

# Liquid Alternatives

# 101

The demand for liquid alternatives in Canada is estimated to exceed \$100 billion by 2023<sup>1</sup>.

## Defining Liquid Alternatives

Recently introduced to the Canadian market in January 2019 under the 81-102 Mutual Fund Prospectus rules, liquid alternative investments, often referred to as “liquid alts”, are mutual funds or exchange-traded funds (ETFs) that aim to provide investors with diversification and downside protection through exposure to alternative investment strategies. Liquid alternatives fall into the category of Alternative Mutual Funds, bridging the gap between traditional mutual funds and hedge funds, bringing together the best of both.

### Terminology

#### Liquid

Defining characteristic of mutual funds and exchange-traded funds (ETFs), which offer daily pricing and shares that can be purchased or redeemed at any time. Mutual funds offer other investor-friendly features, too, including lower minimum investments.

#### Alternative

Investments that employ a strategy other than traditional stock and bond investments. Investors have long used alternatives to hedge against market volatility, find new sources of growth and income, and help protect assets against inflation.

## Comparing Fund Structures

	Mutual Funds	Liquid Alternatives	Hedge Funds
Offering Document	Prospectus 81-102	Prospectus 81-102	Offering Memorandum
Minimum Investment	Low	Low	High
Liquidity	Daily	Daily	Redemption periods vary but are typically offered weekly/ monthly
Typical Leverage	None	Up to 200% (300% including derivatives)	Flexible to be >200%
Short Selling	Up to 20%	Up to 50%	Varies by strategy



## Benefits of Liquid Alternatives

- One of the main benefits is that they are ‘liquid’, meaning that they can be purchased and redeemed daily, unlike traditional alternatives which offer weekly, monthly or quarterly liquidity.
- Liquid alts also fall under the 81-102 Prospectus Mutual Fund rules which means dealers may assign the same risk rating noted in the prospectus to the liquid alt under certain circumstances.
- Liquid alts have a lower minimum investment than the typical OM fund which allows more investors to access these products.
- Liquid alts can help diversify a portfolio and reduce risk through low correlation to traditional stock and bond investments.

<sup>1</sup>Source: CIBC

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