

# Important Information Regarding Alternative Assets

## Please Read Carefully

Every investment has unique features, requirements, and risks, and any decision to invest should only be made after you conduct a comprehensive review of the investment, investment sponsor(s), and any third-party service providers. This is especially important for alternative assets which are typically illiquid and are often much more complicated than traditional, publicly-traded assets. Millennium Trust acts as a directed custodian and does not provide investment advice or due diligence for you.

**Alternative assets are not suitable for every investor. It is as important for you to understand the risks (which can be significant) as well as potential benefits, before making an investment.**

As with any investment, alternative assets may fall short of predicted returns, or fail altogether. Also because of their complexity and because the general public does not understand them well, certain alternative investment structures are favored by criminals attempting to engage in fraudulent schemes.

Due diligence is the responsibility of every investor. This document should not be considered an exhaustive list, or a due diligence checklist. Our intent is to clarify our role as custodian as well as to provide you with a starting point to begin researching and educating yourself about investing in alternative assets. Please consult with your investment, tax, and legal advisors before making any investment.

## Investment Options

The IRS allows self-directed IRAs and other retirement accounts to hold a broad range of investment types. Retirement accounts cannot be used to invest in certain assets such as life insurance or collectibles. However, most non-traditional, non-publicly traded assets such as promissory notes, real estate, hedge funds and precious metals (commonly referred to as Alternative Investments, Alternative Assets, or simply Alternatives) can be held within a retirement account.

## Our Role as Custodian

Investors who open accounts with Millennium Trust Company, LLC ("Millennium") should understand that Millennium is a passive, non-discretionary custodian. The account owner is solely responsible for all investment decisions and for directing all investment activity. Millennium's role is to execute the investment directions on behalf of the account owner and provide custody and administrative services for the accounts. Millennium is not responsible for the performance of any investment in an account, including any losses incurred. Millennium is not a fiduciary and does not offer investment, tax, or legal advice, or conduct due diligence on prospective investments on behalf of an account owner.

## Things to consider when purchasing an Alternative Asset

- **READ ALL INVESTMENT DOCUMENTS**  
Investment documents differ for each type of investment. Many alternative investments are private placements (or non-public offerings.) Documents such as a Private Placement Memorandum, Prospectus, or Offering Memorandum set forth the details of ownership and should be read carefully along with any Partnership Agreements, Subscription Agreements, amendments, or other supporting documents.  
  
You should always be sure to ask questions of the appropriate parties when necessary, and seek to resolve any outstanding issues before investing.
- **INVESTMENT STRATEGY OR OBJECTIVE**  
Investors should carefully evaluate the asset they are investing in to determine if it is appropriate for their risk tolerance and investment objectives. The investment should be thoroughly described in the investment documents, including the risks involved. Items to focus on include the investment style, strategy, or asset selection method employed (particularly for pooled investments like hedge funds or private equity funds.)
- **LIQUIDITY**  
Alternative Assets often involve more risk because they tend to be illiquid and there is typically no established secondary market for them. Investors may (1) not be able to sell their investment, (2) be able to sell only to a limited type of investor, or (3) need permission to sell or transfer an investment. Investors' rights to withdraw or liquidate may be limited to specific times or circumstances and may require prior written notice. Investors should understand the conditions under which they can sell, withdraw, liquidate, or transfer their interest.
- **INVESTOR QUALIFICATIONS**  
Many private placements are only available to "accredited investors" or "qualified purchasers" as defined in the federal securities laws. These definitions are based on the investor's income and net worth. While it is the investment sponsor's responsibility to determine if an investor is qualified to invest in their offering, investors are asked to attest that they qualify and must accurately answer specific questions related to their qualifications.

- **INVESTOR SUITABILITY**

An investor may be technically qualified to invest in a given asset (for example, they may meet the income or net worth requirements to be considered an accredited investor); however, investors must determine for themselves (or with the help of their advisors) whether or not an investment is suitable for them based on such things as risk appetite, investment goals, and general understanding of the investment.

- **REGULATION**

Private Placements and other Alternative Investments are generally not regulated in the same manner as publicly traded investments. For example: mutual funds and hedge funds are pooled investment vehicles, but because mutual funds are offered to the general public they must adhere to a different set of guidelines than hedge funds, which are exempt from certain requirements because they are only offered to accredited investors or otherwise qualified institutions. There are a number of regulatory differences between private and publicly offered investments that are outlined in the federal securities laws. It is the investor's and/or advisor's responsibility to conduct whatever investigation they consider appropriate and necessary to understand the regulatory guidelines a specific investment must adhere to, and to determine whether or not the investment and/or the principals involved meet these requirements.

- **VALUATIONS**

Some Alternative Assets are more difficult to value than others, and most are more difficult to value than traditional assets, which are typically valued at least once a day. Also, valuations may be made by, or rely upon information from, the entity itself, which can create a possible conflict of interest. Alternative assets may distribute their valuations at different intervals or may not be responsive to their responsibility for providing current valuations. It is important to not only understand how the valuation is being calculated for an investment, but how often and by whom.

In the case of Millennium accounts, the account owner is solely responsible for ensuring that the investment sponsor, or other third party, provides a valuation directly to Millennium. Millennium does not accept valuations directly from an account owner, nor does Millennium calculate valuations of any asset for account owners.

- **ASSET REGISTRATION REQUIREMENTS**

Some Alternative Assets may be subject to registration with certain state or federal agencies or regulators. It is the investor's responsibility when dealing with the investment sponsor/issuer to ask and determine if the investment has met the appropriate requirements.

- **SELLER REGISTRATION REQUIREMENTS**

Even if a given Alternative Asset does not need to be registered, it is possible that the person or entity selling the Alternative Asset may be required to be registered by the State where the investor and/or the seller reside. It is the investor's responsibility to ask and determine if the person they are dealing with is, or is required to be, registered.

- **FRAUD CONCERNS AND PONZI SCHEMES**

The SEC and FINRA websites provide educational information on investor protection and avoiding fraudulent investment schemes. FINRA provides BrokerCheck.com which allows investors to check their broker's employment history, certifications, and licenses—as well as regulatory actions, violations or complaints you might want to know about before you invest. The SEC provides information on registered investment advisors at [sec.gov/check-your-investment-professional](http://sec.gov/check-your-investment-professional). Additional information about investment sponsors may also be available through the various states' Secretary of State or Attorney General's offices and websites.

Because Alternative Assets can be complex and most are not offered publicly, certain investment structures have become a favorite tool of criminals and other bad actors. Investors should be on the lookout for Ponzi schemes or other fraudulent activities.



**NOTE**

When purchasing shares in a pooled investment, such as a hedge fund, the ownership certificates or shares of the fund are held in the Millennium account, but the fund's underlying assets are not. The underlying assets are owned and controlled by the fund.

Likewise, if an investor directs Millennium to open a trading account at a brokerage firm on their behalf, cash will be moved from their Millennium account to the trading account. The assets purchased in the trading account will then be under the custody and responsibility of the brokerage firm.

## Things to understand when using a Millennium account to purchase an Alternative Asset

- **MILLENNIUM ACCOUNT AND INVESTMENT DIRECTION FORMS**

The issues noted above and other considerations due to the nature of Alternative Assets affect the administration of a retirement or custody accounts and are reflected in the documents which govern the Millennium account. The account documents include the adoption agreements, custodial agreements and accompanying disclosure statements. In order to purchase an Alternative Investment through a Millennium account, the account owner must also submit the appropriate investment direction form(s). These forms direct Millennium to purchase a specific asset/investment on behalf of the account. Funds must be sent directly from the Millennium account to the seller, and the purchased asset/investment is then held in the Millennium account on behalf of the account owner. The account documents and investment direction forms spell out each party's responsibilities regarding the investment and the general terms that govern the Millennium account. Please read all of these documents carefully.

- **CUSTODY IS NOT AN ENDORSEMENT**

Millennium conducts a pre-custody process to determine whether or not we can provide custody for a given type of asset prior to an account owner submitting investment directions. If we determine that we can custody an asset, it should not be considered an endorsement of the investment or an indication of its quality or suitability for you. Our pre-custody process is not due diligence for your investment. As a passive custodian we don't review investments for their potential or quality, or make any judgement about an investment's suitability for any investor. Millennium also does not authorize any third party to make representations on our behalf. Investment sponsors should not portray Millennium's pre-custody process as an endorsement of their investment product.

- **ONGOING EXPENSES AND ADDITIONAL FUNDING**

Although funds can be rolled over or transferred from certain other tax-advantaged accounts, the amount of contributions an individual can make to an IRA in any one year is limited. This should be taken into account when considering using an IRA to purchase an asset such as real estate which has recurring expenses like taxes, or futures trading accounts which may, at some point, require additional capital contributions.

- **REQUIRED MINIMUM DISTRIBUTIONS (RMDs)**

When purchasing an Alternative Asset in an IRA, investors should consider how issues such as valuation, illiquidity and withdrawal restrictions impact the requirements of that account, such as the need for RMDs. The illiquid nature of an Alternative Asset may be an issue when, after 70½ years of age (or 72 years of age beginning January 1, 2020), the investor is required to take a RMD from a retirement account. Planning for RMDs should be considered an integral part of any retirement strategy, especially when Alternative Assets are concerned.

- **RELY ON BROKER STATEMENTS**

When making decisions whether to trade or hold any underlying contracts or other assets, it is important for investors to review broker statements and trade confirmations. Investment sponsors for Alternative Assets may distribute their valuations at different intervals, or may not be responsive to their responsibility for providing current valuations to Millennium. Millennium provides periodic account statements based on valuations that are reported to us, but they should NOT be relied on when making investment decisions, as they may not reflect the most current valuation for a given asset.

- **PROHIBITED TRANSACTIONS**

Certain transactions between an IRA and a disqualified person are considered prohibited transactions. Engaging in prohibited transactions can result in substantial taxes and penalties for the account owner, and the entire IRA may lose its tax-deferred status. All funds/assets in the IRA may then be distributed to the account owner. The IRA would no longer exist and the account owner would be responsible for paying any taxes or penalties (such as the 10% penalty for early withdrawals from a retirement account and taxes on the entire distribution). It is the investor's responsibility to avoid prohibited transactions. See Section 4975 of the Internal Revenue Code and consult your tax advisor for more details.

- **UBIT, EXCISE TAXES**

Although IRAs and other retirement plans generally defer tax on income earned, some Alternative Assets may generate income that is subject to either unrelated business income tax (UBIT) or excise tax. It is the investor's responsibility to identify such income (often the investment documents will provide the information) and either report it or have Millennium report it on the investor's behalf.

For more information, visit us at [mtrustcompany.com](http://mtrustcompany.com) or call a client service specialist at 800.258.7878.

Millennium Trust Company performs the duties of a directed custodian, and as such does not provide due diligence to third parties on prospective investments, platforms, sponsors or service providers and does not offer or sell investments or provide investment, legal, or tax advice.

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12/21