Report Dashboards

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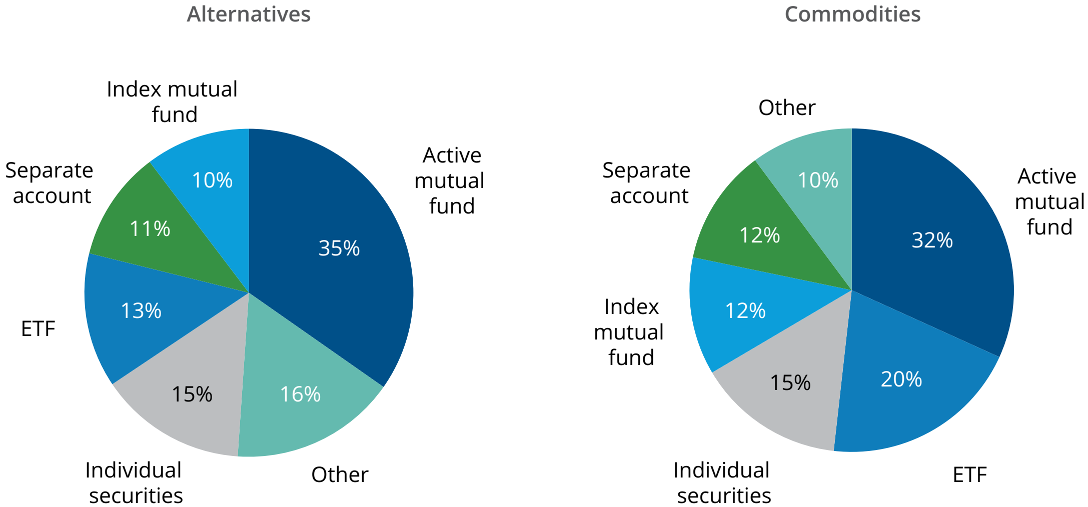
- **Advisor Allocation to Alternatives and Commodities Comparison:** Review the current and expected alternative investment and commodities allocations as reported by advisors, with views by channel, core market size, and practice assets under management (AUM).
- **Advisor Alternatives and Commodity Vehicle Allocation:** Explore a side-by-side comparison of advisors' commodity and alternative asset allocations across various channels.
- **Alternative Demand vs. Product Development Comparison:** Compare asset managers' forecasted demand and product development plans over the next 12 months for several liquid alternative strategies.
- **Yearly Drivers for Offering Alternatives and Target Retail Channels:** Analyze five years of data exhibiting which retail channels asset managers are targeting for alternative product distribution as well as the drivers of interest in alternatives.
- **Alternative Personnel Segmentation and Structure Comparison:** Gain insight into alternative investment team segmentation and personnel structure for various roles, including marketing, product development, product management, product specialist, and sales/distribution.
- **Alternative Vehicle Use vs. Opportunity:** Understand alternative managers' current level of vehicle use and their views on anticipated distribution opportunity for more than a dozen different vehicle types.

Exhibit 5.06

Advisors' Use of Vehicles for Alternative and Commodities Strategies, 2020

Sources: Cerulli Associates, in partnership with the Investments & Wealth Institute and The Financial Planning Association® (FPA®)

Analyst Note: Excludes advisors who are not currently allocating assets to alternatives and commodities, respectively. Advisors were asked for their broad alternatives allocations, both liquid and illiquid. Cerulli believes that the "other" bucket is likely to contain less liquid/illiquid holdings such as NTRs and limited partnerships.



- Advisors are most likely to use active mutual funds to access both alternative (mutual funds make up 35% of alternative exposures) and commodities (32%) exposures.

Key implication: For most advisors, allocating to alternative investments means using some combination of the vehicles that they are already most familiar with. They primarily use active mutual funds for alternative exposures while exchange-traded funds (ETFs) play a more important role in allowing access to commodities (advisors report that approximately 20% of their commodities exposure is achieved via ETFs—likely via products such as GLD). Advisor responses suggest that only a sliver of their alternative exposures remains for products with less liquidity, although it's likely that certain advisors and practices will have far higher allocations to such products.

Cerulli notes that the SEC is also seeking to increase investor access to private markets, which may in the long-term help increase such allocations. In 2019, the SEC asked market participants to comment on refreshing the Securities Act definition of "accredited investor" to include a wider range of investors, including those with specific financial certifications and knowledgeable employees. A key reason for the SEC's interest is the growth and return opportunities in private markets and Regulation D securities in particular, with the SEC noting that they may offer access to high-growth firms that are not otherwise accessible to investors in registered securities offerings. The SEC also notes that $1.7 trillion was raised via Rule 506 (which allows private fundraising from accredited investors) offerings in 2018, outpacing the $1.4 trillion in registered offerings that are available to a wider swath of investors—thus suggesting that non-accredited investors are missing out.

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