The Alts Institute

Investing in Alternatives:
Common Terms and Definitions

Brookfield | OAKTREE
WEALTH SOLUTIONS

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1031 Exchange

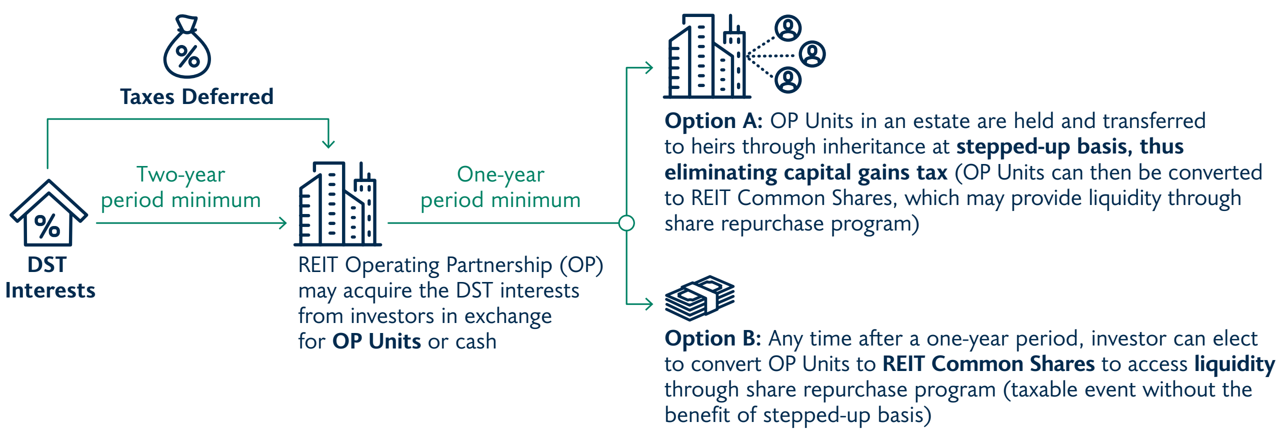
A method for deferring taxes on the sale of a real estate investment property by directly re-investing sale proceeds in a "like-kind" real estate investment. It is named after section 1031 of the U.S. Internal Revenue Code.

Related Terms: 721 Exchange | Real Estate Investment Trust (REIT)

721 Exchange

Allows investors to exchange an interest in an investment property (held in a Delaware Statutory Trust, or DST) for an interest in the operating partnership of a Real Estate Investment Trust (REIT) owning numerous properties without recognizing a taxable gain, so long as certain conditions are met. After a holding period, operating units may then be converted into REIT common shares if the partnership chooses to acquire the DST interests from investors. REIT common shares then may provide access to liquidity through a share repurchase program.

The 721 exchange is a tax-efficient opportunity for estate planning, with operating partnership units potentially transferred on a stepped-up basis to heirs, as the cost basis of units are adjusted to fair market value upon inheritance. It is named after section 721 of the U.S. Internal Revenue Code.



Related Terms: 1031 Exchange | Real Estate Investment Trust (REIT)

Accredited Investor – U.S.

The U.S. Securities and Exchange Commission (SEC) defines an accredited investor as a type of investor that meets certain requirements:

Financial criteria

- Net worth >$1 million, excluding primary residence (individual or with spouse/partner).
- Annual income of $200,000 (individual) or $300,000 (with spouse or partner) in each of the prior two years, and reasonably expects the same this year.

Professional criteria

- Investment professionals holding a Series 7, 65 or 82 license.
- Directors, executive officers, general partners or "knowledgeable employees" of a private fund.
- Any "family office" with an investment portfolio valued at least $5 million.

Related Terms: Qualified Purchaser – U.S.

Allowed Rate of Return

The agreed upon amount a utility is able to earn on its rate base/regulated asset base, determined by a rate case and approval by the utility's regulatory body. Allowed rate of return is a key driver in how a utility makes money. The allowed rate of return can either be based on the amount of equity invested, for a return on equity, or on total capital invested, for a return on capital.

Related Terms: Rate Case | Rate Base/Regulated Asset Base

Availability-Based Infrastructure

A guarantee (typically from a government entity or agency) giving an asset owner exclusivity to operate an asset where, so long as the infrastructure is available to use, the owner will receive payment regardless of whether the asset is used. Availability-based infrastructure agreements provide owners with high revenue visibility. Many such agreements have Consumer Price Index-based price adjustments.

Related Terms: Regulated Revenues | Contracted Revenues | Power Purchase Agreement (PPA) | Take-or-Pay Contract | Concession

Brownfield Investments

Projects that require enhancements to infrastructure assets that are already operational and generating revenues but require significant upgrades to improve profitability.

Related Terms: Greenfield Investments

Business Development Companies (BDCs)

A type of closed-end investment company that is regulated by the Securities and Exchange Commission under the Investment Company Act of 1940 and primarily invests in small and mid-sized companies (often privately held or founder-owned).

BDCs were initiated by US Congress in 1980 (Small Business Investment Incentive Act) to help facilitate investment in small, growing, U.S. businesses to provide a financing alternative for companies that may otherwise experience difficulty accessing traditional financing via bank loans or public markets.

To maintain BDC status, the company must invest 70% of its assets in qualifying assets. Generally, qualifying assets are private U.S. companies or public U.S. companies with a market capitalization of less than $250 million at the time the investment was made. The remaining 30% can generally include other assets.

Related Content: Flyer: Investment Vehicles At-A-Glance

Call Protection

A contractual assurance that a lender will earn an agreed-upon yield on a loan for a certain period after closing. Sometimes called a repayment fee, call protection ensures a borrower cannot prepay a loan without paying a fee before the call protection expires.

Related Terms: Private Credit | Syndicated or Leveraged Loans

Capital Calls

Issued by General Partners to collect funds from investors (also known as Limited Partners or LPs). When investing in closed-end private equity, venture capital, and certain real estate and infrastructure funds, the LPs commit to investing a predetermined amount of capital at the onset of the fund. The firm makes multiple capital calls to collect the pledged capital throughout the fund's investment period.

Private fund managers (also known as General Partners or GPs), use the capital call structure to maximize capital efficiency. Capital is typically called once an investment(s) is identified or as needed to cover the fund's operating expenses. The capital call structure gives LPs the flexibility to spread out their investment over time and reduces the negative performance impact of cash drag.

Notice of an upcoming capital call is typically issued by GPs 7-10 days in advance, allowing time for LPs to transfer funds. Failure to transfer funds as required can result in a default, and the LP may be subject to penalties as stipulated in their limited partnership agreement.

Related Terms: General Partner (GP) | Limited Partner (LP)

Capital Expenditures (CapEx)

The funding required to acquire, upgrade and maintain properties. CapEx is often used to undertake physical improvements.

For tax purposes, CapEx cannot be deducted in the year in which it is paid or incurred and must be capitalized. Generally, if the property's useful life is longer than the taxable year, then CapEx must be capitalized. CapEx is amortized or depreciated over the life of the asset. CapEx creates or adds to the cost basis of the asset or property, which, once adjusted, will determine tax liability in the event of sale or transfer. In the U.S., Internal Revenue Code 263 and 263A outline capitalization requirements and exceptions.

Related Terms: Capital Improvements

Capital Improvements

A physical upgrade to a property, such as a renovation or the addition of amenities, that adds to the value or useful life of the investment or adapts it to new uses. Capital improvements are funded through capital expenditures, which increase the cost basis of an asset. Capital improvements differ from regular repairs and maintenance of a property because they can improve a property's value and thus are categorized as capital expenditures.

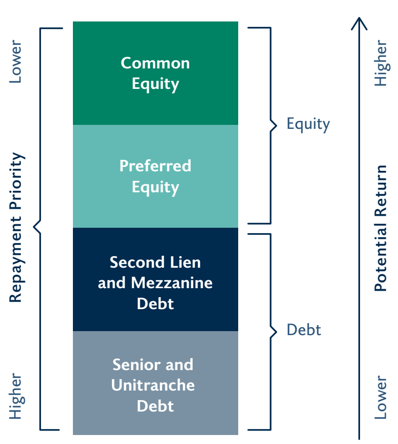
Related Terms: Capital Expenditures (CapEx) | Real Estate Stabilization | Lease-Up

Capital Stack

Represents all the capital invested in a company. The capital stack provides a comprehensive view of the company's financial structure and sets out the order of priority for claims on its cash flows, which is vital for assessing risk and potential returns.

- **Common equity** is considered the top and riskiest layer of the capital stack. It carries the greatest risk because investment agreements entitle every other tranche of capital to be repaid before common equity holders. However, it is potentially the most rewarding layer since returns are not capped.
- **Preferred equity** is an equity investment that is superior in repayment priority to common equity but subordinate to debt. Technically, it is an equity security, but it shares many characteristics with debt instruments, such as offering reoccurring, fixed-income payments. However, this type of stock gives shareholders less voting power and has less earning potential.
- **Mezzanine debt**, positioned second to senior debt in the order of payment priority, plays a unique role in the capital stack. After all operating expenses and the senior debt payment have been made, any excess cash will be used to service the mezzanine debt. This type of debt typically offers a higher return rate than senior debt but lower than equity, making it an attractive option for certain investors.
- **Senior debt** has priority over all other positions in the capital stack. In other words, senior debt lenders must be paid before any other investor can receive a return on their investment.

Investors who are risk averse will likely want to invest in the lower portion of the stack, which has lower returns and lower risk. Those comfortable with higher risk levels and want a higher return will want to focus on the top of the capital stack.



Capitalization Rate (Cap Rate)

A return metric used to estimate a property's value based on its income potential. It is calculated by dividing the property's net operating income by the present-day value of the property as indicated by prevailing market rates.

The cap rate is an important metric for real estate investors because it helps them compare different investment opportunities and assess the risks associated with those investments.

Expressed as a percentage, a higher cap rate suggests higher income and greater risk. However, cap rates do not account for every factor that can affect asset value.

Cap rate compression occurs when cap rates fall as valuations rise, which is a positive for investors. Falling cap rates suggest rising prices for a stream of income, typically resulting in price appreciation and higher total returns.

Various factors impact cap rates, such as location, the available inventory in a particular market and market trends. For example, two similar buildings in different parts of a city—one in the city center and another on the outskirts—can have different cap rates. The city center building will generate higher rent, but that higher income will be balanced against higher maintenance costs and higher taxes. The city center building should have a lower cap rate due to its significantly high market value.

$$\text{Cap Rate (\%)} = \frac{\text{Net Operating Income (NOI)}}{\text{Property Value}}$$

Related Terms: Net Operating Income (NOI) | Discount Rate | Exit Cap Rate | Entry Cap Rate

Carbon Capture and Storage (CCS) and Carbon Capture, Utilization and Storage (CCUS)

A developing technology that captures carbon dioxide (CO_2) emissions produced by the burning of fossil fuels for power generation or other industrial processes. In CCS, CO_2 is separated from other gases, then compressed and transported to an underground storage site. CCUS goes a step further than storage, re-purposing the CO_2 by converting it into plastics, concrete and other items.

Related Terms: Decarbonization | Grid Modernization

Carried Interest

The percentage of a private fund's investment profits that a General Partner (GP) receives as compensation. Also known as incentive fees or performance fees. Typically, a fund needs to, or must meet a specific return (also known as a hurdle rate) before the manager earns carried interest (or "carry" for short). Carried interest aligns GP and Limited Partner interests by incentivizing GPs to earn a return above the hurdle rate.

Related Terms: Hurdle Rate/Preferred Return

Cash-on-Cash Return

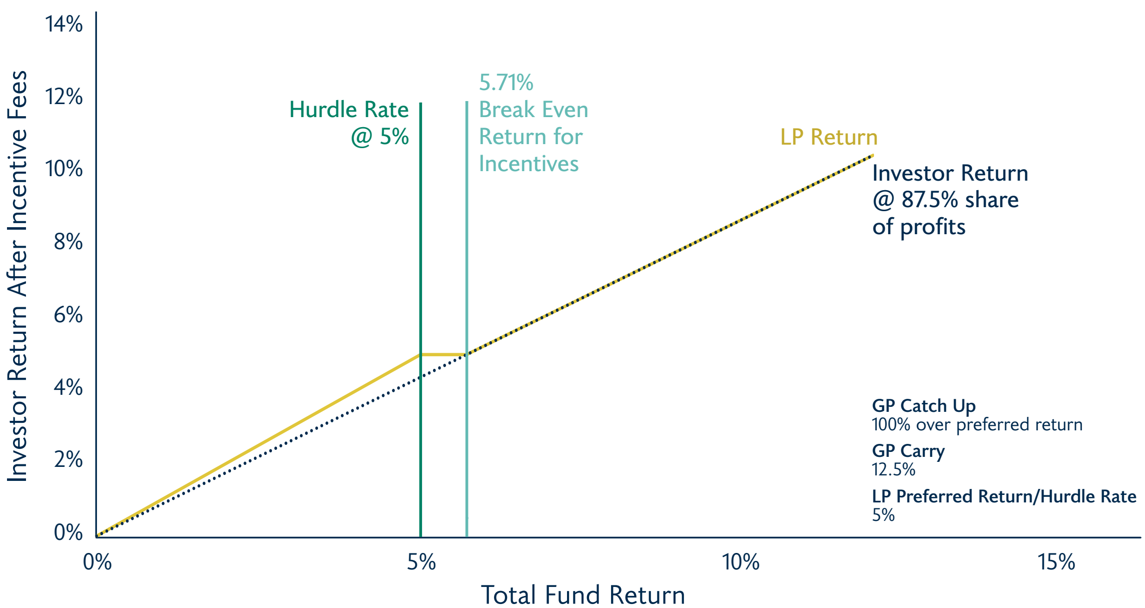
The cash return on investment compared to the amount of cash invested. Cash-on-cash return is the ratio of annual pre-tax cash flow to the total amount of invested cash, or equity.

$$\text{Cash-on-Cash Return (\%)} = \frac{\text{Annual Pre-Tax Cash Flow}}{\text{Equity Invested}}$$

Related Terms: Internal Rate of Return (IRR) | Discount Rate

Catch-up

Payments to a General Partner (GP) that go into effect after an investor's returns reach the defined hurdle rate. During the catch-up period, a GP may receive an agreed percentage of profits until the profit split determined by the carried interest agreement is reached.



Related Terms: Hurdle Rate/Preferred Return | Carried Interest | Clawback | Waterfall

Class A Real Estate

High quality, newer properties located in desirable markets with little or no deferred maintenance issues. Generally, Class A buildings are professionally managed and have luxury amenities, stable tenants and very high occupancy. These desirable factors allow owners to command a premium to market rent.

	Class A	Class B	Class C
Location	Prime	Good	Less Desirable
Age/Condition	New, no maintenance issues	Older, may have maintenance needs	Old with deferred maintenance issues
Cap Rate	Low	Middle	High
Rental Rate	High	Middle	Low
Strategy	Core	Core-plus/Value-add	Opportunistic
Risk	Low	Medium	High

Related Terms: Class B Real Estate | Class C Real Estate

Class B Real Estate

Properties that are older than their Class A counterparts and tend to generate average market rent. Class B properties may or may not be professionally managed. Class B buildings may have deferred maintenance issues. Value-add investors often view these properties as investment opportunities because the properties can potentially be upgraded to Class A through renovations and improvements to common areas. Buyers are generally able to acquire these properties at a higher Cap Rate than a comparable Class A property because these properties are viewed as riskier than Class A.

	Class A	Class B	Class C
Location	Prime	Good	Less Desirable
Age/Condition	New, no maintenance issues	Older, may have maintenance needs	Old with deferred maintenance issues
Cap Rate	Low	Middle	High
Rental Rate	High	Middle	Low
Strategy	Core	Core-plus/Value-add	Opportunistic
Risk	Low	Medium	High

Related Terms: Class A Real Estate | Class C Real Estate

Class C Real Estate

Properties that are at least 20 years old and situated in less desirable locations. Class C properties typically need renovation and have deferred maintenance issues, such as updating the building infrastructure to bring it up to date. As a result, Class C buildings have the lowest rental rates in a market when compared to Class A or Class B properties. Opportunistic investors favor Class C properties because they offer significant potential upside after undergoing significant renovations.

	Class A	Class B	Class C
Location	Prime	Good	Less Desirable
Age/Condition	New, no maintenance issues	Older, may have maintenance needs	Old with deferred maintenance issues
Cap Rate	Low	Middle	High
Rental Rate	High	Middle	Low
Strategy	Core	Core-plus/Value-add	Opportunistic
Risk	Low	Medium	High

Related Terms: Class A Real Estate | Class B Real Estate

Clawback

A contractual provision to allow Limited Partners (LPs) to reclaim money or assets that were previously paid, typically in cases of overpayment. A clawback may be triggered to rectify a clerical error or an error that resulted in collecting too much carried interest. A carried interest clawback may also occur if the portfolio does not meet a certain return rate.

Closing Costs

Fees paid upon completion of a real estate transaction. Closing costs typically include inspections, appraisal fees, title searches, title insurance, title transfer, surveys, taxes, deed recording fees and loan origination fees. The seller typically pays closing costs.

Related Terms: Escrow

Collateral

An asset or property that may serve as security for a loan. If a borrower fails to repay a loan according to the agreed terms, the lender may have the right to seize collateral to recover the outstanding debt. Collateral provides a form of assurance for the lender that often reduces the risk associated with the loan.

Colocation

When multiple mobile network operators (MNOs) hang their equipment on one cell phone tower. Tower companies typically own cell tower structures and lease space to MNOs under long-term contracts. Colocation is becoming increasingly important for supporting the growth in data and the need for more efficient wireless networks.

Related Terms: Fiber Optic Cable | Digitalization

Committed Capital

The amount of capital investors pledge to a private fund. Committed capital is subsequently requested or "called" from investors to fund the General Partner's purchase of a portfolio company (in the case of private equity) or shares of an existing private fund (in the case of secondaries).

Related Terms: Private Equity | Capital Calls | Direct Investment | Co-investment | Secondaries

Concession

A guarantee from a government entity or agency giving an asset owner exclusivity to operate an asset. With concessions, revenues are based on usage, which introduces less long-term visibility.

Related Terms: Regulated Revenues | Contracted Revenues | Power Purchase Agreement (PPA)
Take-or-Pay Contract | Availability-Based Infrastructure

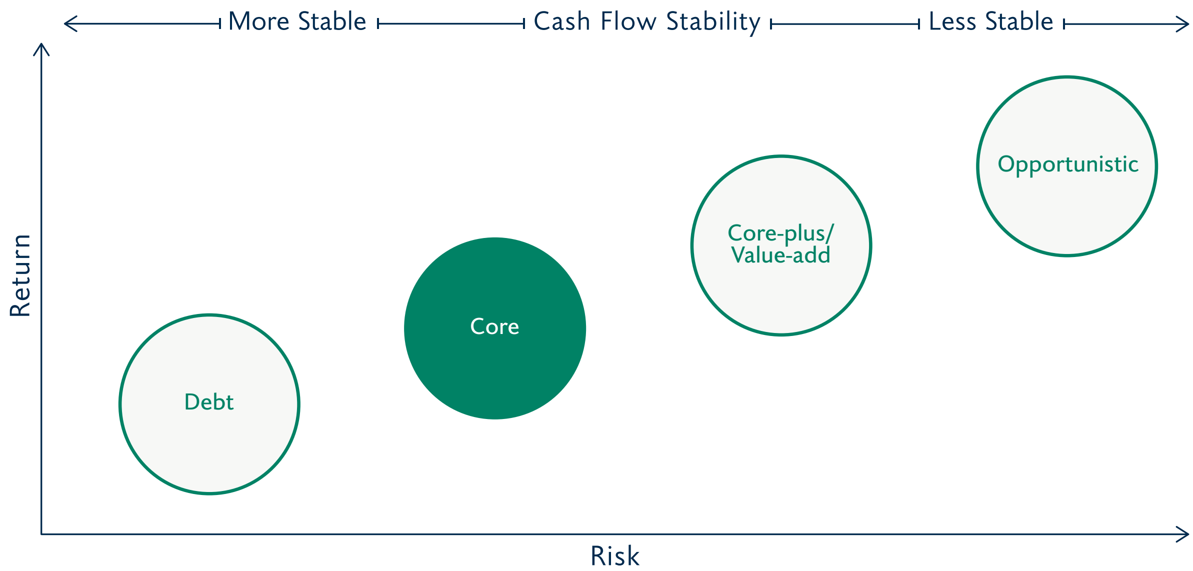
Contracted Revenues

An agreement between an asset owner and counterparties that specifies usage and price. Many contracted revenue agreements have Consumer Price Index-based price adjustments.

Related Terms: Regulated Revenues | Take-or-Pay Contract | Power Purchase Agreement (PPA) | Availability-Based Infrastructure
Concession | Inflation-linkage

Core Infrastructure

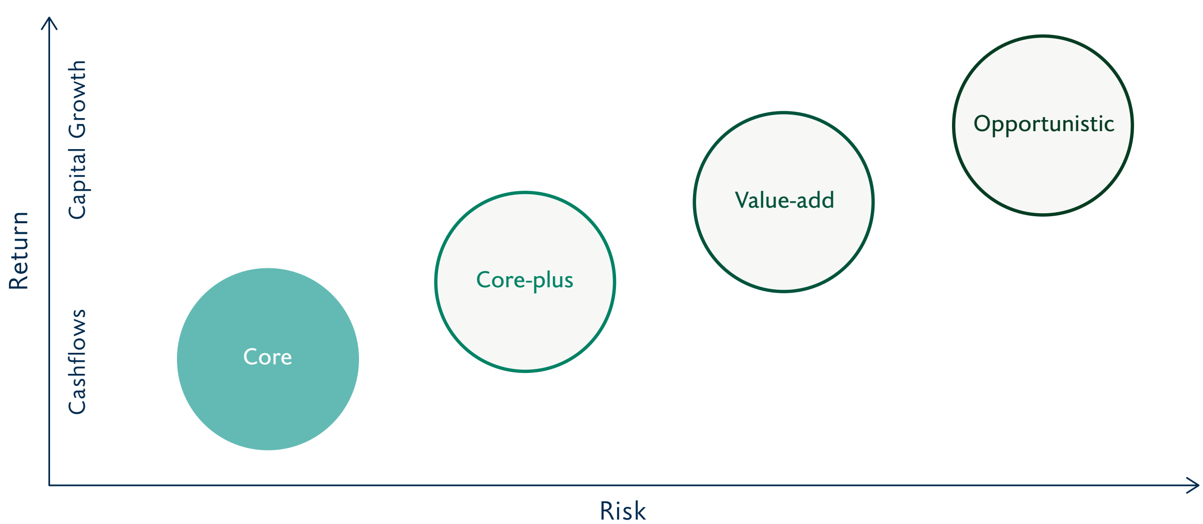
Strategies that generally target mature, lower-risk, operational assets. Core infrastructure assets tend to be in developed markets, have stable capital structures, and have predominately contracted or regulated revenues with minimal exposure to any shifts in volumes across the system.



Related Terms: Core-Plus and Value-Add Infrastructure | Opportunistic Infrastructure | Infrastructure Debt

Core Real Estate

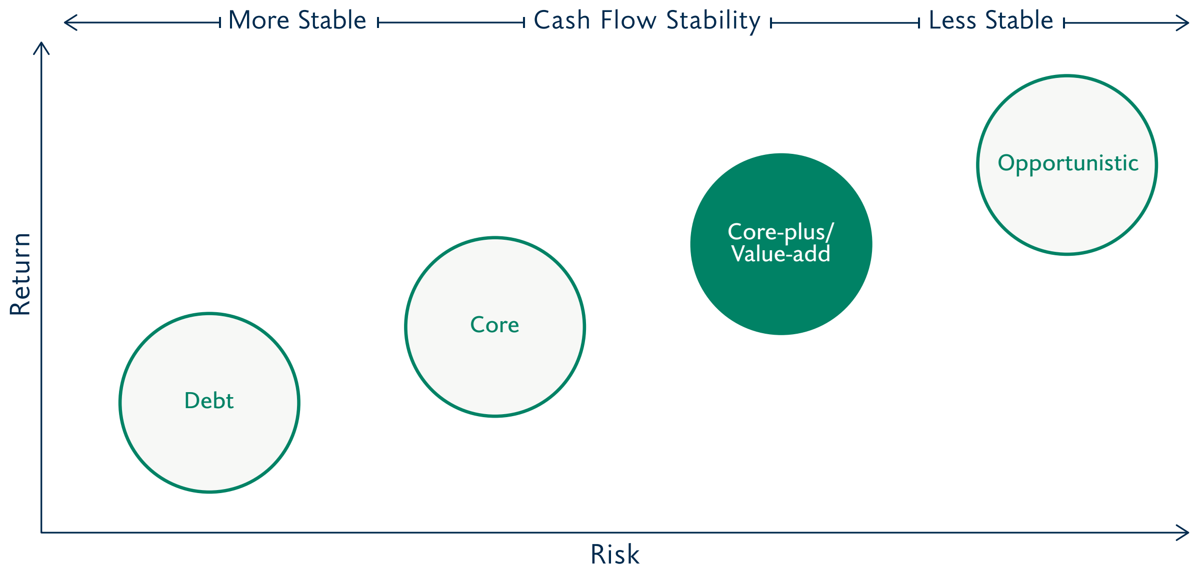
Properties that carry relatively low risk where current income reflects the bulk of the return. A core property requires very little asset management, is not burdened by extensive deferred maintenance requirements and is typically occupied with credit tenants on long-term leases. These properties generate stable and consistent cash flow to their owners and their values tend to be the least volatile of real estate property types.



Related Terms: Core-Plus Real Estate | Value-Add Real Estate | Opportunistic Real Estate

Core-Plus and Value-Add Infrastructure

Strategies that generally invest in assets requiring some enhancements, seeking to provide investors with more appreciation potential. While many core-plus and value-add infrastructure assets have contracted or regulated revenues, there may be room to improve upon contracts with better terms or counterparties. The capital structure of the assets could also require some optimization, or certain capital projects could enhance value.

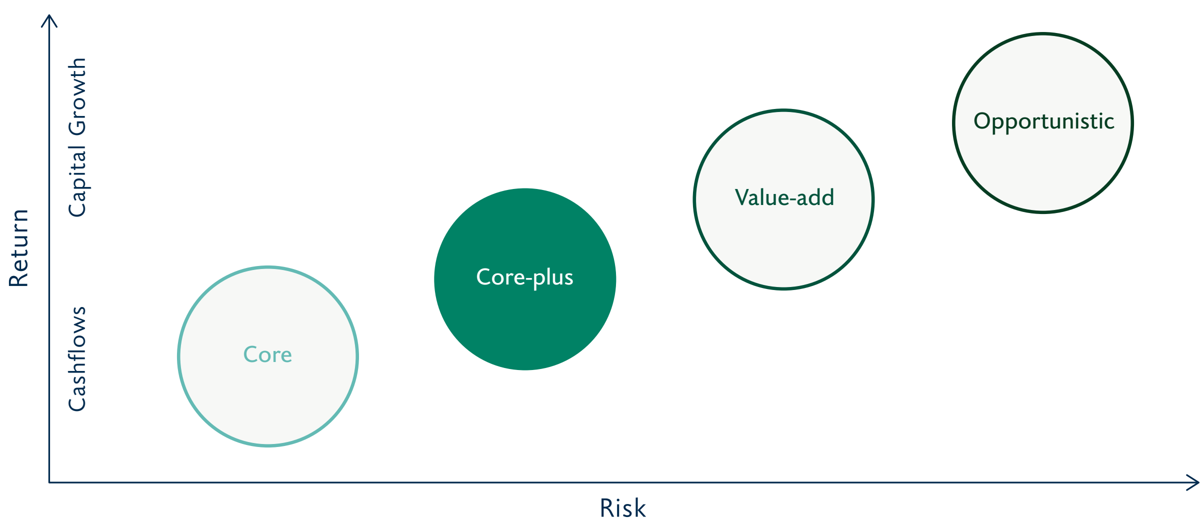


Related Terms: Core Infrastructure | Opportunistic Infrastructure | Infrastructure Debt

Core-Plus Real Estate

Properties that tend to provide growth potential and income. Core-plus property owners typically have the ability to increase cash flows through light property improvements, management efficiencies or by increasing the quality of tenants. These properties may be in good (rather than great) locations and can be bought with more aggressive debt levels than core buildings.

Core-plus properties typically assume greater risk than core properties in an effort to increase returns. Potential returns are generated through cash flow with the potential to earn appreciation.



Related Terms: Core Real Estate | Value-Add Real Estate | Opportunistic Real Estate

Covenant-Lite

Used to describe leveraged financings where there are fewer obligations on the borrower than in a traditional loan arrangement (e.g., the borrower may be able to take on additional debt). In covenant-lite (also called "cov-lite") agreements, there are fewer protections for the lender.

Related Terms: Syndicated or Leveraged Loans

Covenants

Legally binding stipulations or requirements that the borrower must meet to remain in good standing on a loan or bond. A covenant breach may put the borrower in default.

Maintenance (or affirmative) covenants are specific things the borrower must do (e.g., maintain a certain interest coverage ratio). Incurrence (or negative) covenants limit the borrower (e.g., the borrower may be prohibited from increasing dividends or exceeding certain debt ratios).

Related Terms: Private Credit

Co-investment

When a Limited Partner (LP) invests alongside a General Partner (GP) to purchase a portfolio company. The LP benefits from a lower fee in exchange for providing the GP with additional capital to manage diversification risk and/or take on larger deals.

Related Terms: Committed Capital

Data Infrastructure

Assets that make it possible to store, transmit and process ever-growing amounts of data. A newer part of the infrastructure universe, data infrastructure is the backbone of the digital economy and includes data centers, fiber networks, cell towers and distributed antenna systems.

Related Content: Video: Infrastructure Investing | Infographic: Infrastructure Investing

Related Terms: Infrastructure

Data Center Fit-Out

Making the inside of an already-constructed data center suitable for housing necessary equipment such as computer servers, network connections and more.

Related Terms: Digitalization

Debt Service Coverage Ratio (DSCR)

A financial metric comparing a borrower's annual total debt obligations to its net operating income. Lenders use DSCR when a borrower applies for a loan (or to refinance an existing loan) to gauge a borrower's financial health and to determine the maximum loan amount.

For example, in real estate, lenders use DSCR as an indication of whether a property can generate sufficient income to cover its mortgage payments.

$$\text{Debt Service Coverage Ratio (DSCR)} = \frac{\text{Net Operating Income (NOI)}}{\text{Annual Debt Service}}$$

Related Terms: Debt-to-Equity Ratio (D/E)

Debt-to-Equity Ratio (D/E)

Used to evaluate the amount of financial leverage in an investment, calculated by dividing the debt of an asset or a company by its total equity.

In real estate, D/E is used as a measure of ownership and is calculated by dividing the mortgage balance by the property's equity.

$$D/E = \frac{\text{Debt}}{\text{Equity}}$$

Related Terms: Loan-to-Value Ratio (LTV)

Decarbonization

The global goal of reaching net-zero emissions by 2050. Infrastructure investment will be crucial for achievement. Opportunities are wide-ranging, including: the buildout of renewable power generation, enhancing electrical infrastructure, repurposing existing infrastructure assets and investing in energy efficiency.

$150 Trillion+
investment opportunity to support decarbonization of global energy systems

Build-Out of Renewable Power Generation | Energy Efficiency | Enhance Electrical Infrastructure | Repurpose Existing Infrastructure Assets

Source: Bloomberg New Energy Finance.

Related Terms: Digitalization | Deglobalization

Deglobalization

The buildout of infrastructure to help onshore production of critical goods, enhance the resiliency of global supply chains and support the development of more localized energy sources.

$1 Trillion+

investment opportunity to support onshoring of manufacturing and other critical industries, energy security and supply chain resiliency

Critical Industries

Supply Chains

Energy Security

Source: OEC, DOT, Brookfield Asset Management.

Related Terms: Digitalization | Deglobalization | Onshoring

Digitalization

The buildout of data infrastructure to support ever-expanding data usage. Opportunities include replacing the existing copper network with fiber optic cable for faster speeds, adding infrastructure to support 5G and new wireless solutions, and building data centers to support migration to the cloud.

$1 Trillion+

investment opportunity to enhance data infrastructure

Telecom Towers

Data Centers

Fiber to the Home

Source: Cisco.

Related Terms: Decarbonization | Deglobalization

Direct Investment

When a General Partner purchases an equity stake of a portfolio company.

Related Terms: Committed Capital

Direct Lending

Origination of a bilateral loan where non-bank creditors extend loans to businesses without using an intermediary, such as an investment bank. Direct lending, a subset of private credit, most commonly refers to first-lien loans made to middle-market companies (i.e., typically those with annual revenues of $50 million to $1 billion).

However, the direct lending asset class can encompass a broader universe beyond first-lien loans to include additional forms of middle-market lending, including second-lien debt, mezzanine debt and unitranche debt (i.e., hybrid loans combining junior and senior debt).

Related Terms: Private Credit | Sponsored Financing | Non-Sponsored Financing | Opportunistic Financing

Discount Rate

A rate of return used to discount future cash flows back to their present value. Discount rate is calculated to account for the time value of money and as an indicator of the risk within an investment. It can act as a hurdle rate for investment decisions and make different types of investments comparable.

For example, in real estate, the discount rate is used to determine the current value of future cash flows from a property. It represents an investor's required rate of return on a real estate investment. It is also used as a key input in discounted cash flow analysis, which helps to determine a fair sale price for a property.

There are two ways to define the discount rate in real estate:

- The rate that is used to determine the present value of future cash flows.
- The rate of return required by an investor to take the risk of purchasing a property.

Either way, the resulting discount rate percentage can be used to determine the present value of a future stream of cash flows.

$$\text{Discount Rate (\%)} = \frac{\text{Future Value (FV)}^{\frac{1}{(n \times t)}}}{\text{Present Value (PV)}} - 1$$

Where:
n = Number of years
t = Number of times compounded in a year if multiple times per year

Related Terms: Net Operating Income (NOI) | Capitalization Rate (Cap Rate) | Entry Cap Rate | Exit Cap Rate | Internal Rate of Return (IRR)

Distressed Debt

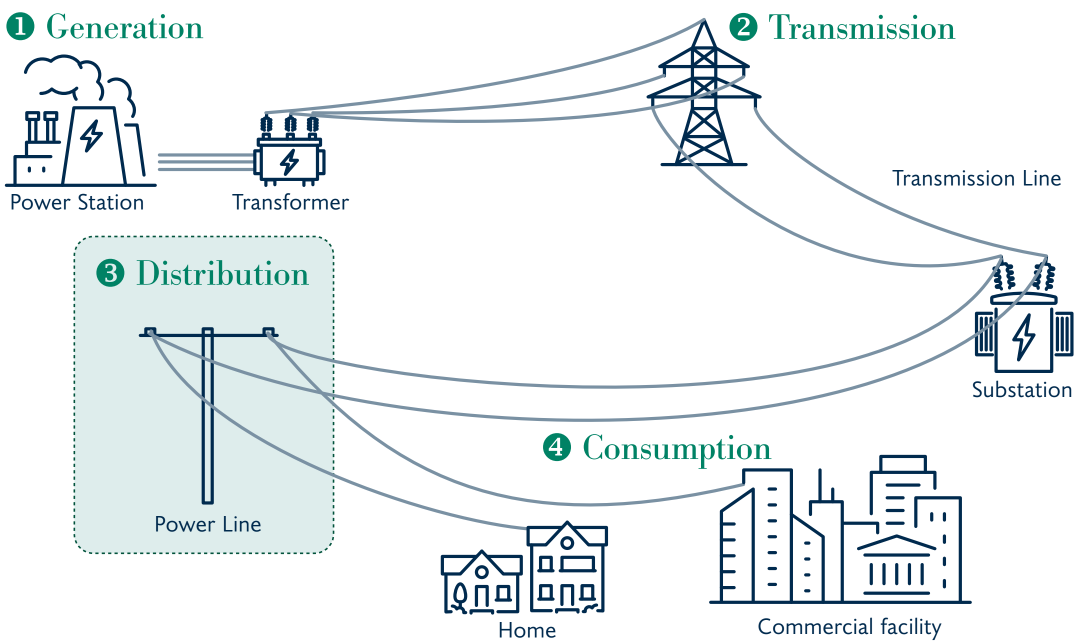
The debt obligations of a business facing financial distress, default or bankruptcy. The business may sell its debt to investors at a discount to raise the capital required to remain solvent or make improvements to restore financial viability such as restructuring its debts. Distressed debt typically offers higher yield and return potential than sponsor-backed or non-sponsored debt due to the urgent need for capital and the complexities of the specific financial distress.

Distressed debt lenders are often deeply involved with the borrower. Lenders typically aim to provide capital relief as well as expertise that can help management make the business profitable. Lenders can also accumulate debt in a troubled company and then take it over by receiving equity through the bankruptcy process.

Related Terms: Private Credit | Direct Lending | Senior Debt | Mezzanine Debt | Sponsored Financing | Non-Sponsored Financing

Distribution

The final stage of delivering electricity to consumers. Distribution lines and networks transfer electricity from local distribution points, such as substations, to homes, businesses and other consumers.



Related Terms: Electrical Grid | Generation | Transmission | Power Plant | Onshoring

Distribution to Paid-in (DPI)

A measure of return after fees, calculated as the ratio between total capital returned to the investor as distributions (realized portfolio company exits after accounting for management fees) and total capital invested.

Related Terms: Exits

Down Round

Fundraising that prices a portfolio company at a lower valuation.

Related Terms: Fundraising Round | Portfolio Company

Earn Out

A mechanism to resolve pricing disagreements between buyer and seller. Earn outs can be structured in two ways:

- The buyer can offer a lower price in return for additional compensation to the seller if the portfolio company hits performance milestones.
- The buyer can purchase the portfolio company in two parts, the first part immediately with the remainder bought later at a price determined later based on performance milestones.

Earnings Before Interest and Taxes (EBIT)

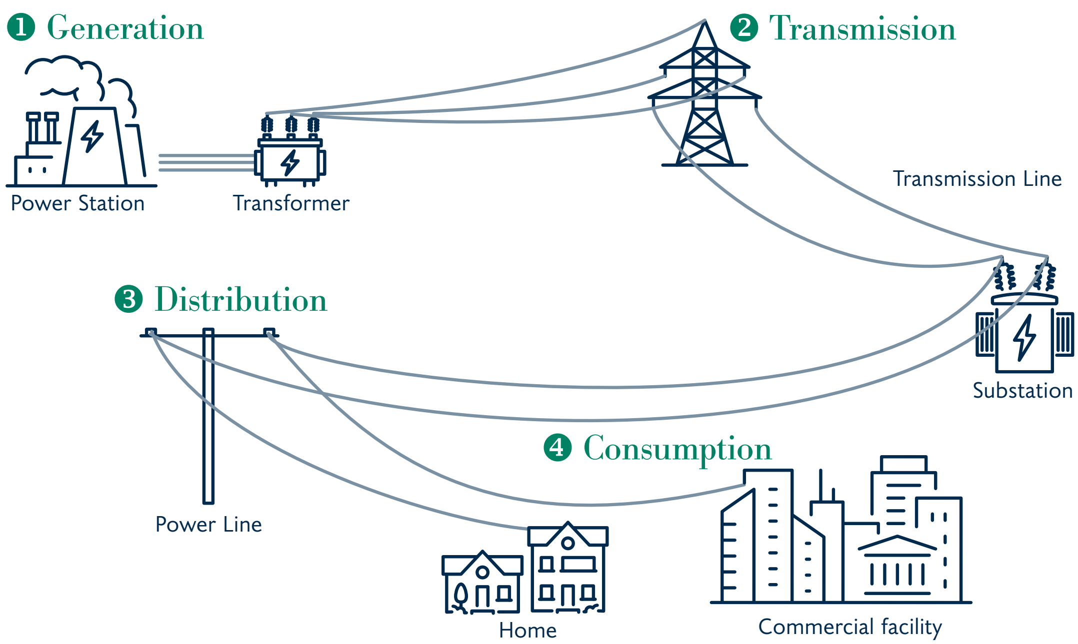
A measure of a company's core profitability. EBIT takes net income and adds back interest and taxes.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

A measure of a company's core profitability. EBITDA takes net income and adds back interest, taxes, depreciation and amortization. It is helpful for comparing companies with differing levels of capital assets and related amortization/depreciation expenses.

Electrical Grid

The network that facilitates the generation, transmission and distribution of electricity. An electrical grid consists of power plants, transmission and distribution lines, substations and other components.



Related Terms: Generation | Power Plant | Substation | Transmission | Distribution

Energy Storage

Assets that can store energy for later use. Energy storage development is vital for the advancement of renewable power, given its intermittent nature (e.g., solar power can only be generated during the daytime).

Related Terms: Decarbonization | Grid Modernization | Smart Meter

Enterprise Value (EV)

The total value of a company or an indicator of how much it would cost to purchase the company, calculated as the total value of a company's equity and debt minus cash.

Entry Cap Rate

The capitalization rate (cap rate) for a real estate asset at the time of purchase. Also known as the going-in cap rate, the entry cap rate is calculated based on the property's purchase price and Year One net operating income.

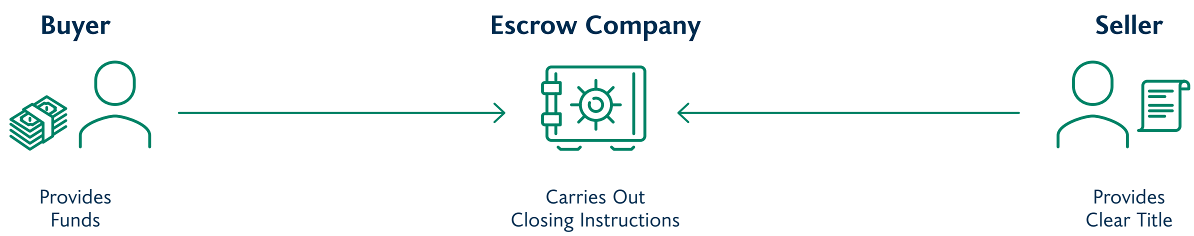
$$\text{Entry Cap Rate (\%)} = \frac{\text{Stabilized Net Operating Income (NOI)}}{\text{Total Project Cost}}$$

Related Terms: Net Operating Income (NOI) | Capitalization Rate (Cap Rate) | Discount Rate | Exit Cap Rate

Escrow

Funds in a financial transaction held by an impartial third party until certain conditions are fulfilled. In real estate, escrow funds are held until all conditions of a sale agreement are met by both buyer and seller. Typically, these funds are considered a down payment on a real estate purchase and are applied to the total cost of the transaction.

Escrow Process



Related Terms: Closing Costs

Exit Cap Rate

An estimation of a property's future net operating income divided by its expected selling price at the time of sale. Also known as the terminal cap rate.

$$\text{Exit Cap Rate (\%)} = \frac{\text{Expected Net Operating Income (NOI)}}{\text{Anticipated Sale Price}}$$

Related Terms: Net Operating Income (NOI) | Capitalization Rate (Cap Rate) | Discount Rate | Entry Cap Rate

Exits

The partial or full sale of a portfolio company by a private equity fund. Exits can take many forms, ranging from initial public offerings (IPOs) to private sales to a strategic or financial buyer.

Fee Rebates to Limited Partners

When General Partners (GP) provide their portfolio companies with advisory and management services for a fee, which is then used to offset a GP's management fee on a fund.

Fiber Optic Cable

A type of cable used across telecommunications and computer networks that can transmit large amounts of data over long distances at high speeds. As data usage rapidly grows, there is a movement to upgrade traditional copper cables to fiber optic cables given the greater speed and bandwidth capabilities.

Related Terms: Colocation

Financial Buyers/Sponsors

Entities (often private equity funds) that look to acquire a company to generate value and exit the company at a profit.

First Lien

The first debt to be paid when a borrower defaults and the property or asset was used as collateral for the loan. Considered senior secured debt.

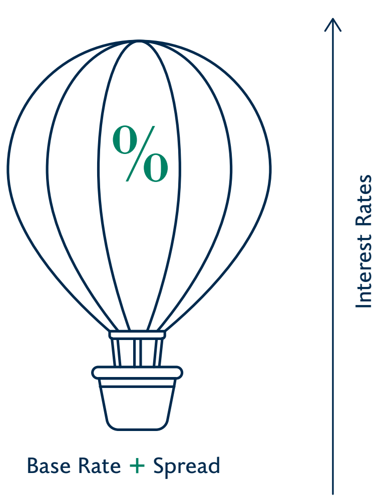
Fixed-Rate Debt

A bond or loan with an interest rate that remains constant or fixed.

Related Terms: Floating-Rate Debt

Floating-Rate Debt

A bond or loan with an interest rate that "floats" to reflect changes in borrowing rates. Floating rates are typically priced as a combination of a reference rate, such as the Secured Overnight Financing Rate (SOFR), and an added premium (or spread) that reflects perceived risk. For example, a loan priced at SOFR+450 has an interest rate of SOFR plus 450 basis points (or SOFR plus 4.5%).



Related Terms: Fixed-Rate Debt | Private Credit | Secured Overnight Financing Rate (SOFR) | Risk-Free Rate

Follow-on Investment

When a private equity fund makes additional equity investments into a portfolio company in exchange for more equity. Follow-on investments are common for early-stage companies that require multiple rounds of fundraising to support rapid growth. Funding can be used to hire additional staff, scale production or for whatever else is needed to grow.

Fund-of-Funds (FoF)

A fund investment strategy that invests into other funds via primary or secondary transactions. An FoF approach allows for diversification across strategies, geographies and/or vintages at the cost of potentially higher fees (e.g., the FoF fee and fees of the underlying funds).

Fundraising Round

A specific stage in a company's financial journey where it seeks external investment to fuel its growth. These rounds allow the company to raise capital from outside investors, typically in exchange for equity or partial ownership of the business. The valuation of a business is often determined by the latest funding round.

Funds From Operations (FFO)

A non-GAAP (Generally Accepted Accounting Principles) metric used to measure a company's recurring operating earnings. FFO is most commonly used to provide investors with a more accurate picture of the operating performance of their real estate or infrastructure company investment. It excludes the impact of certain items, including depreciation and amortization, as well as one-time income or losses from asset sales, that affect a company's net income for tax purposes.

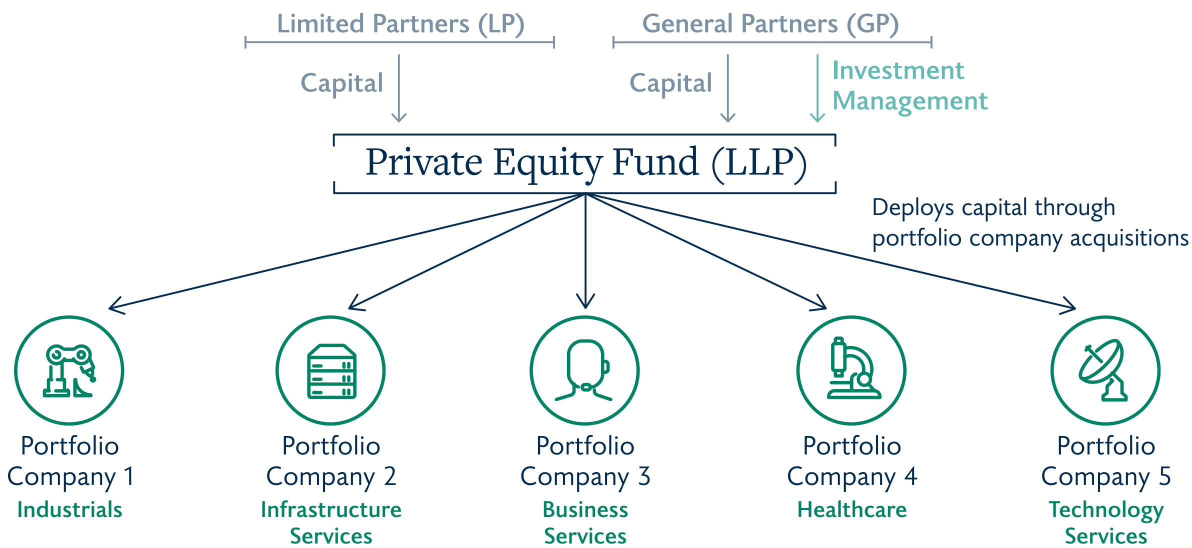
Exclusion of these items can more accurately reflect income produced from business activities during a certain period and provides a better reflection of a company's recurring income. It can offer additional insight into a company's ability to pay and maintain its dividend.

For example, current GAAP depreciation and amortization practice implicitly assumes that the value of assets diminish predictably over time. In actuality, these values rise or fall with market conditions. Depreciation and amortization must be added back to net income to reconcile this issue.

$$\text{FFO} = \begin{array}{c}\text{Net}\\\text{Income}\end{array} + \begin{array}{c}\text{Depreciation}\\\text{Amortization}\\\text{Losses on Property Sales}\end{array} - \begin{array}{c}\text{Gains on}\\\text{Sales of}\\\text{Property}\end{array} - \begin{array}{c}\text{Interest}\\\text{Income}\end{array}$$

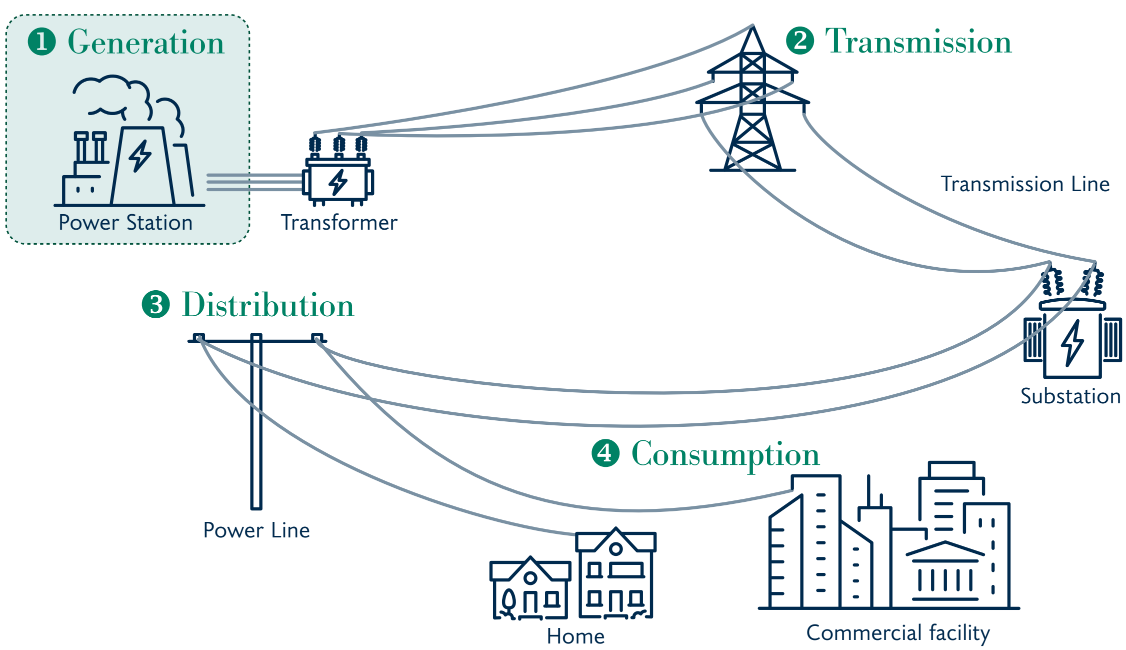
General Partner (GP)

Responsible for managing a limited partnership. A limited partnership provides access to investments, typically through funds, that are not available on public markets. In addition to raising funds and administering daily fund operations, the GP is responsible for deciding when to make investments, assisting management teams in maximizing value, and then liquidating investments so distributions can be made to Limited Partners.



Generation

The production of electricity. Generation is the first step in delivering electricity to consumers and can be derived from a variety of sources such as renewables (wind, solar, hydro, etc.), fossil fuels (gas, coal, etc.) or nuclear.



Related Terms: Electrical Grid | Power Plant | Substation | Transmission | Distribution

Greenfield Investments

Properties that generally require development and construction. The work required comes with construction and development risk, a longer investment horizon and potential operational complexity.

Related Terms: Brownfield Investments

Grid Modernization

Upgrading an electrical grid to make it more adaptable, resilient and able to meet growing electricity demands (particularly from renewable energy). Grid modernization makes it easier to deliver power to consumers in a more reliable and efficient manner. It includes updating transmission and distribution lines, adding new technologies that enable real-time monitoring and integrating energy storage systems.

Related Terms: Utility-Scale Wind and Solar Farms | Energy Storage | Decarbonization

Gross Return

The return on an investment before expenses and fees.

Related Terms: Net Return

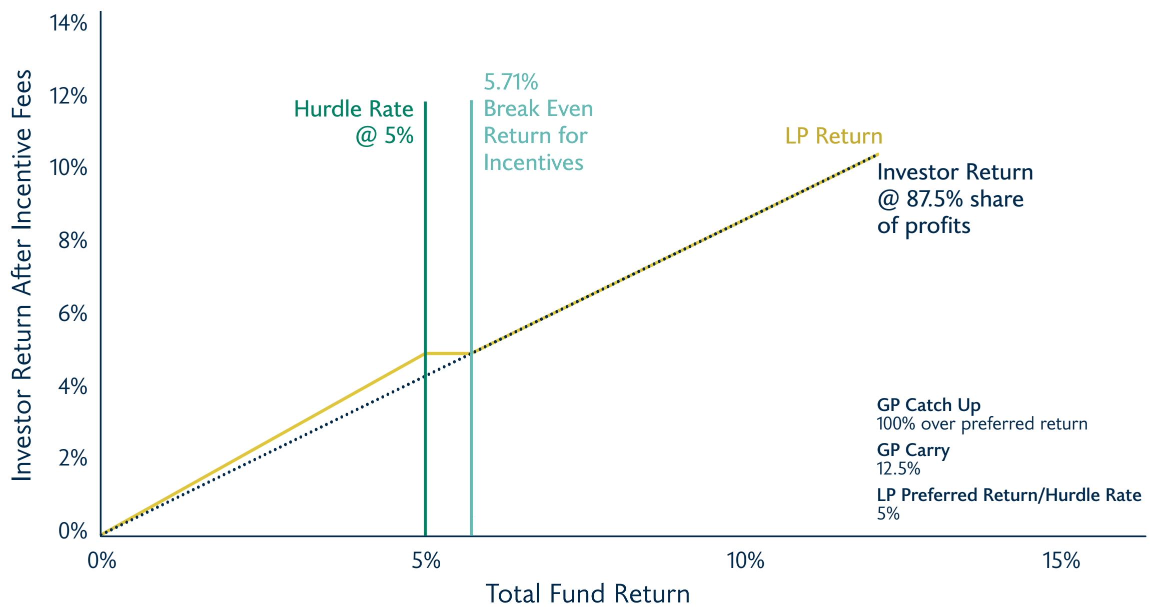
High Barriers to Entry

Physical infrastructure assets are often expensive to build and must be situated in specific locations, making the underlying businesses difficult to replicate. This greatly reduces competition risk, and as a result many assets have dominant market positions. For example, no would-be competitor could readily construct an electric power transmission network for a community already served by an established utility or build a new hydroelectric dam beside one in operation. These circumstances effectively restrict competition.

Related Terms: Inflation-linkage

Hurdle Rate/Preferred Return

A return level or benchmark that fund managers must exceed before they can receive performance fees or carried interest compensation.



Related Terms: Carried Interest | Catch-up | Waterfall

Illiquidity Premium

The additional return investors expect as compensation for the cost and inconvenience of investing into assets that are not readily tradeable. The illiquidity premium is calculated by measuring the excess return of a less tradeable investment vs. a comparable tradeable investment.

Liquidity refers to how easily an asset can be converted to cash. Illiquid assets such as apartments do not have a readily available market price and incur high transaction costs when buying or selling. As a result, investors demand a higher return for holding these types of investments.

Inflation-linkage

A feature of infrastructure contracts and regulatory frameworks where pricing is explicitly linked to inflation. When there is an inflation-linkage agreement, the price charged automatically increases and allows revenues to grow alongside inflation. Or, given high barriers to entry, asset owners may have the ability to pass rising expenses on to customers. These methods help to protect the profitability of infrastructure assets.

Related Terms: Regulated Revenues | Contracted Revenues | Power Purchase Agreement (PPA) | Take-or-Pay Contract | Concession | High Barriers to Entry

Infrastructure

Assets that provide the essential services that underpin the global economy by moving people, goods, commodities and data. The infrastructure asset class spans five sectors – transport, renewable power, utilities, midstream and data – and the opportunity set continues to grow. Within these sectors are many different asset types, including rail and mass transit, toll roads, airports, wind farms, pipelines, electricity transmission and distribution networks, data centers and more.

Deeper Dive on Infrastructure Sectors

Transport

Assets related to the movement of people and goods, including rail and mass transit, ports, containers, toll roads, bridges, tunnels and airports.

Renewable Power

Assets that derive energy from natural, replenishable sources. These assets include wind and solar farms, hydro dams, residential solar, and storage, such as large-scale batteries.

Utilities

Assets that provider water, gas and electricity. Utilities own and operate power plants, electricity transmission and distribution lines, gas and water transmission lines, as well as water treatment facilities and distribution networks (including pipes, pumps and storage facilities). The sector also includes residential infrastructure, including HVACs, heat pumps, smart meters, etc. Utilities are often the most regulated of infrastructure assets.

Midstream

Assets that facilitate the transportation, storage and processing of crude oil, natural gas and natural gas liquids. Assets include gathering and processing systems, pipelines, storage and export facilities.

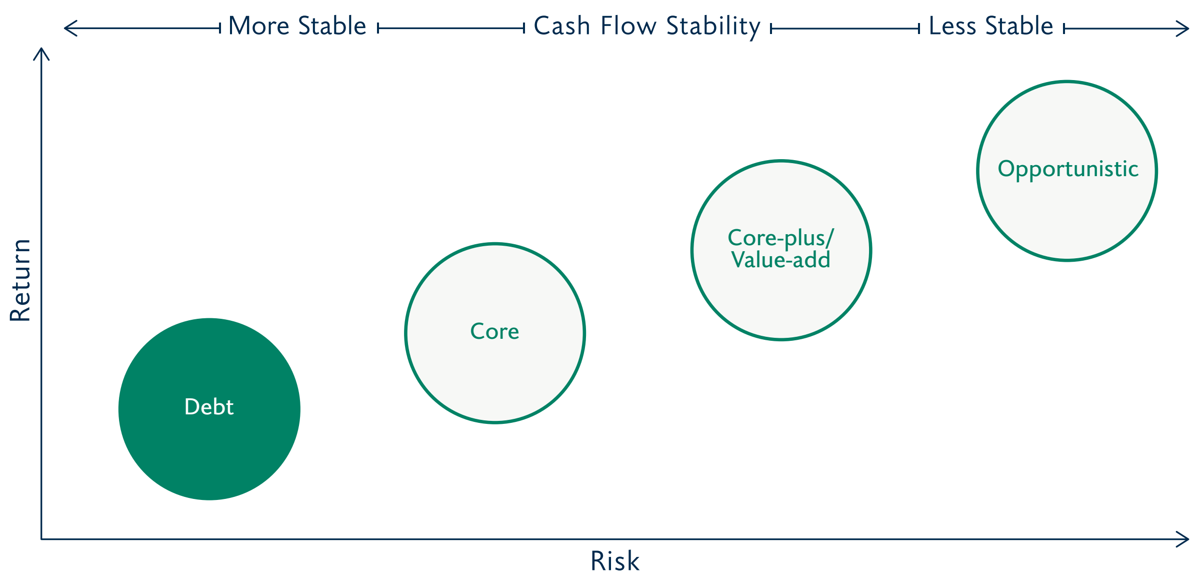
Data

Assets that make it possible to store, transmit and process ever-growing amounts of data. A newer part of the infrastructure universe, data infrastructure is part of the backbone of the digital economy. These assets include data centers, fiber networks, cell towers and distributed antenna systems.

Related Content: Video: Infrastructure Investing | Infographic: Infrastructure Investing

Infrastructure Debt

Strategies where lenders provide money to infrastructure asset owners for a variety of purposes including financing capital expenditures, refinancing existing debt, or providing acquisition financing. Infrastructure debt managers can target different parts of the capital structure with varying risk/return profiles (e.g., senior and mezzanine loans).



Related Terms: Core Infrastructure | Core-Plus and Value-Add Infrastructure | Opportunistic Infrastructure

Initial Public Offering (IPO)

A common portfolio company exit that involves listing and selling company shares to the public on a stock exchange. An IPO exit may result in higher valuations than other exit paths and provide greater visibility among investors.

Interest Rate Floor

Sets a minimum level for the interest rate on a loan or investment, thereby protecting the lender against a decrease in interest rates below a specified level, typically the benchmark rate (i.e., the Secured Overnight Financing Rate). This can help lenders manage interest rate risk and ensure a minimum level of return on their investments or loans.

Related Terms: Secured Overnight Financing Rate (SOFR) | Floating Rate Debt

Internal Rate of Return (IRR)

A calculation used to estimate the future value of an investment as if it were valued at the present. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis. Fundamentally, IRR and discount rate are similar, but IRR solves for the discount rate whereas the discount rate solves for the present value.

IRR can be used for a variety of investments; in real estate, IRR is an expected return on a property investment given an acquisition price – the expected net cash flows of the property over the holding period including any sales proceeds from the resale of the property at the end of the holding period. It is a good measure of a property's long-term profitability because it uses annual net cash flow and the change in equity over time.

In private equity, IRR is also known as the breakeven point, which is the point between capital invested and the present value of capital an investment is expected to generate. A higher breakeven point implies a higher expected potential return on an investment.

$$\text{IRR} = \frac{(\text{Cash flows})}{(1+r)^{i}} - \text{Initial Investment}$$

Where:
Cash flows = Cash flows in the time period
r = Discount rate
i = Time period

Related Terms: Discount Rate | Net Operating Income (NOI) | Capitalization Rate (Cap Rate) | Entry Cap Rate | Exit Cap Rate

Interval Funds

A type of closed-end fund, not listed on an exchange, which gives investors access to investments with less liquidity than open-end funds.

Interval funds can sell shares continuously based on their NAV. They must offer to repurchase 5-25% of NAV at defined intervals. Shareholder distributions are reported annually on Form 1099 for simplified tax reporting.

Related Content: Flyer: Investment Vehicles At-A-Glance

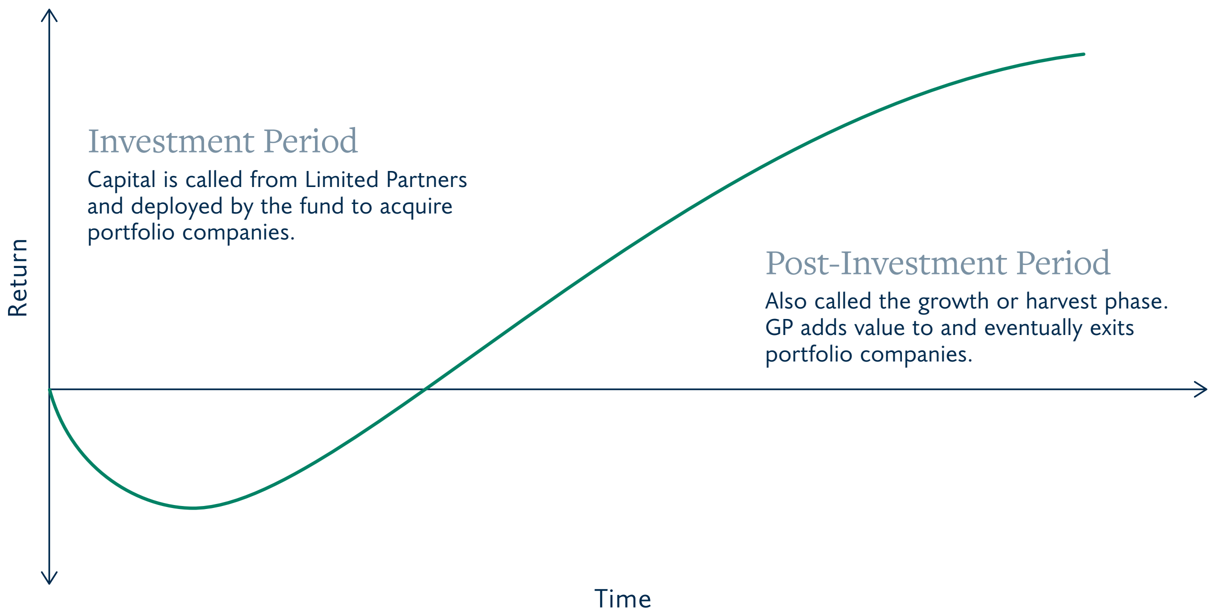
Invested Capital

The after-fees amount of investor capital that has been used to purchase portfolio companies.

Related Terms: Exits

J-curve

A trendline of returns reflecting an initial loss followed by sharp upward gain (forming a shape like a capital J) to above the original investment. The J-curve reflects the typical investor's experience in a private market fund, where it can often take several years for an investor to recoup their initial investment and benefit from any investment gains. The expected negative return profile of early years does not reflect negative performance of the fund, it reflects the operating expenses incurred during the first few years as the fund seeks to deploy capital.



Key Performance Indicator (KPI)

A metric used to evaluate performance of a business in the real estate industry. KPIs can be used to examine different business segments in the real estate market, including investment property potential.

Related Terms: Occupancy Rate | Turnover

Key-Man Provision

A common clause within a fund's governing document to protect investors from adverse changes in investment management. Key-man provisions identify investment personnel who must be sufficiently involved with the fund's investment management. If the provision is breached due to insufficient involvement by key persons, then Limited Partners can vote to accept alternative key persons or wind down the fund.

Lease-Up

The period for a rental property (e.g., an apartment building) between completion of construction or renovation of a property and stabilization. The end of lease-up period is typically when the building reaches approximately 90% occupancy.

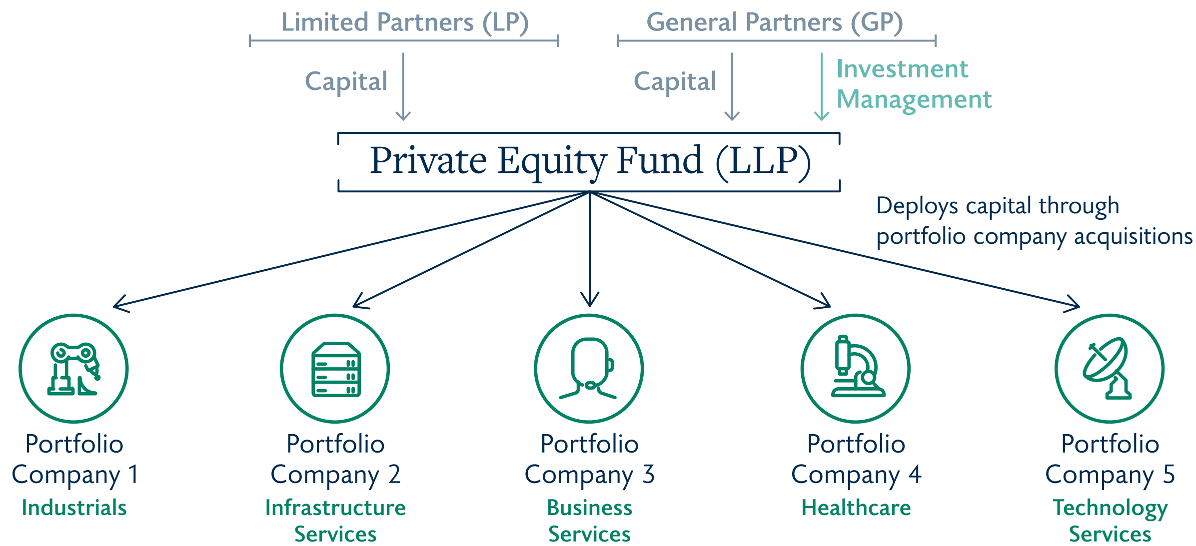
Related Terms: Real Estate Stabilization | Occupancy Rate

Leveraged Buyout (LBO)

An acquisition of a portfolio company utilizing high levels of debt. Leverage levels can be as high as 90%, with the remainder funded by equity. In an LBO, assets of the portfolio company are often used as debt collateral to support the acquisition.

Limited Partner (LP)

Institutions or high-net-worth individual investors that contribute capital to a business venture. In a limited partnership, LPs do not make business decisions—the partnership is guided by the General Partner.



Related Terms: General Partner (GP)

Limited Partner (LP) Advisory Committee

A committee composed of LPs that provides oversight and conflict of interest resolutions to General Partners on behalf of all LPs within a fund.

Limited Partnership (LP)

An investment vehicle that gathers funding from investors which is used by a fund manager or General Partner to acquire portfolio companies on behalf of the LP.

Loan-to-Value Ratio (LTV)

A measurement of lending risk that is calculated by dividing the borrowed amount by the value of the underlying asset. Loans with high LTVs have less asset collateral and higher risk as borrowers are less likely to fully repay the loan in the event of a default.

$$\text{Loan to Value Ratio (LTV)} = \frac{\text{Loan Amount}}{\text{Asset Value}}$$

Related Terms: Private Credit | Debt-to-Equity Ratio (D/E) | Key Performance Indicator (KPI)

Management Fees

Payment due to a General Partner (GP) in exchange for the management of a fund. Management fees for closed-end funds typically have two phases:

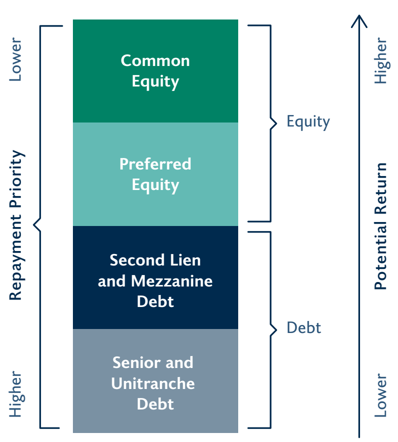
- **Investment Period:** Management fees are charged on committed capital while the GP raises funds and finds portfolio companies to invest in. This is often the most intensive period for GPs as they scour the market for the best portfolio companies.
- **Post-Investment Period:** Once the fund has closed and portfolio companies are identified, management fees either step down or are charged on invested capital. This less expensive fee reflects the relatively lower-intensity work of value creation and exiting portfolio companies.

Mezzanine Debt

A source of funding that uses preferred equity, convertible bonds or subordinated debt. Mezzanine debt ranks higher than common equity and below senior debt in the repayment priority.

Mezzanine debt is a hybrid of debt and equity where repayment priority is lower than senior debt but positioned above pure equity investors. Given its hybrid nature, it can lean either more to debt or equity. In equity-like cases, there may be more opportunity for upside via warrants. Considered unsecured subordinated debt.

One use case for mezzanine debt includes special/distressed situations where investors aim to convert their convertible bonds or subordinated debt into equity control during a restructuring process.



Related Terms: Capital Stack | Private Credit | Senior Debt | Subordinated Debt | Distressed Debt

Middle Market

Companies with revenues generally ranging from $50 million to $1 billion.

Midstream Infrastructure

Assets that facilitate the transportation, storage and processing of crude oil, natural gas and natural gas liquids. Assets include gathering and processing systems, pipelines, storage and export facilities.

Related Content: Video: Infrastructure Investing | Infographic: Infrastructure Investing

Related Terms: Infrastructure

Multiple on Invested Capital (MOIC)

An after-fees measure of investment return, MOIC represents the ratio between the value of investments (realized and unrealized) and investor capital.

Mutual Funds

Publicly traded vehicles that pool individual investors' money together into one professionally managed portfolio of stocks, bonds, and/or other securities. Mutual funds allocate underlying investments according to a stated strategy or actively seek to outperform either the broader market or a specific benchmark.

Related Content: Flyer: Investment Vehicles At-A-Glance

Net Operating Income (NOI)

A metric that determines the profitability of a property, NOI is calculated as total revenue minus operating costs. It does not account for capital expenses, depreciation, or amortization.

Net Operating Income (NOI) = Real Estate Revenue − Operating Expenses

Related Terms: Capitalization Rate (Cap Rate) | Discount Rate | Exit Cap Rate | Entry Cap Rate

Net Return

The return a Limited Partner receives on an investment after fees and expenses.

Related Terms: Gross Return

Non-Sponsored Financing

Transactions where lenders work directly with borrowers that are not owned in whole or in part by a private equity sponsor. Non-sponsored financing lenders are responsible for all aspects of due diligence and underwriting, which can take longer than sponsored financing (which often comes with a diligence package prepared by the sponsor private equity firm). However, non-sponsored financing can also allow for a more tailored solution to a company with a harder-to-understand business model or complexities that banks are unwilling (or unable) to consider.

Related Content: Article: Sponsored vs Non-Sponsored Financing | Video: Understanding Private Credit

Related Terms: Private Credit | Direct Lending | Sponsored Financing | Opportunistic Financing

Non-traded Real Estate Investment Trusts (NTRs)

Semiprivate real estate investment vehicles that are not listed or traded on a public exchange and are typically priced monthly. NTRs provide access to private real estate—warehouses, apartments, retail, etc.—that generate income through rent.

Related Content: Flyer: Investment Vehicles At-A-Glance

Occupancy Rate

The ratio of space rented out or used to the total amount of available space.

$$\text{Occupancy Rate} = \frac{\text{No. of Occupied Units}}{\text{Total No. of Units}} \times 100$$

Related Terms: Real Estate Stabilization | Lease-Up

Onshoring

The relocation of a business process to inside a country rather than utilizing goods and services from other countries.

Operating Expense (OpEx)

Ongoing costs associated with operating and maintaining a property. OpEx are made up of three main components:

- **Property taxes:** taxes charged to the property owner by governing bodies
- **Insurance:** cost to insure the building, which is typically required by the lender financing the property
- **Common area maintenance fees:** include management fees, building maintenance and repairs, utilities, administrative fees, management salaries and more. These fees may vary by property type and landlord.

OpEx do not include debt service, capital expenditures (CapEx), property marketing costs, capital reserves for future large repair projects, leasing commissions or tenant improvement allowances.

Related Terms: Capital Expenditures (CapEx) | Net Operating Income (NOI)

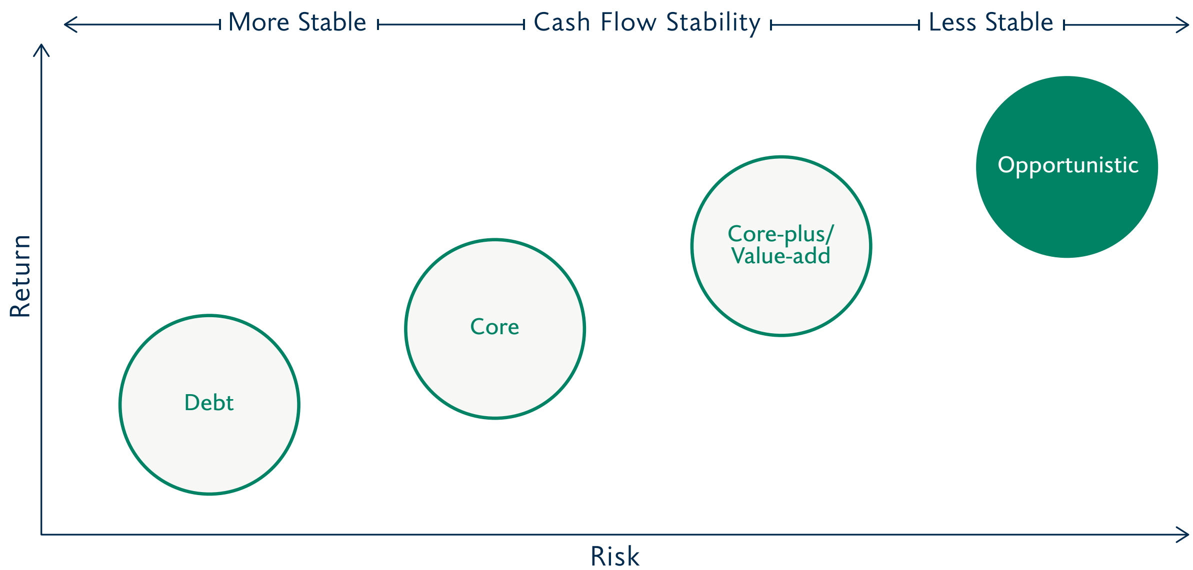
Opportunistic Financing

A wide range of lending transactions that require specialized knowledge or involve more complexities than traditional direct lending. Examples of opportunistic financing include rescue financing and exit financing (providing capital that companies need to exit bankruptcy).

Related Terms: Distressed Debt

Opportunistic Infrastructure

Strategies that generally invest in assets with significant development or restructuring needs. Opportunistic infrastructure generally has revenues that are very sensitive to shifts in demand, as they may be dependent on volume or price, or located in an emerging market.



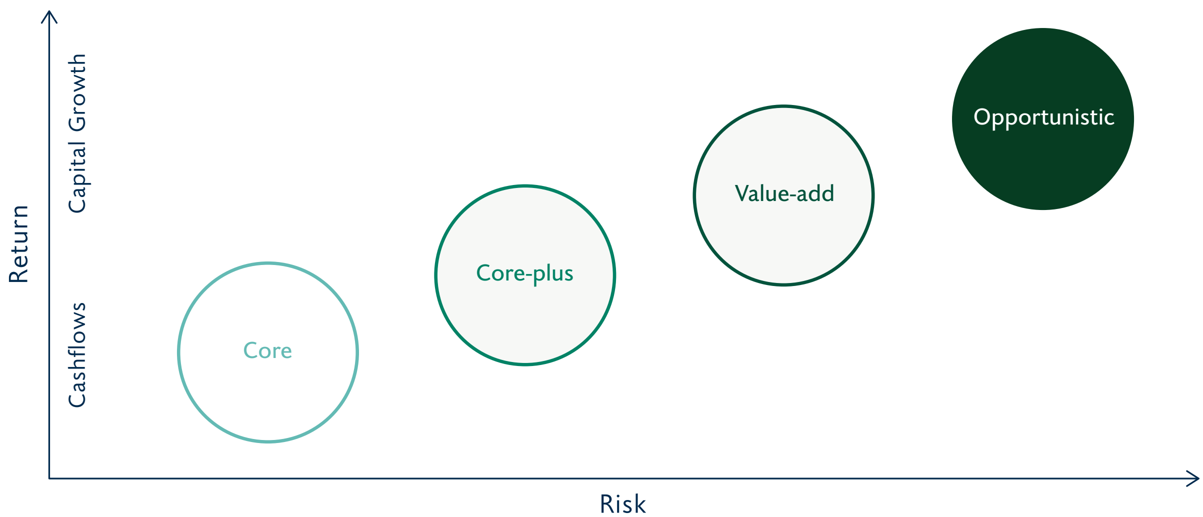
Related Terms: Core Infrastructure | Core-Plus and Value-Add Infrastructure | Infrastructure Debt | Greenfield Investments

Opportunistic Real Estate

The riskiest of all real estate strategies with the most complexity relative to other real estate properties, opportunistic real estate typically requires extensive work and property management experience in order to realize a worthwhile profit.

Investments may include the significant redeveloping/repurposing of an existing building, new ground-up developments or distressed properties. Opportunistic real estate investing often employs higher leverage than other real estate strategies, which may exceed 70%, as the investment properties typically require substantial upfront capital. This higher-risk strategy focuses on solving complex challenges in hope of larger returns.

Opportunistic properties have a high risk-reward profile and should be considered long-term investments.



Related Terms: Core Real Estate | Core-Plus Real Estate | Value-Add Real Estate

Opportunity Zone

An area within an economically distressed U.S. community where new private investments may be eligible for preferential tax treatment, designated by the U.S. Internal Revenue Service. They were created by the 2017 Tax Cuts and Jobs Act to encourage private investment aimed at creating economic and employment growth.

Related Terms: Real Estate Development Risk | Real Estate Stabilization

Original Issue Discount (OID)

Issued to a bond or loan when the amount loaned or financed is less than face value. The OID amount that goes to the lender equals the difference between the original face value amount and the discounted price paid.

Related Terms: Private Credit | Syndicated or Leveraged Loans

Paid-in Capital

The cumulative total of a Limited Partner's committed capital that has been called and transferred into a fund.

Payment-in-Kind (PIK)

Occurs when a borrower pays interest "in-kind," deferring and adding interest payments to the outstanding balance of a loan in lieu of cash payment. Sometimes called toggle notes or toggle loans, PIK allows borrowers to switch between paying interest in cash or in-kind. PIK often commands a higher interest rate to compensate the lender for additional risk.

Portfolio Company

A company owned by a private equity fund.

Power Plant

A facility that generates electricity by converting various forms of energy into electricity.

Related Terms: Electrical Grid | Generation | Substation | Transmission | Distribution

Power Purchase Agreement (PPA)

A long-term power supply agreement between two parties, usually a power producer and a utility or large company. The PPA states how much power will be supplied at a negotiated price, providing power producers high visibility into their revenues. Some PPAs are linked to inflation via Consumer Price Index-based price adjustments.

Related Terms: Regulated Revenues | Take-or-Pay Contract | Availability-Based Infrastructure | Concession | Inflation-linkage

Private Credit

Loans provided by a non-bank lender directly to a borrower. Private debt is often issued to companies with little to no access to traditional sources of financing such as banks or the public markets. This type of loan is also known as a direct lending transaction.

Private debt is not publicly issued or traded, typically unrated, tends to be senior in repayment priority (first or second lien), is typically secured by collateral, and often carries floating rate coupons. In contrast, public debt is publicly traded, often rated by a credit rating agency, has fixed coupons and is usually unsecured. In addition, because these agreements are generally negotiated directly between borrower and lender, privately originated loans can often be executed more efficiently with greater certainty and speed than is typically the case with banks or in public markets.

What is Private Credit?

Origination of a bilateral loan without a traditional intermediary connecting the borrower directly to the private (non-bank) lender

Related Content: Video: Understanding Private Credit

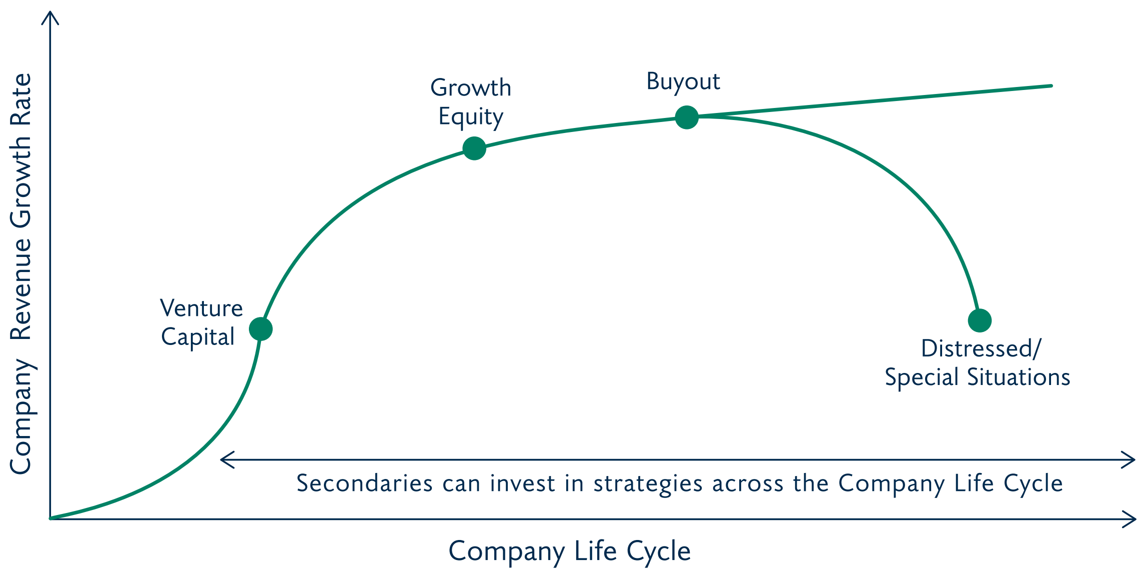
Related Terms: Direct Lending | Senior Debt | Mezzanine Debt | Distressed Debt | Sponsored Financing | Non-Sponsored Financing

Private Equity

Funds that take full or partial ownership in companies with the goal of improving the business, increasing its value and then exiting at a profit via an initial public offering or sale to a strategic buyer or financial sponsor.

Private equity strategies can be categorized depending on where they invest in the company lifecycle:

- **Venture capital:** Seeks to invest in early-stage companies that show promising potential in the hope of achieving multiples on the original investment. Typically, venture capital target companies exhibit the following characteristics: high revenue growth rates, short operating histories and not yet profitable.
- **Growth equity:** Seeks companies that are on track to or nearing profitability as well as firms that require additional capital to expand.
- **Leveraged buyout:** Seeks more mature public and private companies with an aim to implement operational efficiencies and/or grow market share.
- **Distressed/special situations:** Investing in the equity or debt of companies confronting financial difficulty. Investors aim to take control during a restructuring to implement changes and return the firm to profitability before exiting at a profit.
- **Secondaries:** Investing into existing private equity funds ranging from venture capital to distressed/special situation. Investors in secondaries are typically motivated by potentially purchasing shares of existing funds at a discount, with lower risk and a shorter time to an exit.



Related Terms: Secondaries | Venture Capital

Public-Private Partnership

An agreement between a government/municipal entity and a private company to help finance, construct, and operate an infrastructure asset. Public-private partnerships are primarily used for infrastructure projects. Notable recent examples of public-private partnerships include the renovation and expansion of LaGuardia and John F. Kennedy International Airports in New York.

Qualified Purchaser – U.S.

A classification of U.S. investor type that meets specific standards set by the U.S. Securities & Exchange Commission to invest in certain alternative investments. A qualified purchaser is:

- A person/family company/trust with an investment portfolio valued at a minimum of $5 million.
- A company with a portfolio of investments worth $25 million or more.

Regulators set these standards to ensure that investors are sufficiently sophisticated and understand the risks associated with such alternative investments as venture capital, hedge funds and private equity, which are often less liquid and can require larger financial commitments than traditional investments.

Qualified purchasers face higher regulatory standards and can access additional investment opportunities such as hedge funds, venture capital funds, and other private equity funds, which may not be registered with the SEC, providing that certain criteria is met.

Related Terms: Accredited Investor – U.S.

Rate Base/Regulated Asset Base

Used to describe the value of a utility's asset base upon which the utility can earn a return on its investment. This can include the value of water, gas and electricity transmission and distribution lines, certain generation assets, gas mains, water treatment facilities and meters, as well as other assets. Rate base/regulated asset base is a key driver in how a utility makes money.

Related Terms: Rate Case | Allowed Rate of Return

Rate Case

The process through which a utility company seeks approval from a regulatory body for the rate it charges customers. The rate case ensures prices are reasonable for consumers while allowing utilities to earn an adequate return on investment (the allowed rate of return). The rate case process, including the frequency at which they're held, varies significantly by region.

Related Terms: Rate Base/Regulated Asset Base | Allowed Rate of Return

Real Estate

Land and any permanent structures or natural resources attached to it. There are many different types of real estate assets, from apartments and homes to offices, farms, data centers and warehouses. Investing in real estate includes purchasing a home, rental property or land. Indirect investment in real estate can be made via Real Estate Investment Trusts (REITs) or through a pooled real estate investment.

Deeper Dive on Real Estate Property Types

- **Entertainment:** A variety of property types, from sports stadiums to movie theaters, theme parks, concert venues and casinos.
- **Industrial/Logistics:** Properties specifically designed to support efficient supply chains with purpose-built structures for storage, order fulfillment and distribution. The growth of e-commerce, coupled with consumer expectations for fast delivery, has created strong demand for industrial/logistics real estate. These facilities range from general warehouses to specialized buildings designed for temperature-controlled storage for perishable foods or properties licensed for handling hazardous materials.
- **Land:** The base for all real estate, including undeveloped property and vacant land, as well as land used for agricultural purposes and farming. Developers purchase land to build structures or properties and may rezone land to increase density and value.
- **Life Sciences:** Properties that serve both traditional pharma and biotech firms, from research through development and manufacturing. Life sciences properties are highly complex and specialized buildings that can command rents significantly higher than standard office or manufacturing space. Properties can include research facilities combining office and laboratory space, manufacturing facilities and science parks, or campuses serving a variety of tenants.
- **Net Lease:** An agreement where the tenant pays rent and at least some part of the facility's operating costs. Net lease properties tend to have high-quality tenants with long-term leases, simplifying management.
  - Single net lease: Tenant pays rent and property tax.
  - Double net lease: Tenant pays rent, property tax and insurance.
  - Triple net lease: Tenant pays rent, property tax, insurance, and maintenance.
  - Absolute triple net lease (or bonded lease): Tenant pays rent and all operating expenses.

- **Mixed Use:** Properties that combine multiple uses in a single development, such as a building with ground floor retail and a mix of office space and residential units on the upper floors. Mixed use properties seek to deliver strong long-term performance and higher returns for investors by creating all-encompassing communities where people can live, work and play.
- **Office:** Business properties that are typically categorized by quality and type and are organized into three main categories: Class A, B and C.
  - Class A buildings are relatively new or recently renovated properties in prime locations. Also known in the real estate industry as trophy assets, these buildings tend to be premier properties that have market-leading amenities and are situated in strong markets. These buildings have high-quality construction and finishes, low maintenance costs, high-paying tenants and high occupancy rates.
  - Class B comprises somewhat older properties located in good neighborhoods, with average rents. These may require some repair and renovation.
  - Class C offices are usually more than 20 years old, tend to be located in less desirable areas with below-average rents and are often in need of substantial repair and renovation.

  Office buildings are also categorized by their height profile: low-rise, mid-rise, and high-rise.
  - Low-rise buildings have 1-3 floors and are often located outside the city center or in suburban areas.
  - Mid-rise buildings are larger buildings with up to 24 floors, typically located in or near downtown centers.
  - High-rise buildings are skyscrapers in urban centers that appeal to major corporations.

  Finally, office parks are clusters of office buildings in park-like settings.
- **Rental Housing:** Residential spaces that include single family (individual, standalone residences), townhouses/condominiums (individual units, usually within a larger residential structure, that may share common areas and amenities), high-rise apartment buildings, student housing, senior housing and affordable housing.
- **Retail:** One of the most varied types of commercial real estate, ranging from single-tenant stores and convenience centers to large shopping centers. Most include parking spaces, and many include "pads" that host individual tenants, such as banks, large specialty stores or restaurants.
- **Storage:** A real estate sector comprising everything from self-service storage facilities for individual consumers to industrial outdoor storage (typically uncovered, multi-acre lots used to park commercial vehicles, heavy equipment and construction materials).

Related Content: Flyer: Investment Vehicles At-A-Glance

Real Estate Debt

Money borrowed to finance the purchase, development, or improvement of real estate properties. Real estate debt is commonly used by individuals, businesses and investors to acquire or enhance real estate assets. The debt instrument is secured by a specified real estate property as collateral.

Real estate debt finances real estate acquisitions, refinancing and recapitalizations for all property types across myriad of sectors and locations. Investors in real estate debt have a variety of entry points via both public and private markets, offering a range of liquidity and risk/return profiles.

Related Terms: Recapitalization | Restructuring

Real Estate Development Risk

Factors that can impact the time taken to complete a ground-up development that requires significant construction. Development risks include physical and market conditions which can lead to higher input and financing costs, construction delays, contractor disputes and permitting issues, or entitlement risk (difficulty getting the required municipal approvals for plans).

Related Terms: Real Estate Stabilization

Real Estate Investment Trust (REIT)

A company that owns or finances real estate and real estate-related assets. A REIT does not pay federal income tax on net taxable income distributed as deductible dividends to shareholders. To qualify as a REIT, companies must meet a number of requirements, including paying 90% of taxable income to shareholders.

Related Terms: 1031 Exchange | 721 Exchange

Real Estate Secondaries

Transactions for buying interests in established property portfolios and/or single assets from existing investors, rather than making initial originations. By buying in at a later stage through real estate secondaries, investors assume less duration risk compared to investing in a blind pool at inception. Secondary investing may provide investors with portfolio benefits including earlier return of capital, J-curve mitigation, reduced blind pool risk and the ability to purchase quality assets at a material discount to net asset value.

Related Terms: J-curve

Real Estate Stabilization

The following the construction/renovation of a property when residents are being sought, marking the end of lease-up. Once stabilization is achieved—generally when a property, such as an apartment building, reaches approximately 90% occupancy—the property should produce steady, stable rental income.

Related Terms: Lease-Up | Occupancy Rate

Recapitalization

Changing the capital structure of an investment, including the debt and equity mix, to optimize financing. This often involves exchanging one form of financing for another.

In private equity, a company can perform a recapitalization by increasing or decreasing debt in exchange for equity or assets. For example, a company can sell shares or assets to pay back debt, lowering interest expenses.

In real estate, recapitalization occurs when investors change the capital structure of a property, usually by taking on additional investors. Recapitalization typically changes the proportion of debt and equity within the capital structure with the goal of making it better for the real estate investor.

Recapitalizations usually occur to improve financial structure, manage debt/interest rates, restructure the ownership of an investment and/or help unperforming assets improve.

Related Terms: Restructuring

Refinancing

The process of replacing an existing loan or debt obligation with a new loan under different terms. When an individual or entity refinances a loan, they typically pay off the existing debt with the proceeds from the new loan. The new loan may have a lower interest rate, extend the repayment period, or offer other benefits that result in reduced monthly payments or overall savings.

Regulated Investment Company (RIC)

An investment vehicle that is qualified to pass through income to individual investors with the purpose of avoiding double taxation.

Regulated Revenues

A company's regulated revenue profile is typically set by a government/municipal entity and reflects the size of its asset base, its cost of capital, as well as expenses. It will also include an allowance for depreciation of the assets. Given steady demand for the services provided and the pre-determined earnings, these assets tend to provide very stable cash flows. Regulated revenues are often linked to inflation by Consumer Price Index-based price adjustments and/or expense pass-throughs.

Related Terms: Take-or-Pay Contract | Power Purchase Agreement (PPA) | Availability-Based Infrastructure | Concession | Inflation-linkage

Renewable Power

Infrastructure assets that generate energy from natural, replenishable sources, such as wind and solar farms, hydro dams, residential solar, and storage, such as large-scale batteries.

Related Content: Video: Infrastructure Investing | Infographic: Infrastructure Investing
Related Terms: Infrastructure

Return of Capital (ROC)

A distribution that an investor receives from a portion of their original investment and is not considered income or capital gains from the investment. Although ROC distributions are typically not taxable, it is important to note that such distributions reduce the adjusted cost basis of the investment.

For example, Real Estate Investment Trusts (REITs) often have ROC distributions as they are required to distribute a large portion of their cash flow to shareholders. Sometimes distributions include a portion of operating profit that was previously sheltered from tax due to depreciation of real estate assets. This portion of the payout is considered a ROC. The income they distribute as ROC is the amount that exceeds the REIT's taxable income. Taxes due on ROC distributions are usually deferred until the sale of REIT shares, when lower capital gain tax rates typically apply.

Related Terms: Real Estate Investment Trust (REIT)

Restructuring

Process used to avoid the risk of defaulting on existing debt, such as by negotiating lower interest rates. Restructuring is applicable across investment types. For example, restructuring can be used for companies in financial trouble, or for distressed real estate debt.

Related Terms: Recapitalization

Risk-Free Rate

The return required or interest paid on a theoretical risk-free asset (an asset with zero loss potential). While all real-world assets have the potential for loss, an example of a risk-free asset proxy includes U.S. government treasuries, given their low perceived risk or loss potential.

Related Terms: Secured Overnight Financing Rate (SOFR) | Floating Rate Debt

Sale-Leaseback

Arrangements that allow companies to free up capital, often by selling mission-critical properties and renting them back under a net lease contract from the new owner.

Related Terms: Net Lease

Second Lien

Borrowing that occurs after a first lien loan is already in place, with property or assets used as collateral for the debt. Second lien refers to the ranking of the debt in the event of bankruptcy and liquidation. Repayment begins only after first lien debt is fully repaid. Considered senior secured debt.

Secondaries

Transactions for buying interests in later-stage investments from private equity funds, established real estate property portfolios, and/or single assets from existing investors rather than making initial originations.

In private equity, this type of investing spans across the complete company lifecycle from venture capital to buyout and special situations investing. For real estate, secondary investments occur in later phases of property development.

Investments can take two forms:

- Limited Partner-led (LP) transactions involving an LP's stake in a private fund. The purchaser of the stake takes on the rights and obligations of that LP in the existing fund or real estate portfolio. LP-led transactions provide current fund investors with liquidity (typically at a discount) prior to the end of the investment lifecycle.
- General Partner-led (GP) transactions involve transacting on one or more assets of an existing private fund. GP-led transactions provide GPs with additional flexibility beyond a traditional asset lifecycle to unlock additional value or to optimize exit opportunities.

By buying in at a later stage through secondaries, investors assume less duration risk compared to investing in a blind pool at inception. Secondary investing may provide investors with portfolio benefits including earlier return of capital, J-curve mitigation, reduced blind pool risk and the ability to purchase quality assets at a material discount to net asset value.

Related Terms: Private Equity | J-curve

Secured Debt

A secured loan or bond backed by collateral that can be seized in the event of default. If a default occurs, a lender has a better chance to recover its investment using the pledged capital.

Related Terms: Subordinated Debt | Capital Stack | Senior Debt | Mezzanine Debt

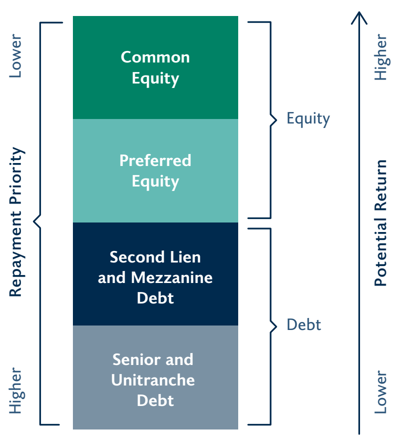
Secured Overnight Financing Rate (SOFR)

A proxy for the risk-free rate and the benchmark used for dollar-denominated loans and derivatives. SOFR represents the annualized interest rate for borrowing collateralized U.S. government treasuries overnight.

Related Terms: Risk-Free Rate | Floating Rate Debt

Senior Debt

A borrowing company's highest repayment priority. If the company goes bankrupt, senior debt is paid first in order of priority. Senior secured debt is backed by specific assets or a claim on the company, and so it is considered less risky. The higher the repayment priority, the lower the expected return.



Related Terms: Subordinated Debt | Capital Stack | Secured Debt | Mezzanine Debt

Side Letters

Separately negotiated terms that supersede a fund's governing documents. Side letters are often used to tailor a fund's terms to investors' specific needs or to provide incentives to anchor/seed investors.

Smart Meter

A device that measures and records electricity, water or gas consumption in real time for the utility company. Smart meters allow utilities to remotely manage services, respond more quickly to outages and provide consumers with energy consumption data and improved billing accuracy.

Related Terms: Decarbonization | Grid Modernization | Energy Storage

Société d'Investissement à Capital Variable (SICAV)

An open-ended, publicly traded vehicle that pools individual investors' money into one professionally managed portfolio of stocks, bonds and/or other securities. SICAVs are governed by European Commission regulations.

Related Content: Flyer: Investment Vehicles At-A-Glance

Sponsor

Entities that provide support during transactions within the financial services industry. Sponsors can invest in private companies, raise funds, underwrite mutual funds or exchange-traded funds, and may also guide companies through initial public offerings (IPO). A sponsor is usually considered the lead underwriter or organizer in a funding round deal. For instance, venture capital firms are sponsors that invest in private companies through early funding rounds.

In real estate, sponsors are an individual or company that sources, acquires and manages property on behalf of a partnership.

Typically, sponsors invest anywhere from 5-20% of the total required equity capital and raise the remaining funds. In a limited liability company or a limited partnership, the sponsor usually acts as the General Partner or manager.

Related Terms: Real Estate Debt

Sponsored Financing

A loan in which a non-bank lender provides money to a business that is either wholly- or majority-owned by a private equity sponsor firm, also referred to as sponsor-backed lending. The private equity sponsor uses its network and experience to identify the appropriate lender, help shepherd the transaction from diligence to close, and provide an equity cushion that can help protect the lender.

Related Content: Article: Sponsored vs Non-Sponsored Financing | Video: Understanding Private Credit

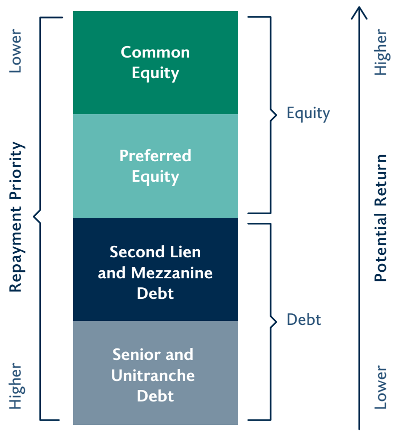
Related Terms: Private Credit | Direct Lending | Non-Sponsored Financing | Opportunistic Financing

Strategic Buyers/Sponsors

Entities, often companies, that acquire portfolio companies to complement or grow their business.

Subordinated Debt

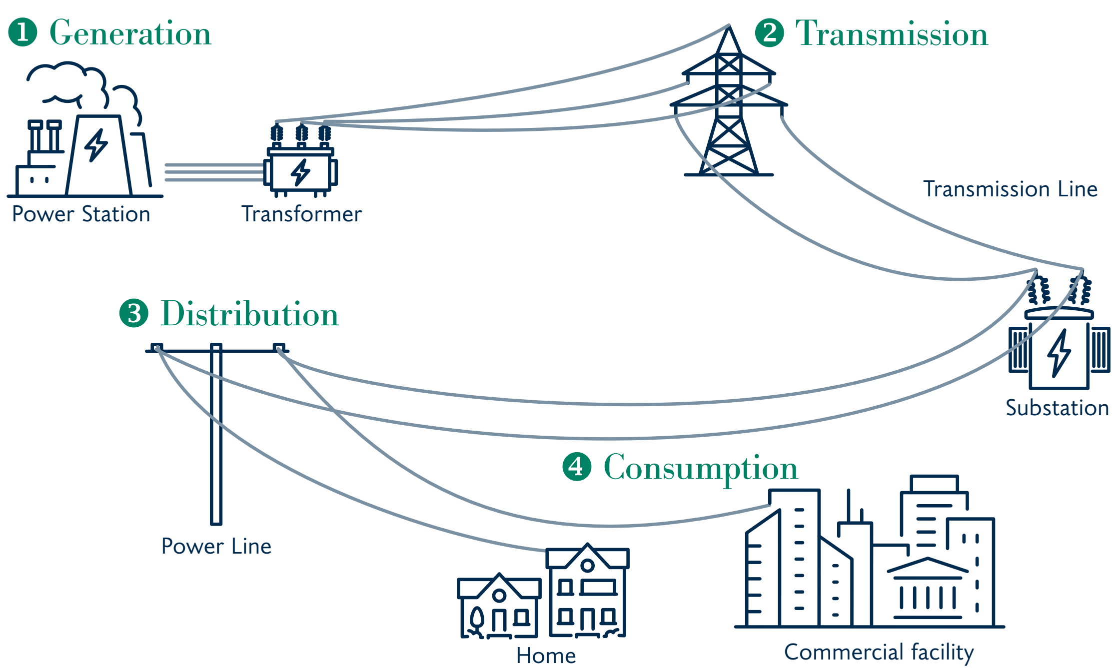
Also known as junior debt, subordinated debt is lower than senior debt in terms of repayment.



Related Terms: Capital Stack | Secured Debt | Senior Debt | Mezzanine Debt

Substation

Points on the electrical grid where electricity is readied for long-distance transmission as well as distribution to consumers. Substations also monitor and manage the flow of electricity along the electrical grid.



Related Terms: Electrical Grid | Generation | Power Plant | Transmission | Distribution

Syndicated or Leveraged Loans

The origination of a loan or bond offered through one or multiple banks. Because it is syndicated, investors typically participate via public sale.

Take-or-Pay Contract

An agreement between the contracting parties that the infrastructure asset user will either "take" the services or goods provided or "pay," even if they are not utilized. A take-or-pay contract provides high visibility into revenues, as the asset operator knows how much of a service or good will be provided and at what price. These contracts are often linked to inflation by Consumer Price Index-based price adjustments.

Related Terms: Regulated Revenues | Contracted Revenues | Power Purchase Agreement (PPA) | Availability-Based Infrastructure Concession | Inflation-linkage

Tariff

The fee charged by an asset owner for the use of their infrastructure asset.

Related Terms: Regulated Revenues | Contracted Revenues | Power Purchase Agreement (PPA) | Take-or-Pay Contract Concession | Availability-Based Infrastructure

Tender Offer Funds

A type of closed-end fund not listed on an exchange that gives investors access to less liquid investments than open-end funds. Tender Offer funds can sell shares continuously based on their net asset value. Tender offer fund shares can be repurchased at the discretion of the fund's board. Shareholder distributions are reported annually on Form 1099.

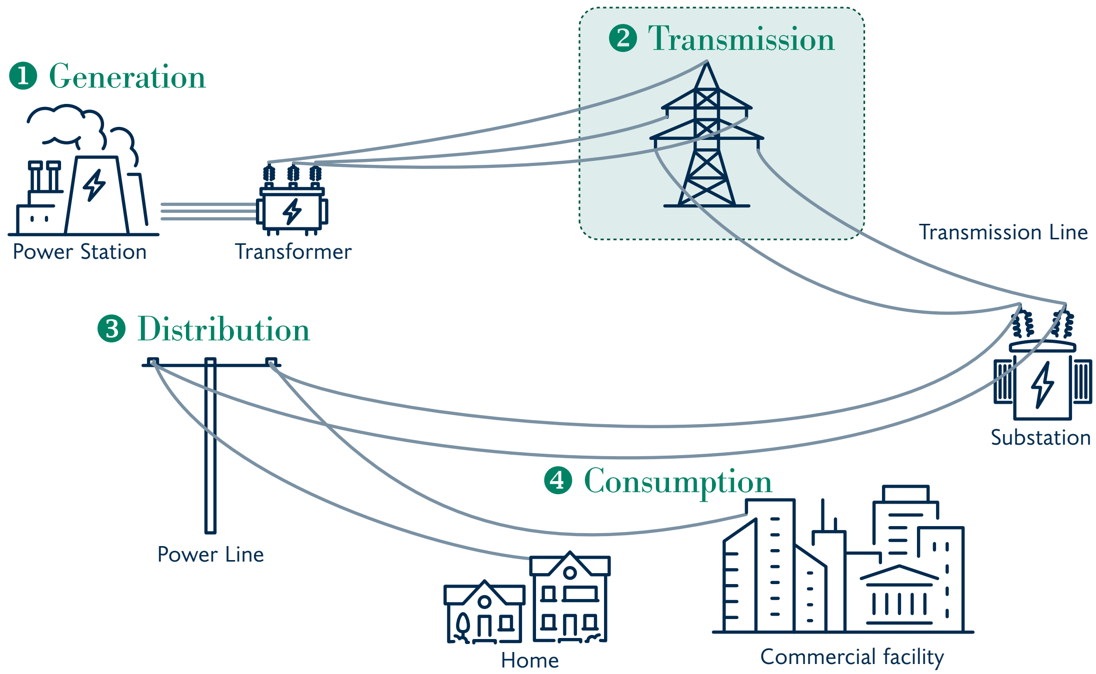
Related Content: Flyer: Investment Vehicles At-A-Glance

Total Value to Paid In (TVPI)

A before-fees measure of return on an investment. TVPI represents the ratio between the value of investments (realized and unrealized) and the investor's paid-in capital.

Transmission

The movement of electricity to local distribution points such as substations via transmission lines and networks. Transmission is the second step in delivering electricity to consumers.



Related Terms: Electrical Grid | Generation | Power Plant | Substation | Distribution

Transportation Infrastructure

Assets related to the movement of people and goods, including rail and mass transit, ports, containers, toll roads, bridges, tunnels and airports.

Related Content: Video: Infrastructure Investing | Infographic: Infrastructure Investing

Related Terms: Infrastructure

Turnover

The comparison of the number of tenants who stay at a rental property as compared to those who vacated the property. It is calculated by dividing the number of vacancies by the number of available units.

$$\text{Tenant Turnover Rate (\%)} = \frac{\text{Number of Vacancies}}{\text{Total Number of Rental Units}}$$

Related Terms: Occupancy Rate | Real Estate Stabilization

Undertakings for Collective Investment in Transferable Securities (UCITS)

An investment vehicle that pools individual investors' money into one professionally managed portfolio of stocks, bonds and/or other securities, including long/short funds and funds that are highly leveraged. UCITS are governed by European Commission regulations and investors must hold an EU passport.

UCITS are quite flexible but must follow certain diversification and leverage rules. For example, the 5/10/40 rule says a UCITS may not invest more than 5% (although that limit can rise to be 10%) of net assets in instruments issued by the same body so long as the total value of the securities is less than 40%.

Related Content: Flyer: Investment Vehicles At-A-Glance

Unitranche

A hybrid loan structure that combines senior debt and subordinated debt into one loan. The borrower of unitranche debt or financing typically pays an interest rate that falls between the rates that the senior and subordinated debt would command individually.

Unsecured Debt

A loan or bond that is not backed by the assets or other collateral of the borrower. With unsecured debt, a lender may not be able to recover their investment in full or in part in the event of default since the borrower does not pledge specific assets as collateral for the debt.

Related Terms: Secured Debt | Subordinated Debt

Utilities

Infrastructure assets that provide water, gas and electricity. Utilities own and operate power plants, electricity transmission and distribution lines, gas and water transmission lines, as well as water treatment facilities and distribution networks (including pipes, pumps and storage facilities). The sector also includes residential infrastructure, including HVACs, heat pumps, smart meters, etc. Utilities are often the most regulated of infrastructure assets.

Related Content: Video: Infrastructure Investing | Infographic: Infrastructure Investing

Related Terms: Infrastructure

Utility-Scale Wind and Solar Farms

Large-scale facilities that generate extensive amounts of renewable power (wind and solar) to supply to the electrical grid. They are typically owned and operated by utility companies, independent power producers, or other large energy enterprises.

Related Terms: Decarbonization | Grid Modernization

Valuation Multiple

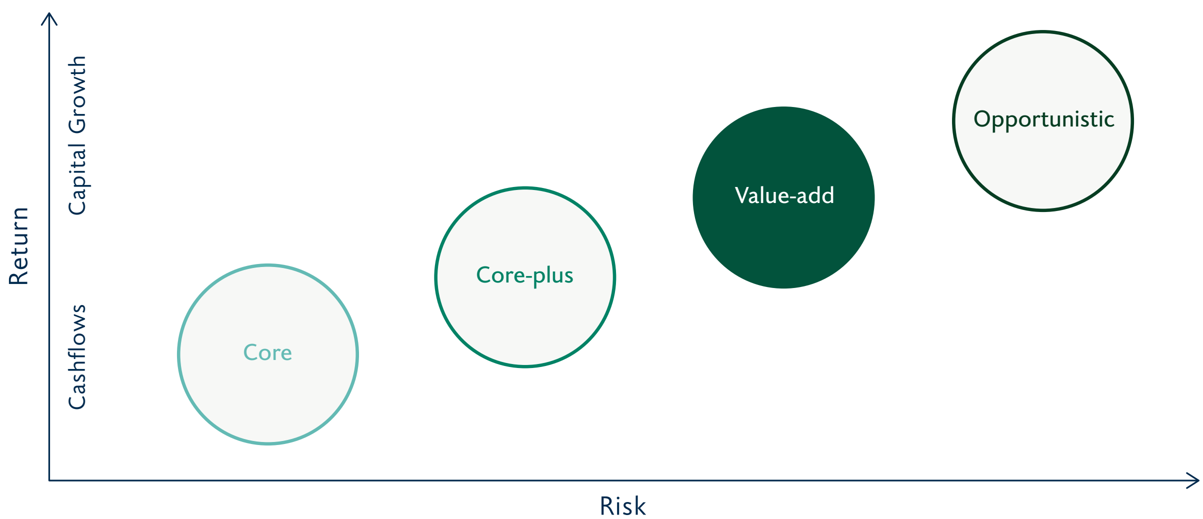
A commonly used valuation method based on the principle that similar assets should sell for similar prices. A company's valuation multiple is compared against peers or recent sales of peers to assess reasonability of valuation. Two common ways to determine valuation multiple are:

- Enterprise value divided by earnings before interest and taxes (EV/EBIT).
- Enterprise value divided by earnings before interest, taxes, depreciation and amortization (EV/EBITDA).

Value-Add Real Estate

Properties that tend to provide growth potential and are associated with moderate to high risk. Value-add buildings often have occupancy issues, management problems, deferred maintenance or a combination of these. Value-add properties may be acquired with up to 80% leverage at purchase. Value-add properties require substantial oversight as well as significant real estate investing expertise and operating acumen to produce returns commensurate with risk taken.

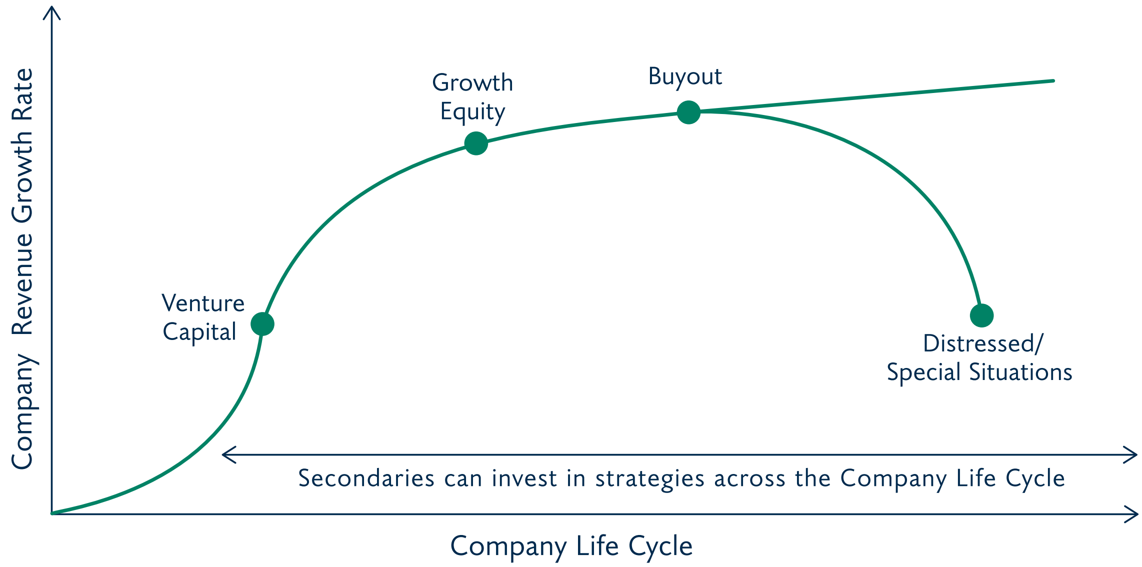
Value-add properties typically have a medium to high risk-reward profile and return potential can be enhanced through optimizing asset management.



Related Terms: Core Real Estate | Core-Plus Real Estate | Opportunistic Real Estate

Venture Capital

Investment vehicles that target early-stage companies that show promising potential in hopes of achieving multiples on the initial investment. Typical venture capital vehicles invest in companies that, more often than not, exhibit the following characteristics: they have high revenue growth rates, short operating histories, and are not yet profitable.



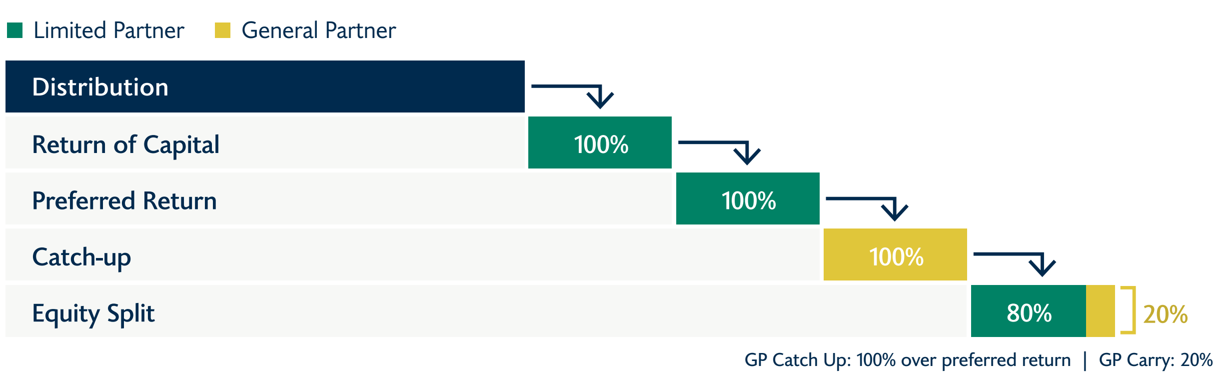
Related Terms: Private Equity

Vintage

A method to categorize private equity funds. A fund's vintage year refers to the year a private equity fund makes its first investment. Grouping private equity funds by yearly vintages can help improve comparison between funds by removing or standardizing the effect of a particular year's macroeconomic environment.

Waterfall

The methodology by which revenues and profits are split between fund investors and the General Partner. The waterfall describes how much of the fund distributions each party receives, the priorities between them and how those priorities change as breakpoints or hurdle rates are achieved.



Related Terms: Hurdle Rate/Preferred Return | Carried Interest | Clawback

Workout

An agreement between a company in default and its creditors to renegotiate the terms of its debt. Workouts are often negotiated outside of bankruptcy proceedings, offering the potential for faster resolution, lower expenses and targeted loan negotiations with major creditors.

Write-Off

Recognizing a loss on asset by reducing its value to zero.

Important Disclosures

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All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results.

As an asset class, private credit is comprised of a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison to their public equivalents. Because private credit usually involves lending to below investment grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

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