

ALTERNATIVE INVESTMENTS

Overview Guide



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THE ROLE OF ALTERNATIVE INVESTMENTS

What are alternative investments?

The term “alternative investments” covers a range of investments that fall outside of traditional investments such as stocks, bonds, cash/cash equivalents, or mutual funds that invest in those asset classes. Alternative investments include hedge funds, managed futures, private equity, private debt (business development companies), real estate (real estate investment trusts), and unlisted closed-end funds.

Alternative investments historically have sought to provide investors with several potential investment advantages, including diversification and risk reduction. Changing financial markets demand an allocation strategy that incorporates more than just stocks, bonds, and cash.

Alternative investments were once available exclusively to institutional investors and carry certain restrictions, including investment minimums and eligibility requirements, that may exclude their practical use by individual investors. However, thanks to financial innovation and the growth of the alternative strategy marketplace, a growing number of alternative strategies are becoming available to individual investors like you.

Alternative investments at LPL Financial

Working with an independent financial professional supported by LPL Financial means you’ll have access to our objective financial guidance—allowing us to act in your best interests at all times. As an independent firm, we have the flexibility to offer you access to a wide range of nonproprietary products and services—without the obligation to sell any particular investment or brand—keeping our focus solely on your objectives.

THE VALUE OF ADVICE

One of the most important decisions you can make is to seek the advice of a trusted, qualified financial professional. For this partnership, you need a professional who sees your total financial picture—someone who can help you define your life goals, establish an appropriate financial plan, provide strategies focused on your needs, and help you stay on track.

Alternative investments may not be suitable for all investors and involve special risks, such as leveraging the investment, potential adverse market forces, regulatory changes, and potential illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.



Alternative investments historically have sought to provide investors with several potential investment advantages, including diversification and risk reduction.

Short selling (also known as a short sale) is the selling of borrowed securities in anticipation of a fall in prices. An investor borrows or temporarily acquires securities from a third party, sells them to his counterparty, and is paid for them. After the price has fallen, the investor buys the securities in the market and returns them to the third party they were borrowed from. The investor's profit is the difference between the price the securities were sold at and the price they were bought at. If prices rise, however, the investor will have to buy them at a higher price than they were sold at, which will result in a loss.

At LPL, we provide financial professionals with the tools they need to help you meet your goals and manage your financial plan. When you choose a financial professional supported by the vast resources of LPL, you can be confident that they'll have access to independent research, enhanced technology, innovative investment tools, and the exceptional support that allows them to devote their full attention to your needs and objectives.

As your financial advocate, your financial professional can uniquely leverage these valuable resources to prepare and deliver the best investment ideas, designed exclusively to support your financial and personal aspirations.

Why invest in alternative investments?

Alternative investments are quickly gaining traction in the marketplace as an attractive option for investors to potentially diversify their investments, manage market volatility, and provide an alternative source for return. Incorporating alternative investments gives individual investors the opportunity to create more efficient portfolios.

Alternative investments typically have low or negative correlation to other asset classes over long periods, meaning that the investment performance is independent of other investments. This low correlation means that when other investments are down, alternative investments may continue to perform.

Traditional investments may target a specific geographic area of the globe or a specific sector of the U.S. equity market and invest in companies that they anticipate will rise in value. Alternative strategies can also access traditional securities, like stocks, but use them in an "alternative" manner by employing options strategies or short selling, which is the selling of borrowed securities in anticipation of a fall in prices. Short selling can be a useful strategy to hedge against other equity positions a fund may own in an effort to reduce volatility to the overall market. Alternative investments can also access other markets, securities, currencies, and commodities to provide a unique strategy to complement an existing portfolio of stocks and bonds; however, these strategies are subject to higher degrees of risk.

THE VALUE OF DIVERSIFICATION

Alternative strategies provide potential diversification benefits by being uncorrelated to broader market indexes. Shown below are traditional and alternative strategy index return patterns over a period of 10 years.

Callan Chart | Traditional and Alternative Strategy Index Calendar Total Returns 2010-2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
REITs (REITs)	(REITs) 27.95	(REITs) 8.28	(REITs) 19.7	(SCS) 38.82	(REITs) 28.03	(MN) 5.46	(SCS) 21.31	(EM) 37.75	(BBM) 0.01	(LCS) 31.49	(SCS) 19.96
Large Foreign (LF)	(SCS) 26.85	(BBM) 7.84	(EM) 18.63	(LCS) 32.39	(MF) 18.37	(AR) 2.86	(HYB) 17.13	(LF) 25.62	(AR) -0.49	(REITs) 28.66	(EM) 18.69
Large Cap Stock (LCS)	(EM) 19.2	(HYB) 4.98	(LF) 17.9	(LF) 23.29	(LCS) 13.69	(REITs) 2.83	(LCS) 11.96	(LCS) 21.83	(HYB) -2.08	(SCS) 25.52	(LCS) 18.4
Small Cap Stock (SCS)	(HYB) 15.12	(LCS) 2.11	(SCS) 16.35	(ED) 13.87	(BBM) 5.97	(LCS) 1.38	(EM) 11.6	(SCS) 14.65	(MN) -3.16	(LF) 22.66	(ED) 8.89
High Yield Bond (HYB)	(LCS) 15.06	(PC) -1.18	(LCS) 16	(ELS) 11.14	(GM) 5.24	(BBM) 0.55	(PC) 11.37	(ELS) 9.98	(GM) -3.25	(EM) 18.88	(LF) 8.28
Event Driven (ED)	(MF) 12.22	(MN) -2.92	(HYB) 15.81	(HYB) 7.44	(SCS) 4.89	(LF) -0.39	(ED) 11.08	(REITs) 8.67	(REITs) -4.04	(PC) 17.63	(BBM) 7.51
Equity Long/Short (ELS)	(PC) 9.03	(AR) -3.71	(ED) 5.96	(AR) 3.57	(MN) 3.63	(MF) -0.93	(REITs) 8.63	(HYB) 7.5	(LCS) -4.38	(HYB) 14.32	(HYB) 7.11
Broad Bond Market (BBM)	(ELS) 8.92	(SCS) -4.18	(ELS) 4.81	(REITs) 2.86	(HYB) 2.45	(GM) -1.96	(BBM) 2.65	(ED) 6.48	(MF) -6.67	(ELS) 10.71	(ELS) 4.6
Absolute Return (AR)	(LF) 8.21	(MF) -4.19	(BBM) 4.21	(MN) 1.72	(ELS) 1.42	(ELS) -2.33	(LF) 1.51	(PC) 5.77	(ELS) -9.42	(ED) 9.96	(GM) 4.29
Physical Comm (PC)	(BBM) 6.54	(GM) -4.88	(AR) 0.88	(PC) -1.22	(AR) 0.79	(SCS) -4.41	(AR) 0.31	(BBM) 3.54	(SCS) -11.01	(MF) 9.01	(AR) 2.72
Managed Futures (MF)	(MN) 2.64	(ED) -4.9	(PC) 0.08	(GM) -1.79	(EM) -1.82	(HYB) -4.47	(EL) 0.1	(AR) 3.39	(ED) -11.68	(BBM) 8.72	(MF) 2.09
Global Macro (GM)	(ED) 1.98	(LF) -11.73	(GM) -1	(BBM) -2.02	(ED) -4.06	(ED) -6.94	(GM) -2.93	(MF) 3.29	(LF) -13.36	(GM) 4.84	(MN) -3.92
Market Neutral (MN)	(AR) -0.12	(EM) -18.17	(MF) -2.93	(EM) -2.27	(LF) -4.48	(EM) -14.6	(MN) -5.08	(GM) 2.51	(PC) -13.82	(AR) 4.37	(REITs) -5.12
Emerging Markets (EM)	(GM) -1.73	(ELS) -19.08	(MN) -4.66	(MF) -2.56	(PC) -33.06	(PC) -32.86	(MF) -6.84	(MN) 1.73	(EM) -14.25	(MN) -1.87	(PC) -23.72

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Diversification does not ensure against market risk.

Category index returns are as follows: NAREIT Equity REIT, MSCI EAFE, S&P 500, Russell 2000, Bloomberg Barclays US Aggregate Credit-Corporate-HY, HFRX Event Driven, HFRX Equity Hedge, Bloomberg Barclays US Aggregate Bond Index, HFRX Absolute Return, S&P GSCI, Credit Suisse Managed Futures, HFRX Macro, HFRX Equity Hedge: Equity Market Neutral, MSCI Emerging Markets Free. Ranked best performing to worst performing.

Source: Callan Institute Periodic Table 12/31/20.

Investing in alternative investments may not be suitable for all investors and involves special risks, such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential liquidity. There is no assurance that the investment objective will be attained.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Small cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small cap market may adversely affect the value of these investments.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Absolute return has a goal of providing positive returns in all market conditions. It tends to have low volatility, provide bond-like returns, and have a very low correlation to bonds and stocks.

Equity long/short strategies go long and short equity securities with the goal of outperforming the market while limiting volatility. These funds tend to have a higher correlation to equities. Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

Commodities strategies invest in physical commodities, such as agriculture, livestock, grains, and energy, usually through a commodities index. The fast price swings of commodities will result in significant volatility in an investor's holdings.

Stock investing involves risk, including loss of principal.

High yield/junk bonds (grade BB or below) are not investment-grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Managed Futures funds use systematic quantitative programs to find and invest in positive and negative trends in the futures markets for financials and commodities. Historically, the benefit of managed futures have been solid long-term returns with very low correlation to equities and fixed income securities.



Hedge funds and funds-of-hedge-funds (FoHF) involve special considerations and risks not associated with investments in traditional mutual funds. Each fund's investment program is speculative and includes risks inherent in an investment in securities, as well as specific risks associated with the use of leverage, short sales, options, futures, derivative instruments, investments in "junk bonds," non-U.S. securities, illiquid investments, and limited regulatory oversight.

HEDGE FUNDS

ACCESSING STRATEGIES FOR IMPROVED RISK/RETURN POTENTIAL

A hedge fund is a privately organized investment vehicle, that manages a concentrated portfolio of securities that may invest in a diverse array of instruments—such as stocks, bonds, futures, options, swaps, and other complex derivatives—that can invest both long and short, and can apply leverage.

Hedge funds are actively managed investment vehicles that typically target attractive risk-adjusted returns over the long term and seek to mitigate the loss of capital in down market periods.

The case for hedge funds

Incorporating hedge funds provides an additional layer of diversification, while potentially minimizing volatility.

- Hedge funds seek to produce attractive risk-adjusted returns.
- Hedge fund managers have the flexibility to combine long and short investments, which allows managers to seek opportunities in up and down markets.

There is no guarantee that a fund's investment objective will be achieved or that the investment program will be successful.



HEDGE FUND STRATEGIES

Hedge fund managers typically have greater investment flexibility than traditional managers. While some focus on a single strategy, others may allocate across many of the following strategies:

Convertible arbitrage

Builds a portfolio of convertible securities and hedges company risk by short selling equities and debt securities or using derivatives. In the event that the perceived mispricings of positions fail to materialize as expected, the positions will incur a loss.

Distressed securities

Invests in or sells short securities of companies undergoing or expected to undergo a significant change, such as bankruptcy, reorganization, or recapitalization. Investments of this type may involve substantial financial and business risks that can result in substantial or, at times, even total losses.

Equity long/short

Invests in a core holding of equities and sells short stocks and/or stock options and index options in an effort to reduce market exposure and risk. Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

Equity market neutral

Funds seek to balance a long portfolio with a short portfolio to achieve a net market exposure as close to zero as possible. This strategy involves special risks, including significant losses, trade execution delays, forced liquidations of short or leveraged positions due to losses, or failure to “match” long and short positions.

Event-driven

Strategies designed to capitalize on particular events such as mergers, acquisitions, spinoffs, share buybacks, and bankruptcy debt restructurings. However, if an anticipated transaction does not in fact occur, the investment fund may be required to sell its investment at a loss.

Fixed income arbitrage

Seeks to profit from pricing inefficiencies that occur among related fixed income securities. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position.

Global macro

Attempts to profit from anticipated price movements in stock markets, interest rates, foreign exchange, and physical commodities. Global macro risks include but are not limited to imperfect knowledge of macro events, divergent movement from macro events, loss of principal, and related geopolitical risks.

Merger arbitrage

Invests long and short in event-driven situations, such as leveraged buyouts, mergers, and hostile takeovers. These strategies could incur significant losses when anticipated merger or acquisition transactions are not consummated.



Hedge funds and funds-of-hedge-funds (FoHF) involve special considerations and risks not associated with investment in traditional mutual funds. Each fund's investment program is speculative and includes risks inherent in an investment in securities, as well as specific risks associated with the use of leverage, short sales, options, futures, derivative instruments, investments in "junk bonds," non-U.S. securities, illiquid investments, and limited regulatory oversight.

Expenses in funds-of-hedge-funds are significantly higher and may provide manager incentive fees. Funds-of-hedge-funds generally invest in several private hedge funds that are not subject to the SEC's registration and disclosure requirements. Hedge funds may use speculative investment and trading strategies, and may be illiquid investments subject to restrictions. The tax structure of registered funds of hedge funds may be complex and there may be delays in receiving important tax information. There are a number of adverse tax consequences that should be taken into account when considering an investment in hedge funds or funds-of-hedge-funds.

FUNDS-OF-HEDGE FUNDS

ACCESSING STRATEGIES FOR IMPROVED RISK/RETURN POTENTIAL

Funds-of-hedge-funds offer investors a dynamically managed portfolio of hedge funds that attempts to minimize the risk of investing in a single hedge fund strategy. Choosing an appropriate hedge fund can be a challenging task. Funds-of-hedge-funds typically have higher fees and expenses because they select a portfolio of hedge funds for inclusion in a fund-of-hedge-funds strategy and commit resources to due diligence, portfolio construction, manager selection, risk management, and ongoing monitoring and rebalancing. As a result, many qualified investors have turned to funds-of-hedge-funds to gain access to these investment portfolios.

The case for funds-of-hedge-funds

Funds-of-hedge-funds managers may choose to focus on a single strategy or they may build a multi-strategy portfolio of hedge funds. A well-established funds of hedge funds offers numerous potential benefits:

- Potentially mitigate risks with a single fund
- Professional management and diversification across asset classes and strategies
- Access to hedge funds that would otherwise be closed to new investors

HEDGE FUND STRUCTURES

Single Manager

- Single hedge fund manager
- Single strategy



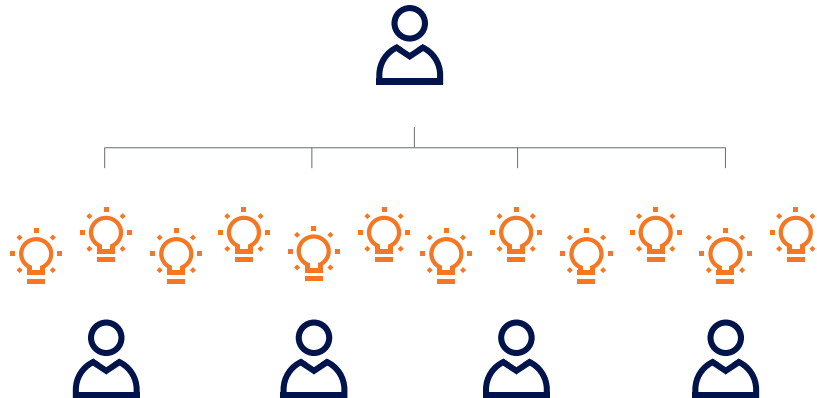
Single Manager with Multiple Strategies

- Single hedge fund manager
- Multiple strategies



Funds-of-Hedge-Funds (FoHF)

- Multiple hedge fund managers
- Multiple strategies
- Dynamically managed by fund-of-hedge-funds manager





Investing in managed futures involves specific risk such as potential illiquidity and may not be suitable for all investors. Managed futures are speculative, use significant leverage, may carry substantial charges, and should only be considered suitable for the risk capital portion of an investor's portfolio.

Because the margin deposits required for futures trading are normally low, movements in a futures contract may result in an immediate and substantial loss to the investor. The fast price swings of commodities may result in significant volatility in an investor's holdings

MANAGED FUTURES

SEEKING PERFORMANCE DURING MARKET DECLINES

Managed futures funds invest in futures contracts with a focus on currencies, global stocks, interest rates, and commodities—mostly energy, metal, and agricultural markets. A futures contract is an agreement to buy or sell a particular commodity or financial instrument at a predetermined price in the future. Strategies are typically driven by mathematical computer models and tend to be more technical and momentum-driven rather than fundamentally based.

Managed futures may take a long or short position depending on their view, and take positions in almost any market. Additionally, investment managers have the flexibility to use forward contracts and options strategies on futures to exploit opportunities. Historically, managed futures have exhibited a slight negative correlation to stocks over the long term and potentially may help diversify a portfolio.

The case for managed futures

The potential benefits of adding managed futures to a diversified portfolio include:

- Ability to profit in rising or falling markets as commodity trading advisors (CTAs) can purchase or sell futures in all investment environments.
- Global diversification through participation in more than 150 liquid markets around the world.
- Historically, solid long-term returns with very low correlation to equities and fixed income securities. Past performance does not guarantee future results.

Forward contracts

A forward contract is an agreement to buy or sell a commodity, security, or financial instrument at a specified future date at a specified price. It is a completed contract and the commodity or financial asset will be delivered, unlike an option, which offers a choice of whether or not to complete the trade.

Options

A financial derivative that represents a contract sold by one party to another party. The contract offers the buyer the right, but not the obligation, to buy or sell a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date.

Commodity futures

An agreement to buy or sell a specific quantity of a commodity or financial instrument at a specified price on a particular date in the future.

PRIVATE EQUITY

MANAGERS TAKING AN ACTIVE ROLE TO CREATE VALUE

Private equity is defined broadly as private transactions in private or public companies. The strategy seeks to provide better risk-adjusted performance than publicly traded stocks over long periods of time.

Investment managers attempt to do this by taking advantage of organizational or operational inefficiencies, unlocking the value of a target company, then selling the equity at a much higher valuation. The strategy requires intense fundamental research and, for investors, a long-term horizon of 5 to 10 years for investments to come to fruition.

The case for private equity

There are two primary objectives when investing in private equity. The first is to provide returns in excess of the public markets. Investors basically trade liquidity for the potential of receiving excess return. Diversification is the second objective when investing in private equity. While the diversification benefits are not significant from a correlation perspective (private companies tend to do well under the same economic scenarios that allow public companies to perform well), high-net-worth investors looking to diversify equity holdings may benefit from the inclusion of private equity in their portfolio.



Private equity investments are speculative and involve significant risks. It is possible that investors may lose some or all of their investment. The risks associated with private equity include limited diversification, the use of leverage, limited liquidity, and capital calls.

Capital calls are when a private equity fund manager requests that an investor in the fund provide additional capital. Failure to meet capital call obligations may result in consequences including total loss of investment.

TYPES OF PRIVATE EQUITY

The type of private equity is characterized by how the proceeds will be deployed in the target company.

Venture capital

The venture stage represents the earliest stage of development, when companies are searching for capital to seed development. Investments in the venture stage are speculative and are represented by significant risks including no track record and low valuations.

Mezzanine financing

This debt is positioned between equity and senior debt in the capital structure and is typically used for small- to medium-size companies to help finance growth. Mezzanine debt is riskier than senior debt. It is typically unsecured, can result in a steep loss in value, and involves default risk.

Growth capital

Providing equity or debt financing to a company for an anticipated period of significant growth or expansion. This type of investment can be highly speculative as there is no guarantee the company will achieve the anticipated growth or expansion.

Leveraged buyout (LBO)

This stage represents private investments in more mature companies. LBO firms typically generate returns by improving the operations of the firm and/or leveraging the investment. A leveraged structure will increase exposure to adverse economic factors such as rising interest rates and downturns in the economy, and can accelerate the velocity of potential losses. It may impair the companies' ability to meet operational and capital needs.

Distressed debt

This is typically an investment in companies in or near bankruptcy. The investment is often made to gain control of the company with the goal of either improving the operations of the company or disposing of assets. The risks associated with distressed investing arise from several factors, including limited diversification, the use of leverage, limited liquidity, and the possibility that investors may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time.

Special situations

Investments that capitalize on a range of opportunities such as distressed debt securities, changing government regulations, or industry trends. The consequences of the extensive changes to government regulation of various markets and market participants are difficult to predict or measure with certainty. Industry sectors are each subject to a variety of risks, not all of which can be foreseen or quantified.

PRIVATE DEBT

INVESTING IN PRIVATE DEBT OF U.S. COMPANIES

A business development company, or BDC, is a company that invests primarily in the debt or equity of private American companies and has elected to be regulated by certain provisions under the Investment Company Act of 1940. A BDC combines the capital of many investors to own or finance a portfolio of operating businesses.

The BDC structure was created in 1980 by Congress to encourage capital investment into privately owned American businesses. At that time, there was a perceived constraint on the supply of credit to small- and middle-market companies. A BDC primarily holds debt and equity positions in these companies, and aims to pass through at least 90% of interest payments and dividends (after expenses) to investors.

While most BDCs are public investment vehicles registered with the SEC, individual BDCs can choose to be either traded or non-traded. The large differences between the two structures include upfront fees, liquidity, and capital raising capabilities. While ongoing fees are similar, non-traded BDCs have significant upfront fees. Publicly traded BDCs are bought and sold at their current market value, which, depending on market conditions, can trade at significant premiums or discounts.

The case for business development companies

The potential benefits for investing in BDCs include:

- An efficient way for investors to invest in a portfolio of private operating companies without having to manage those assets themselves
- An opportunity for retail investors to access the diversification benefits and return potential of alternative assets such as senior secured loans of private U.S. corporate issuers
- The intended purpose of providing an attractive risk-adjusted return due to private operating companies typically having limited access to traditional sources of capital



Investments in traded and non-traded BDCs are subject to significant risks. These risks include limited operating histories, reliance on the financial professionals, conflicts of interests, payment of substantial fees to the financial professional and their affiliates, and liquidations at less than the original amounts invested. Non-traded BDCs are also subject to illiquidity risk.

BDCs' distributions can be classified as ordinary income, capital gains, and/or return of capital. Each year the BDC will report the sources of their distributions. Please consider speaking with a tax advisor prior to investing.

Comparison of traded and non-traded REITs

	Publicly Traded BDCs	Non-Traded BDCs
Investment Objectives	Income focus with additional goal of capital appreciation	Most tend to focus on income
Underlying Investments	Debt and equity of private U.S. companies	Debt and equity of private U.S. companies
Pricing & Volatility	Pricing fluctuates based on market sentiment; volatility is linked to daily trading	Pricing adjusts with net asset value, not to fall below; volatility is linked to valuation adjustments
Liquidity	Daily liquidity from public exchanges	Limited liquidity, typically an 8-to-12 year time horizon
Capital Raise Offering Period	Perpetual, as long as market price is greater than net asset value	Limited offering period, generally 3 to 5 years; no limits based on market conditions
Time Horizon	Perpetual	Targeted liquidity event normally three years or more after offering period ends
Transaction Costs	Brokerage costs, which are the same as buying or selling any other publicly traded stock	Generally can range from 0% to 11.5% for brokerage accounts, including upfront offering costs, commissions, and dealer manager fees
Early Liquidation Fees	Exchange-traded BDCs generally do not have early liquidation fees	Limited share redemption, generally 0% to 10% of shares outstanding per year. Redemption programs may be terminated or adjusted, and the redemption price is generally lower than the purchase price by as much as 10%.
Tax Features	Must distribute at least 90% of taxable income (to qualify as a regulated investment company). Distributions may be classified as ordinary income, capital gains, and/or a return of capital. Please consult a tax advisor.	Must distribute at least 90% of taxable income (to qualify as a regulated investment company). Distributions may be classified as ordinary income, capital gains, and/or a return of capital. Please consult a tax advisor.
Risk Factors	Credit, leverage, valuations, pricing, capital structure, distribution coverage, and others outlined in the prospectus or, if available, summary prospectus	Credit, illiquidity, leverage, valuations, pricing, capital structure, distribution coverage, and others outlined in the prospectus or, if available, summary prospectus

REAL ESTATE

AN ARRAY OF PROPERTY TYPES THAT SEEK TO GENERATE INCOME AND GROWTH

Real estate investment trusts (REITs) are investment vehicles that invest in commercial real estate or real estate-related debt. The structure has been around since the early 1960s, and was developed as a way to allow individual investors access to large-scale, income-producing real estate. To qualify as a REIT, a company must have the bulk of its assets and income connected to real estate and distribute at least 90% of its taxable income to shareholders annually in the form of a dividend. REITs may either be public investment vehicles registered with the SEC or they can be private placement REITs. Individual REITs can either be traded on an exchange or choose to be non-listed and, therefore, non-traded.

The core (main) sectors of the commercial real estate market include office buildings, retail stores, multi-family, and industrial properties such as distribution facilities. Properties such as healthcare facilities, hotels, and storage facilities are considered specialty/satellite sectors.

- Rental income provides investors with a current income stream, and appreciation from properties offers an opportunity for future capital gains to investors.
- The amount and frequency of dividends paid by non-traded REITs are not guaranteed and some distributions paid to investors may come from the proceeds of the offerings.
- Most distributions are taxed as ordinary income. Distributions involving a return of capital are taxed at capital gains rates at the time of liquidation. Please consider speaking with a tax advisor prior to investing.

The case for real estate

A non-traded REIT offers an investor access to a portfolio of investments that may provide core income and total return potential. While investors may be concerned that an uptick in inflation could be detrimental to their investment portfolio, REITs, like real estate, may help to combat the effects of inflation and rising rates.



There are risks specifically associated with investing in real estate products and **real estate investment trusts (REITs)**. They involve risks associated with debt; illiquidity; adverse changes in general market conditions; changes in governmental, tax, real estate, and zoning laws and regulations; and, for some products, the ability to qualify for favorable treatment under the federal tax laws.

While investors are concerned that an uptick in inflation could be detrimental to their investment portfolio, REITs, like real estate, may help to combat the effects of inflation and rising rates.

Comparison of traded and non-traded REITs

	Traded REITs	Non-Traded REITs
Investment Objectives	Typically focused on appreciation of share value and income	Typically focused on providing consistent income, with appreciation of share value secondary, with some exceptions
Underlying Investments	Real estate and real estate-related assets, with ability to invest in development and construction for a portion of revenue	Real estate and real estate-related assets, with less of an ability to invest in development and construction
Pricing & Volatility	Pricing fluctuates based on market sentiment; volatility is linked to the real estate markets and the stock markets	Some volatility in share price—net investment amount may be reflected until shares are repriced (29 months after fund breaks escrow, at the latest). However, the underlying value of the real estate is linked to the real estate markets and can fluctuate up or down upon repricing.
Liquidity	Daily liquidity on public exchanges	Limited liquidity, with redemption programs that vary by company and can be shut off depending on market conditions. Investors should be prepared for limited or no liquidity for the life of a non-traded REIT.
Capital Raise Offering Period	Shares are offered perpetually	Shares are offered for a limited period of time, with some exceptions.
Time Horizon	Long-term time horizon	Typically an 8-to-12 year time horizon
Transaction Costs	Brokerage costs, which are the same as buying or selling any other publicly traded stock	Typically between 8.5% and 18%, including upfront offering costs, commissions, acquisitions, management, and other ongoing expenses
Early Liquidation Fees	Exchange-traded REITs generally do not have early liquidation fees	Limited share redemption, generally 3% to 5% of shares outstanding per year; redemption programs may be terminated or adjusted, and the redemption price is generally lower than the purchase price by as much as 10%
Safety	None	None
Taxes/ Distributions	Must distribute at least 90% of taxable income (to qualify as a real estate investment company). Distributions for all REITs that are from current or accumulated earnings and profits are taxed as ordinary income, as opposed to the tax rate on qualified dividends, which generally carries a tax rate of 15%. But that rate can be 20% for people in the highest tax bracket or 0% for those in the lowest two tax brackets. If a portion of your distribution constitutes a return of capital, that portion is not taxed until your investment is sold or liquidated, at which time you will be taxed at capital gains rates.	Must distribute at least 90% of taxable income (to qualify as a real estate investment company). Distributions for all REITs that are from current or accumulated earnings and profits are taxed as ordinary income, as opposed to the tax rate on qualified dividends, which generally carries a tax rate of 15%. But that rate can be 20% for people in the highest tax bracket or 0% for those in the lowest two tax brackets. If a portion of your distribution constitutes a return of capital, that portion is not taxed until your investment is sold or liquidated, at which time you will be taxed at capital gains rates.
Risk Factors	Real estate related, economic related, leverage, market volatility, valuations, pricing, fees, distribution coverage, and others outlined in the prospectus or, if available, summary prospectus.	Real estate related, economic related, illiquidity, leverage, valuations, pricing, fees, distribution coverage, and others outlined in the prospectus or, if available, summary prospectus.

GLOSSARY

Barclay CTA Index: The BarclayHedge CTA Index is a leading industry benchmark of representative performance of commodity trading advisors. In 2020, there were 510 programs included in the calculation of the BarclayHedge CTA Index, which is unweighted and rebalanced at the beginning of each year.¹

Capital Call: When a private equity fund manager (usually a “general partner” in a partnership) requests that an investor in the fund (a “limited partner”) provide additional capital of the amount originally committed.²

Commodity: Raw materials used in the production of foods and in manufacturing industries. Commodities include metals, grains, and cereals; soft commodities such as sugar, cocoa, coffee, and tea; and vegetable oils such as palm oil, soybean oil, and sunflower seed oil. Exchange-traded commodities are quoted in specific lots of a specific quality for specified delivery. Commodities are also traded in futures and options markets.³

Correlation: The measurement of joint movement between two variables. Correlations are measured in a range from -2 to 2. A correlation of -2 implies that the variables move inversely to one another. A correlation of 2 implies that the variables move perfectly in lockstep with one another, but not necessarily by the same degree. A correlation of 0 implies that there is no relationship between the movements of the variables.

Derivatives: Financial contracts between two counterparties that change in value in concert with—or derive much of their value from—an underlying asset (security, foreign exchange rate, index, or other instrument). Derivatives require smaller amounts of capital than the underlying assets they replicate, while offering synthetic access to markets including currencies, interest rates, stock indices, and commodities.

Dow Jones Industrial Average (DJIA): The Dow Jones Industrial Average is an index of 30 “blue chip” stocks of U.S. industrial companies. The index includes a wide range of companies—from financial services companies to computer companies to retail companies—but excludes transportation and utility companies,

which are included in separate indices. Unlike many other indices, the DJIA is not a “weighted” index, meaning it does not take market capitalization into account.⁴

Forward Contracts: A forward contract is an agreement to buy or sell a commodity, security, or financial instrument at a specified future date at a specified price. It is a completed contract and the commodity or financial asset will be delivered, unlike an option which offers a choice of whether or not to complete the trade. Unlike futures contracts, forwards are not contracts with standard terms. They are tailor made between the buyer and seller for each deal and are traded over the counter and not on an exchange.³

Futures: An agreement to buy or sell a specific quantity of a commodity or financial instrument at a specified price on a particular date in the future.⁴

High-Yield Bond (Junk Bond): Bonds that are believed to have a higher risk of default and receive low ratings by credit rating agencies, namely bonds rated Ba or below (by Moody’s) or BB or below (by S&P and Fitch). These bonds typically are issued at a higher yield (for example, a higher interest rate) than more creditworthy bonds, reflecting the perceived higher risk to investors.⁴

Leverage: Refers to the use of various financial instruments, including credit lines and options, to attempt to enhance returns but at a higher level of risk. Leverage has the effect of magnifying both positive and negative results.

MSCI World Index: The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States, as of December 31, 2020.⁵

SEC: Abbreviation for Securities and Exchange Commission, the U.S. regulatory body responsible for overseeing and administering rules governing all sectors of the securities industry. Its purpose is to protect investors and maintain the integrity of financial markets.³

Short Sale (Short Selling): Short selling is the selling of borrowed securities in anticipation of a fall in prices. An investor borrows or temporarily acquires securities from a third party, sells them to his counterparty, and is paid for them. After the price has fallen the investor buys the securities in the market and returns them to the third party they were borrowed from. The investor's profit is the difference between the price the securities were sold at and the price they were bought at. If prices rise, however, the investor will have to buy them at a higher price than they were sold at, resulting in a loss.³

Standard & Poor's 500 Index (S&P 500): The Standard & Poor's 500 Composite Stock Price Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the U.S. economy. Stocks in the index are chosen for market size, liquidity, and industry group representation.⁴

Standard Deviation: Standard deviation measures how much individual values in a group deviate from the average or mean score for the group. In other words, the value of standard deviation helps show how many subjects in the group score within a certain range from the mean score for the group. In financial markets, it is used as a method of assessing how variable or volatile a price is likely to be. The bigger the standard deviation, the more widespread are the price movements and the more volatile the performance of the stock, yield, or financial instrument.³

Swap: An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments, or currencies with a commitment to re-exchange them at a specified time. The parties swap them because the terms available to them are not as good as those available to the other. They take the form of an exchange of cash flows between the parties so that interest rate risk or currency risk can be offset and a better match made between assets and liabilities.³

Volatility: Volatility describes the degree to which the value of a security changes over time. High volatility means that the value changes dramatically, usually due to great market uncertainty. Traders thrive on market volatility because it presents opportunities to earn a profit. Low volatility means values change minimally, such as when all news has been priced into a market. Professional investors tend to benefit from low volatility because they are better able to lock in stable returns.³

1 Source: Barclayhedge.com

2 Source: Center for Private Equity and Entrepreneurship, Tuck School of Business at Dartmouth

3 Source: Reuters

4 Source: U.S. Securities and Exchange Commission

5 Source: MSCI.com

THE LPL FINANCIAL CULTURE OF DUE DILIGENCE

One way LPL looks to bring value to its financial professionals and their clients is by having a strong culture of due diligence that helps bring good products to distribution and mitigates risk.

This due diligence starts with having a staff of strong subject-matter experts who can navigate the marketplace and identify good opportunities. Once a product has been identified, a thorough review is conducted by LPL Research team members who have lines of expertise in the relevant product area.

LPL is a leading source of objective advice for managing personal wealth. The Research team at LPL Financial is one of the largest and most experienced research groups among independent brokerage firms, composed of seasoned and accomplished industry veterans.

The Research team will also work with outside due diligence firms to give LPL an additional perspective on products. Not only will LPL review the product, but will also review the asset class on a macro level and determine how this particular sector makes sense given the current market conditions and how this sector could behave in different market cycles.

As a final part of this process, LPL has a Product Review Committee, which is made up of members of several internal business units that approve all new alternative/direct investment products and monitor existing products on the platform.

The LPL SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$250,000 may be claims for cash.* Additionally, through London Insurers, LPL accounts have additional securities protection to cover the net equity of customer accounts up to an overall aggregate firm limit of \$600 million, subject to conditions and limitations.

📄 For More Information

Visit <https://www.lpl.com/work-with-a-financial-professional/find-an-lpl-financial-professional.html>

* An explanatory brochure can be found at www.sipc.com

The information in this material is designed to provide an introduction to alternative investments only and is not intended to provide specific advice or recommendations for any individual.

To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

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