

JuiceNotes[™]

Alternative Investments

CFA Level 1
2026

Your CFA Journey with FinTree

A Guided Roadmap from Enrollment to Exam Day

At FinTree, we believe in smart preparation driven by structure, support, and consistency. Our unique LPR Methodology – Learn, Practice, Revise – is designed to guide you through each stage of your CFA prep journey with clarity and confidence.

Roadmap from Enrollment to Exam Day

1. Enrollment & Onboarding:

- Receive a welcome call from your dedicated Success Manager (RM)
- Added to a WhatsApp broadcast list for timely updates
- Join a peer group to engage in discussions, share queries, and stay motivated
- Get a personalized study plan and guidance on how to start your prep journey

2. Learning Phase (Initial Months)

- Watch Main Concept Videos and read the official CFA curriculum
- Focus on understanding foundational concepts topic-wise
- Attend live weekend classes to deepen understanding and clarify doubts

3. Practice Phase (Mid Journey)

- Watch EOC and Blue Box videos to apply concepts to CFA-style questions
- Attempt Learning Evaluation Sessions (LES) for topic-wise testing
- Give Weekly Tests based on a structured test calendar
- Weekly Test results are discussed in class on Sunday for deeper insight into common errors and personal improvement

4. Revision Phase (Final 60 Days)

- Revise thoroughly using Juice Notes and Crash Course videos
- Solve the LES twice –
- Vertically (topic by topic)
- Horizontally (across topics like in actual exams)
- Attempt mock exams as per our 60-day revision schedule
- Review mocks in detail, focusing on time management, accuracy, and weak areas

5. Final Phase - IPASS

Index

Alternative Investments

Page No.

| | | |
|------------|---|-----------|
| LM1 | Alternative Investment Features, Methods & Structures | 6 |
| LM2 | Alternative Investment Performance & Return | 13 |
| LM3 | Investment in Private Capital : Equity and Debt | 20 |
| LM4 | Real Estate & Infrastructure | 28 |
| LM5 | Natural Resources | 37 |
| LM6 | Hedge Funds | 42 |
| LM7 | Introduction to Digital Assets | 50 |

Alternative Investments

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Placement Assistance Overview

What is Placement Assistance?

- Placement Assistance at FinTree is a structured support system that helps students transition smoothly from learning to employment.
- Our goal is to connect students with the right opportunities in the finance and analytics sectors through a personalized and practical approach.
- We find relevant job openings according to the skills and experience relevant with the candidates' expectations.

Process of Placement Assistance

All relevant job openings are shared via **WhatsApp Broadcasts** to ensure students receive timely updates and can apply promptly.

How can candidates get added to Placement Broadcasts –

- Placement team will share a form, which needs to be filled.
- Once the candidate has filled the form, he/she will be added to broadcast network within next 48hrs & the candidate will be notified.
- You will start receiving the latest opportunities on your WhatsApp Number.
- Candidates can apply in multiple openings based on their career aspiration.

We will also assist you with resume building, career counselling & interview preparation.

If you need any assistance, request you to contact on +917447443045

Placement Highlights

- **Top Recruiters:** Goldman Sachs, PWC, Barclays, Crisil, BNP Paribas, HSBC
- **Key Roles:** Financial Analyst, Equity Research, IB Analyst, Risk & Valuation
- **Packages:**
 - Freshers: ₹4.5–8 LPA
 - Experienced: Up to ₹20 LPA and more...
- **Alumni Placed At:** Morningstar, Deutsche Bank, EY, Deloitte, Bank of America, Centrum, Purnartha

Alternative Investment Features, Methods, and Structures

FinTree Fruit 1: ALTERNATIVE INVESTMENT FEATURES

- Alternative investments are **non-traditional assets**, distinct from stocks, bonds, and cash, **characterized by unique structures and investment approaches**.
- Sophisticated investors with the **longest investment time horizons**, such as large pension funds, sovereign wealth funds, and not-for-profit endowments, tend to **allocate a larger share of their portfolio to these assets**.
- **An investment in a hedge fund**, even one that purchases traditional exchange-traded assets, is considered an alternative investment.
- Alternative investment categories include **private capital, real assets, and hedge funds**.

Alternative Investments features & characteristics :



Alternative Investments Categories :

1. Private Capital

- Private capital refers to funding for companies sourced outside public equity and debt markets.

PRIVATE EQUITY

- Capital that is provided in the form of equity investments is called private equity.
- Private equity refers to investment in privately owned companies or in public companies with the **intent to take them private**.
- It is used in the mature life cycle stage or for firms in decline, with **leveraged buyouts**.
- **Venture capital** is a type of private equity that funds early-stage, non-public companies with limited operations or customer bases.

PRIVATE DEBT

- Capital that is provided as a loan or other form of debt is called private debt.
- It includes private loans, bonds, and other non-public financing options.
- **Venture debt** funds early-stage firms with minimal cash flow.
- **Distressed debt** funds financially troubled companies, often trading at a discount, with potential for restructuring or turnaround.

2. Real Assets

- Real assets are tangible assets like real estate, infrastructure and natural resources, as well as intangibles such as patents, intellectual property, and goodwill.
- It either generates current or expected future cash flows and/or is considered a store of value.

Real Estate

- Real estate includes borrowed or ownership capital in buildings or land.
- **Commercial real estate** includes land and buildings where private business activity is the primary cash flow source.
- **Residential real estate** includes single-family homes, multi-family properties, and rental housing, where cash flows stem from rents or mortgage payments.
- **REITs** are publicly traded real estate which are issuers of equity, and mortgage-backed debt securities.

Infrastructure

- It involves land, buildings and other long-lived fixed assets that are intended for public use and provide essential services.
- Examples of tangible infrastructure assets : bridges and toll roads.
- It generates cash flows through fees, leases, or access rights and indirectly by boosting economic growth and tax revenue.
- **Public-private partnerships (PPPs)** involve private investors partnering with governments to develop infrastructure.
- **Concession Agreement** outlines a private investor's duty to build, maintain, and operate infrastructure while earning fees for a set period.

Natural Resources

- It includes undeveloped land, such as farmland and timberland which hold economic value or extracted commodities like minerals and energy.
- It generates returns through price appreciation and cash flows.

Commodities

- These are standardized, traded goods which include plant, animal, energy, and mineral products used in goods and services production.
- It does not generate cash flows directly but is sold by producers to consumers for economic use.
- Investors seek to profit from price fluctuations driven by commodities' future economic use.
- It has low correlation with other assets, making them effective countercyclical holdings and inflation hedges.

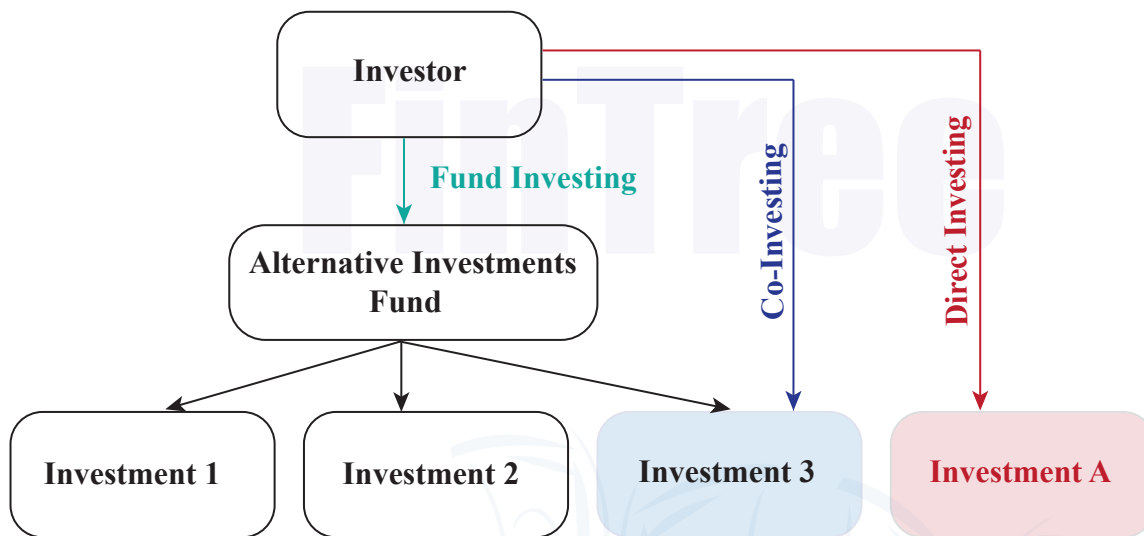
Other Real Assets

- It includes collectibles like fine art, wine, and rare coins, as well as intangibles like patents, litigation claims, and digital assets.
- Digital assets are electronically created, stored, and transferred with ownership or usage rights.

3. Hedge Funds

- Hedge funds are private investment vehicles that invest across asset classes but are defined by their investment strategies rather than the assets they hold.
 - It uses leverage, derivatives, and short selling, creating risk-return profiles distinct from traditional buy-and-hold strategies.
 - Investors may also invest in a portfolio of hedge funds, often referred to as a fund of funds.
-

FinTree Fruit 2 : ALTERNATIVE INVESTMENT METHODS



- **Fund investing allows investors to access alternative assets indirectly by contributing capital to an investment manager who selects, manages, and monitors investments for a fee.**
- **An investor invests indirectly through a fund while holding co-investment rights for direct participation, gaining experience and knowledge while reducing fees.**
- **Sophisticated investors with specialized skills and knowledge manage individual alternative investments without the use of an intermediary. Direct investors retain maximum flexibility and control when it comes to investment choice, methods of financing, and timing.**

FinTree Fruit 3 : ALTERNATIVE INVESTMENT STRUCTURE

Ownership Structure

- **Limited partners (LPs) are passive investors while general partners (GPs) control fund operations and manage investments.**
- **Accredited investors, typically LPs, meet minimum net worth or institutional requirements to access less regulated private investments.**
- **A Limited Partnership Agreement (LPA) defines LP terms, including profit distribution, manager roles, investment rules, and transfer or withdrawal conditions.**
- **Infrastructure projects use special purpose entities, while Master Limited Partnerships (MLPs) offer liquid, often publicly traded units for real estate and natural resource investors.**

- Unique investor needs may be addressed through a **Side Letter**, modifying LPA terms.

It may grant :

1. **Transfer rights,**
2. **Excusal rights,**
3. **First right of refusal,**
4. **A “Most Favored Nation” clause for equal terms.**

Compensation Structure

- Typically include management fees and performance fees to **align GP and LP incentives.**
- Hedge funds and REITs charge management fees on **AUM**, while private equity funds charge fees on **committed capital**, not invested capital.
- A performance fee is also referred to as an **incentive fee or carried interest.**
- Performance fees may have **hurdle rates, catch-up clauses, high-water marks, and clawback provisions** to align interests.

• HURDLE RATE

A hurdle rate is the **minimum fund return** required before performance fees accrue.

A hard hurdle charges fees only on returns **exceeding** the threshold, while a soft hurdle allows fees on **total returns** once the threshold is surpassed.

Example 1 :

r = single-period fund rate of return
 r_h = hard hurdle rate
 p = GP performance fee
 r_{GP} = GP's rate of return

If a fund earns r of 18% over a period and receives a performance fee of 20% (p) of returns in excess of the hurdle rate, r_h , of 8%, then r_{GP} is equal to?

$$r_{GP} = \max[0, p (r - r_h)]$$

$$2\% = \max[0, 20\% (18\% - 8\%)]$$

• CATCH-UP CLAUSE

A catch-up clause **accelerates performance** fees once the fund surpasses the soft hurdle rate.

The GP's rate of return (r_{GP}) using example 1 with a catch-up clause become,

$$r_{GP} = \max[0, r_{cu} + p(r - r_h - r_{cu})].$$

$$3.6\% = \max[0, 2.0\% + 20\%(18\% - 8\% - 2\%)].$$

How to solve:

LP will receive 100% of all cash distributions until it earns the hurdle rate of 8%. Then, the GP will receive 100% of distributions until the split of profit is 80%/20%. The remaining distributions will be split 80%/20%.

- **HIGH-WATER MARK**

A high-water mark sets the fund's peak **value net of fees**, preventing managers from charging performance fees twice on the same returns and ensuring fees apply only when the fund surpasses its previous peak.

A hedge fund starts with \$100M AUM, charging 1% management on Closing AUM and 20% performance fees independent of Management fee, with an HWM provision.

Year 1:

Fund grows to \$120M.

Fees: \$1.2M mgmt, \$4M performance → HWM set at \$114.8M.

Year 2:

Fund drops to \$110M.

Fees: \$1.1M mgmt, \$0 performance (HWM not exceeded).

Year 3:

Fund rebounds to \$130M.

Fees: \$1.3M mgmt, \$3.04M performance (on gains above \$114.8M HWM).

HWM ensures fees apply only to new gains after prior losses.

- **CLAWBACK PROVISION**

A clawback provision allows LPs to **reclaim a portion** of the GP's performance fee, typically if early gains are offset by later losses.

A private equity fund invests \$10M in Alpha Corp (LBO) and \$10M in Beta Tech (early-stage).

Year 1:

Alpha Corp sells for \$25M (+\$15M gain).
The GP accrues \$3M (20%) in performance fees.

Year 2:

Beta Tech fails (-\$10M loss).
Net Fund Profit: \$5M (\$15M - \$10M) → Final GP Fee: \$1M (20%)

Clawback: GP returns \$2M of the initial \$3M fee to LPs.

Clawback ensures fees reflect net profits over the fund's life.

Waterfall Structure

Waterfall structures **incentivize GPs** to maximize profitability in both deal-specific and aggregate fund terms.

Deal-by-deal waterfalls involve per-deal performance fees, favorable to GPs.

Whole-of-fund waterfalls distribute all profits to LPs until they receive initial investment and hurdle rate, then share with GPs.

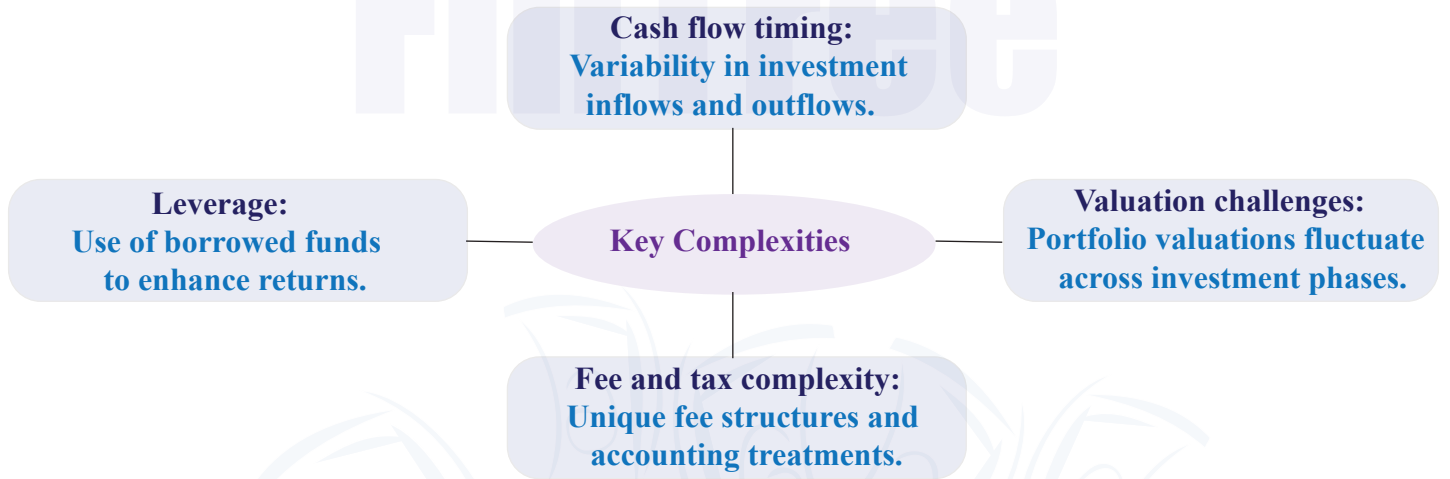
Types:

1. Deal-by-Deal (American) - advantageous to GP
 2. Whole-of-Fund (European) - advantageous to LP
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Alternative Investment Performance and Returns

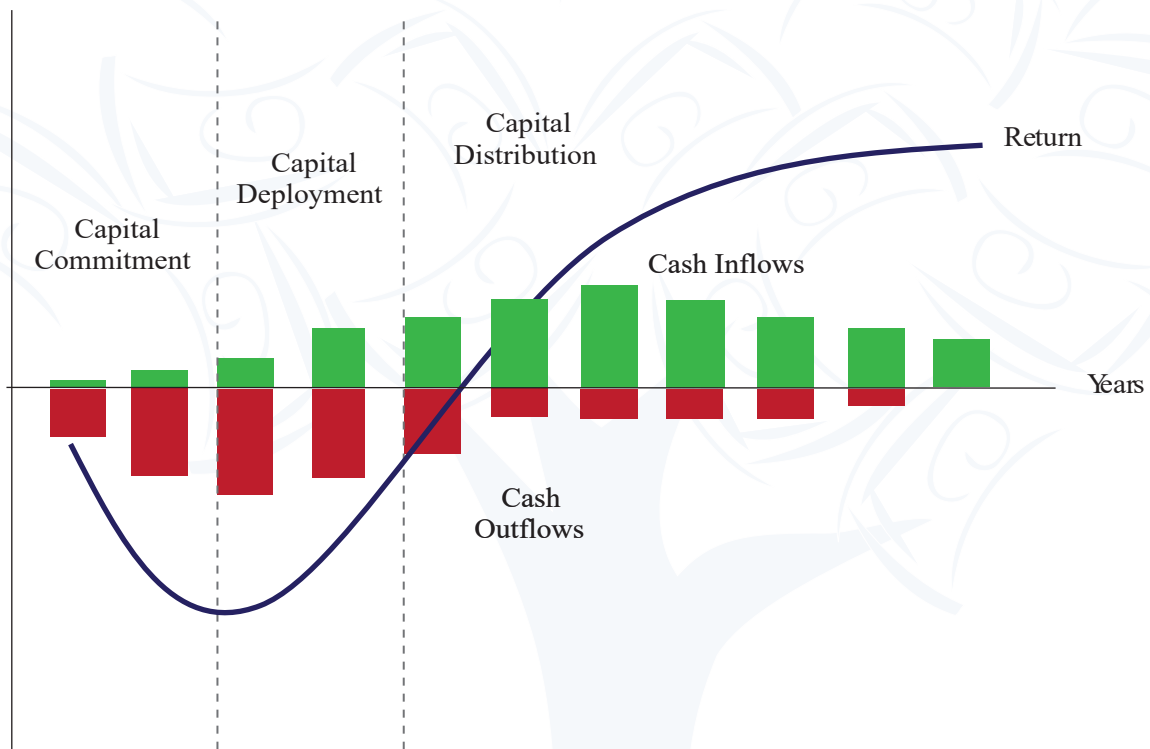
FinTree Fruit 1: ALTERNATIVE INVESTMENT PERFORMANCE

- Alternative investments are **highly customized**, making performance appraisal **challenging**.

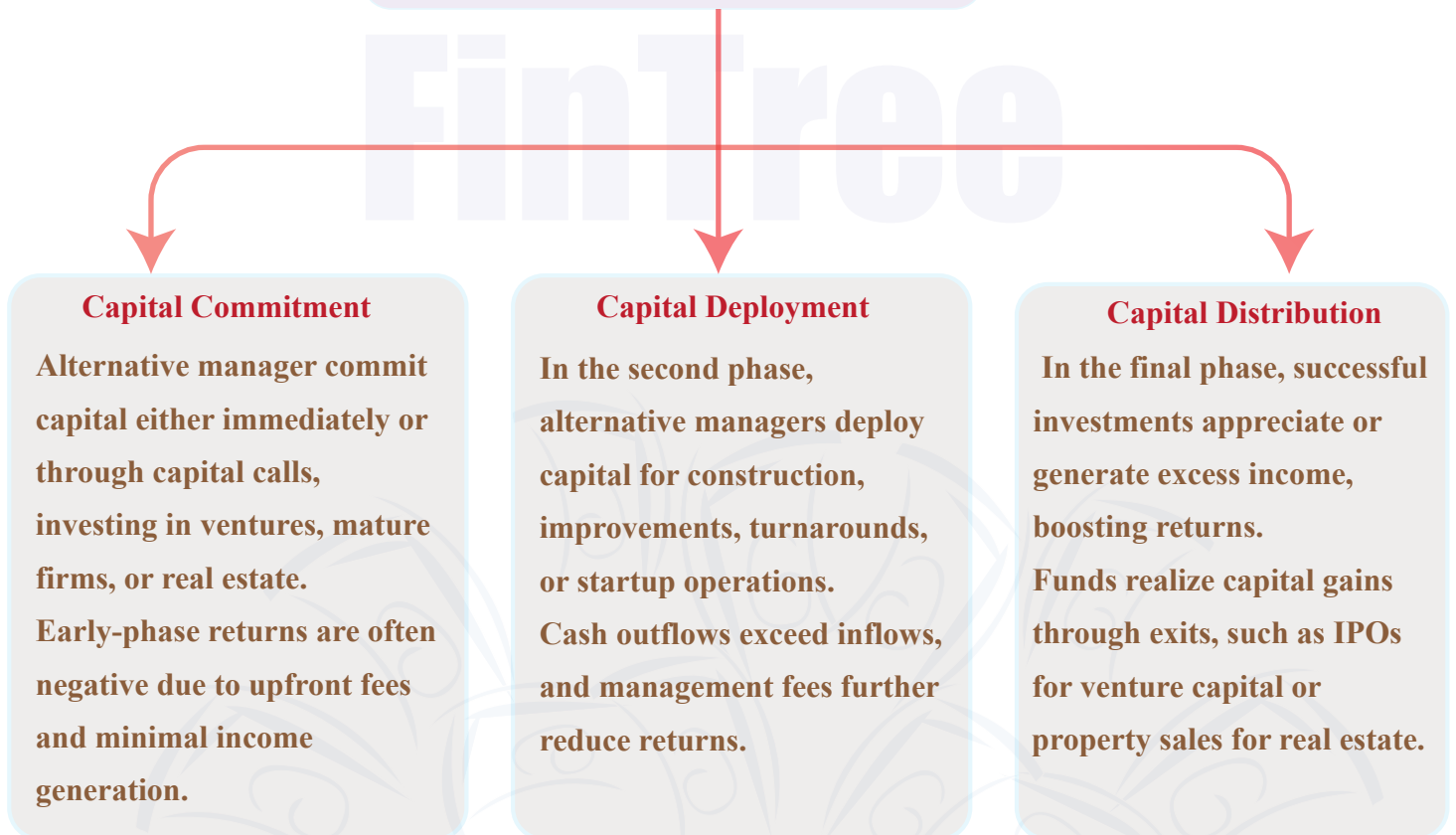


Investment Life Cycle

- Alternative investments have **longer, varying life cycles** with **distinct cash flow phases**, making return comparisons more complex.



CashFlow Phases



- The **J-curve effect** illustrates initial negative returns during capital commitment, followed by accelerated gains and eventual leveling off as investments are sold.
- **IRR** is the key metric used to assess longer-term alternative investments

MOIC (Multiple Of Invested Capital)

- Due to cash flow complexities, **private equity and real estate managers** often use **MOIC (Multiple of Invested Capital)** as a simple performance metric.

MOIC = (Realized value of investment + Unrealized value of investment)/Total amount of invested capital.

- While **MOIC ignores cash flow timing**, it is easy to calculate and intuitively expresses returns as a multiple of the initial investment.

Example :

Q. Himitsu, a private equity firm, makes an initial investment of JPY3.8 billion into ZZZ company in Year 0. Eight years later, it sells its stake in ZZZ for JPY8.5 billion. Additional capital investments were made in Year 2 and in Year 3 for JPY1.2 billion and JPY 200 million, respectively. Calculate the MOIC.

Answer: $MOIC = 8.5 / (3.8 + 1.2 + 0.2) = 1.63\times$

| | Amount | Year |
|--------------------|-------------|------|
| Invested Capital | (3,800,000) | 0 |
| Additional Capital | - | 1 |
| Additional Capital | (1,200,000) | 2 |
| Additional Capital | (200,000) | 3 |
| Liquidity Event | (8,500,000) | 8 |
| MOIC | 1.63x | |

Differentiation of MOIC and IRR**MOIC**

- ignores timing of cash flows
- easy to calculate and understand

IRR

- considers timing of cash flows
- more complicated to calculate
- requires assumptions on opportunity costs and reinvestment rates

Use of Borrowed Funds

Alternative investments often use financial leverage to amplify returns by borrowing funds, increasing the investment size beyond committed capital. This magnifies both gains and losses.

The leveraged return (r_L) is calculated as: $r_L = r + V_b/V_c(r - r_b)$



r is the unleveraged return

V_b is borrowed funds

V_c is invested capital

r_b is the borrowing rate.