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February 11, 2008

InvestmentNews™

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New mutual fund taps alternatives market

Objective is to develop portfolio that reduces downside risk

By Liz Skinner

A new mutual fund is purchasing alternative investments — a strategy designed to defy market volatility when stock and bond prices are plunging.

The Seattle-based mutual fund company Accessor Capital Management LP opened a fund Jan. 30 to invest in alternative investments that historically have had a low correlation to traditional offerings such as stocks and bonds. The goal is to reduce downside risk in portfolios, the firm said.

The Accessor Strategic Alternatives Fund will invest about 75% of its total assets in a basket of indexes, such as those holding various commodities, currency strategies and real estate assets, said portfolio manager Nathan Rowader.

The other quarter of the fund's assets will be invested in exchange traded funds within the alternatives universe, such as those focused on emerging-markets debt and convertibles.

The firm is including investments based on indexes and ETFs to keep expenses low for fund investors, Mr. Rowader said.

"Investors are looking for ways to move beyond traditional stocks and bonds so they can better manage risk in their portfolio," said Mr. Rowader, who also is a portfolio manager for the firm's asset allocation funds.

Accessor Capital manages $3.2 billion in 10 underlying and six allocation funds.

> "INVESTORS ARE looking for ways to move beyond traditional stocks and bonds."
>
> **Nathan Rowader**
> portfolio manager
> Accessor Capital

In addition to reaching out to markets whose performance is independent from stocks and bonds, the diversity of alternatives within the fund protects investors from the risk of an individual alternative strategy, Mr. Rowader said.

Using the Standard & Poor's Commodity Trend Indicator is one of the ways the fund gains exposure to diverse commodities, he said.

This particular strategy is intended to allow investors to profit from commodities that are moving up in price and those that are moving down.

"The strategy doesn't require managers to pick whether oil will be hot or not in a given period," Mr. Rowader said.

The minimum investment in the new fund is $50,000. Financial advisers are Accessor's preferred sales route because the product is more complex than typical stock mutual funds, Mr. Rowader said. Additionally, he said, the alternative-investment strategy that the fund pursues should be part of a broader, diversified portfolio.

Mr. Rowader recommends that about 10% to 15% of a portfolio be invested in alternatives such this fund. Of course, institutional investors like endowments, and trusts often have close to 50% of their assets in alternatives, he said.

In fact, institutions were early investors in alternatives.

"Institutions led the charge into alternative asset classes, turning to them for diversification purposes," said Sonya Morris, a fund analyst with Morningstar Inc., a Chicago-based mutual fund research company.

After onlookers were impressed by impressive performance reports from institutional investors such as New Haven, Conn.-based Yale University's endowment fund — which jumped from $10.5 billion in 2002 to

$19 billion in 2006, in great part on the strength of alternatives — products for individual investors have emerged, she said.

Until commodity and currency ETFs "began to pick up steam" around the middle of 2006, individuals didn't have an efficient way to invest in alternatives, said Ms. Morris, who is Morningstar's ETF strategist.

Now, some alternatives are paying off.

One ETF that invests in a basket of commodities is the iPath Dow Jones-AIG Commodity Index (DJP). It returned about 19% in 2007, compared to the Standard & Poor's 500 stock index's 3.7%.

Although not very many ETFs invest in multiple currencies, one that does is PowerShares DB G10 Currency Harvest (DBV), offered by PowerShares Capital Management LLC of Wheaton, Ill., Ms. Morris said. It returned about 8.4% last year.

SMALL ALLOCATION

Alternative investments should have a role in individual portfolios, said Gregory Makowski, a principal at Totowa, N.J.-based CFS Investment Advisory Services LLC, which manages about $500 million in client assets.

The firm recommends that 15% to 20% of assets be placed in alternatives, including real estate, managed futures and some mutual funds that include alternative investments, such as DWS Alternative Asset Allocation Plus Fund, which made its debut in August with several share classes.

The Chicago-based DWS Scudder fund invests in underlying DWS funds and investment strategies that incorporate commodities, inflation protection, real estate and emerging-markets assets.

"Alternative assets give us a smoother ride because they aren't linked to U.S. or international stock and bond markets," Mr. Makowski said.

But some financial professionals believe not every individual investor belongs in alternatives.

Muriel Siebert of the discount brokerage Muriel Siebert & Co. Inc. of New York, which has $10 billion in client assets, said that only sophisticated people who can afford risk should be getting involved with complex alternative investments.

"I would tell them to buy good quality stocks because a lot of major companies are getting 40% to 60% of their earnings from abroad," she said. "You're getting the equivalent of foreign stock with the convenience of an U.S. stock."

Performance discussed is past performance and no guarantee of future results. In addition, index data does not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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