

ASSET STRATEGY

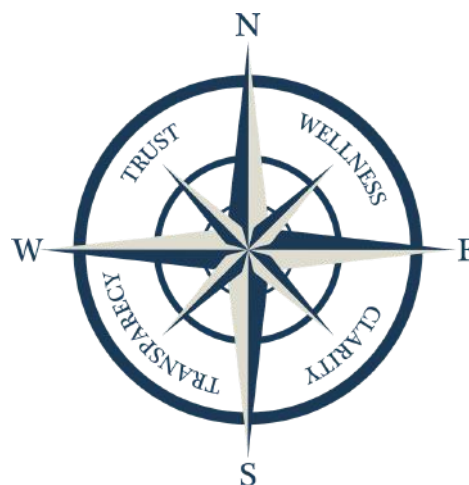
Helping You Create, Manage, Protect, & Distribute Wealth®

2026

THE BOOK OF ALTERNATIVE INVESTMENTS

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Introduction

At Asset Strategy, we talk a lot about alternative investments, but not many people really know what they are...

So, in this guide, we want to educate you about the various types and how they may make a great portfolio enhancer!

What are Alternative Investments?

Alternative investments are assets that fall outside traditional publicly traded stocks, bonds, and cash equivalents.

These investments may include:

- **Real estate**
- **Private equity**
- **Private credit**
- **Hedge fund strategies**
- **Venture capital**
- **Commodities**
- **Infrastructure**
- **Collectibles**





Alternative investments often involve limited liquidity, meaning they may not be easily sold or converted to cash. Many are offered through private placements and may be available only to accredited investors.

Unlike publicly traded securities, many alternative investments are subject to lighter regulatory reporting requirements. Investors should understand the risks, fees, valuation methods, and holding periods before investing.

Public vs. Private

Alternatives can be offered publicly or privately. What's the difference?

Public	Private
 <p>Public offers must be registered with applicable regulatory bodies, including the SEC, Commodity Futures Trading Commission (CFTC), and, in certain situations, the state where they are sold.</p> <p>Sponsors must present a prospectus or offering circular to prospective investors and provide regular financial reports, such as an annual audited Form 10-K to the SEC.</p>	 <p>Private investments are not required to register with a federal regulator, but their advisors and managers may be subject to regulation.</p> <p>Financial reporting requirements vary.</p>

Minimum Investments



Alternative investments often require a minimum amount of capital to get started, which can range from **\$2,000** to over **\$2 million**.

Sometimes, investors can use the earnings they receive to buy more shares, and occasionally, they can do this at a lower price.

Some of these investments may increase in value after a set period, usually between seven to ten years, but it could be longer.

Others provide returns through cash payments during the investment period.

What is a Traded vs. Non-Traded Investment?

Traded	Non-Traded
 <p>Assets bought and sold on public exchanges, such as the New York Stock Exchange (NYSE) or NASDAQ.</p> <ul style="list-style-type: none"> • Liquidity: High; investors can quickly buy or sell these assets during market hours. • Pricing: Determined by market supply and demand, leading to real-time price fluctuations. • Transparency: Subject to regulatory oversight, requiring regular disclosures and financial reporting. <p><u>Examples:</u> Publicly traded stocks, bonds, and exchange-traded funds (ETFs).</p>	 <p>Assets not listed on public exchanges; transactions occur privately or through specific channels.</p> <ul style="list-style-type: none"> • Liquidity: Low; selling these assets can be challenging and may involve long holding periods. • Pricing: Valued through periodic appraisals or internal assessments, not influenced by daily market movements. • Transparency: Less stringent regulatory requirements, often resulting in limited public information. <p><u>Examples:</u> Private equity, hedge funds, non-traded real estate investment trusts (REITs), and certain collectibles.</p>

Key Differences

Accessibility: Traded investments are available to the general public, while non-traded investments may be limited to accredited investors with higher minimum investments.

Volatility: Traded investments are subject to market volatility, whereas non-traded investments may offer more stable valuations due to infrequent pricing.

Regulation: Traded investments are heavily regulated, ensuring investor protection, while non-traded investments have fewer regulatory constraints.

Alternative Investments & Illiquidity

One of the main risks with alternative investments is illiquidity.

il·liq·uid
 /,i(l)ɪkwəd/
adjective
 (of assets) not easily converted into cash.

This means you can't easily sell what you've bought because there isn't a large marketplace (like the stock market) for these investments.

Some companies that offer these investments might let you sell your shares back to them through special programs called redemption programs. But these programs aren't guaranteed.

However, there is also an awesome benefit to illiquid investments:

They often offer something called an **illiquidity premium**. An illiquidity premium is a compensation that investors receive for tying up their capital for a long period of time or for not being able to access their capital at all.

Plus, the value of alternative investments doesn't always follow the same ups and downs as traditional investments (like stocks in the S&P 500). This is because different things affect their performance. Non-traded investments don't have that daily price fluctuation since they're not being bought and sold on a secondary market.

This can also be beneficial for the sponsors offering these types of investments.

1. Sponsors have more time to work on making a profit for their investors and...
2. Sponsors don't have to deal with the quick price changes that often happen in traditional markets.
 - This gives sponsors a better chance to focus on long-term success.



Liquid Alts vs. Interval Funds

Liquid Alts:

Liquid alternatives and interval funds are making alternative investments more accessible.

Alternative mutual funds, or more commonly referred to as "liquid alternatives" or "liquid alts," are mutual funds or exchange-traded funds (ETFs) that employ investment strategies traditionally associated with hedge funds.

These strategies can include short-selling, leveraging, and the use of derivatives, aiming to provide diversification and potential returns that are less correlated with standard stock and bond markets.

But unlike traditional hedge funds, liquid alts offer daily liquidity, allowing investors to buy and redeem shares on any business day, thereby providing greater flexibility and accessibility.

Interval Funds:

Interval funds are another category of alternative mutual funds, are legally classified as 'closed-end funds,' and do not offer daily liquidity.

Instead, interval funds can provide periodic opportunities—typically quarterly—for investors to redeem a portion of their shares at the fund's net asset value (NAV).

The structure of an interval fund allows it to invest in less liquid assets, like private equity, real estate, or other alternative investments, which may offer higher return potential but are not suitable for daily trading!



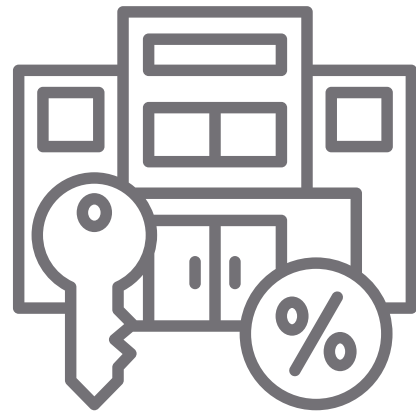
What's an REIT?

A Real Estate Investment Trust (REIT) is a company that owns, operates, or finances income-producing real estate across various sectors, including residential, commercial, and industrial properties.

REITs provide individual investors with the opportunity to invest in large-scale, diversified real estate portfolios without the need to directly purchase or manage properties! A REIT can be a good investment option for people who want to get into real estate without the hands-on work of being a landlord. They can be either publicly traded or not publicly traded.

Publicly Traded REITs:

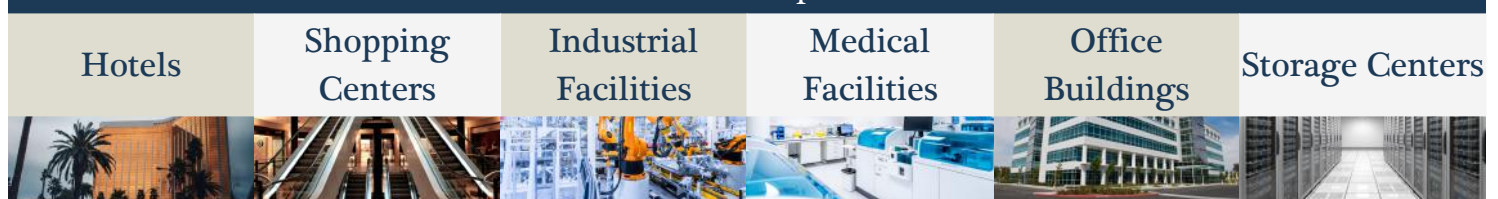
- Listed on major stock exchanges like the NYSE or NASDAQ, these REITs offer **high liquidity**.
- **Market value is readily available**, as share prices fluctuate with market conditions.
- **Available to all investors** without significant capital requirements.
- **Subject to strict regulatory oversight** by the SEC, ensuring regular financial disclosures.



Non-Traded REITs:

- Not listed on public exchanges, making them **illiquid**.
- **Less transparent**, as valuations are based on periodic appraisals rather than daily market prices.
- Often sold through broker-dealers with **higher minimum investment requirements** + upfront fees.
- While registered with the SEC and required to file regular reports, **they are not subject** to the same market scrutiny as publicly traded REITs.

REIT Examples:



REIT Risks and Returns:

REITs must distribute at least 90% of their taxable income to shareholders annually, either monthly or quarterly. As a result, investment income from a REIT may exceed that of most other corporations. With this being said, this revenue generated is not guaranteed.

Equity REIT distributions are contingent on maintaining a tight operation of paying tenants and operating efficiently.

Risks such as market downturns, vacant rentals, or things of similar nature may affect rents and also the payouts being received.

Distributions could also be disappointing for investors if the REIT's aren't interesting for people looking to rent or if there's just too much of that kind of property out there.

REIT Tax Info:

REIT distributions are generally taxed as ordinary income to the extent they are derived from rental income and interest. A portion of distributions may qualify for the Section 199A Qualified Business Income deduction, subject to investor eligibility and current tax law.

Some distributions may be classified as return of capital, which reduces the investor's cost basis. Holding REITs in tax deferred accounts may defer current taxation until withdrawal. Investors should consult a qualified tax professional regarding their specific situation.



What are Business Development Companies?

Business Development Companies (BDCs) are specialized investment vehicles that **provide capital to small and mid-sized enterprises (SMEs)**, particularly those that may not have access to traditional financing sources. Established by Congress in 1980 under the Investment Company Act of 1940, BDCs aim to stimulate economic growth by supporting emerging or distressed companies.

BDCs are required to invest at least 70% of their assets in eligible portfolio companies, generally U.S. private companies or thinly traded public companies with limited market capitalization. They offer funding through various financial instruments, including senior secured loans, unsecured subordinated debt, and equity investments such as common or preferred stock.



This approach provides SMEs with the necessary capital for expansion, acquisitions, or restructuring, while offering investors the potential for high yields and capital appreciation. Unlike private equity firms, BDCs are accessible to retail investors, as many are publicly traded on major stock exchanges. This structure allows individual investors to participate in private equity-like investments without the high minimums and illiquidity typically associated with private equity funds.

Additionally, BDCs are required to distribute at least 90% of their taxable income to shareholders, resulting in attractive dividend yields.

Non-traded BDCs may include upfront commissions, dealer manager fees, and offering expenses. Total upfront costs vary by offering and should be reviewed carefully in the prospectus. They cover commissions, management fees, and offering expenses. In addition, yearly asset-based management fees may be imposed during the BDC's duration.

Regulation A

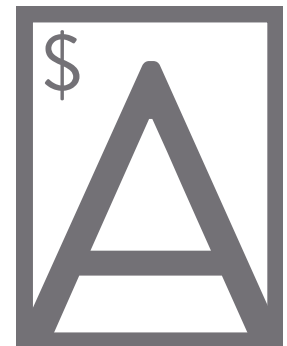
Regulation A, often referred to as "Reg A," is an exemption from the standard registration requirements mandated by the Securities Act of 1933. This provision allows companies to offer and sell securities to the public with more streamlined disclosure obligations compared to traditional public offerings, thereby **facilitating capital raising for smaller enterprises**.

Under Regulation A, there are two distinct tiers for offerings:

Tier 1	Tier 2
Permits offerings of up to \$20 million within a 12-month period. Companies utilizing this tier must have their offering statements qualified by both the SEC and the securities regulators in each state where the securities are sold. Notably, Tier 1 does not impose ongoing reporting requirements after the offering concludes, except for a final report on the status of the offering.	Allows offerings of up to \$75 million in the same timeframe. While SEC qualification is required, Tier 2 offerings are exempt from state securities registration, though issuers must comply with certain state filing fees and notice requirements. Additionally, Tier 2 mandates ongoing reporting, including annual, semiannual, and current event reports. There are also investment limitations for non-accredited investors under this tier, capping investments at no more than 10% of the greater of the investor's annual income or net worth.

A significant advantage of Regulation A is the ability for companies to "test the waters" by soliciting interest from potential investors before formally filing offering materials. This provision enables issuers to gauge market interest and adjust their offerings accordingly, enhancing the efficiency of the capital-raising process.

There are risks because companies utilizing this exemption are often in early development stages, and their securities may lack liquidity, making it challenging for investors to sell their holdings promptly.



Regulation D

Regulation D under the Securities Act of 1933 provides exemptions that allow companies to **raise capital without registering their securities offerings with the Securities and Exchange Commission (SEC)**. Within this regulation, Rules 506(b) and 506(c) outline specific provisions for private placements, each with distinct requirements and flexibilities.

506b:

Rule 506(b) permits issuers to raise an unlimited amount of capital from an unlimited number of accredited investors and up to 35 non-accredited but sophisticated investors. A key restriction under this rule is the prohibition of general solicitation and advertising; issuers must have a pre-existing substantive relationship with potential investors. Additionally, while accredited investors may self-certify their status, non-accredited investors must receive detailed disclosure documents akin to those in registered offerings, ensuring they are adequately informed about the investment.

506c:

In contrast, Rule 506(c) allows issuers to engage in general solicitation and advertising to reach a broader audience. However, all purchasers in a 506(c) offering must be accredited investors, and issuers are required to take "reasonable steps" to verify each investor's accredited status. This verification process often involves reviewing documentation such as tax returns, W-2s, bank statements, or obtaining written confirmations from licensed professionals like certified public accountants or attorneys. While this approach expands the potential investor pool through public marketing, it imposes stricter verification obligations on the issuer.



1031 Exchanges

For investors, a 1031 Exchange may provide an effective tax strategy for tax deferral as part of succession and estate planning. Internal Revenue Code Section 1031 provides that “No gain or loss shall be recognized on the exchange of real property held for productive use in a trade or business or for investment if such real property is **exchanged solely for real property of like kind** which is to be held either for productive use in a trade or business or for investment.”

Defer Capital Gains

- Section 1031 of the Internal Revenue Code provides an effective strategy for deferring the capital gains tax that may arise from the sale of your business or investment property.
- By exchanging the property for like-kind real estate, property owners may defer their tax and use all of the sale proceeds for the purchase of replacement property.
- **Like-kind** real estate includes business and investment property but excludes personal use property.
- **Did You Know?** A 1031 Exchange may afford you the opportunity to defer capital gains taxes and build wealth.

Examples Include:

- Office Buildings
- Retail Centers
- Warehouses
- Vacant Land
- Duplexes And Triplexes
- Single-Family Rentals
- Apartment Buildings
- Condominiums
- Industrial Property
- Rental Resort Property
- Hotels and Motels
- Mineral Rights
- Water Rights
- Air Rights
- Development Rights
- Easements
- Tenancy-In-Common (TIC) Interests
- Delaware Statutory Trust (DST) Interests
- Leasehold Interests (30 Years Remaining On Lease)
- New York Cooperatives



Potential Benefits of a 1031 Exchange:

Tax Deferral	Diversification
Ongoing Tax Benefits	Passive Investment
Increased Cash Flow	Institutional Quality
Capital Appreciation	Pre-Arranged Financing

Basic Requirements:

For complete tax deferral, investors must:

- Reinvest 100% of net sales proceeds into the replacement property.
- Acquire an equal or greater amount of debt on the replacement property.
- Identify potential replacement property within 45 days from the date of sale.
- Close on the replacement property within 180 days from the date of sale.
- Use a Qualified Intermediary (QI).



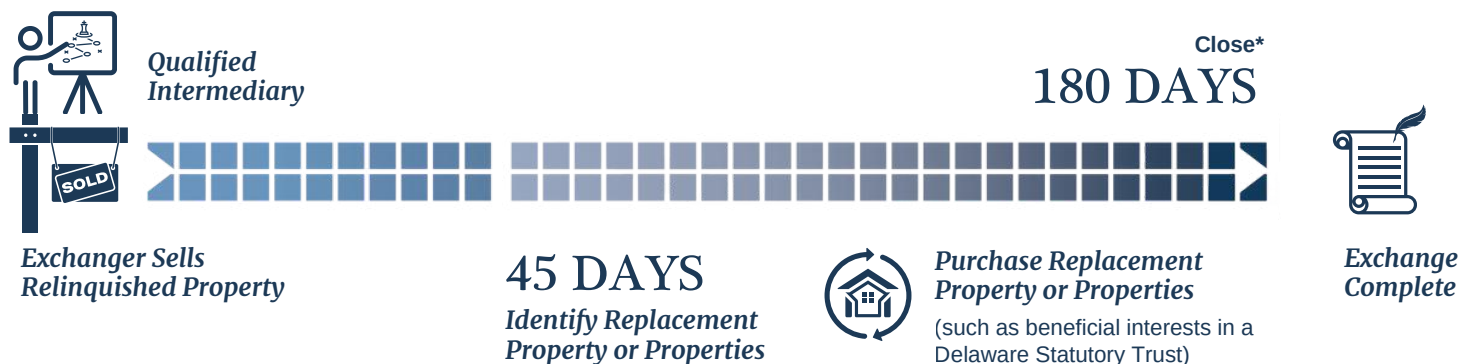
Identification Rules:

- **Three Property Rule:** The taxpayer may identify up to three properties of any fair market value and purchase any (or all) of them, regardless of their total value. This is the most commonly used identification rule.
- **200% Rule:** The taxpayer may identify an unlimited number of properties, provided the total fair market value of all properties identified does not exceed 200% of the fair market value of the relinquished property, and may purchase any (or all) of the identified properties.
- **95% Rule:** If the taxpayer identifies properties in excess of both of the above rules, then the taxpayer must acquire 95% of the value of all properties identified.

Process of a Typical 1031 Exchange:

There are three basic steps in a Typical 1031 Exchange, investors must:

1. Exchanger sells property and proceeds are escrowed with a QI.
2. Qualified Intermediary transfers funds for purchase of replacement property.
3. Intermediary completes exchange by acquiring replacement property or properties.



- **45 Day Identification Period:** Taxpayer must identify potential replacement property or properties within 45 days from the date of sale.
- **180 Day Exchange Period:** Taxpayer must acquire the replacement property or properties within 180 days from the date of sale.

1033 Exchanges

Internal Revenue Code Section 1033 governs the tax consequences when a property is compulsorily or involuntarily **converted in whole or in part into cash or other property**. This is commonly referred to as an "involuntary conversion" since the loss of property is beyond the control of the taxpayer and the taxpayer realizes a gain because the insurance or condemnation proceeds exceed the owner's tax basis in the property. Section 1033 does not require a QI.

Examples Include:

- *Casualty*
- *Condemnation*
- *Destruction*
- *Earthquake*
- *Eminent Domain*
- *Fire*
- *Hurricane*
- *Seizure*
- *Theft*

Key Comparisons of 1033 vs. 1031 Exchange

1033 Exchange	1031 Exchange
Involuntary sale	Voluntary sale
No requirement for Accommodator / Qualified Intermediary	Requires Accommodator / Qualified Intermediary
2 to 4 year replacement period	45-day identification and 180-day completion replacement period
Additional debt can offset equity	Additional debt cannot offset equity

In a Section 1033 Exchange, the taxpayer can receive the sales proceeds and hold them until the replacement property is purchased. If not all the proceeds are used towards acquiring the replacement property, the taxpayer is taxed on the difference. In addition, replacement property cannot be acquired from a related party.



IRC Section 1031 and IRC Section 1033 are complex tax concepts.

Equipment Leasing

Equipment leasing programs provide businesses with an option to acquire physical assets, which can be exceedingly expensive or will soon become obsolete. The programs **generate capital from investors who anticipate earning a consistent stream of revenue as a result of the payments made by lessees or equipment users**. Engaging in leasing programs may be appealing due to possible tax benefits and as a hedge against inflation and recession. There are, nevertheless, risks that might diminish cash flow or jeopardize capital. Furthermore, in the absence of a secondary market, an investment in a leasing program is often illiquid.



Energy Investments (Oil & Gas)

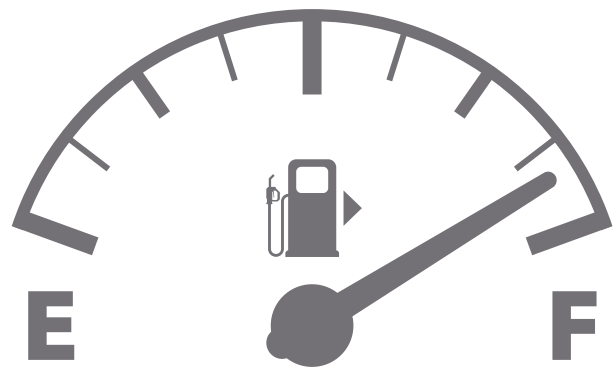
Oil & Gas:

Alternative energy programs collect capital to invest directly in the exploration and drilling of oil and gas.

The energy program buys or leases land where it believes hydrocarbons may be produced commercially. It obtains permits and installs the equipment. This equipment is needed for digging, pumping, and transporting. Successful energy programs will provide income throughout the timeline.

These programs are often organized into limited partnerships, with one or more general partners and a number of limited partners. The general partner is in charge of overseeing the project and is liable for any losses that may occur. The limited partners supply the investment funds and have no influence over the partnership's choices and are not liable for any debts it may acquire.

The partners in energy programs may receive a **variety of tax benefits**, including deductions for Intangible Drilling Costs (or IDCs), a depreciation allowance for tangible drilling expenses, and a depletion allowance. All of these may lower taxable investment income. Limited partners, on the other hand, can only claim these deductions and allowances against passive income.



Successful energy programs may generate profits, but keep in mind that they also carry significant risks. Among these may include production risks, operating expenses, market price volatility, and the repercussions of possible spills or other negative environmental effects.

Potential Tax Benefits of Oil & Gas:

- **Intangible Drilling Costs:** Up to 100% tax deductible.
- **Tangible Drilling Costs:** Up to 100% tax deductible (5-7 years).
- **Depletion Allowance:** 15% of production revenue is tax-free.
- **Active Income Deductions:** Can be deducted against business income, salaries, capital gross, interest income, etc.

Hypothetical Example:

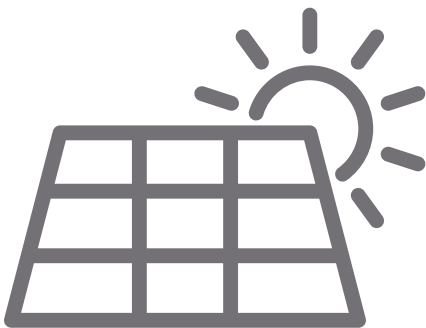
Initial Investment - Drill & Test	\$100,000
Intangible Drilling Costs	x 90%
Tax Bracket	x 37%
33% Real Dollar Savings from the Tax Benefit Alone	\$33,300

Intangible Drilling Costs:	Tangible Drilling Costs:	Depletion Allowance:	Active Income Deductions:
Up to 100% tax deductible during the first year.	Up to 100% tax deductible.	15% of gross production revenue is tax-free.	Can be deducted against business income, salaries, capital gross, interest income, etc.

Energy Investments (Solar)

Investment in renewable energy has grown significantly over the past decade, supported by technological advancements, declining production costs, and federal incentives such as the Investment Tax Credit and Inflation Reduction Act provisions. Policy support and corporate sustainability initiatives continue to drive capital toward utility scale and distributed solar projects.

Source: <https://www.climatecentral.org/climate-matters/clean-energy-investment-in-every-state>



Investors can engage in the solar sector through various avenues. Direct investments in solar farms or community solar projects allow stakeholders to benefit from steady income streams generated by selling electricity back to the grid. Community solar initiatives, in particular, have gained traction by enabling individuals and businesses to participate in solar energy production without installing panels on their properties. These projects not only provide financial returns but also promote local job creation and community development. Additionally, financial instruments such as green bonds and renewable energy funds offer exposure to the solar industry, **catering to investors seeking diversified portfolios.**

As the global demand for clean energy continues to rise, solar energy investments present a compelling opportunity for those looking to align financial objectives with environmental sustainability.

Life Settlements

Selling your existing life insurance policy to a life settlement provider in exchange for a lump sum of cash is known as a life settlement. This amount is typically more than the policy's cash surrender value but less than the full death benefit.



The life settlement provider would then take over premium payments and receive the full death benefit upon the insured person's passing.

An investor would make a cash payment in addition to paying their portion of the continuous premiums that maintain the underlying policies in effect. The investor would also make a cash payment for the administrative costs of monitoring the covered person's health, acquiring death certificates, and valuing the policies.

Why Sell My Life Insurance Policy?	How Can I Use the Proceeds?
<p>There are many reasons policy owners pursue life settlements. Here are some of the more common reasons include:</p> <ul style="list-style-type: none"> • The original purpose for the policy no longer exists. • Estate, business, or financial needs have changed. • Liquidity is needed. 	<p>There are no limits on how life settlement payments can be used. Some common applications are:</p> <ul style="list-style-type: none"> • Provide immediate financial support for their family. • Investments and financial planning. • Fund a better retirement. • Generate liquidity for large purchases or travel. • Cover medical or long-term care costs.

Opportunity Zones

What is the Qualified Opportunity Zone Program?

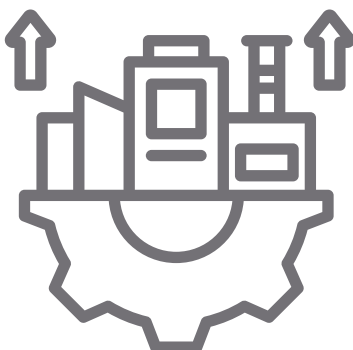
The Qualified Opportunity Zone Program (“QOZ Program”), which established Qualified Opportunity Zones (“QOZs”), was created in 2017 as part of the Tax Cuts and Jobs Act. This program is intended to encourage investment in lower-income communities across the U.S., principally by providing certain tax incentives in return for committing long-term capital to these communities through investment vehicles called Qualified Opportunity Funds (“QOFs”).

What are Qualified Opportunity Zones (QOZs)?

A QOZ is a designated census tract in the United States that has been selected by a state governor and certified by the U.S. Department of Treasury for inclusion in the QOZ Program. Each state governor was allowed to nominate up to 25 percent of the state’s qualifying census tracts for inclusion in the QOZ Program.

Potential Tax Benefits of Qualified Opportunity Zones (QOZ):

Deferral	Elimination
<p>If a taxpayer invests the capital gain from the sale of any property into a QOF within 180 days of recognizing the gain, Capital gains invested in a Qualified Opportunity Fund may be deferred until the earlier of the date the investment is sold or December 31, 2026, under current federal law., or the disposition of the QOF interest.</p>	<p>Investors who hold their investment for at least ten years receive a step-up in basis, which means they pay no tax on the appreciation of their QOF Investment upon disposition of such QOF Investment, regardless of the size of the potential profit. In addition, the step-up in basis eliminates any depreciation recapture tax that would otherwise be owed upon sale.</p>



A 10% step-up in basis was available for investments made prior to December 31, 2021 and an additional 5% step-up in basis was available for investments made prior to December 31, 2019.

Assumes that the investor is a resident of a state that conforms with the federal Opportunity Zone provisions.

Important Deadlines:

Generally, to receive the QOF Program tax benefits, eligible capital gains must be reinvested in a QOF within 180 days from the sale of an asset.

However, the QOZ Program final regulations provide additional flexibility for K-1 partnership gains, resulting in additional planning options for financial advisors.

For example, assuming a calendar-year partnership, K-1 partnership gains realized on or after January 1, 2023, have until September 11, 2024, to complete an investment in a QOF that is eligible for QOZ Program tax benefits due to the three options allowed for calculating their 180-day window:

- **180 days, starting with the date the asset is sold by the partnership.**
- **180 days beginning on the last day of the partnership's taxable year (December 31st for a calendar-year partnership).**
- **180 days starting on the date the partnership's tax return is due, without any extension (March 15th for a calendar-year partnership).**



What is an 'Eligible' Gain?

A capital gain is eligible for deferral if it is from the sale or exchange of property with an unrelated party (not more than 20 percent common ownership), and the gain is treated as a capital gain (short-term or long-term) for federal income tax purposes, including gains from:

- **Stocks, bonds, options, and hedge funds.**
- **Primary and secondary residences.**
- **Businesses, machinery, and commercial buildings.**
- **Land, livestock, art, wine, automobiles.**

Art

Investing in art has gained traction as an alternative asset class, appealing to those seeking portfolio diversification beyond traditional stocks and bonds.

Unlike equities, which are subject to market volatility, fine art has historically demonstrated resilience, often appreciating in value over time. Blue-chip artworks—pieces by established artists like Picasso, Warhol, or Basquiat—tend to hold their value, while emerging artists offer opportunities for high returns.

Additionally, art is a tangible asset that can provide aesthetic and cultural benefits alongside financial gain. With the rise of fractional ownership platforms and art investment funds, access to the market has broadened, making it easier for investors to participate without needing to purchase entire pieces outright.

The Challenges:

However, art investing comes with unique challenges. Unlike stocks, which generate dividends, or real estate, which can provide rental income, art typically offers returns only upon sale.



The market is also less liquid, meaning it can take time to find a buyer at the desired price. Authenticity, provenance, and condition are critical factors that can impact an artwork's value, necessitating expert appraisal and due diligence.

Additionally, storage, insurance, and maintenance costs can add to the overall investment expense.

Despite these hurdles, for those with a long-term perspective and an appreciation for the cultural significance of art, it can serve as a compelling and rewarding alternative investment.

Private Placements

The sale of stock shares or bonds to pre-selected investors and institutions rather than on a public exchange is a private placement.

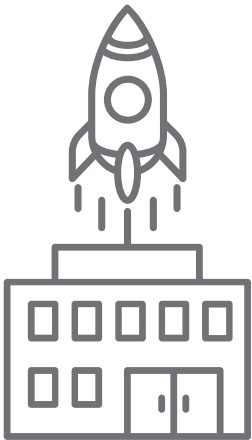
Private placements are an alternative to an IPO for a startup company seeking to generate capital in order to expand.

They've been very popular recently for developing companies within the financial technology industry.

Private placements can be an excellent way for growing companies to develop while avoiding the full glare of government and public scrutiny that accompanies an initial public offering (IPO).

Since private placements often involve high-growth companies with promising potential, investors may be able to earn significantly higher returns than traditional investments.

With this being said, this is not always the case and there may be risks involved in investing in startups.



How They Are Set Up:

Many private investments may be arranged as LLCs, and while these partnerships are exempt from SEC registration, they may be regulated as securities by state.

Limited partnerships always have one or more general partners as well as one or more limited partners. General partners oversee operations such as actions and debts, while limited partners provide capital. The most they can lose is the amount they invest.

Private Real Estate

Real estate can offer diversification, current income, capital appreciation, and a potential partial hedge against inflation. However, there is no guarantee of these outcomes. Real estate investments carry risks, including illiquidity, property-level and market fluctuations, and possible loss of principal.

Private real estate is the direct investment in physical real estate outside publicly traded funds. This market encompasses a diverse range of building types, including **residential, commercial, industrial, and special use.**

With properly planned strategy and management, private real estate can be a consistent, inflation-resistant component of a diversified investment portfolio.

Low Correlation – Diversifying Private Real Estate – (2003-2023)

Historically, **real estate’s correlation to stocks and bonds has been relatively low** and may deliver different return and volatility characteristics, but correlations can change and diversification does not eliminate loss.



Past performance is not indicative of future results.

	U.S. Equities	Int'l Equities	Public Real Estate	U.S. Fixed Income	Pvt. U.S. Real Estate
U.S. Equities	1.00	0.89	0.76	0.07	0.04
Int'l Equities	—	1.00	0.69	0.11	(0.01)
Public Real Estate	—	—	1.00	0.23	0.14
U.S. Fixed Income	—	—	—	1.00	(0.26)
Pvt. U.S. Real Estate	—	—	—	—	1.00

Source: Brookfield Oaktree / The Alts Institute, 20-year period ending December 31, 2023

The Four Key Strategies of Private Real Estate

1) Core Real Estate Investments

Core investments generally focus on high-quality, well-located properties and seek to provide steady income with the potential for modest appreciation. There can be no assurance these outcomes will occur; returns are not guaranteed and may fluctuate based on market and property-specific risks.

2) Core Plus Investments

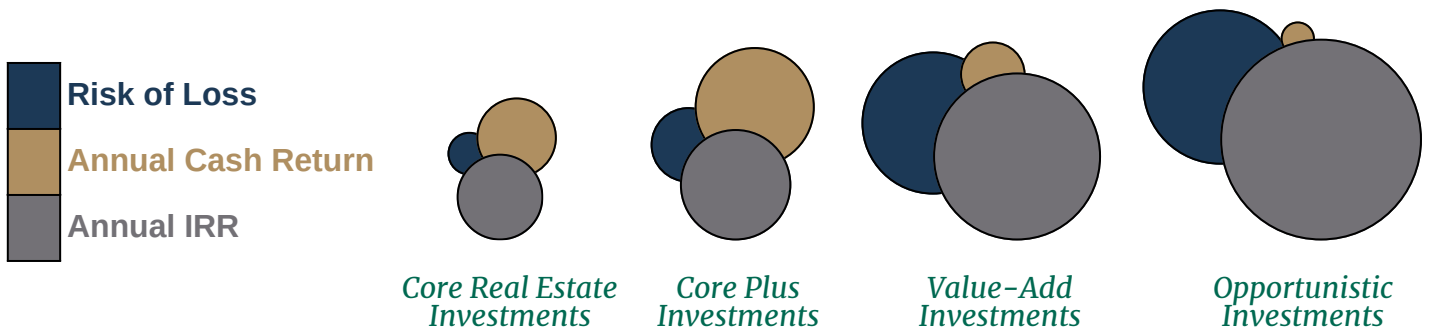
Core Plus Investments seek returns that may be modestly higher than Core by accepting additional risk. There is no guarantee the objective will be achieved; higher expected returns may involve greater volatility, reduced liquidity, and a higher risk of loss.

3) Value-Add Investments

Value-Add investments involve properties with moderate to high risk that require significant improvement, such as repositioning, refurbishment, lease-up, or operational overhaul. These deals aim for higher returns through value creation rather than purely stable income and often carry greater leverage and execution risk.

4) Opportunistic Investments

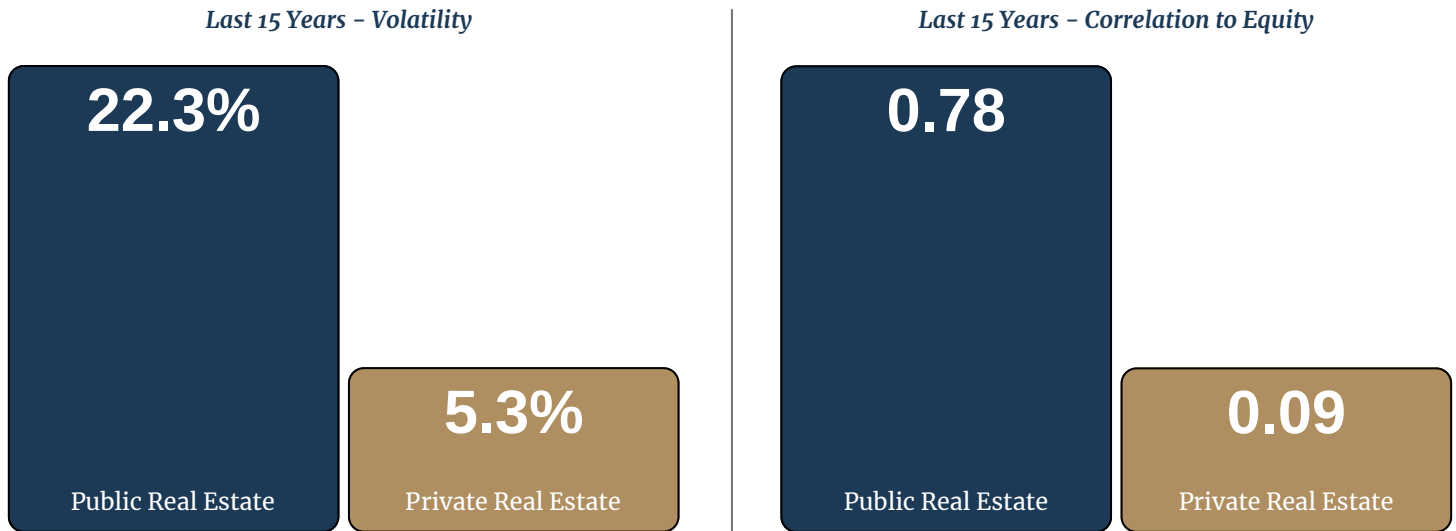
Opportunistic investments represent the highest end of the risk-return spectrum. They may involve ground-up development, major redevelopment, raw land, or highly underperforming assets in emerging markets. While there may be a delay in cash flows, high leverage, and significant risk, those who are willing to accept the uncertainty stand to gain the greatest potential returns.



	Core Real Estate Investments	Core Plus Investments	Value-Add Investments	Opportunistic Investments
Risk of Loss:	Much Lower	Lower	Medium	Higher
Return Composition:	Current Income	Current Income + Capital Appreciation	Current Income + Capital Appreciation	Capital Appreciation
Asset Strategy:	Buy and Hold	Light Renovations Re-Leasing	Heavy Renovations Major Re-tenanting	GroundUp Redevelopment Major Rehabilitation
Hold Period:	10+ Years	5-7 Years	5-7 Years	<5 Years

Over 1-, 5- and 10-Year Historical Periods, Private Real Estate Has Generally Provided Diversification, Exhibiting Lower Volatility and Lower Correlation With Public Markets on a Net-of-Fees Basis

Past performance is not indicative of future results.



Source: This data is from Bloomberg as of 6/30/2023. Public real estate is represented by the FTSE NAREIT All Equity REITs. Private real estate is represented by the NCREIF Property Index. Gross performance is shown before management fees and expenses; net performance reflects the deduction of actual management fees and expenses.

Potential Benefits and Risks of Private Real Estate:

Private real estate **offers significant diversification benefits** through low correlation with stocks and bonds, plus the potential for **tax-advantaged income** and **inflation protection**.

However, it carries **trade-offs: limited liquidity, opaque valuations, and heightened sector-specific risks. Outcomes aren't guaranteed.**

Private Credit

Private credit is often defined as **non-bank lenders providing credit directly to private companies**. Over the last decade and a half, the **private credit market has grown significantly**. According to the IMF, the global private credit market reached nearly **\$2 trillion in assets under management** (*IMF, Apr 2024*). Meanwhile, banks' role in direct lending has shifted... regulatory pressures and tighter bank balance-sheet considerations have been cited as factors contributing to increased financing through non-bank channels. (*Federal Reserve, May 2025*)

Sources:

- <https://www.imf.org/en/Blogs/Articles/2024/04/08/fast-growing-USD2-trillion-private-credit-market-warrants-closer-watch> as of 4.7.24
- <https://www.federalreserve.gov/econres/notes/feds-notes/bank-lending-to-private-credit-size-characteristics-and-financial-stability-implications-20250523.html> as of 3.23.25



Private credit providers fill the vacancy by arranging and issuing different kinds of loans and then passing on periodic interest payments to their investors through distributions. **These loans are not syndicated or sold on the secondary market**; instead, the lenders **hold them until maturity (usually 5-7 years)**.

From the viewpoint of investors, private credit can provide income at a higher return than public fixed income while also being less sensitive to interest rates relative to public debt.

Similar to the mix of private equity solutions, private credit provides a variety of ways to invest in the debt of private companies.

The Three Key Strategies of Private Credit:

#1: Direct Lending

Direct lending involves non-bank lenders making loans directly to businesses without using traditional banks as intermediaries. This strategy has become the dominant segment of the private credit market as banks have reduced their participation in certain bands of corporate lending. Private credit funds thus play a key role in providing tailored financing solutions such as acquisition finance, debt refinancing, or business expansion loans. These lenders often focus on senior debt at the top of a company's capital structure and have increasingly partnered with private-equity sponsors to fund buyouts and growth transactions.

#2: Mezzanine Financing

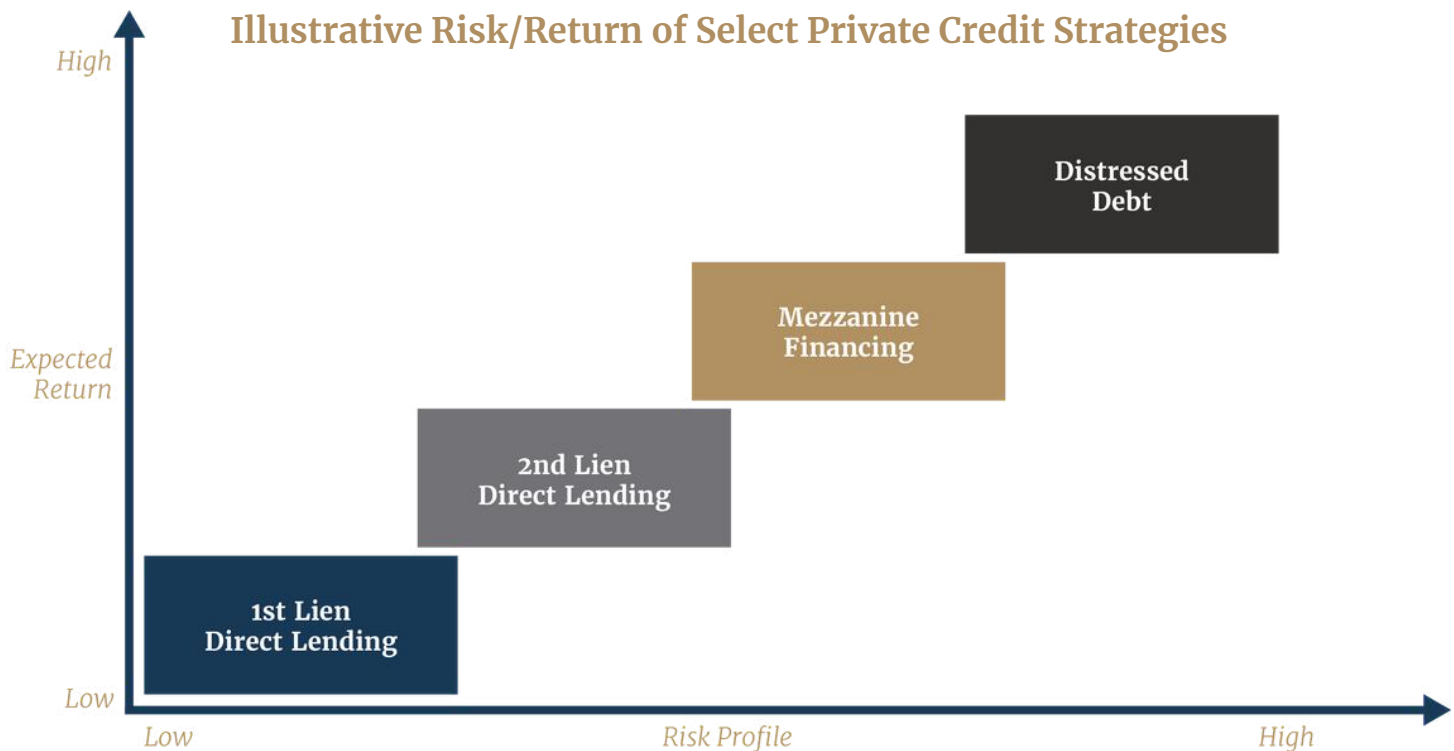
Mezzanine financing occupies a hybrid position in a company's capital stack between senior debt and equity. Because it is subordinated to senior loans, it carries higher risk, which is compensated through higher interest rates or return components. Mezzanine investments often include equity features like warrants or conversion rights, offering upside potential if the borrower performs well. This structure gives borrowers access to additional capital without diluting ownership as much as traditional equity financing.

#3: Distressed Debt

Distressed debt investing involves acquiring the debt of companies that are experiencing financial distress or are on the brink of bankruptcy. The goal for investors is either to purchase debt at a significant discount and profit if the company recovers or to gain control of assets during restructuring or liquidation. This strategy demands specialized expertise in credit analysis, restructuring mechanics and legal frameworks and generally carries high risk but also potentially high reward.

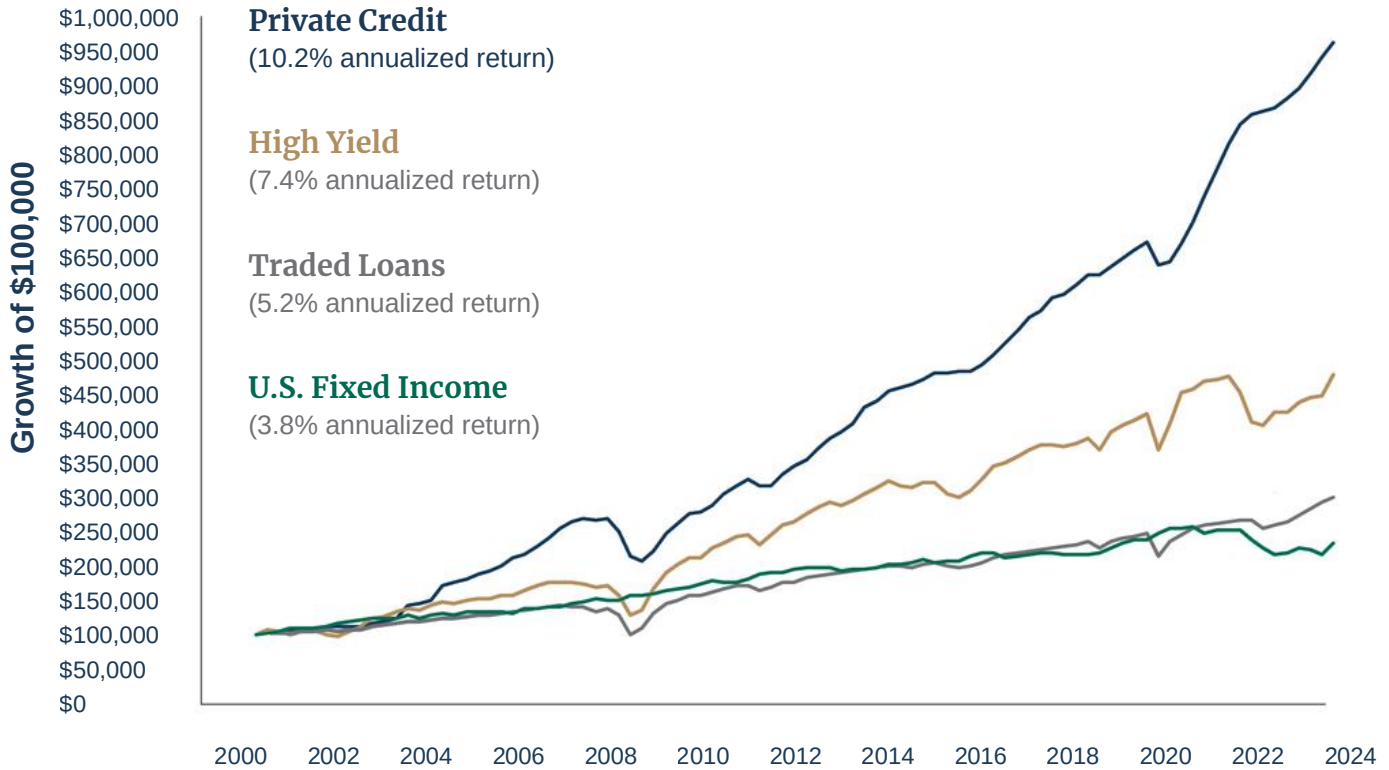
Sources:

- https://www.morganstanley.com/im/publication/insights/articles/article_evolutionofdirectlending.pdf as of 2.21.25
- <https://www.cfainstitute.org/insights/articles/private-debt-market-trends> as of 9.17.25



Private Credit has Historically Provided Premium Returns, Driven by Income:

See disclosures for index definition and fee treatment.



Source: Bloomberg, Preqin as of 12.31.23. Private Credit is represented by the Preqin Private Debt Index. High Yield is represented by the Bloomberg Barclays High Yield Index. Traded Loans are represented by the S&P/LSTA Leveraged Loan Index. U.S. Fixed Income represented by the Bloomberg US Aggregate Bond Index. Past performance is not a guarantee of future results. An investor cannot invest directly in an index. Index performance does not reflect fees and expenses, which may include management fees, access fund expenses, and administrative fees. Returns are shown gross and net of fees.

Private Equity

Private equity refers to **making investments in the equity of companies that are not listed on a public stock exchange.**

Managers

Private equity managers establish investment funds in which they find, research, purchase, and manage assets in private companies on behalf of their clients.

- Their purpose is to add value by actively managing or restructuring businesses over a 4-7 year period in order to generate a profit for shareholders upon exit.

Investors

Private equity seeks to provide investors with **long-term capital appreciation** and, for certain strategies and over longer investment horizons, may exhibit **lower measured volatility than public equity.**

These outcomes are not guaranteed; results vary by manager, vintage year, strategy, and market conditions, and past performance is not indicative of future results.

Private equity covers a **wide range of strategies**, but they can be broadly classified based on the stage of the business life cycle in which target investments are made.



The Four Key Strategies of Private Equity:

#1: Venture Capital (VC)

Venture capital refers to equity investments in early-stage businesses that may offer high growth potential; such investments are typically highly illiquid and subject to substantial risk, including the loss of invested capital. These companies often operate in innovative sectors and may lack a proven track record or significant revenues, which means there is an elevated risk of failure. VC firms provide capital in exchange for ownership (typically a minority stake) and support the firm's growth with the intention of exiting through a sale or IPO.

#2: Growth Equity

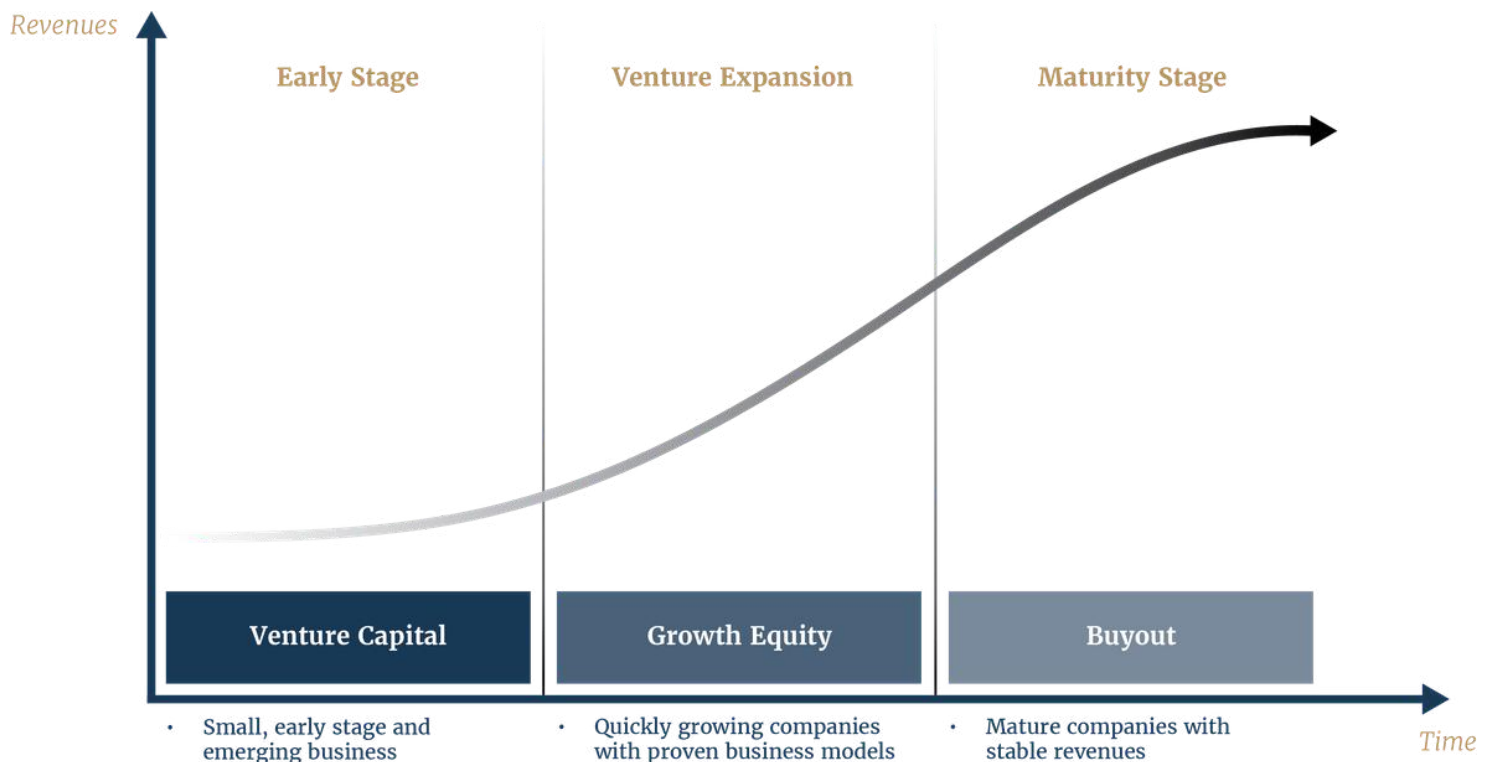
Growth equity lies between venture capital and buyouts and generally provides capital to scale operations or enter new markets; these investments can support growth but are subject to execution, market and financing risks that may affect outcomes.

#3: Buyouts

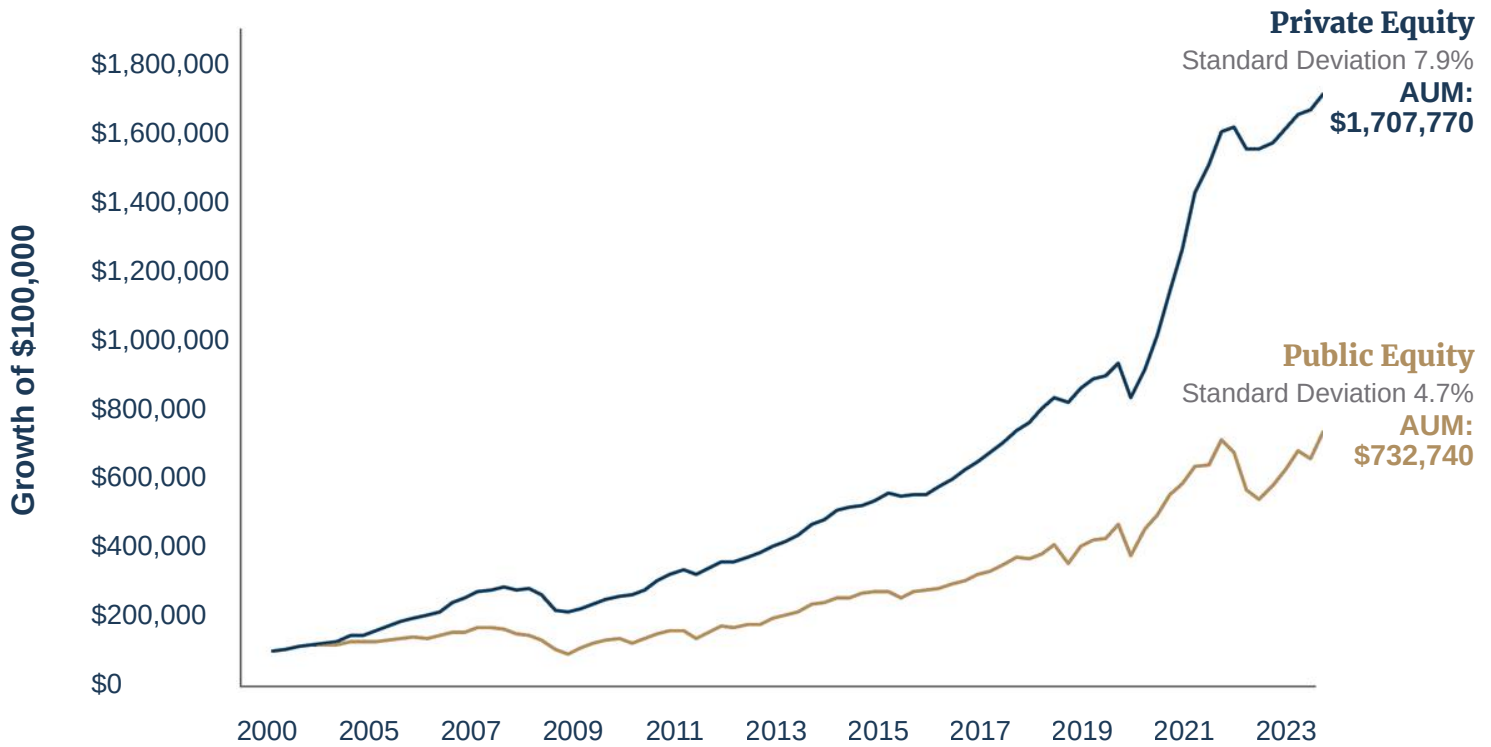
Buyout strategies involve acquiring a controlling interest in a company with the objective of enhancing operations and driving value creation; successful exits are not guaranteed and results depend on factors such as management execution, market conditions, and timing.

#4: Secondaries (not depicted in the graph below)

Secondaries investing refers to the acquisition of existing private equity fund interests or portfolios of direct private company investments. This strategy has grown rapidly as managers and investors seek liquidity, continue value creation beyond the initial fund life cycle, and transfer ownership of high performing assets through continuation vehicles. It provides alternatives in exit scenarios and can help extend value creation timelines.



Over 1-, 5- and 10-Year Historical Periods, Private Real Estate Has Generally Provided Diversification, Exhibiting Lower Volatility and Lower Correlation With Public Markets on a Net-of-Fees Basis:



Performance (annualized, Gross / Net): 1-yr, 5-yr, 10-yr: [GROSS % / NET %]

Source: Bloomberg, Cambridge Associates for the period 6/30/2003 to 6/30/2023. Public equity represented by the S&P 500. Private equity represented by the Cambridge U.S. Private Equity Index. Net performance is shown after advisory fees and trading expenses. Standard deviation and returns are calculated using monthly returns for the period 6/30/2013–6/30/2023. Past performance is not indicative of future results.

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The rules and regulations of the QOZ Program are complex, and compliance with the QOZ Program comes with significant challenges such as appreciation unpredictability, certain neighborhoods may be less accommodating to development, illiquidity for up to ten or more years, availability and cost of construction and development financing uncertainty, development and redevelopment real estate risks, as well as a number of Jobs Act interpretation uncertainty which may impact future risks, if any.

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