

# Alternative Investments

## Frequently Asked Questions

### **If I don't meet the qualifications for these products, are there other ways I can invest in these strategies?**

Generally, yes. Although private offerings of alternative investments typically require investors to meet high thresholds including having \$1 million in net worth or more, there are certain publicly traded securities that pursue similar strategies. For example, there are several mutual funds that follow a fund of hedge funds approach, and there are certain exchange traded vehicles that may also provide exposure to "alternative" assets. Ask your Financial Advisor for more details regarding products that may be suitable for you.

### **How much of my portfolio should be in alternative investments?**

That depends on your risk tolerance, time horizon, and ability to accept a lower level of liquidity than what is offered through traditional stock, bond, and mutual fund investments. Generally, RBC recommends allocations of 10-20% in alternative investments, with varying mixes of underlying strategies based on the aforementioned factors.

### **Will I be able to see the underlying securities that I own through an alternative investment?**

No. When you invest in a private alternative investment offering, you are entering into an investment pool with other investors. You will receive information regarding your interests in the investment, but you will not receive security-level detail.

### **What type of ongoing reporting will I receive from the fund company?**

Although it varies somewhat by both product type and provider, generally the investor receives:

- Monthly or Quarterly Statement showing current value
- Monthly or Quarterly letter/commentary regarding recent performance
- Annual Audited Financial Statement
- Annual K-1 for tax purposes

### **What type of ongoing reporting will I receive from RBC on my alternative investment?**

Your investment in an alternative investment private offering will be included as a line item on your monthly RBC statement. The value on this statement will reflect the most current value available to RBC and may be an estimate. You should always use the reporting that you receive directly from the fund company for the most accurate information.

### **I want to use a taxable account to make an investment in one of these strategies. What type of tax reporting will I receive and when?**

Private alternative investment offerings typically generate K-1 reporting for tax purposes. The timing of when this tax reporting is distributed to investors varies by strategy and fund company. In general, you can expect that you will need to file at least one extension for your federal and state income taxes. Please consult your attorney or tax advisor for more information and for tax advice.



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## *Alternative Investments, continued*

### **I've read about alternative investments in the news and they sound risky. Are they?**

As with any investment, alternative investments carry the risk of total loss. Most of the articles that are written in the popular press tend to highlight negative events, including fraudulent activities and ponzi schemes. The importance of up front due diligence, research, and ongoing active monitoring cannot be overstated when it comes to alternative investments. Ask your Financial Advisor for more details regarding RBC's due diligence and monitoring of alternative investments.

### **I've heard that fees on alternative investments are very high, is that true?**

Generally, yes, alternative investments are more "expensive" than traditional stock, bond, or mutual fund investments. Although the fund structures for alternative investments are more complex than we can address in this FAQ, it is important to understand that the majority of fees associated with alternative investments are related to investment management services provided by the fund's investment advisor. In addition, the investment advisor may earn a performance fee that is only assessed if the fund earns a profit for investors. Please see each fund's private placement offering memorandum for specific details regarding fees.

### **If I make an investment and later decide it wasn't for me, am I able to redeem?**

That depends on the product you are invested in. In most cases, you should consider an alternative investment to be a long-term, illiquid investment. Generally, hedge funds and managed futures funds allow for quarterly redemptions with a notice period of anywhere from 10-90 days. In some cases, redemptions may only be allowed on an annual basis, and there can be penalties associated with redeeming at any time. Once you have committed to a private equity fund, you are required to meet any capital calls that are issued and have no option for early exit. Private equity funds are typically 10 – 12 year investments and failure to meet a capital call can have severe penalties, including total loss of investment. Please see each fund's private placement offering memorandum for specific details regarding redemptions.

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