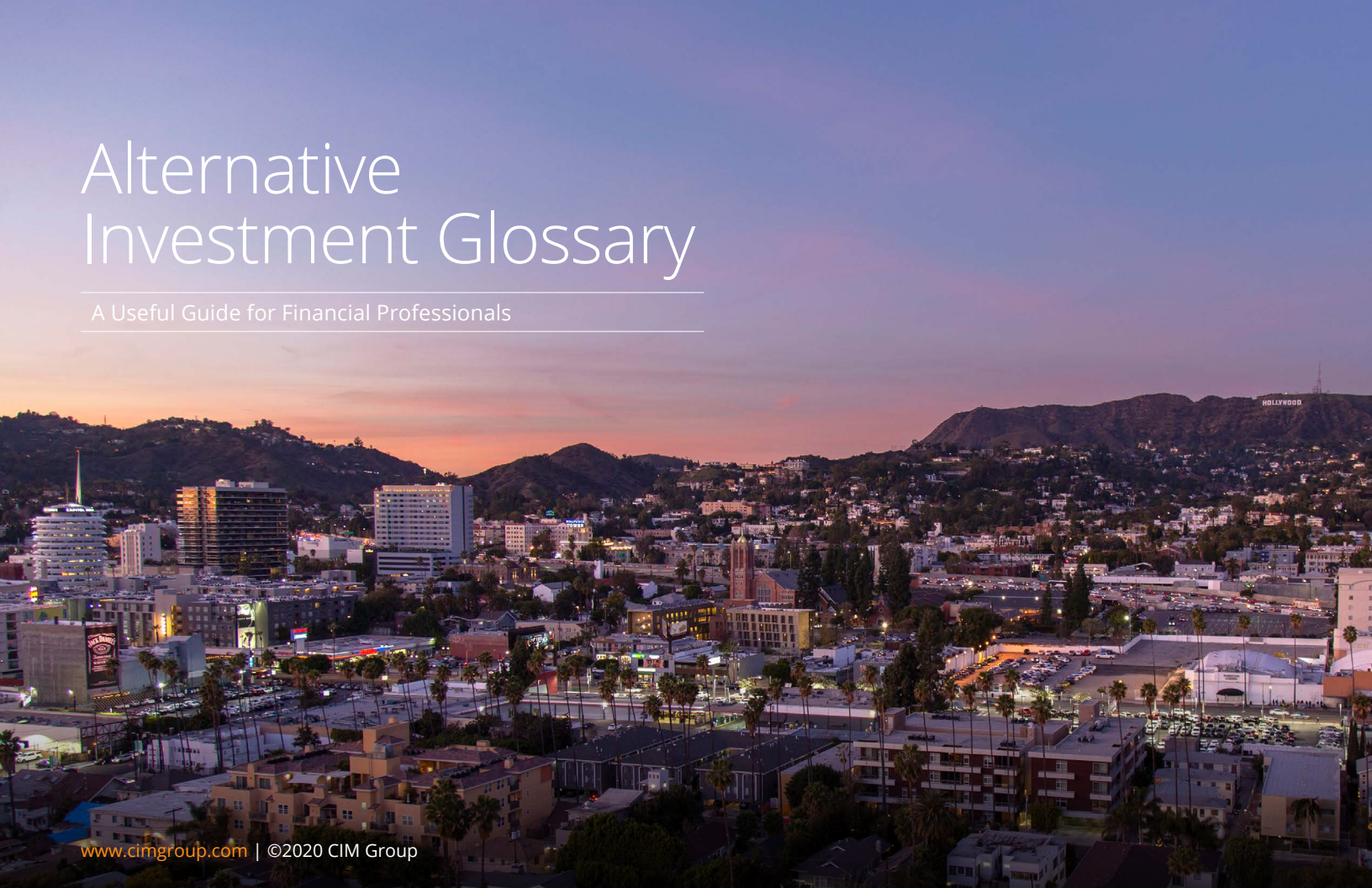


# Alternative Investment Glossary

A Useful Guide for Financial Professionals



# CIM

The alternative investments industry employs a vast collection of terms and acronyms to describe processes, regulations, investments and related topics.

A joint effort between AI Insight® and CIM Group®, two industry leaders, this glossary was designed as a “quick guide” for plain-English definitions of more than 100 key terms related to alternative investments.

We hope you’ll find this glossary useful throughout your alternative investment journey.

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## 1031 Exchange

A 1031 exchange, also known as a like-kind exchange, is a swap of one investment property for another. Should the swap meet the requirements of the 1031 exchange, the sale will either have no tax or limited tax due at the time of the exchange.

## 1099-DIV

Form 1099-DIV, or a Dividends and Distributions form, is sent by banks or other financial institutions to individuals who receive taxable dividends or distributions paid out from an investment.

## Absorption

Absorption costing (or full absorption costing) indicates that all of the manufacturing costs have been captured by the units produced. In other words, the cost of a finished product accounts for the variable and fixed overhead costs. Absorption costing is required for income tax reporting and for external financial reporting.

## Accredited Investor

An accredited investor is an individual or entity with exclusive access to deal, trade and invest in financial securities as long as they satisfy at least one requirement regarding income, net worth, asset size, governance status or professional knowledge.

## Acquisition Cost

The cost of purchasing an asset after subtracting discounts and adding normal incidental costs (except taxes).

## Adjusted Funds From Operations (AFFO)

AFFO is a financial measure that considers maintenance costs to estimate the value of a real estate property over its lifetime. The value of AFFO is obtained by using the FFO figure (pg. 13) and deducting recurring expenditures required to keep the real estate property running and generating revenues.

## Alpha

Alpha, sometimes called the active return on an investment, measures the performance of an investment against a market index or benchmark suitable to represent the market's movement as a whole. The investment's alpha is the excess return of an investment relative to the return of a benchmark index.

## Alternative Mutual Fund

Alternative mutual funds characteristically hold more non-traditional investments than traditional mutual funds and employ more complex trading strategies. Investors considering alternative mutual funds should be aware of their unique characteristics and risks.

Traditional Investments	Non-Traditional Investments	Complex Trading Strategies
Stocks, bonds, Mutual Funds, ETFs	Global real estate, commodities, currencies, leveraged loans, distressed debt, start-up companies and unlisted securities	Hedging and leveraging through derivatives, short selling, long and short equity and opportunistic strategies.

Source: AI Insight Intro to Alternative Mutual Funds Course; FINRA, Investor Alert: Alternative Funds Are Not Your Typical Mutual Funds, 2013, <http://www.finra.org/investors/alerts/alternative-funds-are-not-your-typical-mutual-funds>

## Amortization

The process of paying off debt owed with a known repayment term in regular installments over time.

## Appreciation

An increase in the value of any type of asset over time.

## Arbitrage

The practice of buying and simultaneously selling securities, currency, or commodities across different markets or in derivative forms in order to take advantage of differing prices for the same asset.

## Beta

A measurement expressed as a ratio that indicates the potential risk of a stock or an investment portfolio by comparing its volatility in relation to the overall market. The beta of an investment measures its volatility and potential returns relative to the market. An investment with a beta of 1 would have the same volatility level as the market and hypothetically the same return potential. An investment with a beta less than 1 would be less volatile with lower return potential. An investment with a beta greater than 1 would be more volatile with higher return potential. An investment with a negative beta would be negatively correlated to the market.

## Broadly Syndicated Loan

A syndicated loan, or a syndicated bank facility, is financing offered by a group of lenders— known as a syndicate—who work together to provide funds for a single borrower. The borrower can be a corporation, sovereign government, or a large project.

## Broker Opinion of Value (BOV)

A value analysis provided by a real estate broker to assist a buyer or seller in making decisions about a real estate listing price or a suitable bid for purchase.

## Building Classifications (A, B, C)

Building classifications developed by investors, lenders and brokers allow users to communicate among themselves about the quality and rating of a property quickly. **Class A** buildings are typically well located, professionally managed, and usually demand the highest rent with little or no deferred maintenance issues. **Class B** are generally a little older, tend to have lower income tenants, and may or may not be professionally managed. **Class C** properties are typically more than 20 years old, located in less than desirable locations and generally in need of renovations, such as updating the building infrastructure.

## Business Development Company (BDC)

A form of unregistered, closed-end investment company in the U.S. that invests in small and middle market businesses.

## Cap Rate

Capitalization rate, also known as cap rate, is a real estate valuation measure used to compare one real estate investment to another. Although variations exist, a cap rate is often computed as the ratio between the net operating income produced by an asset and the original capital cost or, alternatively, its current market value.

Capitalization Rate = Net Operating Income / Current Market Value or Acquisition Cost of a Property.

Examples:

Property	Annual Income	Market Value	Cap Rate
A	\$100,000	\$1,500,000	6.17%
B	\$250,000	\$4,000,000	5.88%
C	\$100,000	\$1,000,000	9.5%

## Capital Call

A capital call, also known as a draw down or a capital commitment, is a legal right of an investment firm or an insurance firm to request a portion of the money promised to it by an investor.

## Capital Improvement

A permanent structural change or property restoration that will either enhance the property's overall value, prolong its useful life, or adapt it to new uses.

## Capital Raise

A company's issuance of common stock or other equity securities in a private placement or similar transaction, through which the company raises additional capital.



## Catch-up

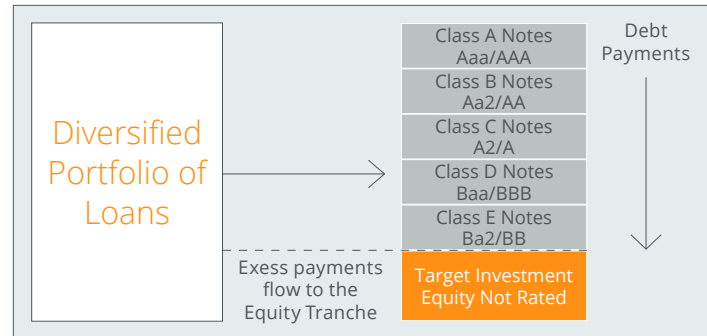
Most private equity funds have a catch-up clause included in the distribution section of the private placement memorandum (PPM). The purpose of this clause is to make the manager whole so that their incentive fee is a function of the total return and not solely on the return in excess of the preferred return.

## Closing Cost

Expenses incurred at the closing of a real estate transaction. During the closing, the title to the property is transferred to the buyer.

## Collateralized Loan Obligation (CLO)

A single security supported by a pool of debt. These corporate loans typically have a low credit rating or leveraged buyouts created by a private equity firm to take a controlling interest in an existing company. CLO managers usually purchase loans through a syndication process through which the loans are divided into several tranches, from higher to lower-rated loans, with corresponding risks and return potential. The most senior and highest rated tranche has the lowest yield but the highest claim on the CLO portfolio cash flow. The lower rated tranche has a higher yield but the lowest priority on the cash flow and therefore the greatest risk. Investors select the tranche that meets their risk and return expectations.



## Commodities

Raw materials and primary agricultural products that can be bought and sold. Examples of commodities include precious metals, crude oil, natural gas, ethanol, corn, coffee and many other items.

## Comparative Market Analysis

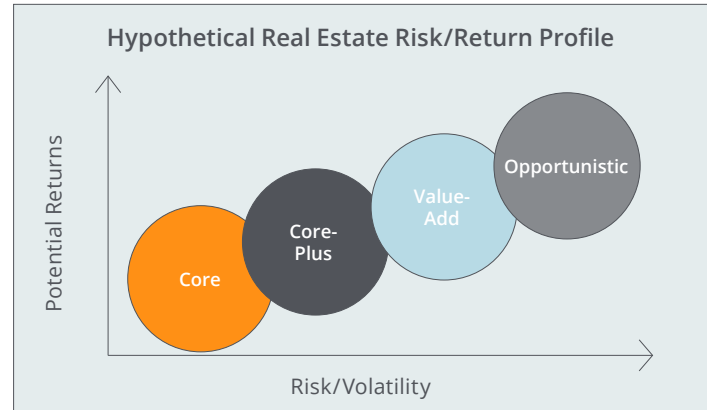
An evaluation of prices at which similar or comparable properties in the immediate area have recently sold.

## Conservation Easement

An agreement that provides a qualified private land conservation organization (often called a "land trust") or government (municipal, county, state or federal) vested power to limit the use of a specified land area for conservation purposes while keeping the land in the owner's ownership and control.

## Core

A real estate classification referring to a property that requires minimal asset management and is typically occupied with credit tenants on long-term leases. These properties generate relatively steady cash flow to their owners and their values tend to be the least volatile. The majority of the expected return is likely to be generated through cash flow from the property rather than appreciation.



## Correlation

A measure of the extent to which two variables are related.

## Debt Coverage Ratio (DCR)

The ratio of operating income available to service current debt obligations.

## Debt-to-Income Ratio

The ratio of an individual's monthly debt payment to monthly gross income.

## Depreciation

A reduction in an asset's value over time, mostly due to wear and tear.

## Due Diligence Period

The period of time that begins after signing a contract that the buyer has to inspect the property and decide whether to buy it or withdraw from the purchase.

## Earnest Money

A deposit made to a seller that shows the buyer's intention to proceed with the transaction.

## Environmental, Social and Governance (ESG)

Three central factors in measuring the sustainability and societal impact of an investment in a company or business.

## Equipment Leasing

Obtaining machinery, vehicles or other equipment on a rental basis, saving the business from investing the capital required to own the equipment.

## Equity

The difference between the fair market value of the property and the amount of money owed on the mortgage.

## Escrow

A legal arrangement in which a third party holds an asset or funds before they are transferred from one party to another.

## Exchange Traded Fund (ETF)

A type of security traded on stock exchanges that involves a collection of securities—such as stocks, commodities or bonds—and often tracks an underlying index. An ETF generally operates with an arbitrage mechanism designed to keep it trading close to its net asset value, although deviations can sometimes occur.

## FINRA 15-02

Designed to increase transparency for shareholders, FINRA's Notice 15-02 requires sponsors of non-traded REITs to disclose per share estimated values on shareholder statements.

## Fund of Funds

A fund that invests in other mutual funds or hedge funds. Essentially, a fund of funds can offer greater diversification and access to high-minimum funds with an additional layer of fees.

## Funds From Operations (FFO)

The figure used by real estate investment trusts (REITs) to measure the cash flow from their operations.

## General Contractor

A person or business that agrees to manage a construction project and provide materials and workers.

## General Partner

One of two or more individuals who jointly own a business and handle the day-to-day operations. While a general partner has the authority to act on the company's behalf, they also have unlimited liability regarding the financial dealings of the partnership.

## Gross Debt Service (GDS)

A measure that lenders use to determine whether or not the borrower is able to cover all housing payments given their current debt load. The GDS includes mortgage payments, property taxes and utilities.

## Gross Rent Multiplier (GRM)

The price of a real estate investment compared to its annual rental income, before expenses such as property taxes, insurance and utilities. GRM indicates the number of years it would take for the property to pay for itself in gross received rent.

## Gross Rental Yield

The annual rental income of a property shown as a percentage of the property's value or purchase price.

## Hedge Fund

An alternative investment designed to protect investment portfolios from market volatility, while seeking to generate positive returns in both up and down markets.

## High-Water Mark

The highest peak in value that an investment fund or account has ever reached.

## Index Fund

A type of mutual fund with a portfolio designed to match or track a particular market index, such as the Standard & Poor's 500 Index.

## Inflation Hedge

An investment intended to protect the decreased purchasing power of a currency that results from the loss of its value, due to inflation.

## Initial Public Offering (IPO)

The process by which a private company can go public by selling its stocks to the general public.

## Inspection Contingency

Gives the buyer the right to have the property professionally inspected within a certain period of time. It also allows the buyer to cancel the contract or negotiate repairs based on the findings of the inspector.

## Interest

The cost for borrowing money, typically expressed as annual percentage rate (APR). Interest can also refer to the amount of ownership a stockholder has in a company.

## Internal Rate of Return (IRR)

A performance measurement for a potential project or investment, IRR is the internal rate at which the net present value of all cash flows (both positive and negative) from a project or investment equal zero.

## Internalization

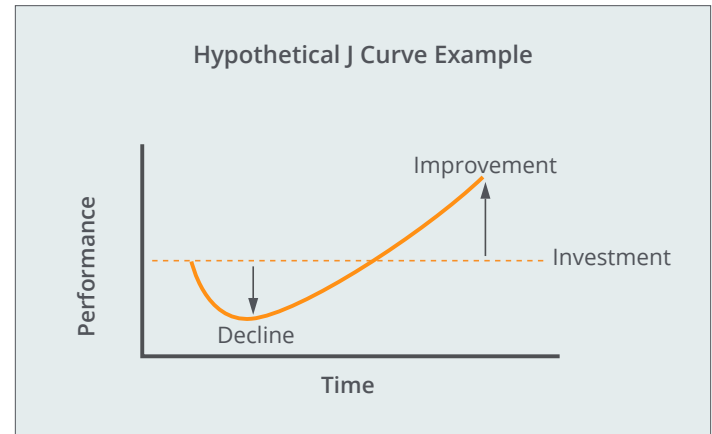
A scenario in which a transaction is conducted by a corporation rather than outsourced to someone else. Internalization also occurs when a brokerage firm fills a buy order for shares from its own inventory of shares rather than using outside inventory.

## Interval Fund

A closed-end management investment company registered under the 1940 Act that periodically offers to repurchase its shares from shareholders. Shareholders are not required to accept these offers and sell their shares back to the fund.

## J Curve

A diagram showing a curve that initially falls then steeply rises to the shape of a capital "J". The J-Curve, also known as the hockey stick, refers to the tendency of private equity funds to deliver a period of negative or unfavorable returns and cash flows in early years and positive cash flow later in a fund's life as the investments mature.



\*IRR and Timeline may vary

## Letter of Intent (LOI)

A document outlining the preliminary commitment of one party to do business with another party, such as the purchaser and the investor. A letter of intent is not a contract and cannot be legally enforced; however, it provides the basis for a future or proposed agreement. A LOI may be used to clarify a transaction before a full contract is drawn up.

## Leverage

An investment strategy using various financial instruments or borrowed capital to increase the potential return of an investment.

## Limited Partner

A partner in a company who receives limited profits from the business and is not involved in the day-to-day management. A limited partner also bears limited liability.

## Liquidity

The ease with which an asset or security can be converted into cash without affecting its intrinsic value.

## Loan to Value Ratio (LTV)

A number lenders use to determine how much risk they're taking on with a secured loan. The LTV measures the relationship between the loan amount and the market value of the asset securing the loan.

## Long-Term Rental

A property that is rented to tenants for an extended period, typically more than six months.

## Macro

A hedge fund or mutual fund strategy that makes investment decisions based on the broad economic and political outlook of various countries or their macroeconomic principles. Holdings may include long and short positions in various equity, fixed income, currency, commodities and futures markets.



## Managed Futures

An investment where a portfolio of futures contracts is actively managed by another person or entity, rather than the fund's owner.

## Master Limited Partnerships

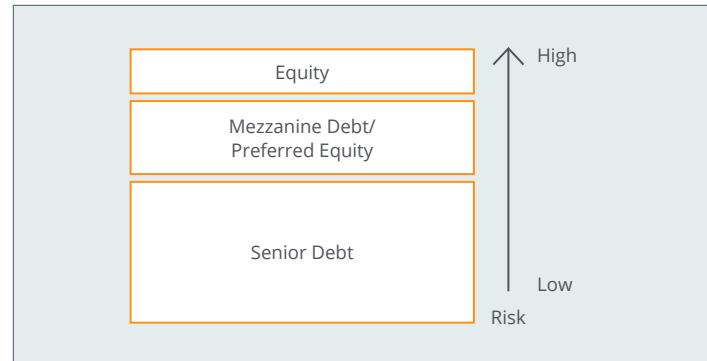
A publicly traded limited partnership that combines the tax benefits of a private partnership with the liquidity of a publicly-traded company.

## Metropolitan Statistical Area (MSA)

A geographical region with a relatively high population density. An MSA is linked by social and economic factors, as established by the U.S. Office of Management and Budget.

## Mezzanine Loan

A loan that combines features of both debt and equity finance, most commonly used in the expansion of established companies. Mezzanine financing is capital that sits in between the lower risk senior debt and higher risk equity. Mezzanine debt is often used once the senior debt has been maximized. It is often a more expensive financing source for a company than senior debt but is cheaper than equity. A mezzanine loan is often used as a short-term solution rather than permanent capital.



## Micro

An investment technique that seeks to reduce the risk associated with a single asset from a larger portfolio.

## Modified Funds From Operations (MFFO)

A performance metric that gives investors an idea of the cash flows being generated by a nontraded REIT that can be available for cash distributions in the future.

## Multi-Tenant

A real estate property that has more than one tenant.

## Net Asset Value (NAV)

Represents the net value of a fund's assets minus the value of its liabilities.

## Net Operating Income (NOI)

A calculation used to measure a property's ability to generate positive cash flow NOI equals all revenue from the property, minus all reasonably necessary operating expenses.

## Net Lease

Net leases vary and tend to fall into one of four categories. Unlike gross leases, which are used primarily for residential leases, a tenant in a net lease is responsible for one or all of the property expenses.

## Net Yield

The rate of return of profit or loss on an investment or security after taxes or charges have been taken away.

### Types of Net Lease

Gross Lease	Single Net Lease	Double Net Lease	Triple Net Lease	Absolute Net Lease
A type of lease in which the lessee or tenant agrees to pay a flat fee, which includes rent and some or no utilities. The landlord is responsible for paying all other expenses including property taxes, insurance and maintenance.	A type of lease in which the lessee or tenant agrees to pay property taxes, rent and utilities. The landlord is responsible for all other expenses.	A type of lease in which the lessee or tenant agrees to pay rent, utilities, property taxes and insurance. The landlord is responsible for maintenance.	A type of lease in which the lessee or tenant agrees to pay rent, utilities, property taxes, insurance and most maintenance expenses.	A type of lease in which the lessee or tenant agrees to pay for rent, utilities and most or all other property expenses including property taxes, insurance, maintenance, repairs and operations.

## Notice To Members (NTM) 03-71

FINRA notice which reminds members of obligations when selling non-conventional investments to conduct adequate due diligence to understand the features of the product, perform a reasonable-basis suitability analysis and perform customer-specific suitability analysis in connection with any recommended transactions.

## Notice To Members (NTM) 05-26

FINRA notice which highlights best practices for member firms for developing and vetting new products. FINRA is concerned about the increasing number of complex products that are introduced to the market in response to the demand for higher returns or yield.

## Notice To Members (NTM) 05-59

FINRA notice which encourages member firms to consider the complexity of a new product and how the complexity would affect the marketing and sale of the product.

## Notice To Members (NTM) 10-22

FINRA notice which requires that broker-dealers obtain independent, third party due diligence for all companies for which they are conducting a private placement or Regulation D offering.

## Notice To Members (NTM) 13-18

FINRA notice to provide guidance to firms on communications with the public concerning unlisted real estate investment programs.

## Opportunistic

Opportunistic is the riskiest of all real estate investment strategies. Opportunistic investments target highly distressed properties that require major renovations. Investors may not see a return on their investment for three or more years. Oftentimes, opportunistic investments have little to no cash flow at acquisition but have the potential to produce cash flow once the value has been added.

## Opportunity Zones

An economically distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Created under the 2017 Tax Cuts and Jobs Act, thousands of low-income communities in all 50 states and five U.S. territories have been designated as Qualified Opportunity and certified by the Secretary of the U.S. Treasury.

## Physical vs. Economic Occupancy

A physical occupancy rate reflects the proportion of units occupied by tenants. An economic occupancy rate is the percentage of gross potential rent that is actually paid to the landlord.

## Preferred Return

A payment structure that allows preferred investors in a project to receive profits first.

## Principal Reduction

A decrease in the total dollar amount owed on a loan, typically a mortgage. A lender may grant a principal reduction to a borrower as an alternative to foreclosure.

## Private Equity

An alternative investment class consisting of capital not listed on a public exchange. Private equity includes funds and investors that directly invest in private companies or participate in public company buyouts, resulting in the delisting of public equity.

## Private Placement

A private sale of securities to a select group of investors and institutions. This is an alternative to an initial public offering (IPO) for a company seeking to raise funds.

## Proof of Funds

A document used to illustrate that a person or entity has the ability and funds available for a particular transaction.

## Property Management

The function of overseeing, operating and managing real estate, including residential, commercial and/or industrial properties.

## Qualified Plan (QP)

A qualified retirement plan meets the requirements of Internal Revenue Code Section 401(a) of the Internal Revenue Service (IRS) and is eligible for certain tax benefits.

## Regulation A (Reg A)

An exemption from registration requirements—instituted by the Securities Act of 1933—that applies to public offerings of securities that do not exceed \$50 million in any single year.

## Regulation Best Interest (Reg BI)

A Securities and Exchange Commission (SEC) rule that requires broker-dealers to only recommend financial products to retail investors that are in the investors' best interests, and to communicate any potential conflicts of interest and financial incentives the broker-dealer may have with those products.

## Regulation D (Reg D)

A Securities and Exchange Commission (SEC) regulation governing private placement exemptions. Through a private placement exemption, Reg D offerings avoid many of the disclosures and prohibitions required by The Investment Company Act of 1940. Companies with Reg D offerings still must file Form D with basic fund information. Three primary exemptions are used for private placements: 504, 505, and 506 (b and c).

## REIT (Traded vs Non-Traded)

A real estate investment trust (REIT) is a company that owns, operates or finances a portfolio of real estate assets. Non-traded REITs are not listed on public exchanges and can provide retail investors access to real estate investments with tax benefits. Traded REIT shares can be bought and sold on exchanges like NYSE and NASDAQ, making them highly liquid with standard trading fees.

## Return on Investment (ROI)

A performance measure used to evaluate an investment or to compare the performance of different investments. It is expressed as a ratio between the profit earned and the total amount invested.

## Registered Investment Advisor (RIA)

A person or firm who provides guidance to high-net-worth individuals on investments and manages their portfolios. RIAs have a fiduciary duty to their clients, which means that their investment advice must always be in their clients' best interests.

## Rule 2310

A FINRA rule that provides guidance on suitability and recommendations related to Direct Participation Programs.

## Sales Per Square Foot

Sales per square foot is a measure of how efficiently a business uses its physical space to make sales. It is figured by dividing total sales during a given period by the square footage of the selling area.

## Schedule K-1

A tax document used to report the income, deductions, credits, etc. of a business's partners or an S corporation's shareholders.

## Separately Managed Account (SMA)

A portfolio of individual securities that are directly owned by an investor but managed by a professional investment firm.

## Share Redemption Program

A program through which REIT shares are bought back from the shareholder/investor by the REIT to provide investors with limited liquidity. The program is limited in the number of shares that can be repurchased annually. Most REITs also have a provision that allows them to suspend the SRP upon approval by the Board of Directors.

## Sharpe Ratio

A ratio used to help investors understand the return of an investment compared to its risk. The ratio illustrates how much extra funds are earned in exchange for the volatility experienced with a riskier investment.

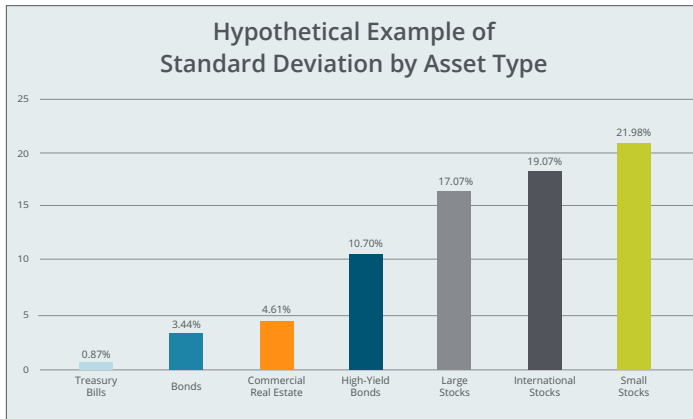
## Short Sale

A sale that takes place when a real estate owner in financial distress sells his or her property for less than the amount due on the mortgage.



## Standard Deviation

A statistical measurement of how far the price of an investment moves above or below its average value. Generally, the wider the range (the higher standard deviation), the riskier the investment. Investments with a higher standard deviation also have less predictable returns.



## Subcontractor

An entity that accepts outsourced work under a contract with a primary contractor.

## Tenant

A person or business that occupies or temporarily possesses land or property by renting from a landlord.

## Underwriting

The process of reviewing the creditworthiness and financial details of a potential tenant, customer, or investment.

## Vacancy Rate

The percentage of available units in a real estate property, such as a hotel, shopping center or apartment complex, that are unoccupied at a particular time.

## Value-Add

One of the four major risk profiles of commercial real estate investment properties, value-add properties may be improved to add value. They generally have a higher degree of risk and higher potential returns than core and core-plus real estate, but less risk and lower potential returns than properties in the opportunistic category.

## Vintage Year

The year when a project or company receives its first influx of investment capital.

## Volatility

A measure of the range of price changes for a given security or market index over a particular period of time.

**Hypothetical Example of Volatility**

	Commercial Real Estate	Bonds	Treasury Bills	Large Stocks	Small Stocks	Int'l Stocks	Hedge Funds	Long/Short Equity	Commodities	Global
Commercial Real Estate	1.00									
Bonds	-0.11	1.00								
Treasury Bills	0.09	0.13	1.00							
Large Stocks	-0.10	-0.10	-0.16	1.00						
Small Stocks	-0.03	-0.13	-0.13	0.89	1.00					
Int'l Stocks	-0.04	-0.01	-0.11	0.87	0.79	1.00				
Hedge Funds	0.00	0.07	-0.05	0.69	0.68	0.78	1.00			
Long/Short Equity	0.02	-0.02	-0.12	0.78	0.76	0.85	0.92	1.00		
Commodities	0.01	-0.07	-0.04	0.36	0.37	0.48	0.55	0.50	1.00	
Global	-0.07	-0.06	-0.14	0.97	0.87	0.96	0.77	0.84	0.44	1.00

See Standard Deviation for definition.

## Write-Down

A deliberate reduction in the book value of an asset when its fair market value (FMV) falls below the recorded book value.



## AI Insight Inc.

Founded in 2005, AI Insight Inc. is a leader in alternative investment research, education and compliance documentation. AI Insight offers a convenient way for broker dealers, RIAs, financial professionals, alternative investment managers and sales representatives to connect. Financial firms and professionals can research the individual investment offerings from AI Insight's universe of programs to train, track compliance activity, access marketing support and monitor ongoing performance—all via a customizable, dedicated platform. AI Insight also helps alternative investment managers elevate their visibility in the industry, increase program accessibility and promote transparency. For more information, visit [www.aiinsight.com](http://www.aiinsight.com).

# CIM

## CIM Group

CIM is a community-focused real estate and infrastructure owner, operator, lender and developer. Since 1994, CIM has sought to create value in projects and positively impact the lives of people in communities across the Americas by delivering more than \$60 billion of essential real estate and infrastructure projects. CIM's diverse team of experts applies its broad knowledge and disciplined approach through hands-on management of real assets from due diligence to operations through disposition. CIM strives to make a meaningful difference in the world by executing key environmental, social and governance (ESG) initiatives and enhancing each community in which it invests. For more information, visit [www.cimgroup.com](http://www.cimgroup.com).