



# Overview of Alternative Investments

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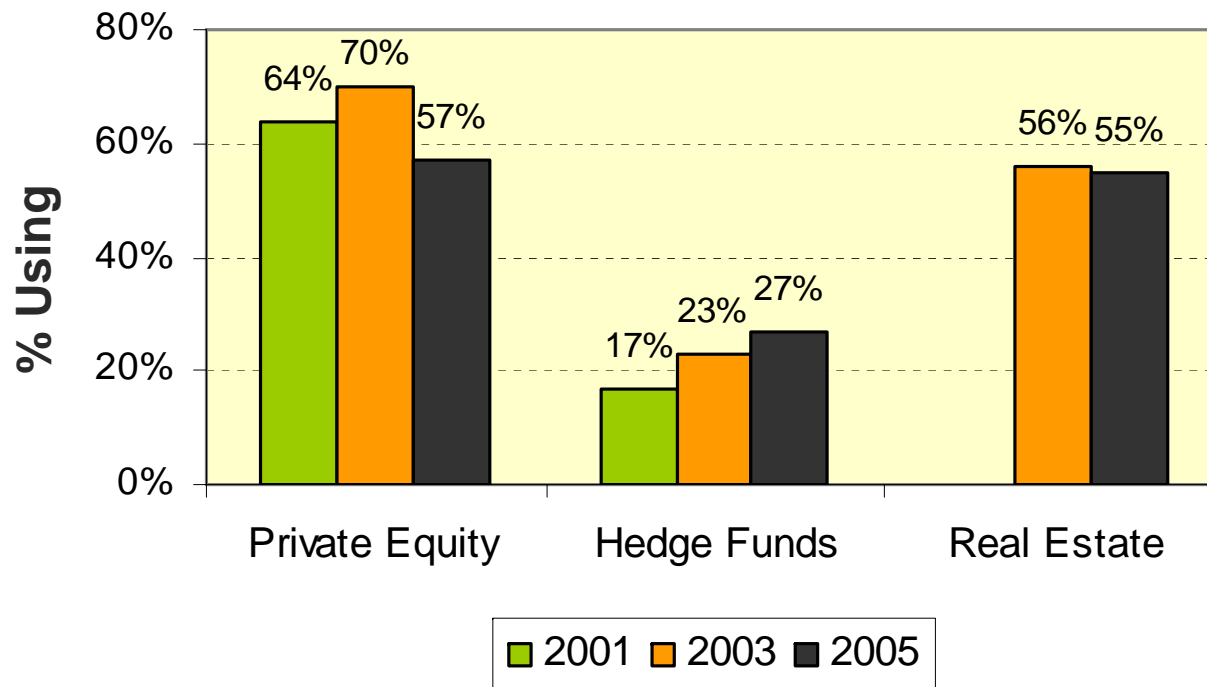
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# Definition of “Alternative Investments”

- Broadly defined, asset classes and strategies other than “long-only” stocks and bonds
- Most common “Alternative Investments”
  - Real Estate
  - Private Equity
  - Hedge Funds
- Other alternative strategies include
  - Global Tactical Asset Allocation (GTAA)
  - Infrastructure
  - Currencies
  - Commodities
  - And more...

# Investments by Tax Exempt Investors



*Survey by Russell Group of 327 large organizations responsible for managing tax-exempt assets responded on their use of private equity, hedge funds, and real estate.*

# Rationale for Alternative Investments

- Diversification
  - Returns over time are not highly correlated to traditional asset classes
  - Broaden fund's investment "opportunity set"
- Alternative asset classes are less "efficient"
  - Greater ability for managers to add value
- When combined with traditional assets, can enhance total fund returns over time with less risk ("volatility")

# [ Real Estate ]

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- Equity investments in real properties
- Major property types include: Office, Industrial, Retail and Multi-Family
- Manager strategies
  - Core – high quality properties which are fully leased; stable income stream
  - Value Add – properties which are not fully leased and in need of repositioning in order to enhance value of the asset
  - Opportunistic – New construction or complete renovation of existing properties

# [ Private Equity ]

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- Investments in companies through private markets (rather than through publicly traded securities)
- Term can refer to both equity and debt investments
- Major forms include
  - Venture Capital (early, mid and late-stage) – private capital used to finance a start-up business or grow an existing one
  - Buyouts – acquisition of a company or an operating division, often by existing management
  - Mezzanine – final round of financing intended to help carry a company to an initial public offering

# [ Hedge Funds ]

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- Term can be ambiguous and refers to a wide range of investment strategies
- Investment objectives are to earn consistent absolute returns over time (rather than relative returns)
  - May use short selling or other hedging strategies
  - May use leverage to enhance returns
- Major strategies include
  - Relative Value Arbitrage
  - Event Driven
  - Equity Long-Short
  - Macro / Tactical Trading

# [ Key Characteristics of Alternative Investments ]

- Higher fees than traditional asset management
- Most are established as limited partnerships (LP) or limited liability companies (LLC)
- Partnerships themselves are not publicly traded (although some underlying assets might be)
  - Depending on underlying asset, valuation may be highly subjective
- Investor capital may be “called” over time or subject to initial “lock-up” with periodic liquidity
- Amount of on-going portfolio transparency and client reporting will vary considerably by manager and strategy