

## KNOWLEDGE & EDUCATION – ALTERNATIVE MUTUAL FUNDS

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### Checklist

1. **What is an Alternative Mutual Fund?**

An alternative mutual fund is a publicly-offered, open-end mutual fund that adopts certain kinds of more complex, alternative-like investment strategies, such as internal leverage, short-selling or active use of derivatives, and strategies such as arbitrage or absolute returns.

This **does not** include hedge funds, private equity funds or similar alternative investment funds that are not registered pursuant to any public-offering regulatory regime.

2. **What are the benefits of investing in Alternative Mutual Funds?**

Alternative Mutual Funds (AMFs) may provide alternative investment options for clients, given that an AMF offers varying types of investment strategies. The AMFs have their own specific risk/return profiles and correlation characteristics. These strategies may help investors optimize portfolios' risk-adjusted returns and may minimize the portfolio correlations to traditional investment markets.

#### Differentiated Exposure to Asset Classes

- Generally lower or more limited correlation with the equity markets (Beta)
- Scope for improved risk-adjusted returns
- Strategy diversification, allowing access to strategies not readily available to retail investors

#### Potential Portfolio Diversification Benefits

- Generally lower correlation to traditional asset classes
- Potential for reduced portfolio volatility and lower scope for draw-downs
- Scope for more consistent growth potential over the long term

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#### 3. What are the risks in Alternative Mutual Funds investments?

##### Leverage Risk

- The use of derivatives may multiply investor gains or losses. It often involves leverage, i.e., it provides exposure to potential gain or loss from a change in the level of the market price of the underlying security, currency, index or commodity in an amount that exceeds the amount invested in derivatives within the portfolio. Adverse changes in the value of the underlying asset or level of the underlying index can result in portfolio losses substantially greater than the amount invested in derivatives.

##### Counterparty Risk

- The increased use of derivatives may increasingly expose an AMF to the financial standing, or creditworthiness, of the derivative counterparty. If an AMF invests in a derivative and the creditworthiness of a derivative counterparty deteriorates during the life of a derivative contract then the AMF may not receive the payments owed to it and thereby suffer losses.

##### Non Linear Market Risk

- Alternative mutual funds may take both long and short positions within a particular asset class. This can make it difficult to understand the drivers of performance of an AMF and assess its performance against a market benchmark index.

##### Liquidity Risk

- Alternative mutual funds may invest in illiquid assets that trade less frequently than exchange traded securities and with a higher degree of price uncertainty. In adverse market conditions, such assets may experience greater declines in the price at which the asset can be sold as compared to more liquid assets, resulting in losses for AMFs holding such assets.

##### Manager's Risk

- The managers of AMFs are often granted a wide range of discretion to manage a fund's assets compared to more traditional long-only investment strategies. While this may allow them to better capture investment opportunities typically not easily, or even entirely, available to traditional mutual funds, it may also expose AMF investors to the risk that poor investment decisions may negatively impact fund performance to a greater extent than with traditional mutual funds.

#### 4. What are the costs associated with investing in an Alternative Mutual Fund?

##### Front-end Load

- The front-end load is an initial sales charge an investor pays when the investor purchases an AMF. Typically it is up to 5%.

##### Back-end load (or deferred sales load)

- There are some AMFs that charge on the back-end instead of upfront.
- Essentially, an investor is not charged upfront when they purchase an AMF, but pays when the fund is redeemed.

**Checklist**

Management Fees

- These are fees that are paid out from the fund assets to the fund manager for managing the fund’s investment portfolio.

Performance Fee

- A type of fee that gives a portion of the returns of a fund or investment to the fund manager as a reward for positive performance. The fee is generally a percentage of the profits made on the investments. This type of fee is designed to reward fund managers for increasing the value of a portfolio, since investors will see value only when the portfolio grows.

Total Expense Ratio

- A fund’s Total Expense Ratio (“TER”) is the sum of all the expenses charged to the fund and reflected in the Net Asset Value (“NAV”).
- TER includes management fees, transfer agent fees, custody fees, legal fees, audit fees and all other administrative costs.
- It is likely to be higher than that of a mutual fund or exchange-traded fund, given the more active role taken by the AMF manager.

**5. What should investors consider before investing in an Alternative Mutual Fund?**

Investment Structure

- An alternative mutual fund may offer greater diversification than a single-strategy or even multi-strategy mutual fund. At the same time, this greater diversification may lead to a flattening of returns and potentially less transparency.

Investment Objective

- One fund might be designed to capitalize on management expertise in a specific area (e.g. investing in distressed companies), while another might seek exposure to commodities, currencies and other alternative investments.

Strategy Risk Factors

- In addition to the usual market- and investment-specific risks that mutual funds have, alternative mutual funds carry risks from the strategies they use.

Performance History

- Many alternative mutual funds have limited performance histories. For example, a fair number AMFs were launched after 2008, so it is not known how they might perform in a down market.

Leverage Limits

- Limits on the use of leverage may impact ability to invest in asset classes that may provide a liquidity premium due to the fund’s need to possibly generate cash for daily or weekly redemptions on behalf of investors.




Fund Manager

- As the fund manager is the one looking after the underlying investments in an AMF, investor should be comfortable that the firm and its staff have the necessary resources, experience and skills to manage the investments.

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6. Documents that an Investor should read before investing in Alternative Mutual Funds

Fund's Prospectus and Fund related information as required by local regulator (adapt accordingly)	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">             JPMorgan            Investment Funds            PROSPECTUS.pdf         </div> <div style="text-align: center;">             JPM            Global_Marco_            Opport         </div> </div>
Fund Factsheet	<div style="text-align: center;">             JPM_Glob_Macro_            Opportunities Factsheet.pdf         </div>

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#### Client Acknowledgement

I/We have read and understood the educational materials and content on Alternative Mutual Funds as detailed in this document. I/We acknowledge that the risks, disclosures and other information set out herein are not an exhaustive description of the risks involved in a transaction and will consult my legal, regulatory, tax, financial and/or accounting advisors to the extent I consider necessary. I/We have also read the brochure and/or all other marketing materials pertaining to the specific product prior to entering into a financial transaction.

Client Signature \_\_\_\_\_

Date \_\_\_\_\_

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#### (Relationship Professional Acknowledgement)

##### RP Acknowledgement

I acknowledge having utilized the above materials to educate the client(s)/authorized representative for the referenced Product Category.

RP Signature \_\_\_\_\_ Date \_\_\_\_\_

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