Infrastructure investment - Benefits and risks	1. Benefits - Provide diversification benefits 2. Risks: subjected to - Regulatory risk - Risk from financial leverage - Possibility that CF will be less than expected - Construction risk - for construction of infrastructure assets - Operational risk - for assets which are owned an operated by private owner
Other alternative investments	Include: tangible collectibles (e.g.: rare wines, arts, rare coins and stamps, valuable jewelry and watches, sport memorabilia) Benefits: - Enjoy the use (collectible automobiles, arts, jewelry and watches) Risks: - No income generation. Gains are only from increase in price of these assets - Storage costs may be significant (e.g.: art, wines) - Specialised knowledge is required in order to gain profit - Market for many collectibles are illiquid
Management fees / Incentive fees / Net-of-fees returns	Total fee paid by investors in a hedge fund = management fee + incentive fee 1. Management fee : earned regardless of investment performance. Management fee is calculated on Beginning value / Ending value of assets under management 2. Incentive fee : a portion of profit. - Incentive fee can be calculated: + Net of management fees (value increased - management fees) + Independent of management fees - Profit could be: + any gains in value + any gains in value excess of management fee + gains in excess of a hurdle rate (fixed percentage - 4% ; or rate plus premium - LIBOR + 2%) + High water mark : incentive fee is not paid on gains that just offset prior losses
Alternative investments - Summary of important risks	- Standard deviation of returns may be misleading - Use of derivatives introduces operational, financial, counterparty and liquidity risks - Performance for some alternative investment categories depends primarily on management expertise - Hedge funds and PE funds are less transparent than traditional investments - Many alternative investment are illiquid - Indices of historical returns and standard deviations may not be good indicators of future returns and volatility - Correlations vary across periods and are affected by events
Alternative investments - Key items for due dilligence	1. Organisation: Experience, quality, compensation of management and staff; analysis of prior and current fund results; alignment of manager and investor interests; reputation and quality of 3rd-party service providers used 2. Portfolio management: Management of the investment process; target markets, asset types and strategies; investment sources; operating partners' roles; underwriting; environmental and enginering review; integration of asset management, acquisition and dispositions, process of dispositions 3. Operations and controls: Reporting and accounting methods; audited financial statements; internal controls, frequency of valuations; valuation approaches; insurance; contingency plans 4. Risk management: Fund policies and limits; portfolio risk and key factors; constraints on leverage and currencies and hedging of related risks 5. Legal review: Fund legal structure; registrations; current and past litigation 6. Fund terms: Fees (management + incentive), expenses; contractual terms; investment period; fund term and extensions, carried interest; distributionss; conflicts; rights of limited partners; termination procedures for key personnel

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