

## Investing in non-traditional funds

Non-traditional funds are mutual funds or ETFs that pursue alternative investment strategies. While traditional funds generally focus their investment strategies on long-term buy-and-hold stock and bond investing, non-traditional funds generally employ more complex trading strategies, such as selling securities short in anticipation of a drop in their price, using leverage, and purchasing options and futures. Some non-traditional funds also focus their investment strategies on investing in gold, commodities (such as copper and oil) or real assets such as real estate. These strategies have generally been associated with alternative investment products such as hedge funds.

### Comparing non-traditional with traditional funds

Non-traditional funds' investment strategies are generally designed to offer investors the potential for returns that are less correlated with the overall market's performance. The funds are structured much like a typical mutual fund or ETF, offering liquidity (the ability to redeem or sell) to investors at least daily, and are subject to the same tax reporting. Like traditional funds, non-traditional funds are subject to the same regulatory requirements of the Investment Company Act of 1940 (the "40 Act"). However, non-traditional funds differ from traditional funds in that their investment strategies can be more dynamic and flexible. For example, some non-traditional funds actively and primarily engage in short selling securities, trading derivatives and/or using moderate leverage as principal investment strategies. The portfolio holdings of non-traditional funds are typically not limited to stocks and bonds, but can include concentrated positions in derivatives such as futures, swaps or forwards, depending on their investment objectives and principal investment strategies

### Exchange-traded notes

Like ETFs, exchange-traded notes (ETNs) are listed on an exchange and can be bought and sold at market price. However, rather than "funds," ETNs are a type of debt security that promises a return linked to a market index or other benchmark. ETNs can offer investors convenient and cost-effective exposure to everything from commodities to emerging markets, but they can also be complex and carry numerous risks—including the risk that the issuer will default on the note or take other actions that may impact the price of the ETN. Many of the considerations outlined below relating to non-traditional funds also apply to ETNs. Before investing in ETNs, be sure to research the issuer's credit rating and financial situation, and make sure you understand the risks involved in the applicable market index or benchmark, whether

the ETN offers leveraged or inverse exposure to the index or benchmark, whether the ETN is callable, and the fees, costs and tax treatment associated with the ETN.

### Using non-traditional funds in your portfolio

Non-traditional funds are designed to produce investment results that differ from those of the stock or bond funds focused on traditional investment strategies. This difference provides the potential for additional portfolio diversification and returns that are less correlated to the overall market performance or the performance of traditional investment strategies. Investment strategies that have shown positive, risk-adjusted returns independent of overall market performance may add value to an investment portfolio focused primarily on traditional investment strategies. These attributes are some of the reasons why non-traditional funds are used to complement investment portfolios dominated by traditional investment strategies.

### Key differences between non-traditional funds and alternative investments

Alternative investments, such as hedge funds or private equity funds, may have drawbacks for some investors. Hedge funds and private equity funds are available only to investors who meet specific requirements regarding their total wealth. Investors in these products also typically have relatively high initial minimum investment amounts, and the products can sometimes be hard to sell quickly. In addition, the fees payable to the investment manager or sponsor of alternative investments often include a performance fee in addition to an investment management fee. Also, tax reporting for alternative investments is typically provided on IRS Form Schedule K-1 instead of the more common IRS Form 1099. Finally, many alternative investments are not registered under the '40 Act, and thus are not subject to the '40 Act regulatory structure.

Non-traditional funds are intended to offer investors exposure to investment strategies that are similar to those employed by alternative investment products, but in a '40 Act registered and regulated investment vehicle, such as a mutual fund or ETF. As '40 Act registered and regulated vehicles, non-traditional funds are generally available for sale to retail investors, have lower initial minimum investment requirements, and offer liquidity at least daily. Investors who do not meet the total wealth requirements of an alternative investment product, those who want to be able to redeem or sell their investments quickly, or those who prefer IRS Form 1099 tax reporting consider non-traditional funds as a way to enhance the diversification of their traditional investment strategy portfolios.

While non-traditional funds can offer diversification within a '40 Act registered and regulated structure, it is essential to understand that because they are not structured in exactly the same way, they may not have the same returns as alternative investment products, and may not be a perfect substitute for alternative investment products. Requirements under the '40 Act applicable to mutual funds and ETFs (such as liquidity requirements, limitations on the use of borrowing to increase fund returns, and legal and portfolio diversification requirements) create restrictions and limitations applicable to the principal investment strategies, which generally do not apply to alternative investment products.

The regulatory structure imposed under the '40 Act may affect non-traditional funds' return potential, particularly because these regulations restrict the use of leverage and investment in hard-to-sell assets, and do not allow concentration of investments in one or a small number of firms, which are significant sources of potential alternative investment product outperformance.

### **Risks of non-traditional funds**

Investing in non-traditional funds is subject to varying degrees of risk. Some of the risks are similar to the risks associated with investing in mutual funds or ETFs with traditional investment strategies. For example, risks of investing in an equity fund include the possibility that the value of the stocks the fund owns may fluctuate in response to events specific to the relevant companies or markets, as well as economic, political or social events in the United States or abroad. Investing in a bond fund is subject to risks from interest rate changes, inflation, and default or bankruptcy of bond issuers. Investment in funds that hold foreign stocks and bonds involve additional risks, including risks from exchange-rate fluctuations between foreign currencies and the U.S. dollar, and the possibility of substantial price changes caused by adverse international political, economic or other developments.

Non-traditional funds are also subject to certain risks that are similar to those of alternative investment products. To the extent a non-traditional fund exercises its investment strategies on a leveraged basis—using debt to enhance returns—the risk of loss is increased and can create large changes in performance results. As in the case with any investment, an investor in non-traditional funds can lose all or a substantial amount of his or her investment.

In addition, non-traditional funds are subject to unique strategy-specific risks. You should carefully consider a fund's investment objectives, risks, charges and expenses before investing. This and other important information is included in the fund's prospectus and/or, if available, summary prospectus, which you should read carefully before investing.

### **Non-traditional funds and your account statement**

Non-traditional funds are identified as mutual fund or ETFs in the holdings section of your statement.

**For more information about investing in mutual funds, including fees and expenses, refer to our *Guide to mutual fund investing*, located at [jpmorgansecurities.com/MFGuide](http://jpmorgansecurities.com/MFGuide).**

Mutual funds and ETFs are subject to market conditions and other risks. There is no guarantee that any specific fund or investment strategy will meet its investment objectives. For more complete information on any mutual fund or ETF, please request a prospectus and/or, if available, a summary prospectus from your J.P. Morgan Securities Financial Advisor and read them carefully. Before investing, carefully consider the investment objectives, risks, and charges and expense of the fund. This and other information may be found in the fund's prospectus and/or summary prospectus. Read the prospectus and/or summary prospectus carefully before you invest.