



***Happy People Means  
a Happier  
Outlook for Growth***

## Executive Summary

A strong predictor of the success of a new mutual fund is a track record of investment and marketing success with launching previous funds. That information is only helpful however to a limited number of mutual fund families. We have to look elsewhere for reliable indicators of success that can be influenced in advance by leaders of asset management firms.

This report focuses on alternative mutual funds which are a new and fast – growing category. Alternative funds are at the top of the list for new product development for many firms.

Everyone knows that there are two primary drivers of success – investment results and marketing prowess. So,

1. if we had a way to predict investment alpha, it would help leaders to predict future success.
2. If we had a way to predict sales growth, it would also help leaders to predict future success.

Luckily, we do have a widely available third party source of information that is closely associated with future alpha and future marketing success.

Morningstar analyzes mutual funds and offers its perspective on investment process and people.

If Morningstar likes your investment process, there is a correlation with a strong Sharpe ratio.

If Morningstar likes your investment team, there is a correlation with a strong overall people rating from Glassdoor.com. And as I've demonstrated in previous white papers, a high rating from Glassdoor drives growth in AUM.

*Russell Campbell*



## Introduction

One of the challenges of being a leader in an asset management firm is predicting whether a mutual fund will be successful.

Having a track record of success with other mutual funds is predictive of success with a new fund. But having a track record of success with other funds is rare. Less than 10% of mutual fund families can demonstrate a track record of both investment and marketing success.

But what about the rest of the fund families? They need and deserve some guidance on how to ensure to a successful new fund launch.

But asset management firms often lack perspective. Sure, firms conduct competitive research, talk to consultants, intermediaries, current clients and prospects and try to do everything they can to capture the voice of the customer to ensure the best chances for success.

*But do firms really listen?*

A highly regarded third party that is enormously influential in directing mutual fund flows tells you that your investment process falls short and your people are not competent.

*Does that change your mind about launching or continuing a mutual fund?*

We all need a reality check sometimes. We need to regularly re-consider what we do. The purpose of this reflection is to sustain a competitive firm indefinitely by allocating a firm's resources to the best available opportunities.

The purpose of this report is to assist leaders of firms with the truth about their funds. Better information leads to better results.

## The 40 Largest Alternatives Funds

Our goal is to develop a successful alternative mutual fund. So let's start with looking at a list of those that have already been successful. Here is a list of the alternative mutual funds listed by Morningstar that have over \$1 billion in AUM.

Fund Name
1. AQR Managed Futures Strategy
2. John Hancock Global Absolute Return
3. Gateway
4. Boston Partners Long – Short
5. Diamond Hill Long – Short
6. Merger
7. PIMCO Emerging Markets Currency
8. Calamos Market Neutral Income
9. Natixis ASG Global Alternative
10. AQR Multi Strategy Alternative
11. Natixis ASG Managed Futures
12. Principal Global Multi Strategy
13. AQR Style Premia Alternative
14. Catalyst Hedged Futures
15. Neuberger Berman Long – Short
16. GMO SGM Major Markets
17. PIMCO RAE Worldwide Long – Short
18. Arbitrage
19. Mainstay Marketfield
20. PIMCO StocksPlus Short
21. Gotham Absolute Return
22. William Blair Macro Allocation
23. Blackrock Global Long – Short Equity
24. Swan Defined Risk
25. Goldman Sachs Multi Manager Alternative
26. Gabelli ABC
27. Dreyfus Dynamic Total Return
28. Putnam Absolute Return 700
29. Litman Gregory Masters Alternative Strategy
30. AB US Select Long – Short
31. LoCorr Market Trend
32. Equinox Campbell Strategy
33. Vanguard Market Neutral
34. Franklin K2 Alternative Strategy
35. Oppenheimer Fundamental Alternative
36. Putnam Absolute Return 500
37. GMO Special Opportunities
38. Neuberger Berman Absolute Return Multi Alternative
39. John Hancock Absolute Return Currency
40. Goldman Sachs Absolute Return

## **There Are 26 “High Quality” Alternatives Funds**

Size isn't everything. Quality matters too. Morningstar in recent years has introduced a systematic way of measuring quality which goes beyond their old ranking of performance and risk (stars). They now also look at people, process, performance, parent and price (medals). Here are the alternatives funds that have been awarded medals by Morningstar.

1. AQR Diversified Arbitrage
2. AQR Managed Futures Strategy
3. AQR Style Premia Alternative
4. Arbitrage
5. Blackrock Global Long/Short Equity
6. Boston Partners Long/Short Equity
7. Boston Partners Long/Short Equity Research
8. Diamond Hill Long-Short
9. Eaton Vance Diversified Currency Inc
10. Gateway
11. Gotham Absolute Return
12. John Hancock Alternative Asset Allocation
13. John Hancock Global Absolute Return Strategies
14. Litman Gregory Masters Absolute Return Strategies
15. Litman Gregory Masters Alternative Strategies
16. MFS Global Alternative Strategy
17. Merger
18. Merk Hard Currency Investment
19. Natixis ASG Global Alternatives
20. Natixis ASG Managed Futures Strategy
21. Schooner
22. Swan Defined Risk
23. TFS Market Neutral
24. Templeton Hard Currency
25. Vanguard Market Neutral
26. WCM Alternatives Event - Driven

## **The Largest and Highest Quality Alternatives Funds**

Morningstar's medals are based on people, process, performance, parent and price. But performance is an outcome which we cannot know in advance. The parent firm may change but it is difficult for leaders to influence in the short run. Price or the fees charged for the fund have an inconsistent association with AUM growth. A recent study by us for example, concluded that firms charging higher fees actually grew AUM faster than average.

Our focus for this report will be process and people because these are closely associated with fund growth - and both can be altered to ensure success.

So let's consider those funds that have been included on both the lists – biggest and best.

1. AQR Managed Futures Strategy
2. AQR Style Premia Alternatives
3. Arbitrage
4. Blackrock Global Long/Short Equity
5. Boston Partners Long/Short Research
6. Gateway
7. Gotham Absolute Return
8. John Hancock Global Absolute Return Strategies
9. Litman Gregory Masters Alternative Strategies
10. Merger
11. Natixis ASG Global Alternatives
12. Natixis ASG Managed Futures Strategy
13. Swan Defined Risk
14. Vanguard Market Neutral

## Process Ratings From Morningstar

Here is the rating of the process quality for each of the funds on our biggest and best short list. The Sharpe ratios are generally quite good.

<b>Alternatives Funds With a Morningstar Medal &amp; AUM of 1\$ Billion+ (at any time in last 10 yrs)</b>	<b>Process Rating from Morningstar</b>	<b>Sharpe Ratio (Last 3 years)</b>
1. AQR Managed Futures	Positive	.84
2. AQR Style Premia Alternatives	Positive	N/A
3. Arbitrage	Positive	.84
4. Blackrock Global Long/Short Equity	Positive	N/A
5. Boston Partners Long/Short Research	Positive	.90
6. Diamond Hill Long-Short	Positive	.72
7. Gateway	Positive	<b>.90</b>
8. Gotham Absolute Return	Positive	.73
9. John Hancock Global Absolute Return Strategies	Positive	.65
10. Litman Gregory Masters Alt Strat	Positive	.52
11. Merger	Positive	.46
12. Natixis ASG Global Alternatives	Positive	.52
13. Natixis ASG Managed Futures Strategy	Neutral	.35
14. Swan Defined Risk	Positive	.14
15. Vanguard Market Neutral	Positive	1.36

## People Ratings From Morningstar and Glassdoor

The Morningstar view of people is focused on their analysis of the characteristics of the investment team. The Glassdoor rating on the other hand, is an anonymous independent and continuous survey of each firm by current and former employees.

There is an association between the two very different perspectives of the quality of the firm.

We can speculate why this association exists. But we might want to consider these two very different sources as complementary. Morningstar believes that the quality of the investment team drives performance.

*Most importantly, based on previous research that I've done, firms that have strong people scores grow AUM faster!*

<b>Alternatives Funds With a Medal &amp; AUM of 1\$ Billion+ (at any time in last 10 yrs)</b>	<b>People Rating from Morningstar</b>	<b>People Rating from Glassdoor (scale 1 – 5)</b>
1. AQR Managed Futures	Positive	3.5
2. AQR Style Premia Alternatives	Positive	3.5
3. Arbitrage	Positive	3.5
4. Blackrock Global Long/Short Equity	Positive	3.5
5. Boston Partners Long/Short Research	Positive	3.9
6. Diamond Hill Long-Short	Positive	5.0
7. Gateway	Positive	4.0
8. Gotham Absolute Return	Positive	-
9. John Hancock Global Absolute Return Strategies	Positive	3.7
10. Litman Gregory Masters Alt Strat	Positive	3.8
11. Merger	Positive	-
12. Natixis ASG Global Alternatives	Positive	3.7
13. Natixis ASG Managed Futures Strategy	Positive	3.7
14. Swan Defined Risk	Positive	5.0
15. Vanguard Market Neutral	Positive	3.1



## Takeaways

- A strong predictor of a successful mutual fund is a prior track record of investment and marketing success with other mutual funds – useful to know if you are amongst this elite group
- Another strong predictor of mutual fund success is having a robust investment process sustained by a great investment team.
- Morningstar's process evaluation is an independent perspective of the robustness of an investment process. It's evaluation is confirmed by subsequent Sharpe ratios.
- Morningstar's people evaluation is also a useful perspective on the robustness of the people who develop and execute the investment process. Glassdoor's rating through independent employee surveys provides further confirmation that the firm is managing its human resources well enough to sustain a successful firm.
- Firms that rate well for process and people are more likely to have faster than average growth in AUM.

Russell Campbell is the CEO of Your Second Opinion, LLC, a management consulting firm focused on investment firm growth.

Russell has led 5 investment groups in his career. Prior to establishing his own firm, Russell was the CEO of The Marco Consulting Group, one of the largest institutional investment consulting firms, with a significant CIO outsourcing business. Previously, he was the EVP of AMCORE Bank, and led the Wealth Management Group which was one of the 60 largest bank wealth managers in the U.S. Earlier, Russell was the President and CEO of ABN AMRO Asset Management Holdings, Inc., which managed \$75 billion in assets, and was the U.S. investment management affiliate of ABN AMRO Bank. Russell was promoted to this position after having been the CEO of ABN AMRO Asset Management Canada, Inc. He was previously a Vice – President and Partner of Beutel Goodman, Inc., one of Canada’s largest investment counseling firms. His first leadership position was as Vice – President, Bank of Nova Scotia, where he led the investment management of the Bank’s own pension fund, and a family office portfolio.

Earlier in his career, he held positions as an institutional investment consultant, in institutional equity sales and as a precious metals portfolio manager.

Russell has an MBA in Investment Finance and Marketing from York University, and he has a BA in Industrial Relations from McGill University. He also attended the Advanced Management Program at INSEAD in France.

He has earned the Chartered Financial Analyst designation, and has attended both the Financial Analyst’s Seminar and the Investment Management Workshop. Russell has also acquired the Certified Financial Planner™ certification. He previously held Series 7 and 24.

Russell has been a director of several for-profit and not for profit boards, and he is a member of numerous non-profit, civic and industry organizations.

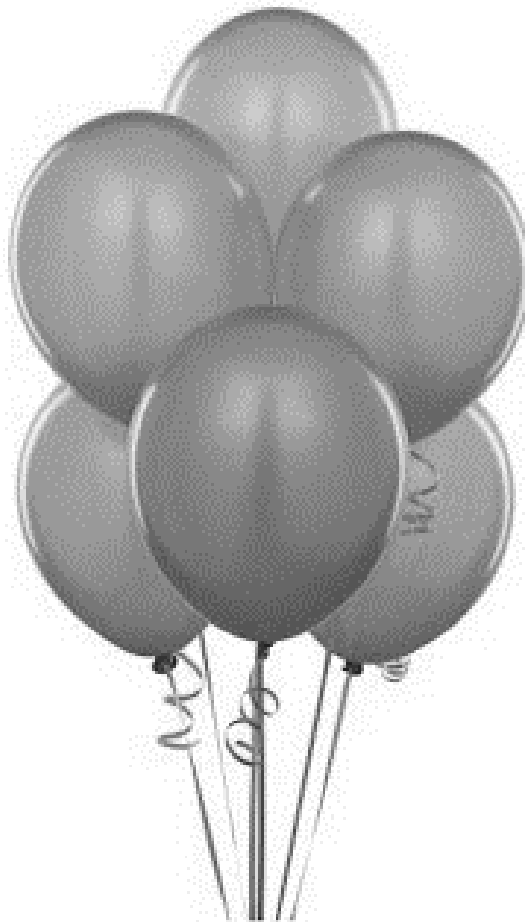
He is quoted frequently in the media, and has been a speaker at many industry conferences.



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