

Alternative Investments

LEARNING OUTCOMES

Overview of Types of Real Estate Investment

The candidate should be able to:

- compare the characteristics, classifications, principal risks, and basic forms of public and private real estate investments
- explain portfolio roles and economic value determinants of real estate investments
- discuss commercial property types, including their distinctive investment characteristics
- explain the due diligence process for both private and public equity real estate investments
- discuss real estate investment indexes, including their construction and potential biases

Investments in Real Estate through Private Vehicles

The candidate should be able to:

- discuss the income, cost, and sales comparison approaches to valuing real estate properties
- compare the direct capitalization and discounted cash flow valuation methods
- estimate and interpret the inputs (for example, net operating income, capitalization rate, and discount rate) to the direct capitalization and discounted cash flow valuation methods
- calculate the value of a property using the direct capitalization and discounted cash flow valuation methods

- calculate and interpret financial ratios used to analyze and evaluate private real estate investments

Investments in Real Estate Through Publicly Traded Securities

The candidate should be able to:

- discuss types of publicly traded real estate securities
- justify the use of net asset value per share (NAVPS) in valuation of publicly traded real estate securities and estimate NAVPS based on forecasted cash net operating income
- describe the use of funds from operations (FFO) and adjusted funds from operations (AFFO) in REIT valuation
- calculate and interpret the value of a REIT share using the net asset value, relative value (price-to-FFO and price-to-AFFO), and discounted cash flow approaches
- explain advantages and disadvantages of investing in real estate through publicly traded securities compared to private vehicles

Private Equity Investments

The candidate should be able to:

- explain sources of value creation in private equity
- explain how private equity firms align their interests with those of the managers of portfolio companies
- compare and contrast characteristics of buyout and venture capital investments
- interpret LBO model and VC method output
- explain alternative exit routes in private equity and their impact on value
- explain risks and costs of investing in private equity
- explain private equity fund structures, terms, due diligence, and valuation in the context of an analysis of private equity fund returns
- interpret and compare financial performance of private equity funds from the perspective of an investor
- calculate management fees, carried interest, net asset value, distributed to paid in (DPI), residual value to paid in (RVPI), and total value to paid in (TVPI) of a private equity fund

Introduction to Commodities and Commodity Derivatives

The candidate should be able to:

- compare characteristics of commodity sectors
- compare the life cycle of commodity sectors from production through trading or consumption
- contrast the valuation of commodities with the valuation of equities and bonds
- describe types of participants in commodity futures markets
- analyze the relationship between spot prices and futures prices in markets in contango and markets in backwardation
- compare theories of commodity futures returns
- describe, calculate, and interpret the components of total return for a fully collateralized commodity futures contract
- contrast roll return in markets in contango and markets in backwardation
- describe how commodity swaps are used to obtain or modify exposure to commodities
- describe how the construction of commodity indexes affects index returns