



NUMBER CRUNCHER

Those exotic 'alt' funds can be profitable – but caution advised

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What are we looking for?

The best performing non-traditional mutual fund investments in the past year.

The volatility of the Great Recession has receded, and some market watchers are predicting the mutual fund industry will see more alternative funds created in the coming years. Unlike other mutual fund categories, these funds may use complex trading strategies in their effort to eke out returns. Let's see how the top performers in the Alternative Strategies category have fared in the past year.

The screen

We looked at the 15 best performers for the year ended May 31. U.S. dollar and duplicate versions of funds were excluded. Many funds in this category have high entry points, but we left out those with a minimum investment above \$25,000.

What did we find?

So-called "alt" funds posted some big gains, but investors need to know what they're buying, and in some cases will need a strong stomach to ride with these investments.

The top performer in the screen is the Formula Growth Global Opportunities fund, gaining 33.1 per cent in the period. The fund uses a global equity long and short strategy to invest in small to mid-cap securities listed around the world. It has a more intent focus on the U.S. and Asia-Pacific regions.

The Venator Investment Trust-Class A ranked second, with returns of 30.2 per cent, and its rise has been more consistent over the past two years. This fund assumes long and short investment positions in equity, debt and derivative securities and aims to replicate the performance of the Venator Founders Fund, which seeks out "outlier" investments.

Funds in the Alternative Strategies category use more complicated investing methods, such as short-selling, hedging and leveraging through derivatives. A fund falls in this category if its mandate includes these tactics, if short selling exceeds 2 per cent in any security, or if short positions make up more than 10 per cent of the fund's value.

These exotic investments can be profitable, but investors need to use extra caution, according to an independent U.S. regulator.

The Financial Industry Regulatory Authority (known as FINRA) cautioned last Tuesday that investors may not be aware of the distinctive qualities and risks of these funds.

"FINRA is warning investors to carefully consider not only how an alt fund works, but how it might fit into their overall portfolio before investing," Gerri Walsh, FINRA's senior vice-president for investor education, said in a statement.

Editor's note: The original newspaper version of this article and an earlier online version incorrectly cited Horizons AlphaPro Enhanced Income Gold as gaining 40.9 per cent in one year to May 31. In fact, the return was negative 29.6 per cent. The top performing fund was Formula Growth Global Opp Cl with a 33.1 per cent return, as stated above.

Top 15 best performing funds in the Alternative Strategies group

| Fund | Assets (\$ mil.) | 1 Yr to May 31/13 |
|--|------------------|-------------------|
| Formula Growth Global Opp Cl S | 28.2 | 33.11% |
| Venator Investment Trust-Cl A | 11.7 | 30.16% |
| Venator Founders-Cl A | 53 | 30.15% |
| CC&L Market Neutral A | 101.9 | 25.61% |
| Lycos Value Class O | 1.8 | 21.79% |
| BMO Covered Call DJIA ETF | 102.6 | 21.34% |
| Venator Income-Cl A | 90.3 | 21.24% |
| Picton Mahoney L/S Emerging Mkts- A 8 | | 20.44% |
| Picton Mahoney Glo Long Short Equ-A 10 | | 18.71% |