Q.30 Which of these statements regarding Real Estate Investment Trusts (REITs) is *least likely* accurate?

A. REITs are traded on the major exchanges.

B. REITs keep the majority of their cash flows to acquire additional properties.

C. Most REIT revenues come principally from the rental income their properties generate.

The correct answer is **B.**

REITs are companies that own or finance income-generating real estate properties. They are designed to provide investors with a way to invest in real estate without having to buy or manage the properties themselves.

REITs typically distribute most of their cash flows as dividends to shareholders, rather than using the cash flows to acquire additional properties. This is because REITs are required by law to distribute at least 90% of their taxable income to shareholders in the form of dividends. While some REITs may use a portion of their cash flows to acquire new properties, it is not typical for them to keep the majority of their cash flows for this purpose.

A is incorrect. REITs are traded on major exchanges, such as the New York Stock Exchange, and can be bought and sold like other publicly traded stocks.

C is incorrect. Most REITs generate their revenues from the rental income that their properties generate. By law, REITs are required to distribute at least 90% of their taxable income to shareholders as dividends, which means that they usually keep only a small portion of their cash flows to acquire additional properties.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.1083 Which of the following forms of real estate investments are *most likely* to be publicly traded?

A. Residential property.

B. Commercial real estate.

C. Real estate investment trusts (REITs).

The correct answer is **C.**

Real estate investment trusts (REITs) are companies that own and manage income-generating real estate properties. They are designed to provide investors with a way to invest in real estate without having to buy or manage the properties themselves. REITs are most commonly publicly traded, which means that investors can buy and sell shares of a REIT on a public stock exchange, just like other publicly traded stocks.

A is incorrect. Residential property refers to investment in residential real estates, such as single-family homes or multi-family apartment buildings. These properties are typically privately owned and not publicly traded.

B is incorrect. Commercial real estate refers to investment in non-residential real estate, such as office buildings, shopping centers, and industrial properties. While some commercial real estate investments may be publicly traded, such as real estate investment trusts (REITs) that focus on commercial properties, many commercial real estate investments are privately owned.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.1085 Direct commercial real estate ownership is *least likely* to include investment in:

A. Illiquid assets.

B. Large amounts.

C. A short time horizon.

The correct answer is **C.**

Commercial real estate is typically considered a long-term investment due to its illiquid nature, large amounts of capital required, and the time it takes to generate returns. Investors who choose to invest in commercial real estate usually do so with a long-term view, often holding the property for many years in order to benefit from appreciation and rental income. Short-term investments are typically more suited for liquid assets such as stocks or bonds.

A is incorrect. Direct commercial real estate ownership inherently involves illiquid assets. Real estate properties cannot be quickly sold or converted into cash without a significant loss in value. This illiquidity stems from the unique characteristics of each property, the smaller number of potential buyers, and the longer time frames required for transaction completion. Illiquidity is a defining feature of direct real estate investment, contrasting with more liquid investments like stocks or bonds that can be sold rapidly in public markets.

B is incorrect. Investing in direct commercial real estate typically requires large amounts of capital. The high entry costs are due to the substantial value of real estate properties and the expenses associated with purchasing, maintaining, and managing such assets. This characteristic distinguishes direct real estate investment from other types of investments that may allow for smaller initial capital outlays. The requirement for significant investment not only limits access to wealthy individuals or institutional investors but also reflects the scale and potential for substantial returns that direct real estate investments can offer over time.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.1217 Richard Depp is a fund manager for MZJ Investments, a hedge fund investing in blue-chip stocks. What should Depp *most likely* include in his portfolio in order to decrease the portfolio's risk?

A. Real estate.

B. Tech firm equities.

C. Hospitality sector equities.

The correct answer is **A.**

To decrease the portfolio's risk, Depp should most likely include Real estate in his portfolio. Investing in real estate can provide diversification benefits as it has a low correlation with other asset classes such as stocks and bonds. Real estate investments can also provide a hedge against inflation and generate a steady income through rental payments. These benefits make real estate a suitable addition to a portfolio focused on blue-chip stocks, as it can help to reduce overall portfolio risk.

On the other hand, including tech firm equities or hospitality sector equities may increase the portfolio's risk due to their high volatility and sensitivity to market changes.

B is incorrect. Suggesting that tech firm equities would decrease the portfolio's risk overlooks the inherent volatility associated with the technology sector. Tech firms, especially those at the forefront of innovation, can be highly sensitive to market sentiment, regulatory changes, and technological advancements. This sensitivity can lead to significant price swings, potentially increasing the portfolio's overall risk rather than mitigating it. While tech equities can offer substantial growth opportunities, they do not typically serve as a risk-reducing component in a portfolio.

C is incorrect. Including hospitality sector equities in the portfolio to decrease risk is misguided due to the cyclical nature of the hospitality industry. The performance of hospitality companies, including hotels, restaurants, and leisure facilities, is closely tied to the health of the economy. During economic downturns or periods of reduced consumer spending, these companies can experience significant declines in revenue, leading to decreased stock prices. Additionally, the hospitality sector can be highly susceptible to external shocks, such as natural disasters or pandemics, further increasing its volatility. Therefore, adding hospitality sector equities to a portfolio primarily composed of blue-chip stocks would likely increase the portfolio's exposure to risk rather than diminish it.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.1240 A real estate index that is based on changes in price of properties that are sold for multiple times is *most likely* known as a/an:

A. REITs index.

B. Appraisal index.

C. Repeat sale index.

The correct answer is **C.**

A repeat sale index is an index that is based on changes in the prices of properties that are sold multiple times. The index tracks the changes in prices of individual properties that have been sold at least twice, allowing for a more accurate measurement of changes in the underlying value of the real estate. By focusing on the price changes of individual properties, a repeat sale index can help to eliminate the effects of factors such as changes in the mix of properties that are being sold, which can distort the results of other real estate indices.

A is incorrect. REITs (Real Estate Investment Trusts) are companies that own or finance income-producing real estate properties, and a REIT index would track the performance of a portfolio of these companies.

B is incorrect. An appraisal index is an index that is based on the values assigned to properties by real estate appraisers, which may not reflect the actual market value of the properties. Therefore, a repeat sale index is the most likely option based on the description given.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (a): Explain features and characteristics of real estate.

© 2014-2024 AnalystPrep.

Q.3276 Which of the following *most accurately* describes a feature of the direct form of real estate investment?

A. Transaction costs are low.

B. The underlying property can be managed actively.

C. They represent a public form of real estate investment.

The correct answer is **B.**

Direct real estate investments involve purchasing and owning physical real estate assets such as residential, commercial, or industrial properties. Unlike indirect real estate investments, such as real estate investment trusts (REITs) or real estate mutual funds, direct real estate investments provide the investor with the ability to manage the underlying property actively.

Investors can decide how to improve and manage the property, such as by making repairs, renovations, and upgrades to increase its value, as well as by setting rental rates, screening tenants, and managing property maintenance. This active management can potentially increase the return on investment for the investor, although it also requires more effort and expertise than passive investment options.

A and C are incorrect. Transaction costs for direct real estate investments tend to be relatively high compared to indirect investment options, as investors must cover expenses such as property taxes, insurance, maintenance, and potentially financing costs if the property is purchased with a mortgage. Direct real estate investments are also typically not publicly traded, meaning that they are not a public form of real estate investment.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.3285 Debt-based real estate investments *most likely* include:

A. real estate limited partnerships.

B. shares in real estate corporations.

C. collateralized mortgage obligations.

The correct answer is **C.**

Debt-based real estate investments include mortgage-backed securities (residential and commercial), collateralized mortgage obligations, mortgages, and construction lending.

Equity based real estate investments include direct ownership of real estate (through sole ownership, joint ventures, or real estate limited partnerships) , indirect ownership via real estate funds, shares in real estate development corporations and shares in REITs.

A is incorrect. Real estate limited partnerships (RELPs) are primarily equity-based investments. In a RELP, investors pool their money to invest in real estate projects. The partnership owns the property directly, and investors benefit from rental income, property appreciation, and tax advantages. While debt may be used to finance the acquisition or development of the property, the investment itself represents an ownership stake rather than a loan to the property, distinguishing it from debt-based investments.

B is incorrect. Shares in real estate corporations represent equity investments in companies that own, develop, or manage real estate. Investors who purchase these shares become part-owners of the corporation and its assets. Their return on investment comes from dividends, which are a share of the company's profits, and from any appreciation in the value of the shares. This contrasts with debt-based investments, where returns are generated from interest payments on loans secured by real estate.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.3290 Bob Hagman has a stock and bond portfolio worth $400,000. For diversification purposes, Hagman plans to invest in real estate as part of his 'alternative investments' portfolio. Hagman does not know much about investing in this market, so he has decided to invest only a limited amount of money initially. The *most appropriate* investment vehicle for Hagman will be:

A. REITs.

B. Real estate limited partnerships.

C. Commercial mortgage-backed securities.

The correct answer is **A.**

REITs issue shares that are typically publicly traded. They give investors access to a diversified real estate property portfolio and professional management. Most REITs also do not have a minimum investment requirement.

B is incorrect. Real estate limited partnerships fall under direct ownership of real estate. These have high initial purchase costs including legal expenses, survey costs, engineering/environmental studies, and valuation (appraisal fees).

C is incorrect. Commercial mortgage-backed securities would require a degree of specialization.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.3305 The adjusted funds of operating (AFFO) in Real Estate Investment Trusts (REITs) valuation *most likely* adjusts the funds from operations for:

A. Recurring capital expenditures.

B. Non-recurring gains and losses.

C. Non-recurring developmental expenditures.

The correct answer is **A.**

AFFO is a financial metric used in the valuation of REITs. It is a measure of the cash generated by a REIT's operating activities after taking into account recurring capital expenditures required to maintain the property portfolio.

Funds from operations (FFO) is a commonly used financial metric in REIT analysis, but it does not account for recurring capital expenditures that are necessary to keep the properties in good condition. AFFO adjusts FFO for recurring capital expenditures, such as repairs and maintenance, that are needed to maintain the property portfolio's value. This adjustment gives a more accurate picture of a REIT's ability to generate cash flow over the long term.

B and C are incorrect. Non-recurring gains and losses and Non-recurring developmental expenditures may also be important considerations in REIT valuation, but they are not typically accounted for in the calculation of AFFO. Non-recurring gains and losses can include one-time events such as the sale of a property, which may not be reflective of a REIT's ongoing operating performance. Non-recurring developmental expenditures can include capital expenditures related to new property acquisitions or development projects, which are not recurring and may not be representative of a REIT's ongoing operations.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.3306 Which of the following is *least likely* a reason to invest in real estate?

A. To benefit from wider market trends.

B. To lessen the cash flow impact from economic shocks.

C. To get both income generation and capital appreciation.

The correct answer is **A.**

Real estate investments provide diversification benefits by providing less than perfect correlation with the overall market trends. Other reason for investing in real estate include potential for competitive long-term total returns driven by both income generation and capital appreciation, prospect that multiple-year leases with fixed rents for some property types may lessen cash flow effects from economic shocks, potential to provide an inflation hedge if rents can be adjusted quickly for inflation.

B is incorrect. Real estate investments can indeed lessen the cash flow impact from economic shocks. This is particularly true for certain types of properties that have long-term leases with fixed rents, which can provide stable income streams even during economic downturns. Additionally, the tangible nature of real estate and the potential for physical improvements can provide a level of control and stability not found in more volatile asset classes.

C is incorrect. One of the primary reasons investors are attracted to real estate is the dual benefit of income generation through rents and capital appreciation over time. These two factors contribute to the competitive long-term total returns that can be achieved through real estate investments. Income generation provides a steady cash flow, while capital appreciation offers the potential for significant gains upon the sale of the property. Together, they form a compelling reason for investing in real estate, contrary to the suggestion that this is a less likely reason.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.3317 Which of the following risks is *least likely* specific to investments in real estate property?

A. Fluctuating interest rates.

B. Uncertain impact of environment regulation.

C. 100% loss of equity on individual investments.

The correct answer is **C.**

Although equity-investment real estate funds are subject to the risk of loss in value because they employ a high degree of financial leverage, they are unlikely to pose the risk of a 100% loss of equity on individual investments. For illiquid investments such as private equity or venture capital, there is a real possibility of a 100% loss of equity on individual investments.

A is incorrect. Property values are subject to fluctuations in interest rates, and so this is a valid concern.

B is incorrect. Investments in property development are subject to risks such as regulatory issues. These issues include the impact of environmental regulation.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.3322 The shares of a real estate investment trust (REIT) frequently trade at prices which:

A. Is equal to its NAV per share.

B. Differs from its NAV per share.

C. Is equal to its capitalized value per share.

The correct answer is **B.**

The shares of a real estate investment trust (REIT) frequently trade at prices that differ from its NAV (Net Asset Value) per share. The NAV per share is calculated by dividing the total value of the REIT's assets by the total number of outstanding shares.

The market price of a REIT share is determined by supply and demand factors in the market and may be influenced by a variety of factors such as investor sentiment, interest rates, economic conditions, and the perceived quality of the REIT's management team and investment portfolio. As a result, the market price of a REIT share may fluctuate above or below its NAV per share.

When a REIT's market price is higher than its NAV per share, it is said to be trading at a premium. Conversely, when a REIT's market price is lower than its NAV per share, it is said to be trading at a discount. The degree of premium or discount can vary depending on a variety of factors, such as the strength of the REIT's investment portfolio, the level of investor demand for real estate assets, and prevailing interest rates in the market.

A is incorrect. While the NAV per share provides a fundamental valuation metric, the actual trading price of REIT shares is subject to the forces of supply and demand in the market, which can cause prices to deviate from the NAV.

C is incorrect. It implies that REIT shares trade at a price equal to their capitalized value per share. Capitalized value is a different valuation metric that involves estimating the present value of future income streams, such as rental income from properties owned by the REIT. While this can be one of the factors influencing a REIT's market price, it does not directly equate to the trading price of REIT shares. The market price is influenced by broader market dynamics and investor sentiment, which can lead to prices that differ from both the NAV and the capitalized value per share.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.3324 Which of the following statements *most accurately* compares the fee structure for real estate investment trust (REIT) funds to other alternative investment classes?

A. Management fee is charged based on committed capital.

B. Incentive fees are calculated based on profit before management.

C. Fee structures are subject to high water marks similar to hedge funds.

The correct answer is **A.**

The fee structure for REITs investment funds is similar to private equity with management fees being charged based on committed or invested capital.

C is incorrect. Fee structures for REITs are not subject to high water marks.

B is incorrect. Similar to private equity, incentive fees are only paid to the GP after the initial capital is returned back to LPs.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

Q.3332 Which of the following is *not* a valid reason for investing in real estate?

A. Inflation hedging potential.

B. Likelihood of diversification benefits.

C. Limited involvement in the operational management of properties.

The correct answer is **C.**

Real estate property typically requires operational management. Therefore, this is one of the drawbacks to investing in real estate.

A is incorrect. Real estate has the potential to provide an inflation hedge if rents can be adjusted quickly for inflation.

B is incorrect. Another benefit of investing in real estate is that diversification benefits may be provided by less than perfect correlation with other asset classes.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4214 Which of the following is *least likely* correct regarding real estate investing?

A. Real estate is mainly used for income generation.

B. A real estate deed represents real estate property ownership.

C. Real estate historically has low correlations with other asset types.

The correct answer is **A.**

Real estate can also be used for personal use, such as a primary residence or a vacation home. In fact, many real estate investors buy properties for personal use or as a second home rather than for income generation.

B is incorrect. A real estate deed (title) represents real estate property ownership. The title can be purchased, leased, sold, mortgaged, or transferred together or separately in whole or in part.

C is incorrect. Historically, real estate has low correlations with other asset types, such as stocks and bonds, making it a valuable tool for diversification in an investment portfolio. As such, when other asset classes perform poorly, real estate may still perform well, which can help to mitigate overall portfolio risk.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4217 Which of the following is *most likely* true regarding REITs?

A. REITs eliminate the need for double corporate taxation.

B. Publicly traded REITs are less liquid than private real estate investments

C. Mortgage REITs have the same characteristics as direct leveraged equity investments in real estate.

The correct answer is **A.**

The correct answer is A. REITs can remove the need for double corporate taxation by distributing dividends equal to 90% or 100% of their taxable net rental income.

B is incorrect. Publicly traded REITs are typically more liquid and transparent than private real estate investments.

C is incorrect. Mortgage REITs invest in mortgages and mortgage-backed securities, which have characteristics similar to fixed-income investments such as bonds and not direct leveraged equity investments in real estate.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4218 Which of the following is *most likely* true regarding forms of real estate ownership?d

A. Private equity funds are typically organized into finite-life closed-end funds.

B. Listed real estate investment trusts (REITs) is an example of private debt.

C. Residential mortgages can only be secured and listed on the financial market for indirect debt investment.

The correct answer is **A.**

Private equity funds are typically organized into finite-life closed-end funds, meaning they have a specific investment period and a set amount of capital. These funds are designed to invest in private companies or acquire distressed assets, and they typically have a long-term investment horizon of several years.

In a closed-end fund, investors pool their capital together, and then the fund manager deploys the capital according to the fund's investment strategy. Once the investment period is over, the fund is closed, and the fund manager liquidates the investments and distributes the proceeds to the investors.

B is incorrect. Listed REITs are an example of public equity, not private debt. REITs own and operate income-generating real estate assets and distribute income to their shareholders through dividends.

C is incorrect. Residential mortgages can be secured and listed for direct and indirect debt investment on the financial market. The securities created from these mortgages are called mortgage-backed securities, and they can be purchased by investors either directly or through mutual funds or exchange-traded funds.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4219 Which of the following is *least likely* a characteristic of infrastructure investments?

A. Short-term cashflows.

B. Monopolistic and regulated.

C. Highly leveraged financial structure.

The correct answer is **A.**

Infrastructure investments are typically associated with long-term cashflows, involving long-term assets expected to generate revenue over many years or even decades. In contrast, short-term cashflows are more typical of investments in assets such as stocks or bonds.

B is incorrect. Infrastructure investments are often monopolistic and regulated, particularly in sectors such as utilities or transportation, where limited competition and government oversight may exist.

C is incorrect. Infrastructure investments are associated with highly leveraged financial structures as these projects can require significant upfront capital investment. Financing these investments through debt can allow for greater leverage and potentially higher returns, but it also carries higher risk.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4220 Which type of infrastructure asset is *most likely* an economic infrastructure?

A. Education facilities.

B. Healthcare facilities.

C. Transportation assets.

The correct answer is **C.**

Economic infrastructure refers to assets that support economic activity and growth, such as transportation networks, communication systems, and energy infrastructure. Transportation assets, such as highways, airports, and ports, are critical components of economic infrastructure as they facilitate the movement of goods, people, and services and can significantly impact economic development and productivity.

A and B are incorrect. Education facilities and healthcare facilities are essential types of social infrastructure. Social infrastructure includes assets primarily focused on meeting the needs of individuals and communities rather than on driving economic growth.

Education facilities, such as schools and universities, provide education and training to individuals and can contribute to broader social and economic development by developing the skills and knowledge of individuals.

Healthcare facilities, such as hospitals and clinics, provide medical care and support to individuals and are critical for maintaining public health and well-being.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (c): Explain features and characteristics of infrastructure.

© 2014-2024 AnalystPrep.

Q.4221 Which of the following *most likely* differentiates between greenfield and brownfield infrastructure investments?

A. Greenfield investment is used for investing in existing infrastructure assets, while brownfield investments are investments in infrastructure assets yet to be built.

B. Greenfield investment involves vast capital investment and attracts concentration and liquidity risks, while brownfield investment provides oversight.

C. Greenfield investment is used for investing in infrastructure funds and company shares, while brownfield investment invests directly in the underlying assets.

The correct answer is **B.**

Greenfield investments refer to investments in new infrastructure projects or assets that are yet to be built, such as a new airport or a new toll road. These projects often require significant capital investment and entail higher risk due to uncertainty around construction timelines, regulatory approvals, and market demand.

A is incorrect. Greenfield investments are for new projects or assets that are yet to be built, not for investing in existing infrastructure assets. Conversely, brownfield investments refer to investments in existing infrastructure assets that are already operational, not investments in assets yet to be built. This misunderstanding of the fundamental distinction between greenfield and brownfield investments leads to a misinterpretation of their associated risks and opportunities.

C is incorrect. This option mischaracterizes greenfield and brownfield investments by suggesting that greenfield investment is limited to investing in infrastructure funds and company shares, while brownfield investment involves direct investment in underlying assets. In reality, both greenfield and brownfield investments can involve direct investment in physical assets or indirect investment through funds and shares. The key difference lies in the stage of development of the assets being invested in, not the method of investment. Greenfield projects involve developing new assets, while brownfield projects involve investing in and potentially upgrading existing operational assets.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (c): Explain features and characteristics of infrastructure.

© 2014-2024 AnalystPrep.

Q.4222 Which of the following forms of infrastructure investments *most likely* involves investment vehicles such as infrastructure funds and company shares?

A. Direct investment.

B. Indirect investment.

C. Greenfield investment.

The correct answer is **B.**

Indirect investment involves investing in infrastructure through intermediaries, such as infrastructure funds or company shares, rather than investing directly in infrastructure projects. Infrastructure funds pool together capital from multiple investors and invest in infrastructure projects on their behalf. Company shares, on the other hand, provide investors with an ownership stake in a company that operates in the infrastructure sector.

A and C are incorrect. Direct investment, on the other hand, involves investing directly in infrastructure projects, such as building a toll road or a power plant. Greenfield investment refers to investments made in new infrastructure projects that are being built from scratch, as opposed to investments in existing infrastructure projects (brownfield investments).

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4223 Which of the following is most likely a risk in infrastructure investments that can be managed by entering into fixed-price time-certain contracts with credible and competent contractors?

A. Regulatory risk.

B. Construction risk.

C. Demand/volume risk..

The correct answer is **B.**

Construction risk refers to the risk of cost overruns, delays, or quality issues during the construction or development phase of an infrastructure project. This risk can be significant, particularly for large and complex projects, leading to increased costs and reduced investor returns.

By entering into fixed-price time-certain contracts with credible and competent contractors, investors can mitigate this risk by ensuring the construction process is completed on time, on budget, and to the required standards.

A is incorrect. Regulatory risk refers to the risk of changes in laws or regulations that can impact the operation or profitability of the infrastructure asset and can also be challenging to manage as it is influenced by government policies and decisions.

C is incorrect. Demand/volume risk, on the other hand, refers to the risk of lower-than-expected demand or usage of the infrastructure asset, which can impact its revenue and profitability. This risk can be more challenging to manage, as it is often influenced by external factors such as economic changes, demographics, or market trends.

© 2014-2024 AnalystPrep.

Q.4330 An investor is looking to invest in a publicly traded form of real asset that generates cash flows primarily from rents or mortgage payments by households. Which type of investment would *most likely* suit the investor's needs?

A. Commodities.

B. Real Estate Investment Trusts (REITs).

C. Public-Private Partnership (PPP) Infrastructure.

The correct answer is **B.**

Real Estate Investment Trusts (REITs) would best suit the investor's needs. REITs are companies that own, operate or finance income-generating real estate. They provide a way for individual investors to earn a share of the income produced through commercial real estate ownership without actually having to go out and buy commercial real estate. The income generated by REITs comes primarily from rents or mortgage payments, which aligns with the investor's needs.
REITs are required by law to distribute at least 90% of their taxable income to shareholders annually in the form of dividends, making them an attractive investment for income-focused investors. Furthermore, REITs are publicly traded on major stock exchanges, providing liquidity and transparency for investors.

A is incorrect. Commodities are basic goods used in commerce that are interchangeable with other goods of the same type. Commodities do not generate cash flows from rents or mortgage payments by households. Instead, their value is derived from supply and demand dynamics in the market.

C is incorrect. Public-Private Partnership (PPP) Infrastructure is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature. While they can generate cash flows, they are not primarily from rents or mortgage payments by households. Instead, they are often from government payments or user fees.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (c): Explain features and characteristics of infrastructure.

© 2014-2024 AnalystPrep.

Q.4385 In the context of forms of real estate investments, which of the following statements is *most likely*correct?

A. Publicly traded real estate investments cannot be held privately.

B. Equity investment in real estate always provides a fixed cash flow.

C. Mortgage-backed securities (MBS) are a form of debt investment in real estate.

The correct answer is **C.**

Mortgage-backed securities (MBS) are indeed a form of debt investment in real estate. MBS are financial instruments that are secured by a mortgage or collection of mortgages. Investors in MBS receive periodic payments derived from the underlying mortgages' interest and principal payments. This makes MBS a form of debt investment in real estate, as the investor is essentially lending money to the mortgage borrower through the purchase of the MBS.
The investor's return is dependent on the repayment of the mortgage loans, making it a form of fixed-income investment. MBS offers investors the opportunity to benefit from the mortgage market without having to directly lend to borrowers, providing a way to diversify their portfolio and potentially earn higher returns than other fixed-income investments.
A is incorrect. Publicly traded real estate investments can indeed be held privately. Publicly traded real estate investments refer to investments in real estate companies or trusts that are listed on a public exchange. While these investments are available to the public, they can be purchased and held by private investors. The term "publicly traded" simply refers to the availability of the investment, not the ownership structure.

B is incorrect. Equity investment in real estate does not always provide a fixed cash flow. While some forms of equity investment, such as rental properties, can provide a steady, fixed cash flow, others, such as property development or flipping, can provide variable cash flows. The cash flow from an equity investment in real estate is dependent on a variety of factors, including the type of property, the market conditions, and the strategy of the investor.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4386 In the context of real estate investments, which of the following statements is *least likely* correct?

A. REITs can only be publicly traded.

B. REITs are a form of equity investment in real estate.

C. REITs can provide either fixed or variable cash flows, depending on the property investment.

The correct answer is **A.**

The statement that REITs can only be publicly traded is incorrect. REITs can be both publicly traded and privately held. Publicly traded REITs are listed on a stock exchange and can be bought and sold like any other publicly traded security. They offer the benefits of liquidity, transparency, and the ability to invest in real estate without the need for direct property ownership.

On the other hand, private REITs are not listed on a stock exchange and are typically sold to institutional investors. They offer the potential for higher returns but also come with higher risk and less liquidity. Therefore, the assertion that REITs can only be publicly traded is incorrect as it overlooks the existence and characteristics of private REITs.

B is incorrect. The statement that REITs are a form of equity investment in real estate is correct. REITs represent ownership in a portfolio of real estate assets. When investors buy shares of a REIT, they are essentially buying a piece of the real estate assets that the REIT owns. This is similar to buying shares of a company, where the investor becomes a partial owner of the company. Therefore, REITs are indeed a form of equity investment in real estate.

C is incorrect. The statement that REITs can provide either fixed or variable cash flows, depending on the property investment, is correct. The cash flows from REITs can be either fixed or variable, depending on the type of properties the REIT invests in and the rental agreements in place. For example, a REIT that invests in properties with long-term leases may provide more stable and predictable cash flows, while a REIT that invests in properties with short-term leases or variable rents may provide more variable cash flows.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4387 Which of the following statements is *most accurate* about real estate investments?

A. All real estate properties are identical and offer the same investment opportunities.

B. Private market indexes replicating the performance of real estate are directly investable.

C. In private real estate markets, transaction activity may be limited due to supply or demand conditions.

The correct answer is **C.**

Real estate investments are indeed characterized by high transaction costs and potentially limited transaction activity due to supply or demand conditions. This is primarily due to the unique and distinct features of real estate properties, which can vary greatly depending on a variety of factors. The process of buying and selling real estate involves numerous costs, including but not limited to, legal fees, agent commissions, inspection costs, and taxes.
These costs can be substantial and can significantly impact the net return on a real estate investment. Additionally, the market for real estate properties can be illiquid, meaning that it can be difficult to buy or sell properties quickly without affecting the price. This can be due to a variety of factors, including market conditions, the unique characteristics of the property, and the relatively large size of real estate transactions. Therefore, transaction activity in private real estate markets may be limited due to supply or demand conditions.
A is incorrect. It is not accurate to say that all real estate properties are identical and offer the same investment opportunities. As mentioned earlier, real estate properties are characterized by their unique and distinct features, which can vary greatly depending on factors such as location, age, tenant credit mix, lease term, and market demographics. This heterogeneity can make diversification across different types of real estate investment alternatives challenging.

B is incorrect. Private market indexes replicating the performance of real estate are not directly investable. These indexes are typically based on appraisal values and transaction prices of properties, and they are used to track the performance of the real estate market as a whole or specific segments of the market. However, they do not represent actual investment vehicles that investors can buy into. Instead, investors can gain exposure to real estate through various investment vehicles, such as real estate investment trusts (REITs), real estate mutual funds, and direct property ownership.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4388 In the context of investment portfolios, real estate markets present a unique set of challenges and considerations due to their inherent characteristics. Which of the following factors is *least likely* a consideration for a real estate investor but is more relevant to a stock or bond investor?

A. Zoning laws.

B. Local market conditions.

C. Company's financial health

The correct answer is **C.**

The company's financial health is not typically a consideration for a real estate investor but is more relevant to a stock or bond investor. Real estate investors are primarily concerned with the property itself and the factors that can influence its value, such as location, zoning laws, local market conditions, and the condition of the property. While the financial health of a property's owner or developer can be a consideration, it is not typically a primary factor in the investment decision.

On the other hand, the financial health of a company is a key consideration for stock and bond investors. They need to assess the company's profitability, liquidity, solvency, and overall financial stability to determine the potential risks and returns of their investment. This involves analyzing the company's financial statements, ratios, and other financial indicators.

A is incorrect. Zoning laws are a key consideration for real estate investors. They determine what types of buildings and activities are allowed in a particular area, which can significantly impact the value and potential uses of a property.

B is incorrect. Local market conditions are also a crucial factor for real estate investors. They need to understand the supply and demand dynamics in the local market, the level of competition, the economic and demographic trends, and other factors that can influence property values.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4389 Which of the following is *least likely* a potential disadvantage that the investor should consider when making a direct real estate investment?

A. The investor may need to dedicate significant time to manage the property, including understanding local market characteristics and city regulations.

B. The investor may need to have access to a potentially significant amount of debt and equity capital due to the large initial capital outlay needed for real estate investments.

C. The investor can reduce their taxable income using non-cash property depreciation expenses and tax-deductible interest expenses.

The correct answer is **C.**

Choice C is not a potential disadvantage of making a direct real estate investment. In fact, it is a potential advantage. The ability to reduce taxable income using non-cash property depreciation expenses and tax-deductible interest expenses is one of the key benefits of investing in real estate.

This is because the IRS allows investors to deduct these expenses from their taxable income, thereby reducing their overall tax liability. This can significantly enhance the after-tax returns from a real estate investment, making it an attractive option for investors seeking tax-efficient investment opportunities.

A is incorrect. The need to dedicate significant time to manage the property, including understanding local market characteristics and city regulations, is indeed a potential disadvantage of making a direct real estate investment. Managing a property can be time-consuming and complex, requiring a deep understanding of the local real estate market and regulatory environment. This can be a significant drawback for investors who do not have the time or expertise to effectively manage a property.

B is incorrect. The need to have access to a potentially significant amount of debt and equity capital due to the large initial capital outlay needed for real estate investments is also a potential disadvantage. Real estate investments typically require a large initial capital outlay, which can be a barrier to entry for many investors. Furthermore, the use of debt to finance a real estate investment can increase the risk of the investment, particularly in a rising interest rate environment or if property values decline.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4390 Which of the following is *least likely* a potential advantage that the investor should consider when making a direct real estate investment?

A. It is typically difficult to quickly buy or sell direct investments in real estate, and transaction costs are typically high.

B. The investor has the sole decision-making power on when to buy or sell, when and how much to spend on capital projects, whom to select as tenants based on credit quality preference and tenant mix, and what types of lease terms to offer.

C. Real estate has historically exhibited a low correlation with other asset classes, and adding real estate to a portfolio has been demonstrated to increase portfolio diversification and reduce portfolio risk.

The correct answer is **A.**

Choice A is not a potential advantage of making a direct real estate investment. In fact, it is a disadvantage. Direct investments in real estate are typically illiquid, meaning they cannot be quickly bought or sold. This lack of liquidity can be a significant drawback for investors who need to access their capital quickly. Additionally, transaction costs for buying and selling real estate are typically high, which can eat into the potential returns from the investment.
These costs can include commissions, legal fees, and taxes, among others. Therefore, while direct real estate investments can offer several potential benefits, such as control over decision-making and diversification benefits, they also come with certain drawbacks, including illiquidity and high transaction costs.
B is incorrect. Real estate has historically exhibited low correlation with other asset classes, and adding real estate to a portfolio has been demonstrated to increase portfolio diversification and reduce portfolio risk. This is another potential advantage of direct real estate investment. Diversification can help to reduce the overall risk of a portfolio by spreading investments across different asset classes that are not perfectly correlated.

C is incorrect. Having the sole decision-making power on when to buy or sell, when and how much to spend on capital projects, whom to select as tenants based on credit quality preference and tenant mix, and what types of lease terms to offer is indeed a potential advantage of direct real estate investment. This level of control can allow the investor to tailor their investment strategy to their specific needs and preferences.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4391 Which of the following statements is *most likely* correct in regard to the types of REIT in the real estate market?

A. All types of REITs invest in properties outright or through partnerships and joint ventures and underwrite loans to real estate or invest in Mortgage-Backed Securities (MBS).

B. Equity REITs underwrite loans to real estate or invest in Mortgage-Backed Securities (MBS), Mortgage REITs invest in properties outright or through partnerships and joint ventures, and Hybrid REITs invest in both these types.

C. Equity REITs invest in properties outright or through partnerships and joint ventures, Mortgage REITs underwrite loans to real estate or invest in Mortgage-Backed Securities (MBS), and Hybrid REITs invest in both of these types.

The correct answer is **C.**

Equity REITs, Mortgage REITs, and Hybrid REITs each have distinct investment strategies in the real estate market. Equity REITs primarily invest in and own properties, and their revenues come principally from their properties' rents. They invest in properties outright or through partnerships and joint ventures. Mortgage REITs, on the other hand, lend money to real estate owners and operators either directly through mortgages and loans or indirectly through the acquisition of mortgage-backed securities.
Their revenues are generated primarily by the interest that they earn on mortgage loans. Hybrid REITs are a combination of the two, and they invest in both properties and mortgages. Therefore, the statement in Choice A accurately describes the investment strategies of the three types of REITs.
A is incorrect. This choice incorrectly suggests that all types of REITs have the same investment strategy. While it is true that Hybrid REITs invest in both properties and mortgages, Equity REITs and Mortgage REITs have distinct investment strategies. Equity REITs primarily invest in properties, while Mortgage REITs primarily invest in mortgages and mortgage-backed securities.

B is incorrect. This choice incorrectly swaps the investment strategies of Equity REITs and Mortgage REITs. Equity REITs primarily invest in properties, not in mortgages or mortgage-backed securities. Conversely, Mortgage REITs primarily invest in mortgages and mortgage-backed securities, not in properties.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4392 Consider an investor who is contemplating between investing in private real estate and publicly traded Real Estate Investment Trusts (REITs). Which of the following statements *accurately* reflects the advantages and/or disadvantages of investing in publicly traded REITs?

A. Publicly traded REITs offer greater transparency and ease of transactions by buying or selling REIT shares, but investors are forced to sell the company's underlying real estate during mass redemptions and have a higher correlation with public equity markets.

B. Publicly traded REITs offer greater transparency and ease of transactions by buying or selling REIT shares; investors are not forced to sell the company's underlying real estate during mass redemptions and REITs have the expertise to manage properties effectively.

C. Publicly traded REITs offer greater transparency and ease of transactions by buying or selling REIT shares; investors are forced to sell the company's underlying real estate during mass redemptions, but REITs have a lower correlation with public equity markets.

The correct answer is **B.**

Publicly traded Real Estate Investment Trusts (REITs) offer greater transparency and ease of transactions by buying or selling REIT shares, investors are not forced to sell the company's underlying real estate during mass redemptions, and REITs have the expertise to manage properties effectively. However, they have a higher correlation with public equity markets. REITs are required by law to distribute at least 90% of their taxable income to shareholders annually in the form of dividends, which provides a steady income stream for investors.

They also offer the advantage of professional management, which can be particularly beneficial for investors who do not have the time or expertise to manage properties themselves. However, one of the main disadvantages of REITs is their correlation with the broader equity market. Because REIT shares are traded on major exchanges, they are subject to the same market forces as other publicly traded companies, which can lead to increased volatility and risk.

A is incorrect. While publicly traded REITs do offer greater transparency and ease of transactions, investors are not forced to sell the company's underlying real estate during mass redemptions. This is a misconception. In fact, REITs have the ability to manage their capital structures and liquidity positions to avoid such situations.

C is incorrect. Publicly traded REITs do have a higher correlation with public equity markets, not a lower one. This is due to the fact that they are traded on the same exchanges and are subject to the same market forces. Additionally, while they do offer greater transparency and ease of transactions, investors are not forced to sell the company's underlying real estate during mass redemptions.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4394 An investor is considering various investment strategies to diversify his portfolio and is particularly interested in real estate. If the investor decides to invest in an open-end fund that owns a portfolio of high-quality office buildings in major cities, what can he primarily expect to earn his returns from?

A. Appreciation for the value of the properties.

B. Income generated by selling these properties.

C. Rental income income generated by the properties.

The correct answer is **C.**

An investor who invests in an open-end fund that owns a portfolio of high-quality office buildings in major cities can primarily expect to earn returns from the rental income these properties generate. Open-end funds that invest in real estate, also known as real estate investment trusts (REITs), typically generate income through renting out the properties they own. This rental income is then distributed to the investors as dividends.

The steady stream of rental income provides a stable and predictable return, which is one of the main attractions of investing in real estate through open-end funds. While these funds can also generate returns through the appreciation in the value of the properties, this is usually a secondary source of returns and is more unpredictable. Therefore, the primary source of returns for an investor in such a fund would be the rental income.

A is incorrect. While the appreciation in the value of the properties can contribute to the returns of an open-end fund, it is not the primary source of returns. The value of real estate properties can fluctuate due to various factors, including market conditions, location, and the quality of the properties, making it a less reliable source of returns compared to rental income.

B is incorrect. The income generated by selling these properties is not the primary source of returns for an open-end fund. These funds typically hold onto their properties for the long term to generate rental income and only sell properties when they believe it is advantageous to do so. Therefore, the income from selling properties is not a regular or predictable source of returns for investors.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4395 An investor is seeking higher returns and is willing to accept additional risks. They are considering investing in a closed-end fund that is planning to redevelop a run-down shopping center, with the expectation of earning a high return once the project is completed and the property is leased to new tenants. This type of investment strategy is *most likely* considered to be?

A. A value investment strategy.

B. A conservative investment strategy.

C. An opportunistic investment strategy.

The correct answer is **C.**

An investor who is seeking higher returns is willing to accept additional risks and is considering investing in a closed-end fund that is planning to redevelop a run-down shopping center, with the expectation of earning a high return once the project is completed and the property is leased to new tenants, is engaging in an Opportunistic Investment Strategy.
This strategy involves seeking out investment opportunities where the potential for high returns is greater due to higher risk. In this case, the investor is taking on the risk that the redevelopment project may not be successful or that the property may not be leased to new tenants as expected. However, if the project is successful, the investor stands to earn a high return on their investment. This strategy requires a high level of expertise and understanding of the market, as well as a willingness to take on significant risk.
A is incorrect. A value investment strategy involves investing in stocks that are believed to be undervalued by the market. While this strategy can potentially yield high returns, it is not the same as the opportunistic investment strategy described in the question. The value investment strategy focuses on finding undervalued stocks, not on high-risk, high-return projects like the redevelopment of a run-down shopping center.

B is incorrect. A conservative investment strategy is one that prioritizes the preservation of capital over high returns. This strategy typically involves investing in low-risk, low-return assets such as government bonds or blue-chip stocks. It is not consistent with the investor's goal of seeking higher returns and accepting additional risks.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4396 Consider an investor who is looking to diversify his portfolio by investing in real estate. He is considering two options: investing in a commercial building in a bustling city or purchasing a plot of land in a rapidly developing area. The commercial building can generate income through leasing out office spaces, while the plot of land has the potential for significant capital appreciation. However, both investments come with their own set of risks and returns.
Which of the following statements *best* describes the risk and return spectrum for these two types of real estate investments?

A. Both the commercial building and the plot of land are high-risk investments that can produce speculative returns from price appreciation.

B. The commercial building investment is a high-risk direct investment that relies on the timely receipt of lease payments, while the plot of land is a lower-risk investment that can produce speculative returns from price appreciation.

C. The commercial building investment is a low-risk direct investment that relies on the timely receipt of lease payments, while the plot of land is a higher-risk investment that can produce speculative returns from price appreciation.

The correct answer is **C.**

The commercial building investment is a low-risk direct investment that relies on the timely receipt of lease payments, while the plot of land is a higher-risk investment that can produce speculative returns from price appreciation. The commercial building investment is considered a low-risk direct investment because it generates a steady stream of income through lease payments. The risk associated with this type of investment is relatively low because the income is predictable and stable, assuming the building is fully leased and tenants are reliable.
On the other hand, investing in a plot of land in a rapidly developing area is considered a higher-risk investment. This is because the return on this type of investment is speculative and depends on the price appreciation of the land, which can be influenced by various factors such as market conditions, zoning laws, and development plans. Therefore, while the potential returns can be significant, the risk is also higher because the returns are uncertain and can even result in losses if the price of the land decreases.
A is incorrect. Both the commercial building and the plot of land are not high-risk investments that can produce speculative returns from price appreciation. The commercial building investment is a low-risk direct investment that generates a steady stream of income through lease payments, while the plot of land is a higher-risk investment that can produce speculative returns from price appreciation.

B is incorrect. The commercial building investment is not a high-risk direct investment. While it does rely on the timely receipt of lease payments, the risk associated with this type of investment is relatively low because the income is predictable and stable, assuming the building is fully leased and tenants are reliable.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4397 Consider a scenario where you are an investor looking to invest in Real Estate Investment Trusts (REITs). You are particularly interested in core, stable income-producing REITs that invest in properties yielding steady cash flows. These cash flows are typically generated from properties with long-term leases and multiple lessors or from sale-leaseback transactions.
Given this information, which of the following statements *best* describes the nature of returns you can expect from such an investment and the potential risks associated with it?

A. The returns are relatively lower compared to low-risk senior debt and are not subject to real estate market conditions.

B. The returns are relatively higher compared to low-risk senior debt and are not subject to real estate market conditions.

C. The returns are relatively higher compared to low-risk senior debt and are generally bond-like, but they are also subject to real estate market conditions.

The correct answer is **C.**

The returns from core, stable income-producing REITs are relatively higher compared to low-risk senior debt and are generally bond-like, but they are also subject to real estate market conditions. This is because REITs, by their nature, invest in real estate properties and derive their income from the rents and leases of these properties. Therefore, the returns from these investments are subject to the conditions of the real estate market. If the real estate market is doing well, the returns from these investments will be high.
Conversely, if the real estate market is not doing well, the returns from these investments will be low. Furthermore, the returns from these investments are generally higher than those from low-risk senior debt because they involve more risk. The risk comes from the fact that the income from these investments depends on the ability of the tenants to pay their rents and leases. If the tenants default on their payments, the income from these investments will be affected. Therefore, while these investments offer higher returns, they also come with higher risks.
A is incorrect. The returns from these types of investments are not relatively lower compared to low-risk senior debt. As mentioned above, these investments offer higher returns because they involve more risk. Furthermore, these investments are subject to real estate market conditions, contrary to what is stated in this option.

B is incorrect. While it is true that the returns from these types of investments are relatively higher compared to low-risk senior debt, it is not correct to say that they are not subject to real estate market conditions. As explained above, the returns from these investments are directly influenced by the conditions of the real estate market.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4398 Consider an investor who is looking to diversify his portfolio by investing in real estate. He is considering three types of investments: investing in a startup company, core-plus holdings, and value-add real estate. Based on this information, which of the following statements is *most accurate* about the source of returns for these types of investments?

A. The main source of return for investing in a startup company and core-plus holdings is derived from leases, while the returns from value-add real estate investments are more dependent on the increase in the property's value over time.

B. The main source of return for core-plus holdings is derived from leases, while the returns from investing in a startup company and value-add real estate investments are more dependent on the increase in the property's value over time.

C. The main source of return for investing in a startup company is derived from leases, while the returns from core-plus holdings and value-add real estate investments are more dependent on the increase in the property's value over time.

The correct answer is **B.**

The main source of return for core-plus holdings is derived from leases, while the returns from investing in a startup company and value-add real estate investments are more dependent on the increase in the property's value over time. Core-plus real estate investments are typically stable properties that generate steady cash flows from leases, with a smaller portion of returns expected from capital appreciation.
These properties may require some form of enhancement or value-added element to achieve optimal returns, but the primary source of income is still the lease payments. On the other hand, investing in a startup company and value-add real estate investments are riskier, and their returns are less predictable. The returns from these investments are largely dependent on the appreciation of the property value or the success of the startup company rather than steady cash flows from leases.

A is incorrect. The main source of return for investing in a startup company is not derived from leases. Startups are typically not involved in real estate and do not generate income from leases. Instead, their returns are dependent on the success of the company's business model and its ability to generate profits.

C is incorrect. The main source of return for investing in a startup company is not derived from leases. As mentioned earlier, startups are typically not involved in real estate and do not generate income from leases. Furthermore, while value-add real estate investments do depend on property value appreciation for returns, core-plus holdings primarily generate returns from leases, not property value appreciation.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4399 Which of the following is *most likely* the primary reason that opportunistic real estate investments carry a higher level of risk compared to other types of real estate investments?

A. They involve a longer time horizon for returns.

B. They are typically located in less desirable locations.

C. They involve properties that are financially unstable or require significant development.

The correct answer is **C.**

Opportunistic real estate investments carry a higher level of risk primarily because they involve properties that are financially unstable or require significant development. These types of investments often involve distressed properties, such as those that are in poor condition or have been foreclosed on. These properties often require significant capital investment for renovations or development before they can be sold or rented out for a profit. This can involve a range of risks, including construction risks, regulatory risks, and market risks.
For example, construction costs may exceed initial estimates, regulatory approvals may be delayed or denied, or the real estate market may decline during the development period. Furthermore, these properties may not generate any income during the development period, increasing the financial risk for the investor. Therefore, while opportunistic real estate investments can offer high potential returns, they also carry a high level of risk due to the financial instability of the properties and the significant development required.
A is incorrect. While it is true that opportunistic real estate investments often involve a longer time horizon for returns, this is not the primary reason they carry a higher level of risk. The primary risk comes from the financial instability of the properties and the significant development required, not the length of the investment period.

B is incorrect. Opportunistic real estate investments do not necessarily involve properties in less desirable locations. In fact, these investments often involve properties in prime locations that are in poor condition or have been foreclosed on. The location of the property is not the primary factor that makes these investments riskier; it is the financial instability of the properties and the significant development required.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4401 In the context of real estate investments, which of the following statements is most accurate regarding the use of leverage?

A. Using leverage in real estate investments always leads to higher returns.

B. The performance of real estate investments is solely dependent on the market conditions at the time of purchase.

C. Leverage can amplify both gains and losses in real estate investments, and the returns can be influenced by factors such as management effectiveness and market conditions.

The correct answer is **C.**

Leverage can indeed amplify both gains and losses in real estate investments, and the returns can be influenced by factors such as management effectiveness and market conditions. This statement accurately reflects the complexity and risk associated with real estate investments. Leverage, or the use of borrowed capital to finance an investment, can increase the potential return on an investment, but it can also magnify losses if the investment does not perform as expected.

The performance of real estate investments is not solely dependent on market conditions at the time of purchase but also on a variety of other factors, including the effectiveness of the management of the property, the location of the property, the condition of the property, and the overall economic environment. Therefore, while leverage can enhance returns, it also increases risk, and successful real estate investing requires careful management and consideration of a variety of factors.

A is incorrect. While leverage can potentially increase the returns on real estate investments, it does not always lead to higher returns. Leverage also increases the risk of the investment, and if the investment does not perform as expected, the losses can be magnified. Therefore, the use of leverage must be carefully considered and managed.

B is incorrect. The performance of real estate investments is not solely dependent on the market conditions at the time of purchase. While market conditions can certainly influence the performance of real estate investments, there are many other factors that can also have a significant impact, including the location of the property, the condition of the property, the effectiveness of the management of the property, and the overall economic environment. Therefore, this statement is overly simplistic and does not accurately reflect the complexity of real estate investing.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4402 A property owner is considering a lease agreement that includes a clause for annual rent increases tied to the inflation rate. In this context, which of the following statements is *most accurate*:

A. Real estate always offers protection against inflation regardless of the lease agreement terms.

B. The ability of real estate to hedge against inflation is solely dependent on the terms of the lease agreement.

C. The ability of real estate to hedge against inflation can be influenced by factors such as the terms of the lease agreement, geographic location, market segment, and time period.

The correct answer is **C.**

The ability of real estate to hedge against inflation can indeed be influenced by a variety of factors, including the terms of the lease agreement, geographic location, market segment, and time period. While the terms of the lease agreement can play a significant role in determining the extent to which a property can serve as a hedge against inflation, they are not the only factor. For instance, properties in certain geographic locations or market segments may be more or less susceptible to inflationary pressures.
Similarly, the effectiveness of real estate as an inflation hedge can vary over different time periods, depending on macroeconomic conditions and other factors. Therefore, while lease terms are important, they are just one of several factors that can influence the ability of real estate to serve as a hedge against inflation.
A is incorrect. It is not accurate to say that real estate always offers protection against inflation regardless of the lease agreement terms. While real estate can often serve as a hedge against inflation, this is not always the case. The effectiveness of real estate as an inflation hedge can vary depending on a variety of factors, including the terms of the lease agreement, geographic location, market segment, and time period.

B is incorrect. The ability of real estate to hedge against inflation is not solely dependent on the terms of the lease agreement. While the lease terms can play a significant role, other factors such as geographic location, market segment, and time period can also influence the effectiveness of real estate as an inflation hedge. Therefore, it is not accurate to say that the lease terms are the only factor that matters.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4403 Which of the following is the *most accurate* statement regarding infrastructure investments?

A. Infrastructure investments are solely financed by the government and do not provide any return to private investors.

B. Infrastructure investments are simple and straightforward, requiring minimal understanding of market dynamics.

C. Infrastructure investments require a deep understanding of market dynamics and have seen a shift from public to private funding.

The correct answer is **C.**

Infrastructure investments can indeed be complex, requiring a deep understanding of market dynamics, and have seen a shift from public to private funding, offering new opportunities for investors. Infrastructure investments encompass a wide range of sectors, including public transportation, utilities, and information networks.
The financing of these investments has seen a significant shift from private corporations to government funding and more recently, back to private funding. This transition has created new opportunities for investors. However, these investments can be complex and require a deep understanding of market dynamics. Therefore, investors need to have a comprehensive understanding of the market, the specific sector, and the individual project to make informed investment decisions.
A is incorrect. Infrastructure investments are not solely financed by the government. While it is true that the government plays a significant role in infrastructure financing, private corporations and investors also contribute significantly. Moreover, infrastructure investments do provide returns to private investors. These returns can come in the form of dividends, interest payments, or capital gains, depending on the nature of the investment.

B is incorrect. Infrastructure investments are not simple and straightforward. They require a deep understanding of market dynamics, the specific sector, and the individual project. The complexity of these investments can be attributed to various factors, including the long-term nature of the projects, the involvement of multiple stakeholders, regulatory considerations, and the impact of economic and political factors.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4404 Which of the following is *most likely* the potential intentions of infrastructure investors in a public-private partnership (PPP)?

A. Immediately sell the assets back to the government after construction.

B. Hold the assets indefinitely without any intention of selling or leasing them back to the government.

C. Lease the assets back to the government, sell newly constructed assets to the government, or hold and operate the assets until they reach operational maturity.

The correct answer is **C.**

Infrastructure investors in a public-private partnership (PPP) typically have the intention to lease the assets back to the government, sell newly constructed assets to the government, or hold and operate the assets until they reach operational maturity. This is because infrastructure investments are long-term, capital-intensive projects that require significant upfront investment. The private sector partner in a PPP typically provides the necessary capital and expertise to design, build, and operate the infrastructure asset.

In return, they receive a return on their investment through a combination of user fees, lease payments, or the sale of the asset to the government. This allows the public sector to benefit from the private sector's efficiency and innovation while the private sector benefits from a stable, long-term revenue stream. Therefore, the intentions of infrastructure investors in a PPP are aligned with the long-term nature of these projects and the need for a return on their investment.

A is incorrect. Infrastructure investors in a PPP do not typically intend to immediately sell the assets back to the government after construction. This is because the return on investment in infrastructure projects is typically realized over a long period of time through user fees, lease payments, or the eventual sale of the asset. Selling the asset immediately after construction would not allow the investor to recoup their initial investment or earn a return.

B is incorrect. While some infrastructure investors may choose to hold the assets indefinitely, this is not typically the intention in a PPP. The private sector partner in a PPP usually intends to recoup their investment and earn a return through user fees, lease payments, or the sale of the asset to the government. Holding the assets indefinitely without any intention of selling or leasing them back to the government would not provide a return on investment.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4405 In the context of infrastructure investments, which of the following is *most likely* the role of development finance institutions? They:

A. Provide risk capital for economic development projects on a non-commercial basis.

B. Provide loans to governments for infrastructure projects at commercial interest rates.

C. Act as intermediaries between the government and private investors, facilitating the sale of infrastructure assets.

The correct answer is **A.**

Development finance institutions (DFIs) play a crucial role in infrastructure investments. They provide risk capital for economic development projects on a non-commercial basis. DFIs are usually government-controlled and aim to promote economic growth and development, particularly in developing countries. They do this by providing finance for projects that are considered too risky or unprofitable for commercial lenders.

These projects often involve infrastructure development, such as building roads, bridges, hospitals, and schools. By providing risk capital, DFIs help to attract additional private sector investment, thereby leveraging their own resources. They also help to mitigate risks associated with these projects, making them more attractive to private investors. DFIs play a crucial role in bridging the gap between public and private finance, and their involvement can be a key factor in the success of infrastructure projects.

B is incorrect. While DFIs do provide loans for infrastructure projects, they do not typically do so at commercial interest rates. Instead, they offer more favorable terms, including lower interest rates and longer repayment periods, to make these projects more feasible.

C is incorrect. DFIs do not act as intermediaries between the government and private investors, facilitating the sale of infrastructure assets. Their role is more focused on providing finance and mitigating risks, rather than facilitating transactions.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (c): Explain features and characteristics of infrastructure.

© 2014-2024 AnalystPrep.

Q.4406 Economic infrastructure investments play a crucial role in the functioning of an economy. They encompass a wide range of assets, each with its unique characteristics and risks. Consider the following scenarios:
Scenario 1: A toll road operator whose income is dependent on the number of vehicles using the road.
Scenario 2: A data center owner who earns revenue by providing storage and transmission services.
Scenario 3: A utility company that generates power and provides potable water with a "take-or-pay" arrangement with its buyers.
Which of these scenarios *most likely* susceptible to market risk in the context of economic infrastructure investments?

A. Scenario 1.

B. Scenario 2.

C. Scenario 3.

The correct answer is **A.**

Market risk, also known as systematic risk, is the risk that the value of an investment will decrease due to changes in market factors. In the context of economic infrastructure investments, market risk can be illustrated by the toll road operator scenario. The toll road operator's income is directly dependent on the number of vehicles using the road.
This means that any changes in the market, such as economic downturns, changes in consumer behavior, or competition from other transport routes, can significantly impact the operator's revenue. For example, during an economic downturn, people might choose to travel less or use alternative routes to save money, leading to a decrease in the toll road operator's income. This scenario best illustrates the concept of market risk because it shows how changes in the market can directly impact the revenue of an infrastructure investment.
B is incorrect. While the data center owner also faces market risk, it is not as directly impacted by changes in the market as the toll road operator. The demand for data storage and transmission services is less likely to fluctuate with changes in the market, making this scenario less illustrative of market risk.

C is incorrect. The utility company scenario does not illustrate market risk well because it has a "take-or-pay" arrangement with its buyers. This means that the buyers are obligated to pay for a certain amount of power and water, regardless of whether they use it or not. This arrangement shields the utility company from market fluctuations, reducing its exposure to market risk.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (c): Explain features and characteristics of infrastructure.

© 2014-2024 AnalystPrep.

Q.4407 Which of the following are *most likely* the factors on which the income from social infrastructure investments depends?

A. Number of facilities and the type of services provided by the public authority.

B. Private service providers contracted by the public authority and the type of public infrastructure.

C. Availability payments and the management and maintenance of the asset according to predefined standards.

The correct answer is **C.**

The income from social infrastructure investments typically depends on the availability of payments and the management and maintenance of the asset according to predefined standards. Availability payments are a type of lease payment that is made by a public authority to a private entity to make a facility available for public use. These payments are typically made on a regular basis, such as monthly or annually, and are contingent on the facility being available for use and maintained to a certain standard.
The income from social infrastructure investments is, therefore, directly linked to the availability of the facility and the quality of its management and maintenance. This model provides a steady and predictable income stream for investors while also incentivizing the private entity to maintain the facility to a high standard. It also aligns the interests of the public and private sectors, as both benefit from the successful operation of the facility.
A is incorrect. While the number of facilities and the type of services provided by the public authority may influence the overall level of investment in social infrastructure, they do not directly determine the income from individual investments. The income from each investment is primarily determined by the availability of payments and the management and maintenance of the asset, as explained above.

B is incorrect. The private service provider contracted by the public authority and the type of public infrastructure may influence the terms of the contract and the level of investment required, but they do not directly determine the income from the investment. The income is primarily determined by the availability of payments and the management and maintenance of the asset.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4408 Which of the following *best* describes a scenario where a company decides to invest in the construction of a new railway line on a previously undeveloped land?

A. Brownfield investment.

B. Secondary-stage investment.

C. Greenfield investment.

The correct answer is **C.**

The scenario where a company decides to invest in the construction of a new railway line on previously undeveloped land is best described as a greenfield investment. Greenfield investments refer to the development of new infrastructure on unused land. In this case, the company is investing in the construction of a new railway line, which is a new infrastructure, and the land on which the railway line is being constructed is previously undeveloped, which means it is unused land.

Therefore, this scenario fits the definition of a greenfield investment. Greenfield investments are often associated with higher risks and potential returns than other types of infrastructure investments, as they involve the development of new infrastructure from scratch and may face uncertainties related to construction, regulatory approvals, and market demand.

A is incorrect. A brownfield investment refers to the redevelopment or further development of existing infrastructure on a site that has been previously used. In this scenario, the company is not redeveloping or further developing existing infrastructure but rather constructing new infrastructure on previously undeveloped land. Therefore, this scenario does not fit the definition of a brownfield investment.

B is incorrect. Secondary-stage investments involve the expansion or upgrading of existing infrastructure. In this scenario, the company is not expanding or upgrading existing infrastructure but rather constructing new infrastructure on previously undeveloped land. Therefore, this scenario does not fit the definition of a secondary-stage investment.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (c): Explain features and characteristics of infrastructure.

© 2014-2024 AnalystPrep.

Q.4409 A multinational corporation is considering an investment opportunity in a developing country. The investment involves the expansion of an existing power plant. The corporation is attracted to this opportunity due to the shorter investment period, immediate cash flows, and the availability of the asset's financial and operating history.
Which of the following is *most likely* the type of investment that the corporation is considering?

A. Greenfield Investment.

B. Brownfield Investment.

C. Bluefield Investment.

The correct answer is **B.**

The type of investment the corporation is considering is a Brownfield Investment. Brownfield investments are those where a company or government entity purchases or leases existing production facilities to launch a new production activity. This is faster and cheaper than a Greenfield investment, which involves building new facilities. In this case, the corporation is considering expanding an existing power plant, which is a classic example of a brownfield investment. The immediate cash flows and the availability of the asset's financial and operating history are key advantages of brownfield investments. These investments are often sought after by strategic investors who specialize in operating the assets and financial investors who are focused on long-term, stable returns. Brownfield investments also carry less risk than greenfield investments because they involve using established facilities and operations.
A is incorrect. A Greenfield Investment is a type of foreign direct investment where a parent company builds its operations in a foreign country from the ground up. In addition to the construction of new production facilities, these projects can also include the building of new distribution hubs, offices, and living quarters. This is not the case in the scenario described in the question, where the corporation is considering expanding an existing power plant.

C is incorrect. There is no such thing as a Bluefield Investment in the context of international business or finance. The term does not exist and is, therefore, not the correct answer.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (b): Explain the investment characteristics of real estate investments.

© 2014-2024 AnalystPrep.

Q.4410 A company is considering investing in an infrastructure project. They are evaluating the risks and rewards associated with different stages of infrastructure development. If the company is willing to take on higher risks due to uncertainties in construction and commissioning in exchange for potentially higher returns, which type of investment should it consider?

A. Brownfield investments.

B. Greenfield investment in a new project.

C. Secondary-stage investment in an operational asset.

The correct answer is **B.**

Greenfield investment in a new project is the correct choice for a company willing to take on higher risks due to uncertainties in construction and commissioning in exchange for potentially higher returns. Greenfield investments involve the construction of new infrastructure from scratch, which inherently carries a higher level of risk due to uncertainties in construction, commissioning, and initial operation. These uncertainties can include cost overruns, delays, technical problems, and regulatory hurdles, among others. However, if these risks are successfully managed, Greenfield investments can offer higher returns due to the value created through the development and operation of new infrastructure. This type of investment is typically suited for investors with a higher risk tolerance and a long-term investment horizon.

A is incorrect. Brownfield investments involve the expansion of existing facilities and may involve the privatization of public assets or a sale-leaseback of completed greenfield projects. For example, a company might invest in expanding an existing airport or upgrading a power plant. These investments are characterized by a shorter investment period with immediate cash flows and an operating history. brownfield investments may be sought after by both strategic investors specializing in operating the assets and financial investors focused on long-term, stable returns, especially with privatizations.

C is incorrect. Secondary-stage investment in an operational asset is typically associated with lower risks and potentially lower returns. This is because the infrastructure is already built and operational, and the risks associated with construction and commissioning have been largely eliminated. The returns from this type of investment are typically derived from the stable cash flows generated by the operational asset, rather than the value creation associated with new development.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4411 A private investor is interested in infrastructure investments but is concerned about liquidity and diversification. He is also looking for benefits such as reasonable fees, transparent governance, observable market prices, and transparent pricing. Which type of infrastructure investment would be *most suitable* for this investor?

A. Master Limited Partnerships.

B. Direct Infrastructure Investment.

C. Publicly Traded Infrastructure Securities.

The correct answer is **C.**

Publicly Traded Infrastructure Securities would be the most suitable type of infrastructure investment for this private investor. These securities offer a high degree of liquidity and diversification, as they are traded on public exchanges and represent a broad range of infrastructure assets. They also offer transparent governance and observable market prices, as they are subject to the same regulatory oversight and disclosure requirements as other publicly traded securities.

The fees associated with investing in publicly traded infrastructure securities are typically lower than those for direct infrastructure investments or Master Limited Partnerships, as they do not involve the same level of management and operational complexity. Furthermore, the pricing of these securities is transparent, as it is determined by the market rather than by a private valuation process. Therefore, publicly traded infrastructure securities meet all of the investor's criteria and would be the most suitable choice.

B is incorrect. Master Limited Partnerships (MLPs) are a type of investment vehicle that invests in energy infrastructure assets. While MLPs offer some benefits, such as tax advantages and high-income potential, they also have significant drawbacks. These include illiquidity, lack of diversification, high fees, complex governance structures, and opaque pricing. Therefore, they would not be suitable for this investor.

A is incorrect. Direct Infrastructure Investment involves investing directly in infrastructure assets, such as toll roads, airports, or utilities. While this can offer high potential returns, it also involves significant risks and challenges, including illiquidity, lack of diversification, high fees, and complex governance and pricing structures. Therefore, it would not be suitable for this investor.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4412 Consider a scenario where you are an investment advisor for a multinational corporation looking to invest in infrastructure projects in developing economies. If the corporation is considering building a new port in a rapidly growing coastal city, what could be the potential return opportunity for this investment?

A. Minimal as the city's trade may not increase significantly over time.

B. Substantial as the city's trade is expected to increase over time, yielding significant returns.

C. Moderate as the city's trade may increase, but not enough to yield significant returns.

The correct answer is **B.**

The potential return opportunity for this investment could be substantial as the city's trade is expected to increase over time, yielding significant returns. Infrastructure projects, particularly greenfield projects like building a new port, are long-term investments that can yield substantial returns over time. The rapidly growing coastal city is likely to see an increase in trade over time, which would increase the usage of the port and, consequently, the revenues generated from it.
The growth in trade could be driven by factors such as economic development, population growth, and increased connectivity with other regions. The port could also stimulate further economic activity in the city, creating a virtuous cycle of growth and increasing returns. However, it's important to note that while the potential returns are substantial, so are the risks. These could include construction risks, regulatory risks, and demand risks, among others. Therefore, a thorough risk assessment and due diligence are crucial before making such an investment.
A is incorrect. The assumption that the city's trade may not increase significantly over time is not consistent with the scenario of a rapidly growing coastal city. Rapid growth typically implies increasing economic activity, which would likely include trade. Therefore, the return opportunity is unlikely to be minimal.

C is incorrect. While it's possible that the city's trade may increase but not enough to yield significant returns, this is less likely in the context of a rapidly growing city. Rapid growth typically implies a high rate of economic development, which would likely lead to a substantial increase in trade and, consequently, significant returns from the port investment.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4413 If an investor is seeking the most stable returns from infrastructure funds, which type of investment is *most likely* appropriate?

A. Bonds issued by utility companies.

B. Direct equity ownership in a privately-held toll road company.

C. Assets backed by stable long-term concession arrangements, such as a toll road with a 30-year operating license

The correct answer is **C.**

Assets backed by stable long-term concession arrangements, such as a toll road with a 30-year operating license, are the most suitable for an investor seeking the most stable returns from infrastructure funds. These types of investments offer a predictable and stable cash flow over a long period of time, which can provide a steady return on investment.
The long-term concession arrangements provide a degree of certainty about the future income stream, which reduces the risk associated with the investment. Furthermore, these types of investments are often regulated, which can provide additional protection for investors. The stability of these investments makes them an attractive option for investors seeking stable returns from infrastructure funds.
A is incorrect. Bonds issued by utility companies are more liquid and less risky, but they offer lower potential returns. While these types of investments can provide a steady income stream, the returns are typically lower than those offered by other types of infrastructure investments. Therefore, they may not be the best choice for an investor seeking the most stable returns from infrastructure funds.

B is incorrect. Direct equity ownership in a privately held toll road company can offer high returns, but it also carries significant risk due to its illiquidity. This type of investment is less liquid and more risky, which makes it less suitable for an investor seeking stable returns.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4415 Based on the characteristics of infrastructure investments, which of the following statements is *most accurate*?

A. Infrastructure investments offer no protection against changes in GDP growth and inflation.

B. Infrastructure investments typically have a high correlation with public market equities and are highly susceptible to economic downturns.

C. Infrastructure investments offer a lower correlation with public market equities and the broader economy, provide some protection for changes in GDP growth, and offer some protection against inflation.

The correct answer is **C.**

Infrastructure investments offer a lower correlation with public market equities and the broader economy, provide some protection for changes in GDP growth, and offer some protection against inflation. Infrastructure investments are typically long-term, illiquid assets that provide essential services, such as transportation, utilities, and telecommunications. These assets often have stable, predictable cash flows that are less susceptible to short-term market fluctuations and economic downturns.

Furthermore, many infrastructure assets have pricing mechanisms that are linked to inflation, providing some protection against inflation risk. Additionally, the demand for these services is often relatively inelastic, meaning it does not change significantly with changes in GDP growth. Therefore, infrastructure investments can provide a degree of diversification and risk mitigation in an investment portfolio.

A is incorrect. While infrastructure investments are not completely immune to economic downturns or market fluctuations, they typically have a lower correlation with public market equities and the broader economy than other types of investments. This is due to the stable, predictable cash flows and essential nature of the services provided by infrastructure assets.

B is incorrect. Infrastructure investments do offer some protection against changes in GDP growth and inflation. The demand for the services provided by infrastructure assets is often relatively inelastic, providing some protection against changes in GDP growth. Furthermore, many infrastructure assets have pricing mechanisms that are linked to inflation, providing some protection against inflation risk.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.

Q.4416 Which of the following statements about infrastructure debt is *most accurate*?

A. Highly subject to fluctuation over the economic cycle.

B. Experiences higher default rates and lower recovery than similar fixed-income instruments.

C. Experiences lower default rates and higher recovery than similar fixed-income instruments, and it is less subject to fluctuation over the economic cycle.

The correct answer is **C.**

Infrastructure debt tends to experience lower default rates and higher recovery than similar fixed-income instruments, and it is less subject to fluctuation over the economic cycle. Infrastructure debt is a type of investment that involves lending money to companies or governments for the construction or maintenance of infrastructure projects such as roads, bridges, airports, utilities, and telecommunications systems. These projects typically have long lifespans and generate stable, predictable cash flows, which makes them attractive to investors like pension funds that have long-term liabilities.

Furthermore, infrastructure projects are often backed by government or regulatory support, which reduces the risk of default. Even in the event of a default, the recovery rates for infrastructure debt are typically higher than for other types of fixed-income instruments because the underlying assets have intrinsic value. Finally, the cash flows from infrastructure projects are less subject to fluctuation over the economic cycle because they provide essential services that are in demand regardless of the state of the economy.

A is incorrect. Infrastructure debt is not highly subject to fluctuation over the economic cycle. The cash flows from infrastructure projects are relatively stable and predictable, and the demand for the services they provide is not highly sensitive to changes in the economy.

B is incorrect. Infrastructure debt does not tend to experience higher default rates and lower recovery than similar fixed-income instruments. As explained above, the nature of infrastructure projects and the regulatory support they often receive make them less risky and more resilient than other types of investments.

CFA Level I, Alternative Investments, Learning Module 4: Real Estate and Infrastructure. LOS (d): Explain the investment characteristics of infrastructure investments.

© 2014-2024 AnalystPrep.