Liquid alternative strategies

Finding growth and stability in volatile markets

FOR GROWTH TOMORROW USE ALTERNATIVES TO WEATHER VOLATILITY TODAY. Traditional investment strategies that worked for investors in the past may not take them where they want to be in the future. Expectations of more muted returns from equities and the anticipation of a shifting interest rate cycle in fixed income require investors to think differently about how they invest. Many investors are seeking a balance: solutions which help diversify away from traditional market risks and provide some stability, while at the same time provide the growth that’s needed to reach longer term goals.

ALTERNATIVES CAN SERVE DIVERSE PURPOSES IN PORTFOLIOS

Liquid alternatives give investors the ability to participate in equities and fixed income while enabling Portfolio Managers to hedge unwanted exposures. Liquid alternatives pursue less constrained investment styles and are typically benchmark agnostic. The flexible nature of these strategies, combined with the skill and conviction of the managers implementing them, become the key drivers of return and risk management.

EACH STRATEGY DELIVERS A DIFFERENT TYPE OF MARKET EXPOSURE

- **Equity Alternatives**
  - NERVOUS ABOUT THE EQUITY MARKETS, BUT NEED LONG TERM GROWTH ASSETS?
  - Actively manage beta with Equity Alternatives which can help buffer against market movements in the long run.

- **Fixed Income Alternatives**
  - CONCERNED ABOUT RISING RATES?
  - Reduce interest rate risk with Fixed Income Alternatives while broadening investment options.

- **Core Diversifiers**
  - INTERESTED IN EXPANDING YOUR MIX OF INVESTMENTS?
  - Core Diversifiers increase diversification by investing in currencies, commodities, stocks and bonds.

WHY LIQUID ALTERNATIVES NOW?

- Broaden investment options
- Dampen portfolio volatility
- Hedge unwanted market exposure

WHAT ARE LIQUID ALTERNATIVES?

- Liquid alternatives provide broad access to hedge fund and other alternative strategies that were previously only accessible through unregulated vehicles
- These strategies are extensions of many fixed income and equity strategies that investors are already using in their portfolios
- Liquid alternatives can be used to help investors dial up or down market exposures
- Managers have an expanded set of investment capabilities enabling them to target their highest conviction bullish and bearish market views
- They often use cash and derivatives to reduce and hedge exposures
How to allocate to liquid alternatives

When adding liquid alternatives to a portfolio investors should consider a 3 step process:

1. **WHAT IS THE RIGHT ALLOCATION TO LIQUID ALTERNATIVES WITHIN MY PORTFOLIO?**
   - Target 10-20% allocation

2. **WHERE DO I FUND MY ALLOCATION FROM?**
   - Redistribute based on desired outcome
     - **REDUCE EQUITY BETA**
       - 75% from equities
       - 25% from fixed income
     - **INCREASE DIVERSIFICATION**
       - 50% from equities
       - 50% from fixed income
     - **REDUCE INTEREST RATE RISK**
       - 25% from equities
       - 75% from fixed income

3. **WHICH STRATEGIES SHOULD I INVEST IN?**
   - Create a mix of liquid alternatives
     - **EQUITY ALTERNATIVES**
       - Diversify long-only equity holdings by investing in equity alternative strategies
     - **CORE DIVERSIFIERS**
       - Diversify the overall portfolio by investing in diversified alternative strategies
     - **FIXED INCOME ALTERNATIVES**
       - Diversify long-only fixed income holdings by investing in fixed income alternative strategies

For illustrative purposes only. All investment decisions should be based on prevailing market conditions as well as individual investors’ facts and financial circumstances.

Investors can use different blends of liquid alternatives in their portfolios to dial exposures up or down.

**NOT ALL LIQUID ALTERNATIVES ARE THE SAME**
- Portfolio implementation will differ based on risk/return objectives
- Market beta will vary significantly for different strategies
- Each fund’s unique investment process will drive distinct investment experiences
J.P. Morgan liquid alternative capabilities

### CORE DIVERSIFIERS

**JPM Multi-Manager Alternatives Strategy**
Diversified portfolio of alternative strategies that provides access to established, high quality hedge fund managers.

**JPM Global Macro Opportunities Strategy**
Diversified portfolio of alternative and traditional strategies that seeks to deliver positive returns in different market environments.

**JPM Systematic Alpha Strategy**
Diversified portfolio of alternative strategies that offers exposure to various hedge fund styles.

### EQUITY ALTERNATIVES

**JPM US Opportunistic Long/Short Equity Strategy**
High conviction long/short US equity strategy that seeks to deliver attractive long-term returns with less risk than long-only equities by actively managing market exposure.

### FIXED INCOME ALTERNATIVES

**JPM Income Opportunity Strategy**
Unconstrained fixed income strategy that seeks to deliver positive returns with lower volatility than traditional bonds.
Choose an alternatives manager with experience and expertise

Combines the expertise of our investment professionals, experience in regulated fund management, and longstanding partnerships with clients around the world

- $127 billion in alternative assets under management
- 45 years of experience in direct alternative investment management and 35 years of multi-manager solutions
- 264 investment professionals across the globe, with 15 years average PM experience
- 50+ innovative hedge fund, private equity, private credit, real asset strategies
- $36 billion in liquid alternatives assets globally
- Close to 200 years of serving individual clients and wealth management firms in over 30 countries
- Strong focus on delivering customized solutions tailored to individual clients globally
- Dedicated structuring and product development resources ensure flexibility and innovation in fund structures

Source: J.P. Morgan Asset Management as of 3Q2015 otherwise noted.
1 First open-end real estate commingled fund in 1970; Multi-manager experience includes Private Equity Group tenure at J.P. Morgan and ATTIMCO
2 Based on categories identified by Morningstar as Alternative (ex-Currency) + Nontraditional Bond (US) and Flexible Bond (UCITS)
3 Jardine Matheson established in 1832; number of countries as of 2014
4 Robert Fleming launches the first investment trust in the US in 1873 (Scottish American Investment Trust w/ £150K)

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