



Financial Professionals Alternative Investments Study

American Century Investments

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Objective and Methodology

Objective

- The objective of the Financial Professionals Alternative Investments Study is to help American Century Investments gain a better understanding of financial advisors' awareness of alternative investment strategies, as well as their attitudes toward and usage of different vehicles.

Methodology

- Potential respondents were screened to verify that they sell and/or provide advice regarding financial instruments.
 - Work as a financial planner, financial advisor or personal financial consultant, broker or registered investment advisor (RIA)
 - Work for a full-service national firm, regional broker/dealer, independent broker/dealer, insurance broker/dealer, bank brokerage or work as a RIA
 - Have a book of business of \$10 million or more
- Research Now (formerly e-Rewards), the largest “by-invitation-only” online research panel provider with millions of panelists, provided the sample source.
- Data were collected on 300 respondents using an online survey. Demographics on the respondents are found in the Appendix.

Study highlights

Use of alternative investment strategies by financial professionals is widespread.

- 80% of study participants report they are “currently” using alternative strategies with clients.
- 95% of respondents report “some level of experience” using these strategies.

Use of alternatives varies by the type of financial professional.

- Alternative strategies are very popular with wirehouse brokers; 90% report they are currently using them with clients.
- While registered investment advisors use alternatives less than the other three major types of financial professionals, still an impressive 68% of RIAs report they currently use them.

Commodities are used the most and are more top-of-mind with financial professionals.

- “Precious metals” and “natural resources” are used by 40% and 39% of respondents, respectively.
- When asked about alternative strategies that “come to mind,” 75% of respondents indicated “precious metals” and 67% cited “natural resources.”

On average, about a third (32%) of financial professionals’ clients have exposure to alternative strategies.

- Financial professionals with “extensive” experience with alternatives appear more comfortable using these investments across their client base. On average, nearly half (49%) of their clients have exposure to alternative strategies.
- Across the four major types of financial professionals, the percentage of clients with alternative strategies in their portfolios ranged from 27-39%.



Study highlights (continued)

While a typical client's asset allocation to alternative strategies averages 17%, the allocation varies by the financial professional's experience level with the investments.

- Professionals with “extensive” experience allocated an average of 23% of a client's portfolio to alternative strategies.
- Those with “basic” experience allocated an average of 14% of a client's portfolio to alternatives.

Mutual funds are the most popular way for financial professionals to access alternative investment strategies.

- When provided a list of preferred ways to access alternatives, 42% of respondents who currently use them selected mutual funds, followed by 28% for ETFs and 12% for direct investments.
- Regardless of experience level or type of financial professional, mutual funds remained the preferred access mode.
- Those selecting mutual funds cited them as being “simple/easy” to use.

When asked about intentions to use alternatives in the future, a majority of financial professionals who currently use them plan to increase use.

- 55% plan to increase use within the next year, while only 5% will decrease use; 40% anticipate no change in use.
- 52% of financial professionals with “minimal” experience using alternatives intend to increase use.
- Among current “non users” of alternatives, only 7% say they are “likely/very likely” to use in the coming year.



Study highlights (continued)

Financial professionals appear to use alternatives to manage risk rather than generating out-sized returns.

- A “low correlation with traditional asset classes” was identified as the “most attractive” feature of alternatives by 41% of financial professionals, followed by “potential for broader portfolio diversification,” which garnered the second-most responses at 29%.
- The “potential for higher returns” was only cited by 12% of respondents.

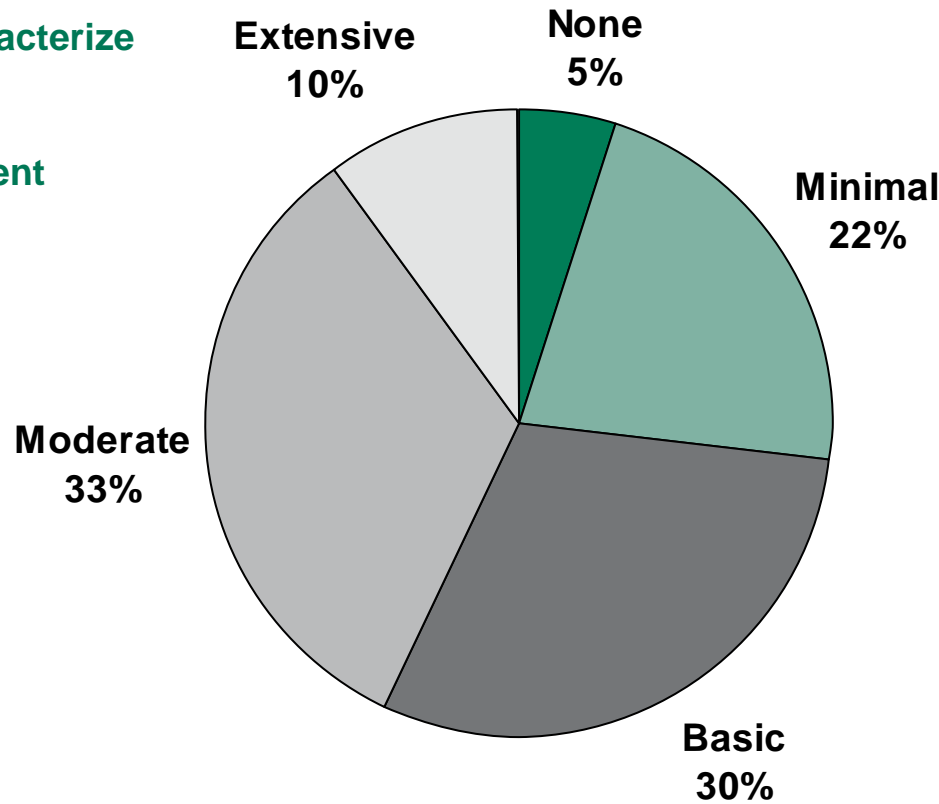
The biggest challenge associated with financial professionals using alternatives is the investments can be hard to explain to clients.

- 41% of financial professionals cited “difficult to explain features, benefits and risks to clients” as the biggest challenge.
- “Volatility” was cited by 32% of respondents, followed by “lack of liquidity” by 28% and “lack of track record of the investment/fund” by 27%.

General findings – Experience with alternatives

Use of alternative investments by financial professionals appears to be widespread. Ninety-five percent of the financial services professionals participating in the study indicated they have some level of experience with alternative strategies; however, 22% report minimal experience.

How would you characterize your current level of experience using “alternative investment strategies?”



n=300

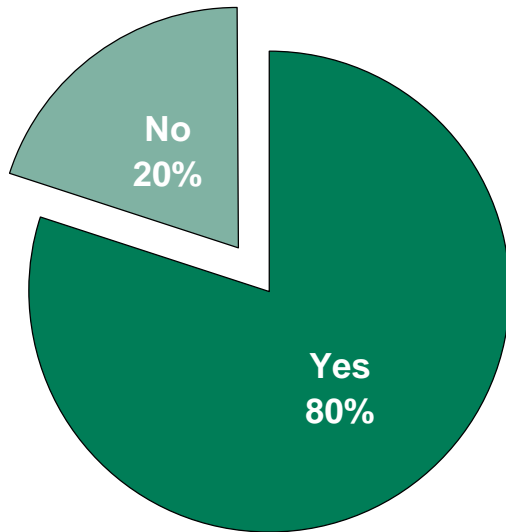


2. How would you characterize your current level of experience using “alternative investment strategies?”

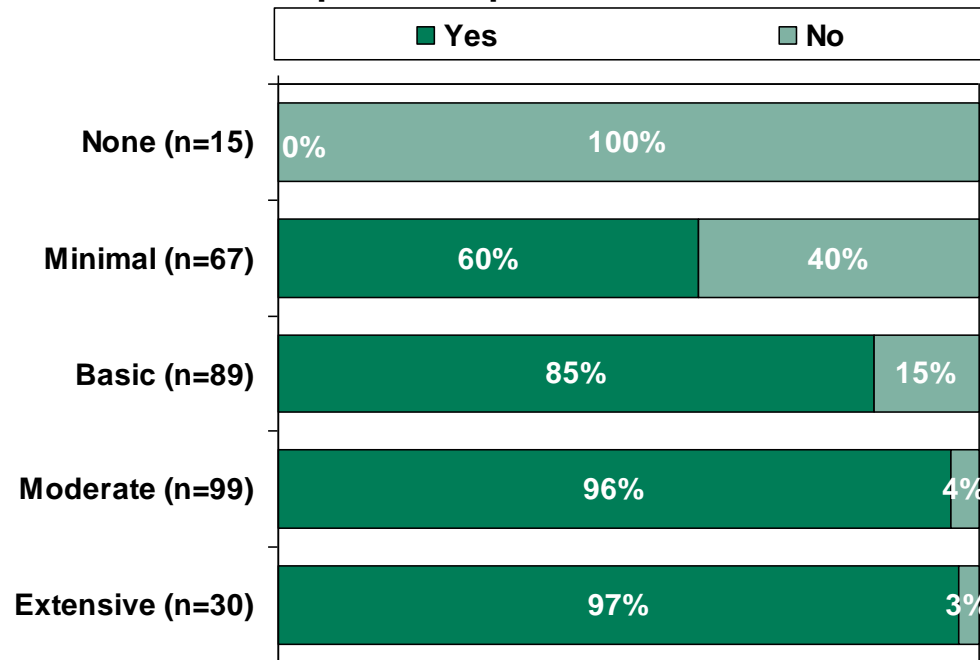
Experience & usage of alternatives

Eighty percent of the financial professionals participating in the research study reported they currently use alternative investment strategies in their clients' portfolios. Even 60% of those with "minimal" experience report using them, while almost all of the financial professionals with "moderate" and "extensive" experience use alternatives.

Do you currently use "alternatives" in your clients' portfolios?



Percent Currently Using "Alternatives" By Reported Experience Level



n=300

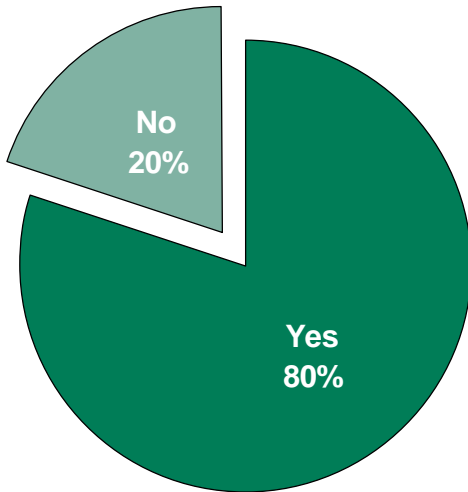
- How would you characterize your current level of experience using "alternative investment strategies?"
- Do you currently use "alternatives" in your clients' portfolios?



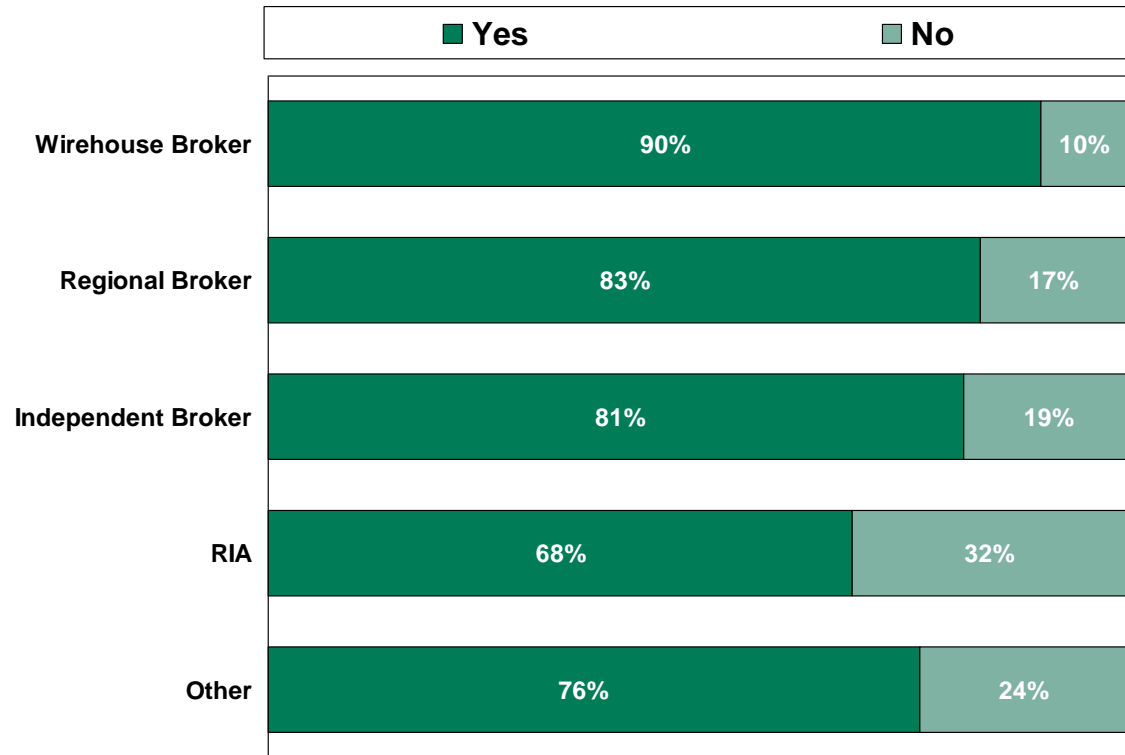
Use by type of financial professionals

Eighty percent of the financial professionals participating in the study reported using alternative investment strategies in their clients' portfolios. When split by type of financial professional, wirehouse brokers report the greatest level of usage (90%), while the lowest use is by RIAs (68%).

Do you currently use "alternatives" in your clients' portfolios?



Current Use by Type of Financial Professional



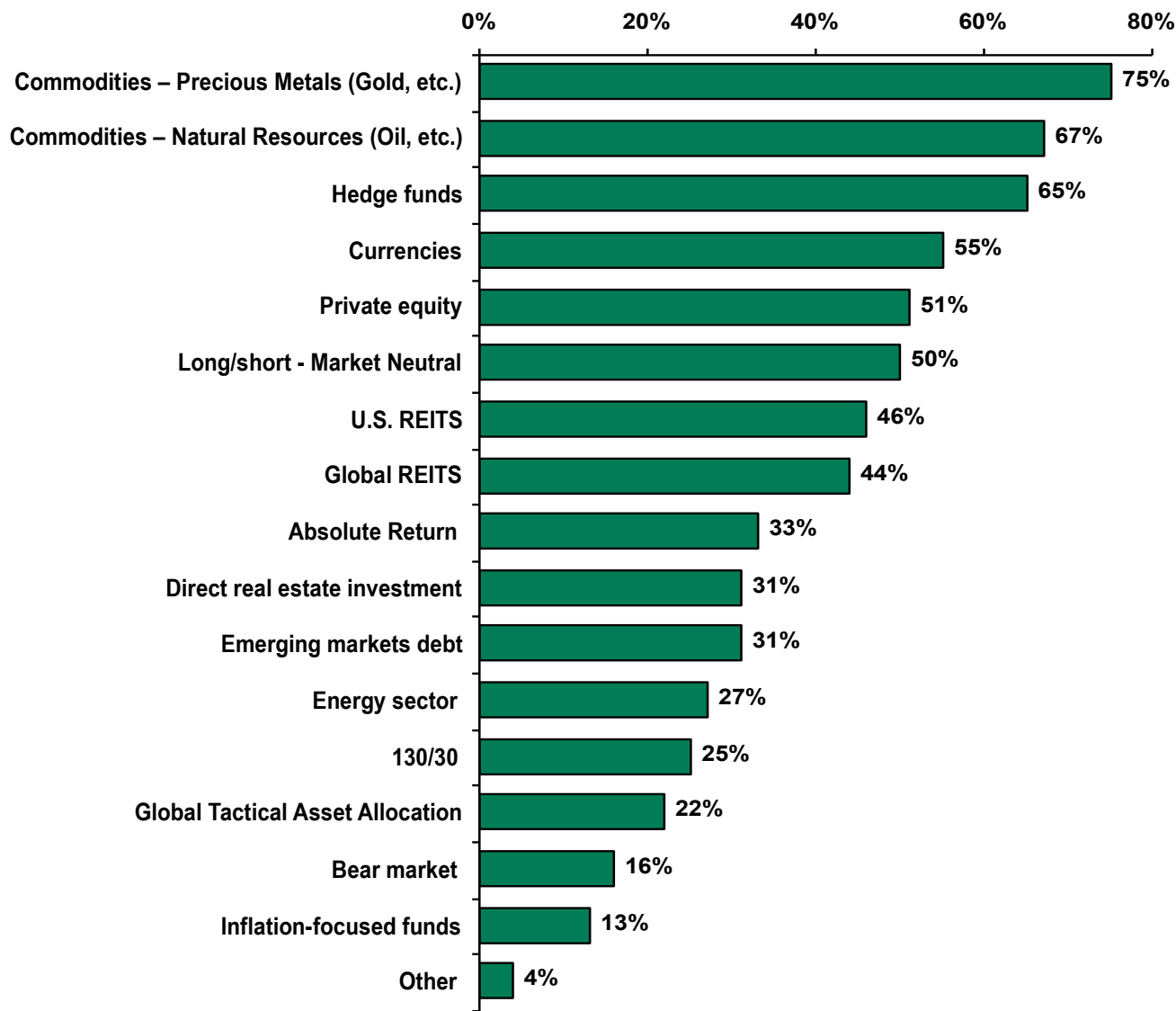
n=300

3. Do you currently use "alternatives" in your clients' portfolios?
 D3. Primarily, what type of financial advisor are you? Are you a...?



n=50/54/108/63/17 (Note: 8 respondents did not indicate the primary type of financial professional they are when asked to do so.)

Which alternatives come to mind?



- When the financial professionals were asked to indicate the “alternatives” that “came to mind” for them, precious metal commodities, natural resource commodities and hedge funds topped the list, with each being selected by more than 60% of study participants.
- Bear market vehicles, inflation-focused funds and “other” were the bottom 3 – each having less than 17%.
- Alternatives mentioned in the “other” category included business development companies (BDCs) and futures, as well as others.

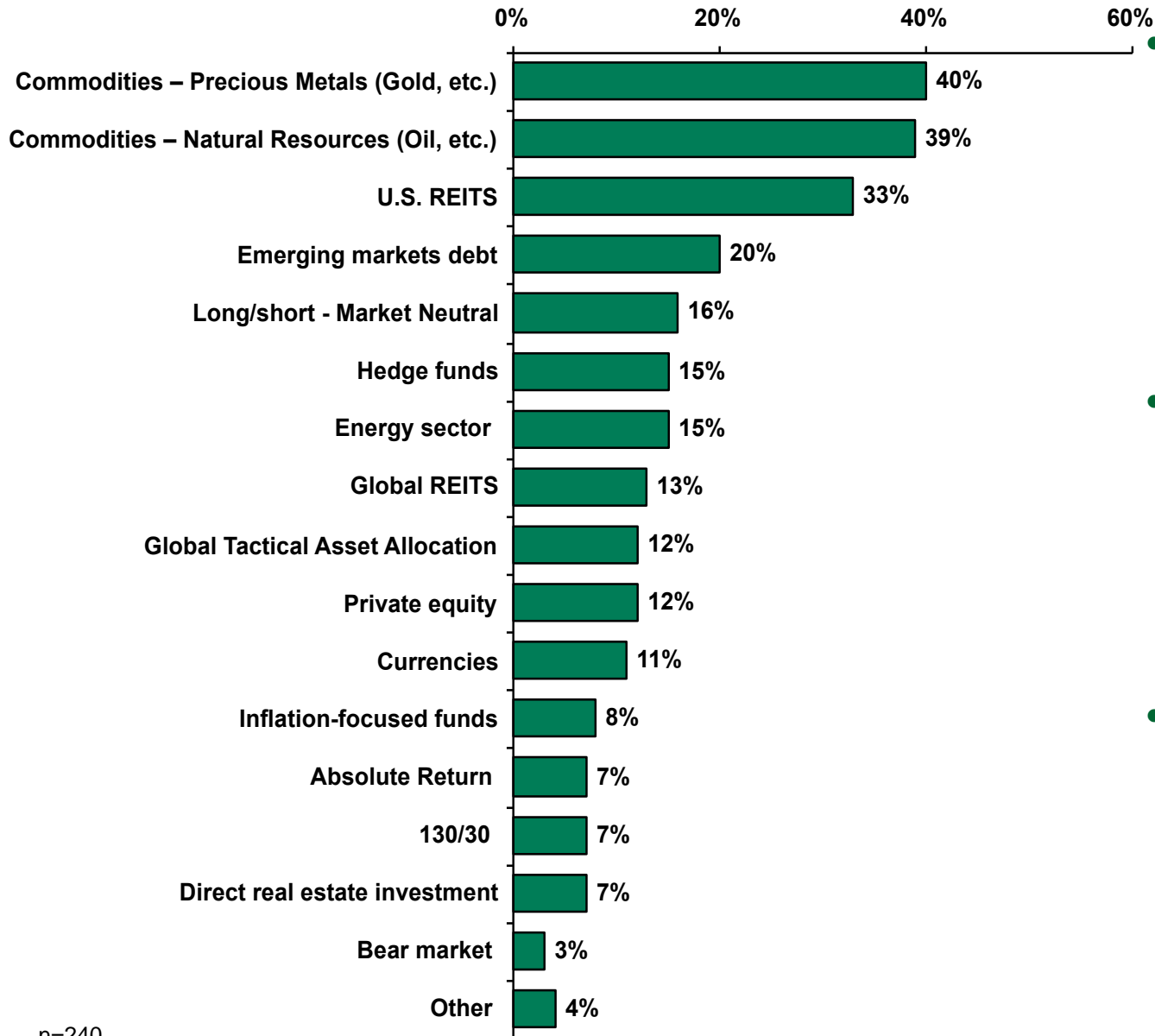
n=300

1. When you hear the term “alternative investment strategies” (or “alternatives”), which of the following strategies or asset classes come to mind? (SELECT ALL THAT APPLY) % of respondents selecting each option shown.

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Alternatives used most often



n=240

4. Which “alternative” strategies are you using most often? (ALLOW UP TO TOP 3 WITH A MINIMUM OF 1) % of respondents selecting each option shown.

- When asked which alternatives they “use most often,” one-third or more of the financial professionals cited precious metal commodities, natural resource commodities or US REITS.
- Inflation-focused funds, absolute return, 130/30, direct real estate investment and bear market vehicles were cited as “used most often” by less than 10% of the respondents.
- Alternatives mentioned as being used in the “other” category included business development companies (BDCs) and futures, as well as others.



Alternatives used “most often” by different types of financial professionals

| | Wirehouse Broker | Regional Broker | Independent Broker | RIA | Other |
|----------------------------------|------------------|-----------------|--------------------|-----|-------|
| Commodities – Precious Metals | 40% | 29% | 40% | 51% | 38% |
| Commodities – Natural Resources | 42% | 24% | 45% | 40% | 23% |
| U.S. REITS | 24% | 27% | 42% | 35% | 31% |
| Emerging markets debt | 24% | 20% | 20% | 16% | 8% |
| Long/short - Market Neutral | 27% | 20% | 12% | 12% | 15% |
| Hedge funds | 20% | 9% | 14% | 16% | 23% |
| Energy sector | 9% | 38% | 11% | 0% | 0% |
| Global REITS | 7% | 13% | 14% | 16% | 23% |
| Global Tactical Asset Allocation | 18% | 16% | 9% | 12% | 0% |
| Private equity | 11% | 13% | 9% | 16% | 15% |
| Currencies | 16% | 7% | 14% | 5% | 15% |
| Inflation-focused funds | 11% | 11% | 2% | 7% | 15% |
| Absolute Return | 4% | 13% | 5% | 7% | 15% |
| 130/30 | 9% | 11% | 5% | 2% | 15% |
| Direct real estate investment | 4% | 4% | 11% | 5% | 0% |
| Bear market | 4% | 7% | 1% | 2% | 8% |
| Other | 4% | 0% | 5% | 9% | 0% |

n=45/45/88/43/13 (Note: 6 respondents did not indicate the primary type of financial professional they are when asked to do so.)

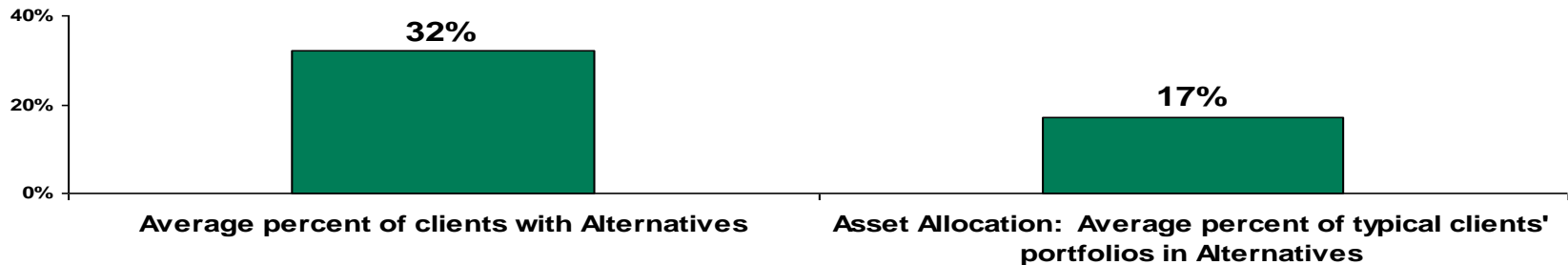
4. Which “alternative” strategies are you using most often? (ALLOW UP TO TOP 3 WITH A MINIMUM OF 1)

D3. Primarily, what type of financial advisor are you? Are you a...? (SELECT ONE)



Client-based saturation of alternatives and asset allocation

According to the financial professionals participating in the research study, almost one third (32%) of their clients have alternatives.



- Overall Median = 20%
 - Average % of clients with “Alternatives” by Experience Level*
 - Minimal – 22%
 - Basic – 27%
 - Moderate -35%
 - Extensive – 49%
 - Average % of clients with “Alternatives” by type of Financial Pro**
 - Wirehouse Broker – 29%
 - Regional Broker – 27%
 - Independent Broker – 39%
 - RIA – 31%
 - Other – 23%
- Overall Median = 10%
 - Average % of typical client’s portfolio in “Alternatives” by Experience Level*
 - Minimal – 15%
 - Basic – 14%
 - Moderate -18%
 - Extensive – 23%
 - Average % of typical client’s portfolio in “Alternatives” by type of Financial Pro**
 - Wirehouse Broker – 13%
 - Regional Broker – 18%
 - Independent Broker – 20%
 - RIA – 15%
 - Other – 20%

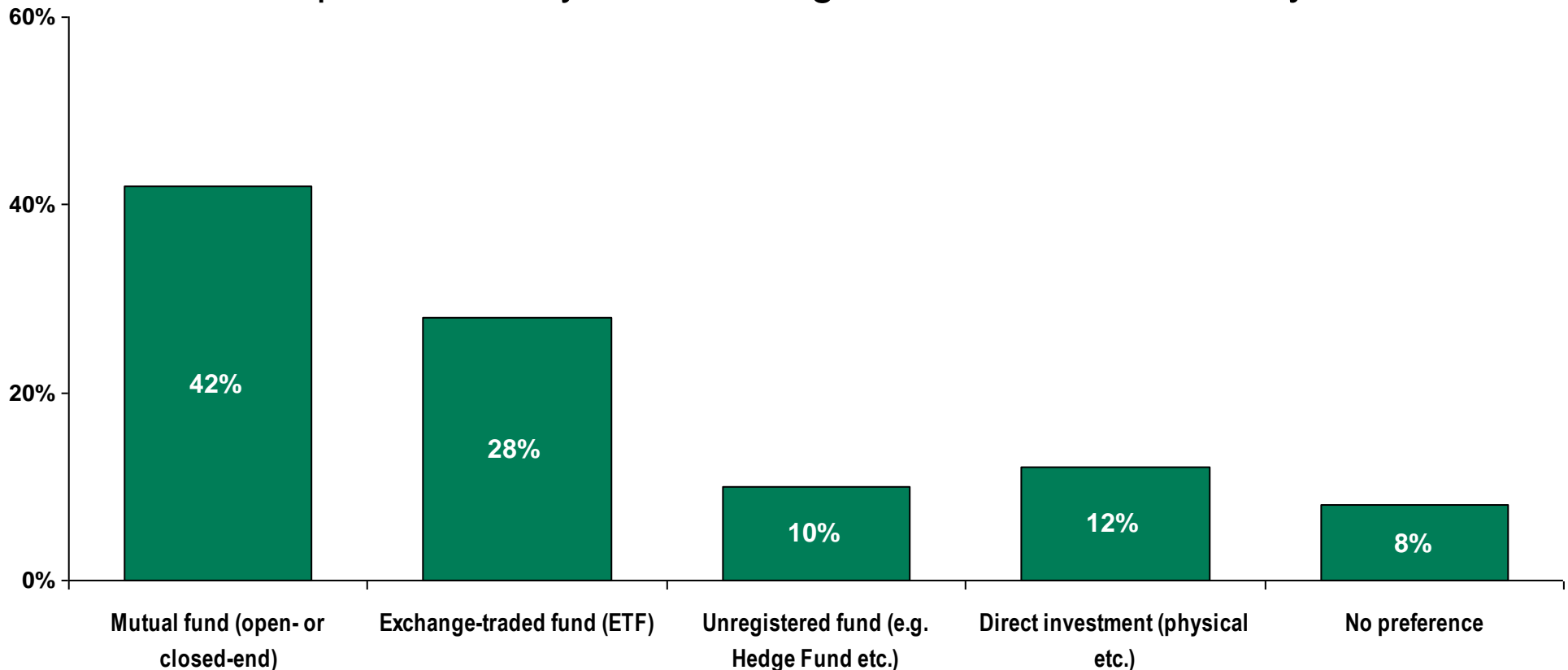
* n=35-37/70-73/94/28 (Note: Thirteen responded “Don’t Know” regarding % with alternatives and 8 responded “Don’t Know” regarding % of portfolio in alts.)

** n=44/41-42/83-87/42/12 (Note: Twelve responded “Don’t Know” regarding % with alternatives and 7 responded “Don’t Know” regarding % of portfolio in alts. Six did not indicate the primary type of financial professional they are when asked to do so.)



Preferred way to access alternatives

Mutual funds appear to be a popular way for financial intermediaries to provide alternative strategies to clients. Forty-two percent of the respondents who currently use alternatives report that “mutual funds” were their preferred way of accessing alternatives, followed by “ETFs.”



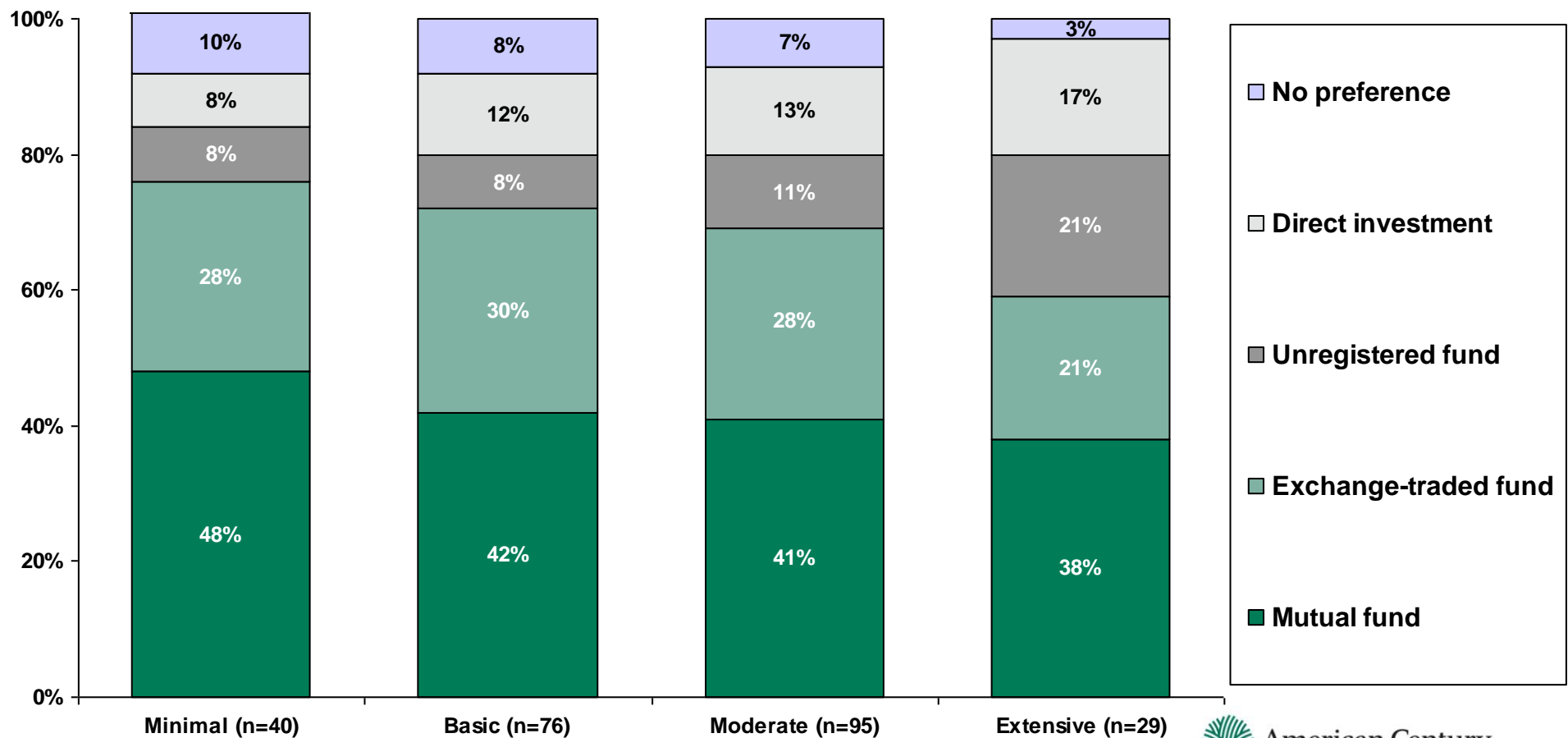
n=240

7. Which is your preferred way to access “Alternative” strategies?



Preferred way to access alternatives based on experience level

Regardless of experience level with alternatives, among those who currently use them, the top/preferred method of accessing is through mutual funds.

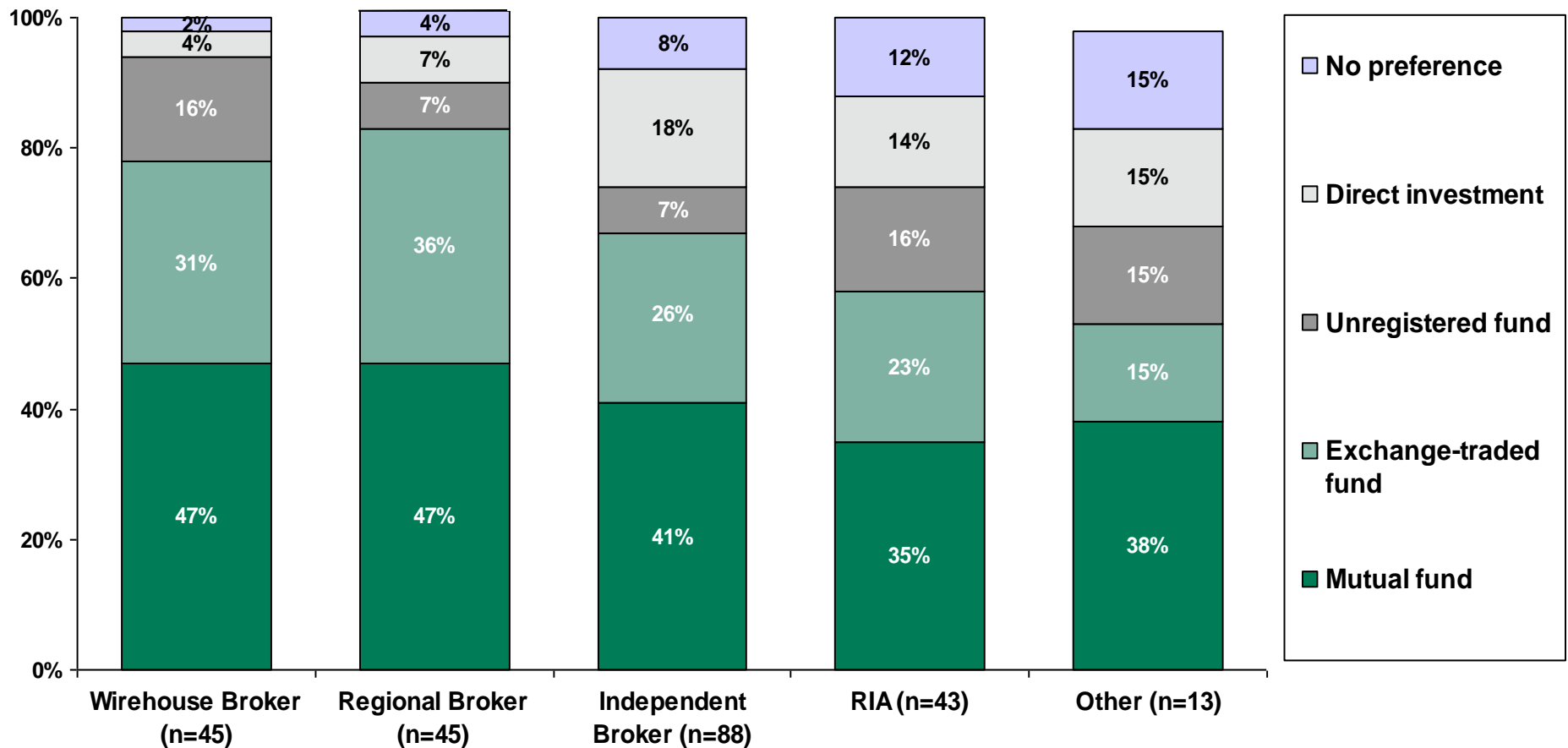


2. How would you characterize your current level of experience using “alternative investment strategies”? (SELECT ONE)
 7. Which is your preferred way to access “Alternative” strategies?



Preferred access mode based on type of financial professional

Regardless of the type of financial professional, the top method of accessing alternatives by those currently using them is “mutual funds.”



(Note: 6 respondents did not indicate the primary type of financial professional they are when asked to do so.)

7. Which is your preferred way to access “alternative” strategies?

D3. Primarily, what type of financial advisor are you? Are you a...? (SELECT ONE)



Explanation of preference for access modes

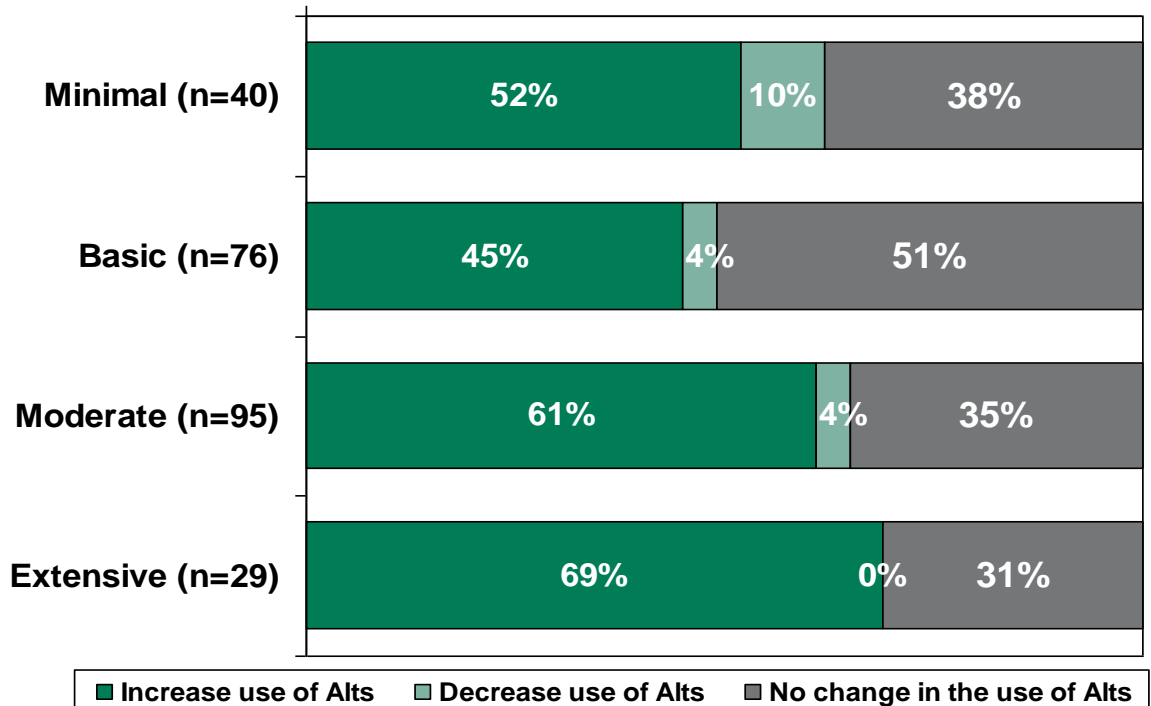
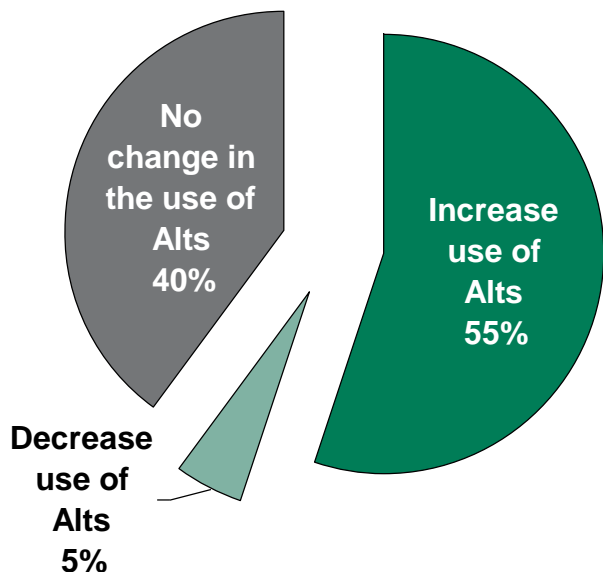
When asked why they prefer their chosen method of accessing “alternative” strategies, the responses were varied, with descriptions indicating “simplicity” or “ease” (ease of use, easy to understand, easy to access, easy to trade, etc.) topping the list.

- Those who selected “mutual funds” as their preferred access mode often described them as being simple/easy, offering diversification and/or having active and/or professional management.
- “Exchange traded funds” were attributed with simplicity/ease and/or low cost/fees by many who chose them as their preferred mode
- Several participants who had indicated “no preference” of access mode said they had no preference because their choice was based upon the situation – the client and/or investments/portfolio and/or the desired outcomes.

Anticipated change in use in future

Over half of the respondents who currently use alts report they plan to increase their use in the next year. Only 5% anticipate a decrease in use.

Next year, how do you anticipate changing your use of “alternatives” in your clients’ portfolios?



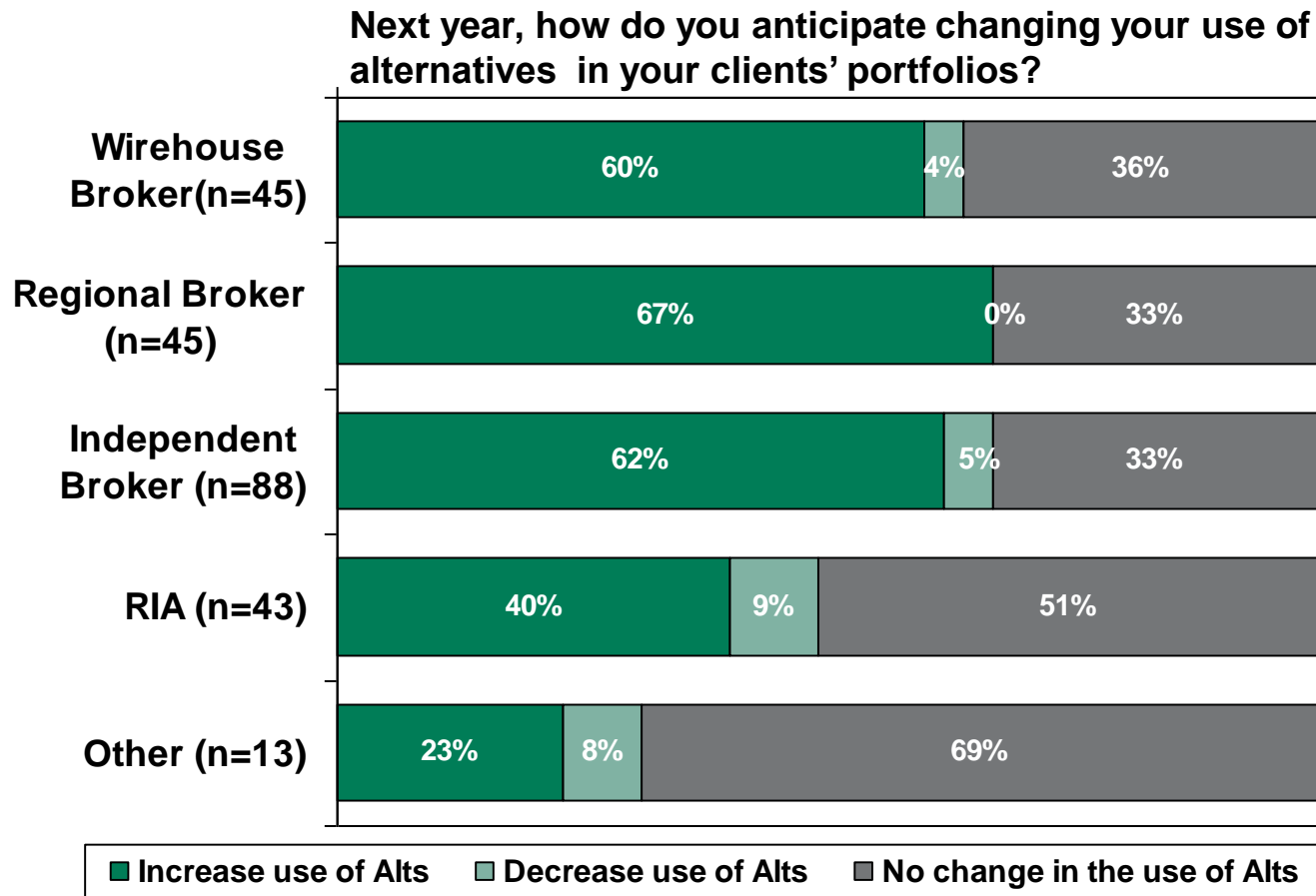
n =240

- How would you characterize your current level of experience using “alternative investment strategies”?
- In general, within the next year, how do you anticipate changing your use of “Alternatives” in your clients’ portfolios?



Anticipated change in use by type of intermediary

Sixty percent or more of the wirehouse, regional and independent brokers in the study who currently use alternatives report they anticipate an increase in their use in the future; however, only 40% of RIAs envision an increase.



(Note: 6 respondents did not indicate the primary type of financial professional they are when asked to do so.)

9. In general, within the next year, how do you anticipate changing your use of "Alternatives" in your clients' portfolios?

D3. Primarily, what type of financial advisor are you? Are you a...? (SELECT ONE)

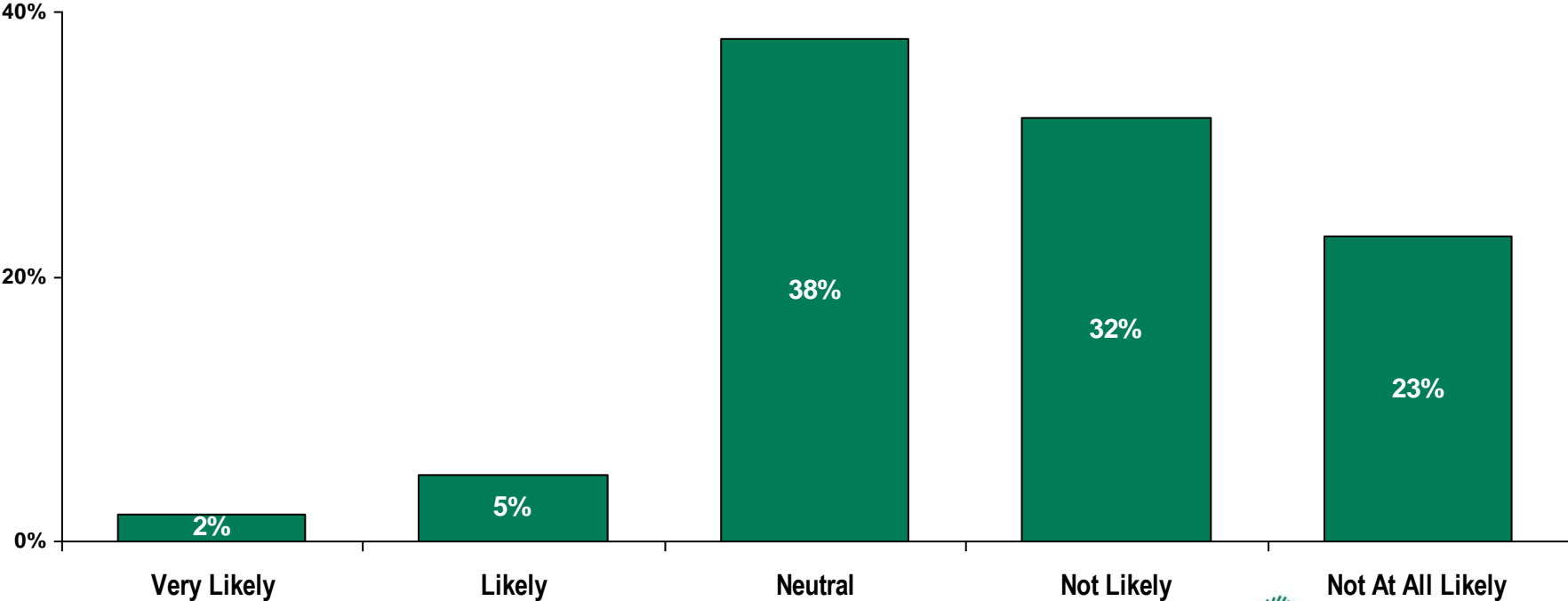
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Non-users future use intentions

The 20% of financial professionals participating in the study who indicated they do not currently use alternatives are not likely to start in the near future. When asked about potential alt use “within the next year,” only 7% said they were likely (very likely/likely) to do so, while more than half (55%) indicate they are not likely (not at all likely/not likely) to start.

Within the next year, how likely are you to include alternatives in your clients’ portfolios?



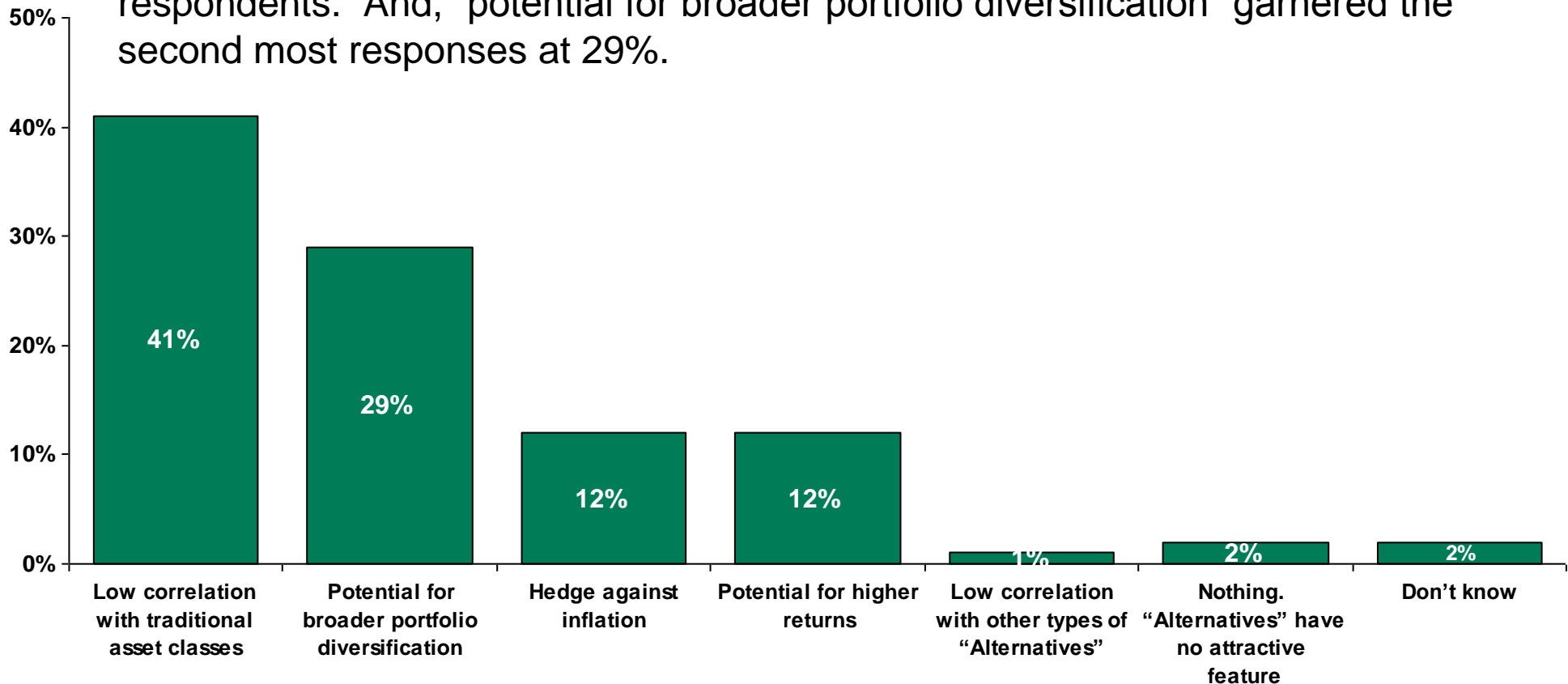
n=60

10. Within the next year, how likely are you to include “Alternatives” in your clients’ portfolios?



Most attractive features of alternatives

Financial professionals appear to use alternatives to manage risk rather than achieve higher returns. A “low correlation with traditional asset classes” was the trait that topped the list of features chosen as “most attractive” by 41% of respondents. And, “potential for broader portfolio diversification” garnered the second most responses at 29%.



n=300

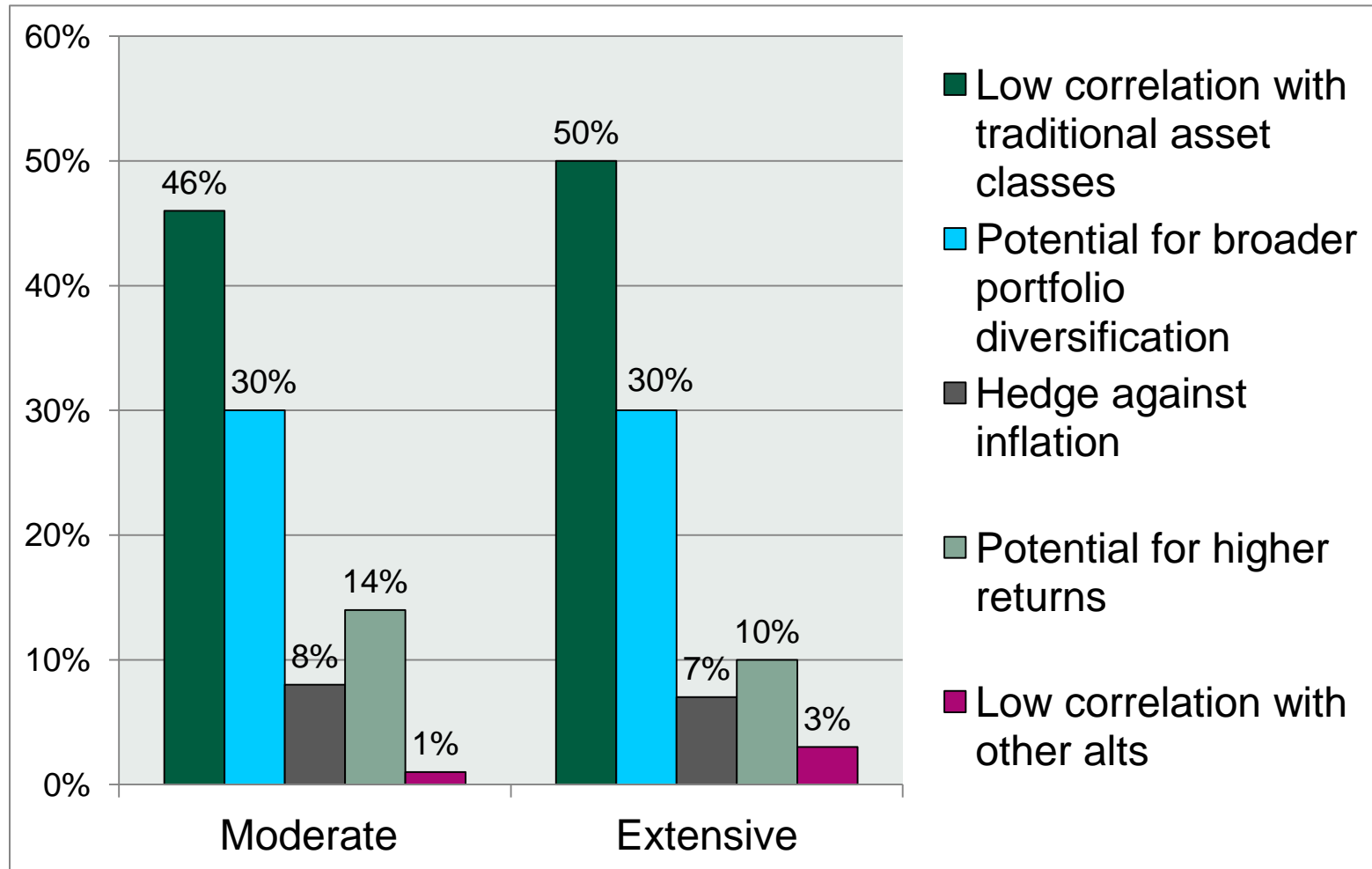
10. When considering “alternatives,” which of the following is their most attractive feature? (SELECT ONE); totals may not add up to 100% due to rounding.

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Most attractive features by selected experience level

Financial professionals with “moderate” or “extensive” experience

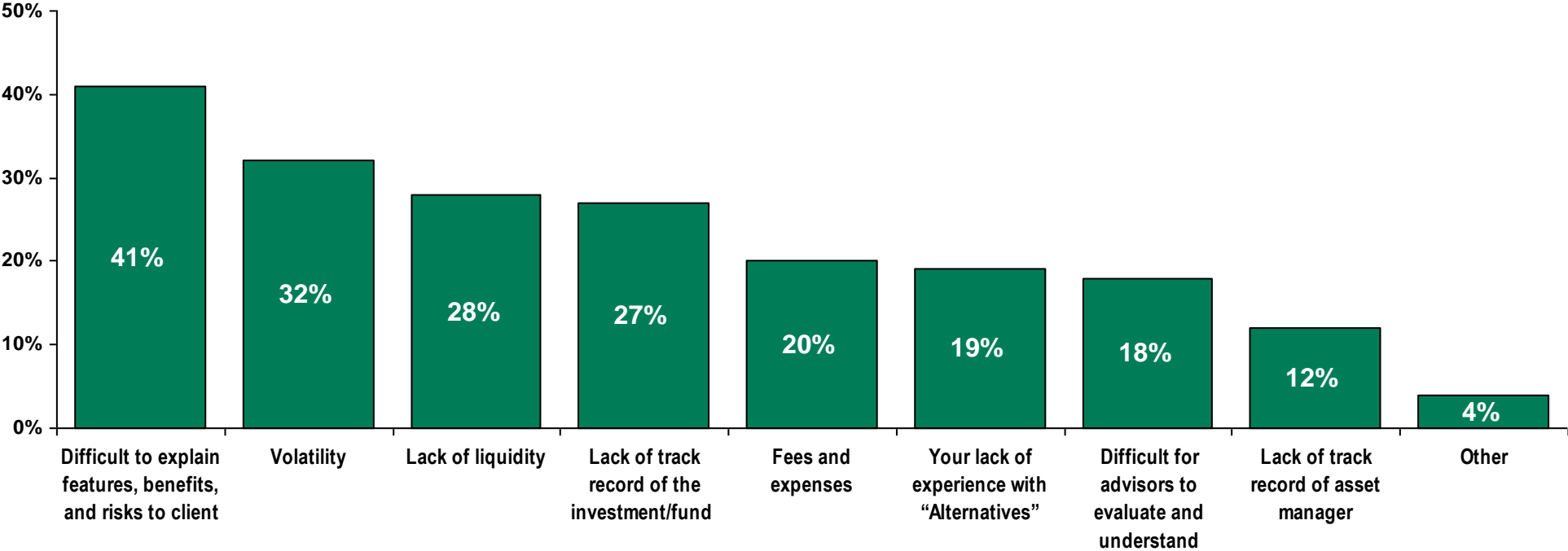


1. How would you characterize your current level of experience using “alternative investment strategies”?
10. When considering “alternatives,” which of the following is their most attractive feature? (SELECT ONE); totals may not add up to 10% due to rounding.



Biggest challenges associated with alternatives

“Difficult to explain features, benefits and risks to clients” topped the list of biggest challenges with 41% of the financial professionals in the study indicating that was a challenge for them. Volatility, lack of liquidity and lack of track record of investment/fund were also indicated as challenges by over one quarter of the participants.



n=300
10. Regardless of whether you currently use “alternatives” or not, in your opinion, what are the two biggest challenges associated with including “Alternatives” in clients’ portfolios? (SELECT TWO).



Conclusions

- Use of alternative investment strategies by financial professionals is widespread, which suggests that they are becoming mainstream ,although they are not yet a part of every client’s portfolio.
- Current use of alternatives varies by the type of financial professional with wirehouse brokers having a tendency to use them the most, while RIAs use them the least. It’s possible that wirehouse brokers are more willing to experiment with newer or emerging investment themes, while RIAs embrace more familiar and traditional strategies.
- “Commodities” are the alternatives used the most and are more top-of-mind with financial professionals, suggesting financial intermediaries gravitate toward more tangible (precious metals, natural resources) and less esoteric strategies. It also may be easier for financial professionals to explain commodities to clients.
- Financial professionals prefer accessing alternative strategies via mutual funds, suggesting they appreciate the ease of use, liquidity, diversification and active management. Indeed, “simple/easy” to use was cited as the top reason for utilizing funds.
- Planned use of alternatives by financial professionals may be on the rise. A majority of financial professionals who currently use alternatives say they will increase use in the coming year, suggesting that intermediaries have become more comfortable using the strategies as part of a diversified portfolio.
- Financial professionals use alternatives to manage risk rather than generate out-sized returns. With the market gyrations of the past few years, intermediaries may believe that their clients are more risk averse than ever and are willing to give up performance on the upside in order to have some protection in a falling market environment.
- Financial professionals may benefit from tools/information to better explain alternative strategies to clients. Difficulty explaining them is the biggest challenge faced by intermediaries and potential barrier for greater use.

Appendix

- Respondent Demographic Highlights
- Demographics
- Survey Questions

Respondent Demographic Highlights

The number of respondents was 300.

- Types of financial professionals represented in the study included (multiple responses accepted):
 - Financial planners, financial advisors, or personal financial consultants 81%
 - Brokers 26%
 - RIAs 24%
- When asked who they worked for or about their role, the participants responded as follows:
 - Independent broker/dealers 31%
 - National full service firm 29%
 - Registered investment advisor (RIA) 21%
 - Insurance broker/dealer 15%
 - Bank brokerage 12%
 - Regional broker/dealer 11%
- 73% of the participants were male.
- The average number of years in the business as a financial advisor reported by the respondents was 15.78, with a range from 1 to 53 years.

Demographics

| Category | Overall | Users of Alts | Non-Users of Alts |
|---|--------------|---------------|-------------------|
| Gender | n=300 | n=240 | n=60 |
| Male | 73% | 75% | 65% |
| Female | 27% | 25% | 35% |
| Average years in the business | 15.78 | 15.75 | 15.9 |
| Primary type of financial advisor | n=300 | n=240 | n=60 |
| Wirehouse Broker | 17% | 19% | 8% |
| Regional Broker | 18% | 19% | 15% |
| Independent Broker | 36% | 37% | 33% |
| RIA | 21% | 18% | 33% |
| Other (Specify) | 6% | 5% | 7% |
| Did not indicate the primary type of financial professional | 3% | 3% | 3% |
| Asset size of typical client | n=300 | n=240 | n=60 |
| Less than \$100,000 | 7% | 6% | 13% |
| \$100,000 to less than \$250,000 | 25% | 26% | 20% |
| \$250,000 to less than \$500,000 | 29% | 30% | 25% |
| \$500,000 to less than \$750,000 | 13% | 14% | 8% |
| \$750,000 to less than \$1,000,000 | 8% | 8% | 8% |
| \$1,000,000 or more | 15% | 14% | 20% |
| Prefer not to answer/Refused | 2% | 2% | 5% |
| Total amount of assets personally managed | n=300 | n=240 | n=60 |
| \$10 million to less than \$15 million | 13% | 13% | 12% |
| \$15 million to less than \$30 million | 22% | 23% | 18% |
| \$30 million to less than \$45 million | 16% | 18% | 10% |
| \$45 million to less than \$60 million | 11% | 12% | 8% |
| \$60 million to less than \$100 million | 12% | 11% | 17% |
| \$100 million or more | 19% | 18% | 23% |
| Don't know and Prefer not to answer/Refused | 6% | 5% | 12% |



Demographics (continued)

| Category | Overall | Users of Alts | Non-Users of Alts |
|--|--------------|---------------|-------------------|
| Percent of Business in Mutual Funds | n=300 | n=240 | n=60 |
| Less than 25% | 23% | 22% | 28% |
| 25% to less than 50% | 33% | 35% | 25% |
| 50% to less than 75% | 27% | 29% | 20% |
| 75% to 100% | 15% | 12% | 27% |
| Prefer not to answer/Refused | 1% | 1% | 0% |

Survey Questions

When you hear the term “alternative investment strategies” (or “alternatives”), which of the following strategies or asset classes come to mind? (List of common alternatives provided with other “write-ins” allowed)

How would you characterize your current level of experience using “alternative investment strategies?”

- None
- Minimal
- Basic
- Moderate
- Extensive

Do you currently use “alternatives” in your clients’ portfolios?

- Yes
- No

Which “Alternative” strategies are you using most often? (List provided with other “write-ins” allowed)

Approximately what percent of your clients have “alternatives” in their portfolio?

Approximately what percent of your “typical” client’s portfolio do you allocate to “alternatives?”



Survey Questions (continued)

Which is your preferred way to access “alternative” strategies?

- Mutual fund (open- or closed-end)
- Exchange-traded fund (ETF)
- Unregistered fund (e.g. Hedge Fund, etc.)
- Direct investment (physical, etc.)
- No preference

Please briefly explain why you chose the answer you did to the previous question on accessing “alternative” strategies.

In general, within the next year, how do you anticipate changing your use of “alternatives” in your clients’ portfolios?

- Decrease use of “Alternatives”
- Increase use of “Alternatives”
- No change in use of “Alternatives”

Within the next year, how likely are you to include “alternatives” in your clients’ portfolios?

- Not at All Likely
- Not likely
- Neutral
- Likely
- Very Likely



Survey Questions (continued)

When considering “alternatives,” which of the following is their most attractive feature?

- Low correlation with traditional asset classes
- Low correlation with other types of “Alternatives”
- Hedge against inflation
- Potential for broader portfolio diversification
- Potential for higher returns
- Other
- Nothing. “Alternatives” have no attractive feature
- Don’t know

Regardless of whether you currently use “alternatives” or not, in your opinion what are the two biggest challenges associated with including “Alternatives” in clients’ portfolios?

- Lack of track record of the investment/fund
- Lack of track record of asset manager
- Your lack of experience with “Alternatives”
- Difficult for advisors to evaluate and understand
- Difficult to explain features, benefits, and risks to client
- Volatility
- Lack of liquidity
- Fees and expenses
- Other

American Century Investments

- **Performance focus for 50+ years**
- **Pure play business model**
- **Privately controlled and independent**
- **Profits with a purpose**

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