MTConnect

MILLENNIUM TRUST'S QUARTERLY ALTERNATIVES NEWSLETTER

IN THIS ISSUE

ISSUE 1 | JANUARY 2017

Fast Facts

We are a leading financial services company offering alternative custody solutions to institutions, advisors, and individuals.

20.8B
Total assets under custody

$11.7B
Private fund assets

526K
Client accounts

11K
Unique assets under custody

As of December 31, 2016

With Change Comes Opportunity

There is an old saying that change is the only constant in life. In my career, I've certainly experienced many changes, and 2016 was no different. From the launch and growth of the Millennium Alternative Investment Network® (MAIN), to new talent joining our executive team, to expanded retirement services product offerings, 2016 was an eventful year. It was especially eventful for myself, as I was named CEO at Millennium Trust in March. Changes are not always easy, but from my experience with change comes opportunity.

As we move forward into 2017, there are certainly many changes on the horizon. The shifting political landscape may lead to changes in regulations, energy policies, international trade relations, and many more. Many leaders in the investment industry are trying to figure out what the changes will mean, but the truth is no one can be sure. What I am sure of is that Millennium Trust is closely monitoring potential changes, and always looking for opportunities to bring value to our clients. After all, with change comes opportunity.

One area in which we expect significant opportunity is the changing digital landscape of the financial services industry. While advances in small tech startups and personal banking tools seem to be a constant, large financial institutions have been slow to change. Several years ago Millennium Trust set out to be the premier digital custodian in this industry. We have made large investments in technology and our digital experience, but we know there is more work to be done to keep up with the rapid pace of technology.

This year we plan to roll out new client portals and improved digital tools to open, fund and invest in alternatives. This includes continuing to add more investment platforms to MAIN, and making it easier to custody assets with us. We are always looking for opportunities to bring change to the industry, and improve and enhance the services we provide.

I'd like to close by thanking you for choosing Millennium Trust to custody your assets. We know that you have a choice when it comes to who you work with, and we view it as a privilege to serve you.

Thank you for being a client! Please feel free to send questions or comments to us at info@mtrustcompany.com.

Gary Anetsberger

Gary Anetsberger, CEO

Will Distributions Impact Your Retirement Strategy?

When the topic of retirement strategy comes up, the focus of the conversation often falls on how much money to save, or which investments to choose. Those are critical elements of any retirement strategy, but it's also important to plan your distributions, or how you will withdraw funds once you reach retirement. This often-overlooked component is important to help make your retirement savings last as long as possible.

Every distribution will affect your retirement savings

Just as you work with your financial advisor to develop a spending plan, formulate an asset allocation strategy, and identify suitable investments, your advisor can also help you make distribution choices. An effective distribution strategy is an important component of a retirement plan because the order in which savings are taken may affect:

- How much tax is owed
- How much can be spent each year
- How long your money lasts

For example, you may be tempted to avoid taxes early in retirement by taking distributions from accounts like Roth IRAs, on which no taxes will be owed. Yet in some circumstances this could be a costly mistake down the road.

A tax-efficient distribution strategy may be a good choice

Imagine that you take $25,000 from your Roth IRA to cover living expenses during the first year of retirement. You're thrilled because you owe no taxes on the money from the Roth IRA.

However, you may have just missed an opportunity to let your Roth IRA savings grow. If you earn 5% a year, on average, for the next 10 years, the $25,000 could grow to almost $41,000. All of the money in the Roth IRA would be tax-free when withdrawn.

Another option may be to take the money from a taxable savings or brokerage account. You would owe capital gains tax on any gains that were withdrawn. So, if you take out the same $25,000 and have $10,000 in capital gains on the investments, you may owe $1,000 in taxes, depending on your marginal tax rate and capital gains rate which currently range from 0 to 20%. By accessing taxable accounts first, your tax-free and tax-deferred accounts would have the opportunity to grow and generate additional savings for retirement.

If you don't have taxable accounts, then you could take the $25,000 from a qualified retirement plan account, like a 401(k) plan account or a traditional IRA. The distribution would be treated as ordinary income. Your tax bracket (and the amount of tax you owe) would depend on your income from distributions and other income during the year and deductions would be factored in to calculate what might be a very low overall tax liability.

As a rule of thumb, a tax-efficient distribution strategy typically requires retirees to take:

1. Required minimum distributions (RMDs) (At age 70½, account owners must begin to take distributions from tax-deferred retirement accounts, such as IRAs. RMDs are not required for Roth IRAs, except after the death of the owner.)
2. Distributions from taxable accounts
3. Distributions from tax-deferred retirement accounts
4. Distributions from tax-exempt (Roth) retirement accounts

It's critical to have a distribution strategy

There is no single distribution strategy that is right for everyone. But regardless of your goals, every retirement plan should include a withdrawal strategy. Before adopting a strategy, you should talk with your tax and investment professionals to determine which strategies are most likely to confer the benefits you seek.

Retirement Planning – How to Avoid IRA Prohibited Transaction Sand Traps

By Jennifer Abernathy, Esq., CAMS; Chief Compliance Officer & Assoc. General Counsel

A fiduciary duty is the highest standard of care. As a fiduciary, a good investment advisor can be a bit like a professional caddy. A professional golfer relies on a caddy for much more than merely carrying the player's clubs. A good caddy, like any good advisor, is aware of the obstacles of the course being played, along with the best strategy in playing it. A good caddy will advise the player accordingly.

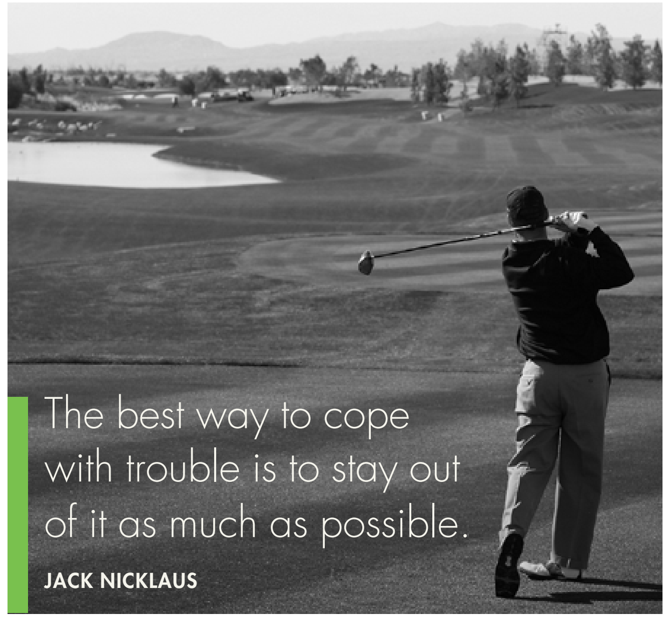
Securities laws define fiduciary duties owed by investment advisors to their clients. Under the Internal Revenue Code ("IRC"), advisors are considered fiduciaries to IRAs when they receive direct or indirect compensation to give advice to IRA owners regarding investing the IRA. In April 2017, the Department of Labor's ("DOL") new fiduciary rules are scheduled to expand the definition of fiduciary and place new requirements on advisors to IRAs.

One requirement on advisors who are fiduciaries to IRAs is to avoid prohibited transactions, as defined under IRC 4975 as well as the new DOL fiduciary rules. There are many nuances to the IRC prohibited transaction rule including rules and exemptions, and guidance can be somewhat limited. The top three IRC prohibited transaction rules that are most likely to apply to advisors include:

> Dealing with IRA income or assets for personal interest or account (self-dealing provision). While incidental benefits may be okay, it is not always clear whether a benefit may be incidental.

> Receipt of consideration from a party to a transaction involving IRA income or assets (anti-kickback provision). This could apply to gifts or entertainment.

> Transfer to, or use by or for the benefit of, the income or assets of the IRA.



Advisors who understand the duties and limitations placed on them by the IRC and the DOL's new fiduciary rules should be able to successfully avoid prohibited transactions. Consideration should be given to the following items:

> Investments in which the advisor receives direct or indirect compensation;

> Investments where the advisor receives additional compensation for their recommendation;

> Rollover recommendations;

> Fee structures;

> Required disclosures;

> Addressing conflicts of interest;

> Best Interest Contracts (BIC) requirements; and

> Documentation that can help show the advisor acted in the best interest of its clients.

If an advisor violates the prohibited transaction rules, it could be subject to certain excise taxes under the IRC, ranging from 15 percent of the amount involved and up to 100 percent if the prohibited transaction is not corrected. The advisor may also be liable for any losses to the investor resulting from the violation. Under the DOL's new fiduciary rules, investors will have the right to bring class action lawsuits against a firm for violation of the best interest standard.

Tax Season Reminders

The beginning of the year also marks the start of tax season.

IRS Form 1099

IRS Form 1099 is sent to clients to report interest, dividends and distributions for the preceding tax year.

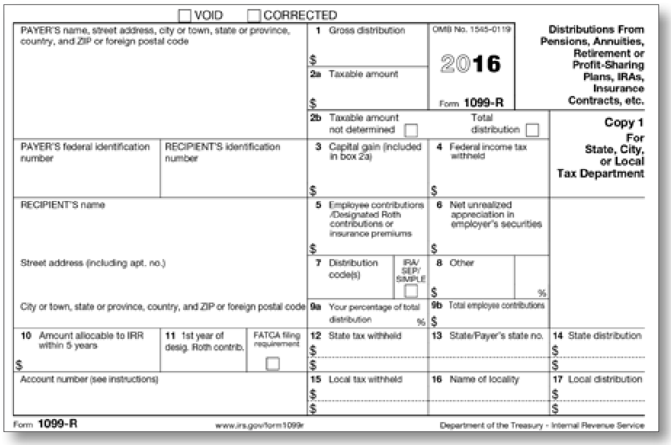
The 1099 (R, INT, DIV) tax forms for 2016 will be mailed to account owners by January 31, 2017.

IRS Form 5498

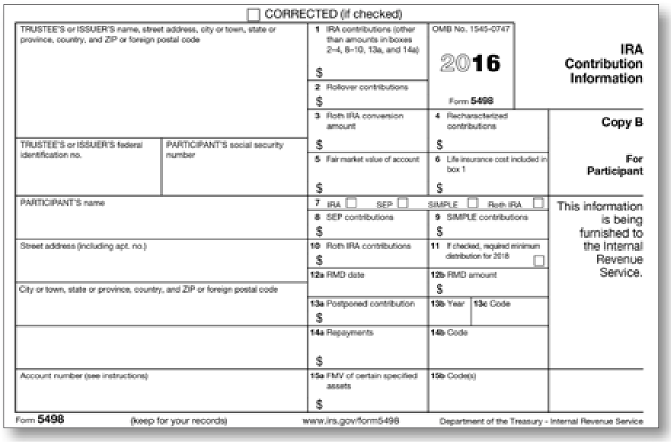
IRS Form 5498 is sent to clients who made contributions to an IRA the preceding tax year. A copy of this form is also sent to the IRS.

It reports total annual contributions as well as any amounts that are rolled over or transferred from other accounts to the IRA. In addition, the report tells you the reported fair market value of all the investments in the account and whether you may be required to take a required minimum distribution (RMD) in the next calendar year based on your age of record.

Because you are able to make contributions to your IRA for the previous year up to the tax filing deadline (April 18, 2017), 5498 forms are completed after this deadline. Millennium Trust will mail 5498 forms by the IRS deadline, which is May 31, 2017 for the 2016 filings.


VOID CORRECTED
PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code
1 Gross distribution $
2a Taxable amount $
2b Taxable amount not determined
Total distribution
OMB No. 1545-0119
2016
Form 1099-R
Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
PAYER'S federal identification number
RECIPIENT'S identification number
3 Capital gain (included in box 2a) $
4 Federal income tax withheld $
Copy 1 For State, City, or Local Tax Department
RECIPIENT'S name
5 Employee contributions /Designated Roth contributions or insurance premiums $
6 Net unrealized appreciation in employer's securities $
Street address (including apt. no.)
7 Distribution code(s)
IRA/ SEP/ SIMPLE
8 Other $ %
City or town, state or province, country, and ZIP or foreign postal code
9a Your percentage of total distribution %
9b Total employee contributions $
10 Amount allocable to IRR within 5 years $
11 1st year of desig. Roth contrib.
FATCA filing requirement
12 State tax withheld $ $
13 State/Payer's state no.
14 State distribution $ $
Account number (see instructions)
15 Local tax withheld $ $
16 Name of locality
17 Local distribution $ $
Form 1099-R www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

IRS Form 1099


CORRECTED (if checked)
TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code
1 IRA contributions (other than amounts in boxes 2–4, 8–10, 13a, and 14a) $
2 Rollover contributions $
OMB No. 1545-0747
2016
Form 5498
IRA Contribution Information
3 Roth IRA conversion amount $
4 Recharacterized contributions $
Copy B
TRUSTEE'S or ISSUER'S federal identification no.
PARTICIPANT'S social security number
5 Fair market value of account $
6 Life insurance cost included in box 1 $
For Participant
PARTICIPANT'S name
7 IRA SEP SIMPLE Roth IRA
8 SEP contributions $
9 SIMPLE contributions $
This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.)
10 Roth IRA contributions $
11 If checked, required minimum distribution for 2016
12a RMD date
12b RMD amount $
City or town, state or province, country, and ZIP or foreign postal code
13a Postponed contribution $
13b Year
13c Code
14a Repayments $
14b Code
Account number (see instructions)
15a FMV of certain specified assets $
15b Code(s)
Form 5498 (keep for your records) www.irs.gov/form5498 Department of the Treasury - Internal Revenue Service

IRS Form 5498

Have you moved?

Do you have a new residential or email address and need to update the information on your account? It's easy to get caught up in the hundreds of other things you need to do, but don't forget to notify us by completing the following request form:

[Address Change Request Form]

MILLENNIUM TRUST COMPANY®

Have questions? Contact us at 1.800.258.7878

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