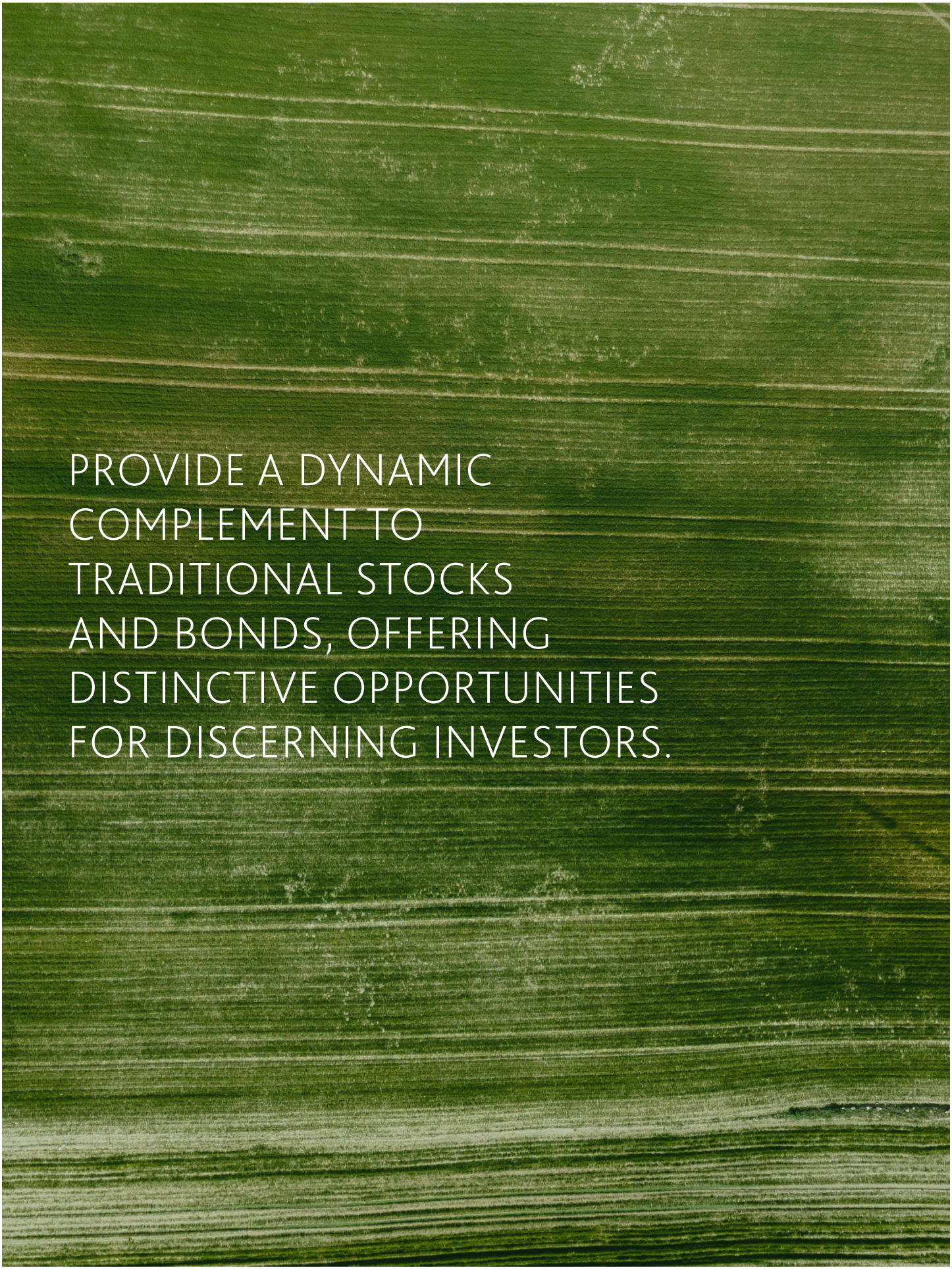
MAINSTREET ADVISORS

Alternative Investments

ALTS




PROVIDE A DYNAMIC
COMPLEMENT TO
TRADITIONAL STOCKS
AND BONDS, OFFERING
DISTINCTIVE OPPORTUNITIES
FOR DISCERNING INVESTORS.

Explore Different Investment Vehicles

Alternative Investments include a broad range of asset classes and investment strategies that fall outside the traditional equity and fixed-income universe. While often categorized together, alternative investments represent a diverse collection of liquid and illiquid investment opportunities, rather than a single uniform asset class.

Commodities, cryptocurrencies, private assets, and investment strategies that regularly utilize leverage, short selling, and derivative instruments are considered alternative investments.

Investor accessibility to alternative investments depends on the investment vehicles and underlying assets. Alternatives held by SEC-registered mutual funds are available to all investors. In contrast, illiquid or private market investments are typically limited to accredited or qualified investors due to their complexity, risk, and regulatory requirements.

Traditionally, investors had to overcome multiple obstacles to invest in alternatives asset classes.

- Lack of Marketability
- Long Term Nature of Investments
- High Minimums
- Product Complexity
- Eligibility

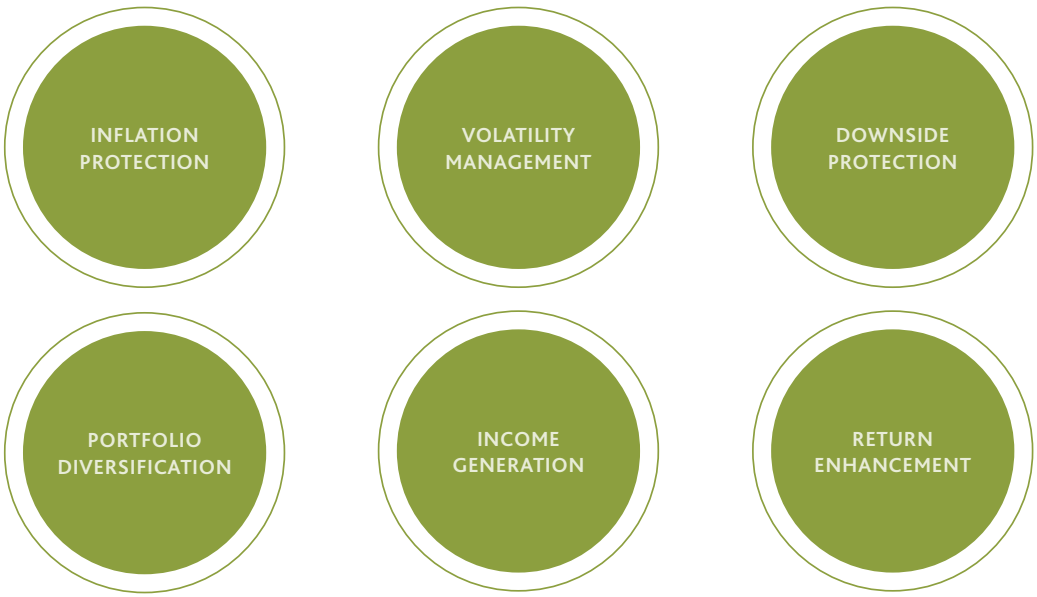

DISCOVER PRIVATE
FUNDS AND INNOVATIVE
INVESTMENTS BEYOND
TRADITIONAL EQUITIES
AND FIXED INCOME.

The Role of Alternative Investments in a Portfolio

Financial markets are inherently unpredictable, and return volatility can significantly impact long-term outcomes. In general, a less volatile portfolio can create a more stable path to greater long-term wealth. By effectively managing portfolio volatility while targeting positive expected returns, investors can improve their chances of achieving their long-term financial goals.

Alternative investments can play a crucial role in this process, serving both as substitutes and complements to traditional market exposure. By understanding and leveraging the unique characteristics of alternative investments, investors can enhance portfolio efficiency, reduce overall risk, and better align their investments with their long-term goals.

Key Portfolio Benefits Of Including Alternative Investments:

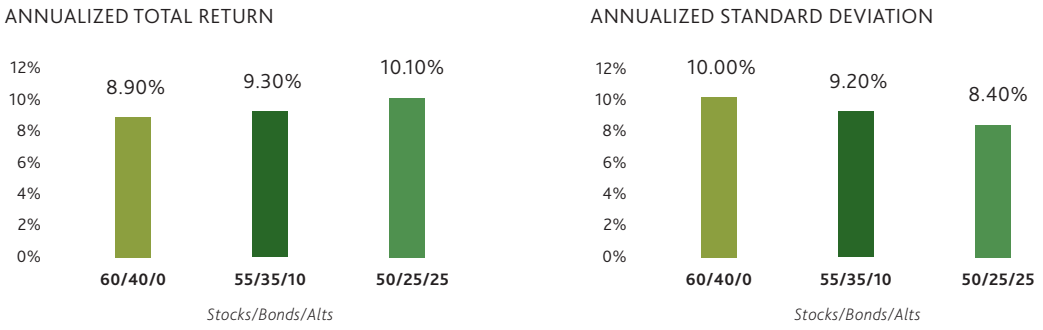


Portfolio Optimization

Alternative investments have historically exhibited lower correlations with traditional portfolio assets, making them a valuable tool for reducing overall portfolio risk without sacrificing long-term returns.

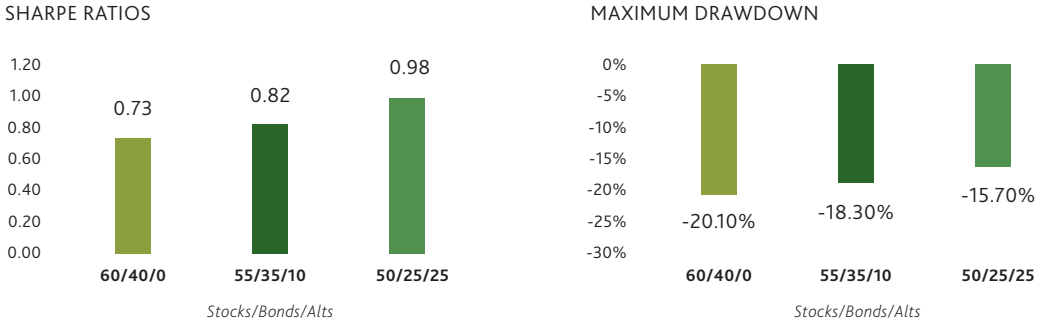
Our research indicates that adding uncorrelated investments improves diversification, making a portfolio more resilient to market fluctuations.

Higher Returns, Lower Risk: A Better Outcome



The primary objective of incorporating alternative investments into a portfolio is to optimize the risk-return profile, which is often evaluated by the Sharpe ratio.

Better Risk-Adjusted Returns With Lower Losses



Source: Morningstar Direct, based on a 10-year benchmark data from September 30, 2014 to September 30, 2024. Alternative allocation represents an equally weighted NCREIF Fund ODCE (Private Real Estate), PitchBook Private Debt All US NR USD (Private Credit), PitchBook PE All US Equal-Weight NR USD (Private Equity), and PitchBook VC All US Equal-Weight NR USD (Venture Capital). Bonds are based on the Bloomberg US Agg Bond TR USD and stocks are based on the S&P 500 TR USD.

Private Market Investments

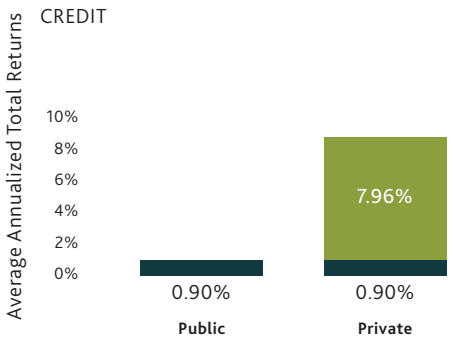
Private alternative investments are fundamentally less liquid and less accessible than publicly traded markets.

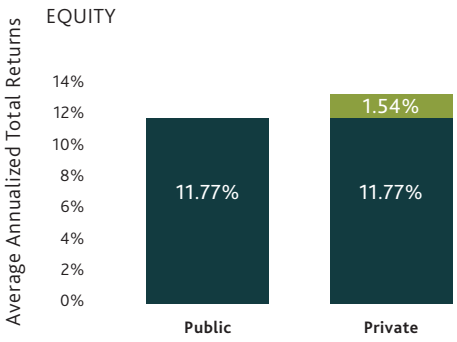
Investors typically demand higher returns from private markets to compensate for the additional risk and lower liquidity. This additional return expectation, known as the illiquidity premium, plays a significant role in the appeal of private investment, offering potential rewards for those willing to commit capital over longer investment horizons.

Investment Landscape

HEDGE FUNDS	**Role:** Diversification, Volatility Management
Unconstrained investment strategies designed to capitalize on opportunities in various market environments	
CREDIT	**Role:** Income, Diversification
Privately originated loans to public and private companies	
EQUITY	**Role:** Growth
Equity investments in privately held companies	
REAL ESTATE	**Role:** Income, Growth
Equity ownership or loans to privately held properties	

Public vs. Private Investments: 18-Year Period As Of 12/31/24





Source: First Trust Capital Management, LLC. Charts illustrate an 18-year benchmark returns from 1/1/06 through 12/31/24. Credit benchmarks used are the Bloomberg U.S. Aggregate Bond Index (Public Credit) and Cliffwater Direct Lending Index (Private Credit). Equity benchmarks used are the S&P 500 Index (Public Equity) and Preqin Capital Quarterly Index (Private Equity).

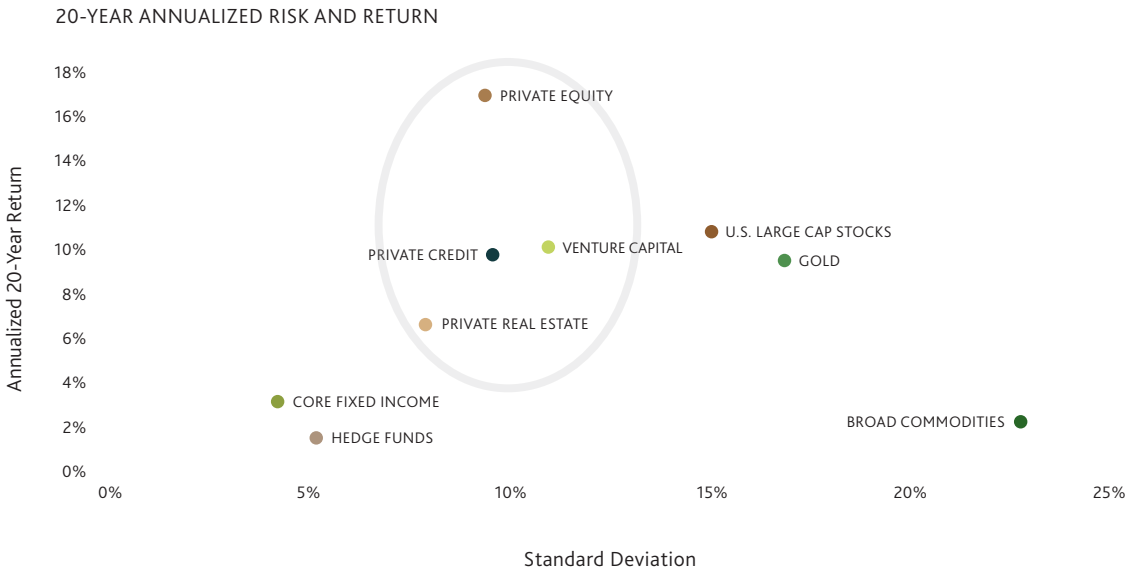
Risk, Return and Correlations

Different types of alternative have unique risk and return characteristics, as well as distinct levels of correlation with traditional asset classes like stocks and bonds.

Long Term Return Correlations

		1	2	3	4	5	6	7	8	9
1	**U.S. Large Cap Equity**	1.00								
2	**U.S. Aggregate Bonds**	.23	1.00							
3	**Commodities**	.45	-.01	1.00						
4	**Gold**	.10	.36	.41	1.00					
5	**Global Hedge Funds**	.74	.10	.58	.22	1.00				
6	**Private Equity**	.08	-.11	.10	-.12	.19	1.00			
7	**Venture Capital**	.08	-.11	.07	-.12	.11	.75	1.00		
8	**Private Debt**	.15	-.12	.16	-.09	.28	.75	.49	1.00	
9	**Private Real Estate**	-.08	-.23	.02	-.10	-.02	.53	.44	.34	1.00

Alternative Allocations Can Improve Risk-Adjusted Returns



Source: Morningstar Direct, based on 20-year benchmark data from September 30, 2004 to September 30, 2024. Benchmarks include: NCREIF Fund ODCE (Private Real Estate), PitchBook Private Debt All US NR USD (Private Credit), PitchBook PE All US Equal-Weight NR USD (Private Equity), PitchBook VC All US Equal-Weight NR USD (Venture Capital), NFRX Global Hedge Fund Index (Hedge Funds), Bloomberg US Agg Bond TR USD (Core Fixed Income), S&P 500 TR USD (U.S. Large Cap Stocks), S&P GSCI Spot (Broad Commodities), and S&P GSCI Gold Spot (Gold).

Hedge Funds

Hedge funds are investment vehicles that pool and deploy investors capital according to a predetermined strategy with the objective of delivering positive returns.

Unlike mutual funds, hedge funds are generally unconstrained in their investment options, allowing managers to allocate capital across a broad range of assets, including equities, bonds, currencies, commodities, and interest rates. Additionally, many hedge funds regularly employ advanced and speculative investment techniques, like short-selling, to capitalize on opportunities in various market environments.

Hedge Fund Strategies By Category:[1]

EQUITY
- Long/Short Equity
- Dedicated Short Bias
- Equity Market Neutral

EVENT-DRIVEN
- Merger Arbitrage
- Distressed Securities

RELATIVE VALUE
- Fixed Income Arbitrage
- Convertible Bond Arbitrage

OPPORTUNISTIC
- Global Macro
- Managed Futures

SPECIALIST
- Volatility Strategies
- Reinsurance Strategies

MULTI-MANAGER
- Multi-Strategies
- Fund-of-Funds

Investors typically gain exposure to hedge funds either directly by investing with a fund manager through a limited partnership structure or indirectly via funds of funds. Institutional investors, such as pension plans, sovereign wealth funds, and endowments, are among the most common participants in the hedge fund market.

Hedge funds are generally not registered with the SEC, which means they offer less transparency and fewer built-in investor protections than traditional investments like mutual funds. For this reason, direct access to hedge funds is restricted to individual investors who meet specific eligibility criteria.

Hedge fund investments also come with unique considerations, including lower liquidity and higher fees. The fee structure typically consists of an annual management fee and a performance fee, designed to incentivize managers to deliver strong returns.

[1] Portfolio Management, Hedge Fund Strategies. Refresher Reading 2024 CFA Program Level 3.

Private Credit

Private credit refers to financial lending activities conducted outside the traditional banking system and public debt markets.[2]

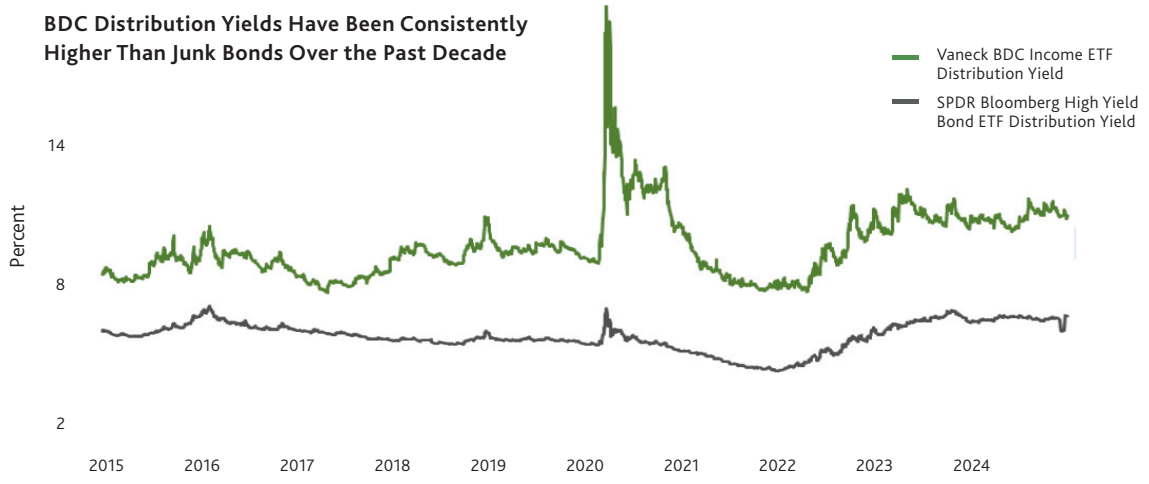
Regulatory constraints in traditional lending can make it difficult for borrowers with complex financing needs to access capital. Private credit provides a flexible alternative, offering customized financing solutions for borrowers and the potential for higher returns for investors.

COMMON TYPES OF PRIVATE CREDIT INCLUDE:

Senior Loans — First-lien loans with priority repayment rights.
Direct Lending — Loans directly provided to mid-sized companies.
Distressed Debt — Investments in companies facing financial difficulties.
Special Situation — Unique financing opportunities requiring tailored solutions.

Compared to traditional fixed income investments, private credit offers several advantages, including higher current income, lower correlation to other asset classes, and generally lower volatility. Additionally, most private credit instruments are floating-rate, making them less sensitive to rising interest rates than fixed coupon bonds. However, these benefits have trade-offs in forms of lower liquidity, higher credit risk, and often reduced transparency compared to the public markets. Additionally, investors must contend with higher fees and significant minimum investment requirements, which can limit accessibility.[3]

BDC Distribution Yields Have Been Consistently Higher Than Junk Bonds Over the Past Decade



Source: YCharts. Data as of December 31, 2024. Business Development Company (BDC) is a type of closed end fund that provides capital to small and mid-sized private companies.

[2] Private Debt: A Primer. Unpacking the Growth Drivers. BlackRock, November 2023.
[3] Alternatives 101. First Trust.

Private Equity

Private equity (PE) investments involve acquiring equity stakes in private, non-publicly traded companies. Investors typically gain access to this asset class through diversified private equity funds, whose objective is to generate long-term value for investors and deliver net returns that surpass those of public equity markets.

Public equity markets are becoming increasingly concentrated with the largest 10 companies by market capitalization now accounting for nearly 39% of the total S&P 500 Index – a significant increase from previous years. This high level of concentration underscores the challenges investors face in building a well-diversified stock portfolio.

Incorporating private equity into a traditional investment portfolio can offer significant advantages. Key benefits include the potential for higher returns and enhanced diversification, which can help mitigate overall portfolio risk. Private equity funds focus on a long-term investment horizon, aligning the interests of company management and shareholders to support sustained value creation. Additionally, private equity funds provide access to unique investment opportunities typically unavailable in public markets.

INVESTORS CAN CHOOSE FROM VARIOUS PRIVATE EQUITY STRATEGIES. THE MOST COMMON INCLUDE:[4]

Venture Capital — Investing in startups with high growth potential
Growth Equity — Provide capital to establish private companies to fund growth
Buyouts — Acquiring mature companies to optimize their operations to drive long-term value
Secondaries — Buying shares from original PE investors

Private equity investments are not without risks. Similar to other private market investments, PE is characterized by illiquidity, greater complexity, and lower transparency compared to public markets. Additionally, PE investments often entail higher fees and substantial minimum commitments, limiting access to accredited and qualified investors.

[4] Alternatives Unlocked: Private equity. KKR. www.kkr.com/alternatives-unlocked/private-equity

Real Estate

Private real estate investing typically means owning property directly, though investors can also earn interest income by financing real estate deals.

Real estate investments span sectors such as multifamily, office, industrial, retail, and single-family residential.[6] Incorporating real estate into a traditional portfolio can enhance risk management, generate income, and provide long-term growth opportunities. Key advantages include:

- Capital Appreciation Potential
- Steady Income Streams
- Diversification
- Potential Tax Benefits
- Low Volatility
- Inflation Hedge

Private Real Estate returns in different inflationary regimes (4Q78-4Q24)

HIGH & FALLING	HIGH & RISING
7.90%	10.70%
5.80%	9.80%
LOW & FALLING	LOW & RISING

Source: JPMorgan Asset Management. Calculations based on the headline CPI and NCREIF ODCE data available as of November 30, 2024.

While real estate can be a rewarding long-term investment, it often entails notable costs, ongoing oversight, and transaction expenses that can make direct ownership less appealing to some investors. Many private real estate funds are limited to accredited investors; however, there are several ways to gain exposure to the asset class:[7]

1 Real Estate Investment Trusts (REITs):
   - Both public and private REITs allow investors to own, operate, or finance income-producing properties.
   - REITs are required to distribute at least 90% of their profits annually to shareholders, offering regular income streams.

2 Direct Real Estate Investments:
   - Outright property purchase, assuming full control over management and operations.

3 Private Real Estate Investment Funds:
   - Multiple investors pool capital, often subject to future capital calls, to acquire and manage real estate portfolios.
   - Typically target higher returns but come with higher risks and longer lock-up periods.

[6] Private Real Estate Investing: An Introduction. Hamilton Lane. October 2023.
[7] Strategy Primer: Investing in Real Estate. Oaktree. January 2016.

Who Can Invest in Private Market Alternative Investments?

Eligibility requirements for private investments can vary depending on the product structure, underlying assets, and fees involved. Investors typically qualify based on their net worth, though certain accreditation levels may also be achieved through income thresholds or professional licenses.

	ACCREDITED INVESTOR	QUALIFIED CLIENT	QUALIFIED PURCHASER
NET WORTH	> $1 Million, Excluding Primary Residence OR	> $2.2 Million, Excluding Primary Residence OR	> $5 Million in Investments
INCOME/AUM	Income > $200 K (Single)/ $300 K (Joint) in each of Last 2 Rears	$1.1 million in AUM with Advisor	
OTHER CRITERIA	Series 7, 65, or 82 Holders, Entity with > $5 Million in Assets	Entity with $1.1 Million Investment with Advisor	Entity with $25 Million
ELIGIBILITY	Reg D, Hedge Funds, Private Placements	Funds Charging Incentive Fees	3(C)(7) Private Funds (PE, VC, Hedge Funds)

Opening Alternative Assets to More Investors

New investment structures are opening alternative assets to a broader investor base.

Historically, high barriers to entry has made the space available to select groups of investors, such as institutions and high net worth individuals. However, the alternative space has expanded over the past decade, partially due to new products focused on improving access to a broader investment community. Interval funds and tender offer funds are investment structures alternative asset managers are increasingly using to offer exposure to private markets.

Internal Funds

Interval Funds[8] are SEC registered investment structures that combine the characteristics of open-end funds, closed end funds and private funds.

With interval funds, investors get an operational simplicity of a mutual fund (daily purchase) and some of the investment flexibility of a private fund (ability to hold illiquid assets). Compared to mutual funds, interval funds do not allow daily liquidity. Instead, redemptions are offered at predetermined intervals, usually quarterly, and may be limited. The limited redemption nature of the fund offers less restrictive access to private and illiquid investments, allowing an investor to capture an illiquidity premium, which was historically available to private fund investors. However, due to limited redemptions, interval funds are better suited for investors that can sustain illiquidity.

Tender Offer Funds

Tender Offer Funds[9] are SEC registered investment companies, which like interval funds, offer the potential for a greater return in exchange for limited liquidity. However, purchasing and redeeming shares in tender funds is different. Purchases are typically allowed on a monthly or quarterly basis and redemptions are not predetermined. Instead, tender offer funds rely on discretionary tender offer provisions to conduct periodic redemptions. As a result, tender offer funds are generally considered less liquid than interval funds.

Investors in interval funds receive a 1099 tax form, which is usually the case with tender offer funds. Both investments structures can be offered to non-accredited and accredited investors based on the type of underlying investments and whether a fund will change a performance fee. If a tender offer fund charges a performance fee, it will only be available to qualified investors.

[8,9] Interval and tender offer closed-end funds: investment company alternatives to traditional funds. Audette, Draney, Koff and Warrant. Journal of Investment Compliance, Vol 20 No. 4 2019, pp 21-34.

Let us show you how MSA Alternative Investments can enhance your investment strategy with tailored solutions, tax efficiency, and greater control.

With MainStreet Advisors you can expect:

- A disciplined process with a long-term focus
- Outstanding client service
- Sound advice based on diversified investment models
- Highly motivated and experienced group of investment professionals

MAINSTREET ADVISORS

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