**Alternative Investments – I**

**September 2023 Examination**

**1. A hedge fund is having an initial investment capital of $50 million. Over three years, the fund earns a return of 30%, -20%, and 40% respectively. The fund charges a 2% management fee based on assets under management at the beginning of the year and a 20% incentive fee is charged independent of the management fee. Also, there is a 5% hurdle rate calculated on beginning capital for the year, net of which the incentive fee is calculated. Also, there is a high-water mark for the fund with value equal to the investor’s net value (for simplicity, assume high water mark has no role in the calculation of hurdle rate). For the three years, find:**

**i. Beginning value of the fund**

**ii. Incentive Fees**

**iii. Management Fees**

**iv. Ending Value of fund**

**v. Investor’s effective Return. (10 Marks)**

**Ans :**

**Introduction:**

Hedge finances pool capital from approved people or institutional traders and invest in various assets to achieve high returns. These finances often hire complex techniques and feature different rate systems to compensate fund managers for their understanding and efforts. In this evaluation, we can delve into the overall financial performance of a hedge fund over three years, considering various factors such as control fees, incentive expenses, hurdle charges, and excessive watermarks.

**Concept & application:**

**Concept & Application:**

**1. Beginning Value of the Fund:**

The initial investment capital of the hedge fund is $50 million.

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**2. According to a survey majority of Americans are not aware of Alternative Investments:**

***“From Art to Wine to Farmland, Alternative Investments Poised for Huge Inflows Despite Limited Awareness and Misperceptions.”***

**Allena is working as an intern at NMS Fund. She has been asked by her manager to prepare a report that would act as a guide for the investors about the Alternative Investments. Prepare a report on behalf of Allena. (10 Marks)**

**Ans ;**

**Introduction**

Inside the ever-changing landscape of funding opportunities, traditional assets like stocks and bonds have long been the go-to alternatives for investors. But, in current years, there has been a growing hobby in alternative investments, encompassing a wide range of non-traditional assets: artwork, wine, farmland, cryptocurrencies, personal fairness, and extra. Those alternative investments have gained a reputation due to their potential to diversify portfolios, offer attractive returns, and act as a hedge against market volatility.

This file aims to shed light on alternative investments' standards, programs, and benefits,

**3. According to an article on Crunchbase:**

***“Toronto-based Cohere became the latest artificial intelligence startup to raise big money at an even bigger valuation.***

***The startup raised a $270 million Series C led by Inovia Capital at a valuation of $2.2 billion.”***

**a. Based upon above, explain what are the different forms of the private equity investments. (5 Marks)**

**Ans :**

**Introduction:**

Private equity investments play a critical position in the growth and development of startups and agencies by supplying them with the necessary capital to scale their operations, increase modern technology, and expand into new markets. Those investments are made by private equity companies or individual investors searching for better returns than traditional public markets can provide.

**Concept & Application:**

**1. Venture Capital (VC):**

Project capital is a private fairness funding focusing on early-level and high-increase startups

**b. Explain what are the differences between the private equity and venture capital. (5 Marks)**

**Ans :**

**Introduction:**

Personal equity and assignment capital are fantastic types of investment that considerably finance businesses and startups. Even as they proportion similarities in imparting capital to corporations in change for ownership stakes, they function in exceptional levels of a company's lifecycle and goal extraordinary types of businesses.

**Concept & application:**

**Private equity:**

Private equity (PE) is a shape of funding wherein funds are raised from institutional investors