

Alternative assets

Mennonite Retirement Trust



When creating an investment portfolio, most investment managers use stocks and bonds in various allocations. Mennonite Retirement Trust has gone beyond these traditional asset classes in building its balanced portfolios – conservative, moderate, and aggressive – by including “alternative assets.” The term “alternative asset” has a very broad meaning. Examples include:

- **Companies not available on public markets**

“Private capital” refers to investments in companies not traded on the public equity and bond markets. Broadly, private capital includes investment strategies like private equity, venture capital, distressed debt, and natural resources investments. Investors in private capital typically take an active role in the management of the companies in which they invest and hold investments for as long as seven years.

- **Real assets**

Private real estate and timber often react differently than stocks and bonds throughout economic cycles. In order to maintain their favorable tax treatment, private real estate investment trusts must pay out most of their earnings in the form of dividends, which can add stability to a

portfolio. Of course, real estate may also appreciate or depreciate over time. The success of timber investments depends both on proceeds from carefully timed harvesting as well as the potential appreciation of large stands of trees that may be sold by the timber manager.

Why invest in alternative assets

In general, alternative investments are very complex, are subject to significant risks, and may increase the volatility of a portfolio. Typically, these investments are less liquid than stocks and bonds, meaning there are usually restrictions on when they can be sold. So why include these types of investments? Part of portfolio management is diversifying investments so that if one type of investment is doing poorly, another may be doing well. Because alternative investments react differently than stocks and bonds, including these asset classes increases the diversification of the portfolios. This additional diversification may help reduce the overall risk of the portfolio and potentially enhance returns. However, diversification cannot guarantee a profit or ensure against a loss.

Unique value to MRT

Many of the alternative assets included in the MRT strategic portfolios are unavailable to individual investors. However, through the pooling of assets, MRT participants have the ability to access these investments that were once reserved for only the largest investors.

Alternative assets in MRT strategic portfolios

Venture capital
Private equity (U.S. and foreign)
Distressed debt (U.S. and foreign)
Natural resources
Timber
Private real estate
Commodities
Microfinance private equity

Investment into certain alternative products can be speculative, involve a high degree of risk and charge additional fees over the course of the investment. Alternative investments do not generally trade on a major stock exchange and are mostly illiquid. Certain suitability requirements may be required to invest. Investors should review all offering materials and the specific risk factors associated with any alternative product prior to investing.