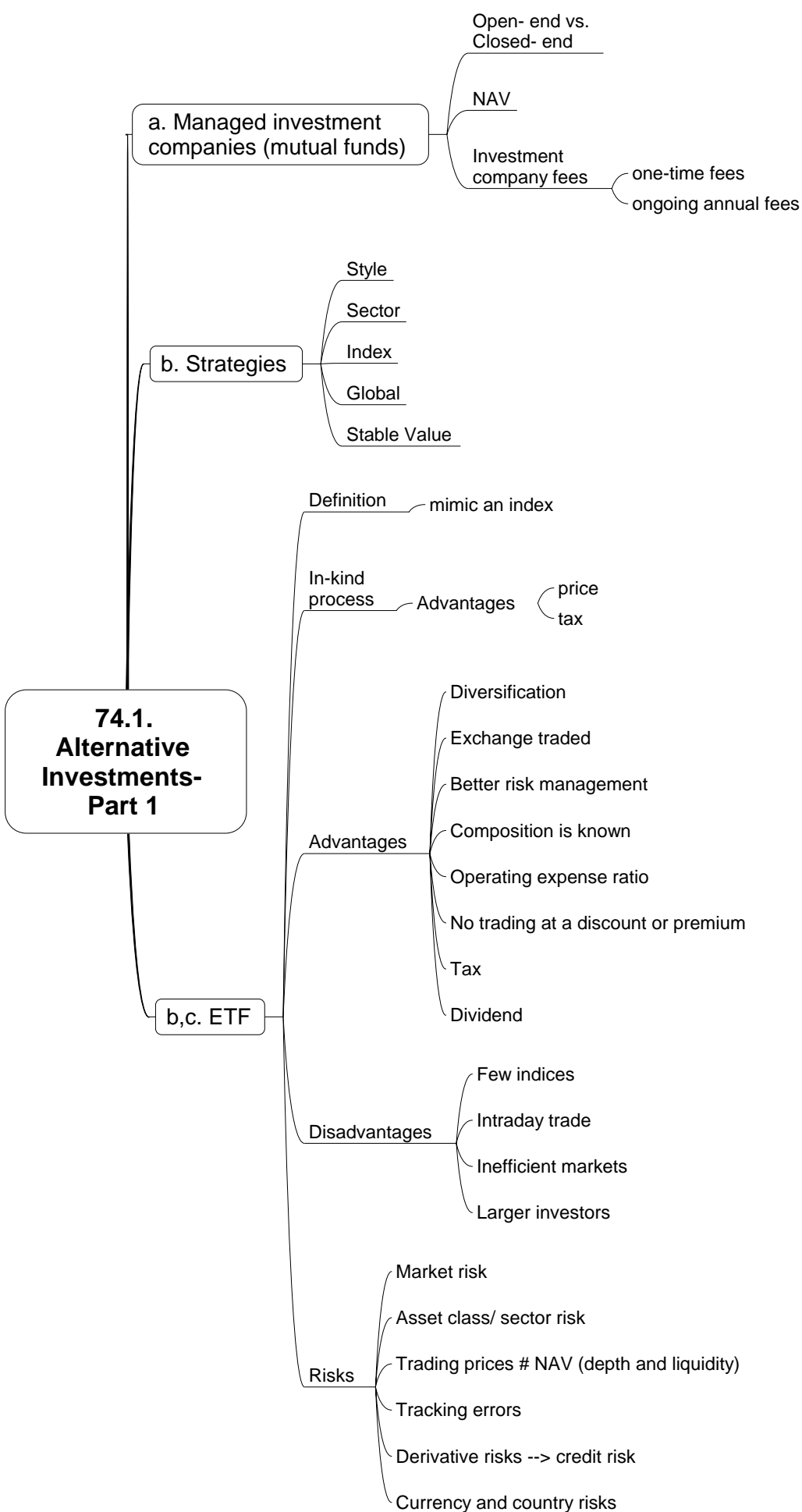


CFA LEVEL 1

STUDY SESSION 18

**ALTERNATIVE
INVESTMENTS**



74.2. Alternative Investments- Part 2

d,e,f. Real Estate Investment

- Types
 - Outright ownership
 - Leveraged equity position
 - Mortgages
 - Aggregation vehicles
- Characteristics
- e,f. Approaches to the valuation of real estate
 - Cost method
 - Sales comparison method
 - Income method
 - Discounted after tax cash flow model

g,h. Venture capital investing

- Stages
 - Balanced stage
 - Formative stage
 - Seed stage (R&D)
 - Early stage
 - Start-up financing (Initial marketing)
 - First stage financing (Commercial production)
 - Later stage
 - Expansion stage financing
 - Second stage investing (Producing and selling products, Not yet generating income)
 - Third stage financing (Major expansion)
 - Mezzanine (bridge financing) (IPO)
- Characteristics
 - Illiquidity
 - Long term horizon
 - Difficulty in valuation
 - Limited data
 - Entrepreneurial / Management mismatches
 - Fund Manager incentive mistakes
 - Timing in the business cycle
 - Requirement for extensive operations analysis
- h. NPV of a venture capital project

