

Solution:

1. **B is correct.** Support of product development and/or marketing efforts takes place during seed-stage financing.

A is incorrect. Support of initial commercial production and sales takes place during early stage financing.

C is incorrect. Support in the transformation of an idea into a business plan takes place during angel investing.

2. **B is correct.** Funds of funds have a multilayered fee structure that will reduce the returns to the investor.

A is incorrect because one advantage of fund of funds is that they usually have a high level of due diligence expertise.

C is incorrect because another advantage of fund of funds is their ability to negotiate better redemption terms such as shorter lockup and notice periods.

3. **B is correct.** A master limited partnership (MLP) is publicly traded, whereas a private equity fund is not. Therefore the MLP will have market pricing information to help with valuation. A brownfield investment is an existing asset that likely has operational and financial history to aid in valuation; a greenfield investment is in new construction.

A is incorrect because greenfield investments have no operational or financial history to aid in valuation, whereas brownfield investments do.

C is incorrect because master limited partnerships are publicly traded, with market pricing data available for valuation purposes, whereas private equity funds are not.

4. **C is correct.** The soft hurdle rate is surpassed because the return of the fund is 10%.

For that reason, the full fee, based on the full performance, is due.

Management fee: 2% of \$110 million = \$2.2 million

Incentive fee: 20% of \$10 million = \$2 million

Total fees: \$4.2 million

Therefore, the fund assets at the end of the period after fees are \$105.8 million. The return for the investor is 5.8%.

A is incorrect. It completely neglects the incentive fee. This is only appropriate if the hurdle rate is not cleared. Management fee: 2% of \$110 million = \$2.2 million.

Therefore, the fund assets at the end of the period after fees are \$107.8 million. The return for the investor is 7.8%.

B is incorrect. It reduces the base of the incentive fee by the hurdle rate. This is only correct in the case of a hard hurdle rate, but not in the case of a soft hurdle rate.

Management fee: 2% of \$110 million = \$2.2 million.

Incorrect subtraction of \$8 million (because of the hurdle rate) from the performance of \$10 million leaves \$2 million.

Incentive fee 20% of \$2 million = \$0.4 million

Total fees: \$2.6 million

Therefore, the fund assets at the end of the period after fees are \$107.4 million. The return for the investor is 7.4%.

5. **A is correct.** Only properties that sell in each period and are included in the index and vary over time which may not be representative of the whole market.

B is incorrect. The REIT index is based on a set of publicly traded REITs and thus does not suffer from sample selection bias.

C is incorrect. The appraisal index is based on a set of properties that is appraised regularly. Thus it does not suffer from sample selection bias.