



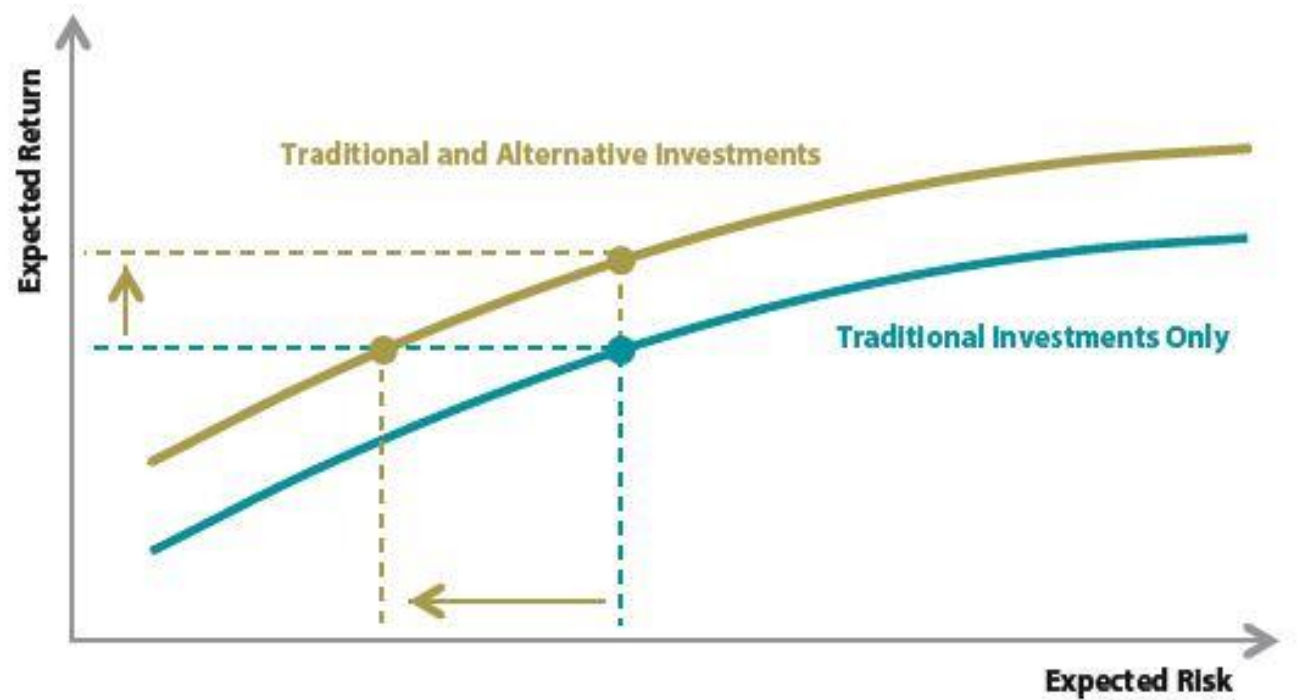
Navigating Alternative Investments

Buttonwood Due Diligence, LLC

DANA WOODBURY, CEO

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Markowitz Efficient Frontier



Illiquidity Premium

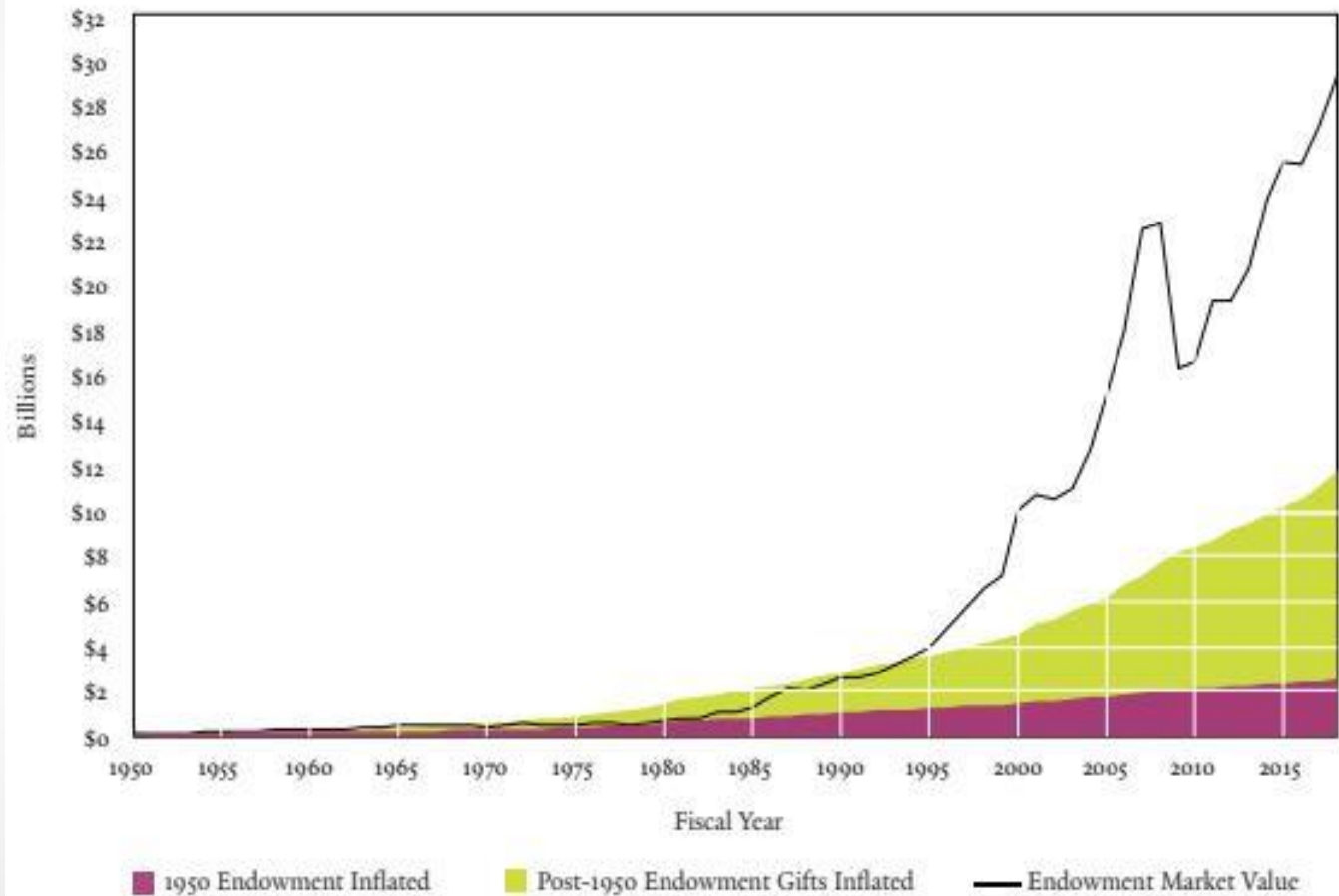
Yale Endowment Model

Year	Market Value (In millions)	Return
2018	\$29,351.1	12.3%
2017	\$27,176.1	11.3%
2016	\$25,408.6	3.4%
2015	\$25,572.1	11.5%
2014	\$23,894.8	20.2%

Over 6 of the last 10 years, the Yale Endowment has ranked first in the Cambridge Associate universe

2018 Yale Endowment Annual Report

Endowment Growth Outpaces Inflation 1950–2018



Types of Alternative Investments

- ▶ REITs
- ▶ BDC
- ▶ Reg A+
- ▶ Interval Funds
- ▶ Reg Ds
 - ▶ DSTs
 - ▶ Private Equity
 - ▶ Mortgage/Debt Offerings
 - ▶ Conservation Easements
 - ▶ Oil and Gas
 - ▶ Qualified Opportunity Zones

Some Common Concerns in Alternative Due Diligence

- ▶ Are there audited financials?
- ▶ Review cash flows – with associated fees
- ▶ Distributions – paid vs. declared
- ▶ Final liquidation – make sure consistent with liquidating fees in PPM
- ▶ Fee Structure – is it reasonable?
- ▶ Economy: macro & micro
- ▶ Targeted investments and competition / conflicts of interest
- ▶ Can its performance overcome the load?

REITs

- ▶ MFFO & FFO – Coverage of distributions
- ▶ Auditors: familiarity with REITs
- ▶ Prior performance: Tables I – VI
- ▶ UBTI: suitable for retirement plans?
- ▶ Is Advisor internal or external?

BDCs

- ▶ Percentage of portfolio in opportunistic investments (e.g. high yield bonds, private equity, foreign equity, second lien positions)
- ▶ Distributions may be funded from offering proceeds or borrowings.
- ▶ Is there an expense support agreement?
- ▶ Percent of portfolio with fixed vs. variable interest
- ▶ Portfolio valuation (Levels I, II, & III)

Regulation A+

- ▶ Effective July 19, 2015
- ▶ Up to \$50M
- ▶ Suitability consistent with public offerings
- ▶ Tier 1 under \$20M – must register in individual states
- ▶ Tier 2 \$20M - \$50M – exempt from registration in individual states
- ▶ Compliance – who and how monitors amount raised

Interval Funds

- ▶ 40 Act Funds
- ▶ Closed end fund with periodic redemptions
- ▶ Percentage of portfolio in illiquid investments, especially Reg D
- ▶ Compare fees to other investments (FINRA NTM 03-71)
- ▶ Potential conflict of interest: can portfolio manager invest in other funds of fund sponsor?
- ▶ Impact on NAV during maximum withdrawal
- ▶ Fees associated with each investment not disclosed in offering document
- ▶ Is the fund permitted to lend its portfolio securities to others?

Regulation D

Suitability:	Accredited Investor	\$1M Net Worth
	Qualified Client	\$2.1M Net Worth
	Qualified Purchaser	\$5M Net Worth

1031 Exchange Offering

- ▶ Offering: Deferral/Elimination of Gain
- ▶ Tenant in Common (TIC) (Rev. Proc. 02-22)
- ▶ Delaware Statutory Trust (DST) (Rev. Ruling 04-86)

DSTs

- ▶ Diversification
- ▶ Investor reporting (individual assets)
- ▶ Recession resiliency
- ▶ Investor communication (quarterly minimum)
- ▶ Projected cash flows
 - check assumptions
 - stress test assumptions
- ▶ Boot vs. excess leverage
- ▶ Exit strategy

Private Equity

- ▶ Audited financials vs. not public reporting
 - ▶ Companies may have limited financial resources – strength of GP
 - ▶ Audit committee
 - ▶ Compliance committee – less than 2,000 investors
 - ▶ Will they acquire majority of voting interests?
 - ▶ Related party transactions, and if so, approval process and valuation methods
 - ▶ Can GP invest for its own account into competing companies of those in the portfolio
 - ▶ Potential dilution of investment – can GP issue additional shares and/or different class of shares?
- Pari Passu

Mortgage/ Debt Offerings

- ▶ Number of lenders and percentage of their portfolio with the sponsor
- ▶ Do covenants restrict additional senior indebtedness/ coverage requirements
- ▶ Fixed vs. variable rates
- ▶ Is debt pre payable with no penalty?
- ▶ Is there affiliated lending/ safeguards?
- ▶ Aging of accounts/ current status and impact on payments to investors
- ▶ Collateral
- ▶ Sinking fund

Conservation Easements

- ▶ Congressional and IRS watch list
- ▶ Number properties developed vs. conserved
- ▶ Appraisal(s) and experience of appraiser
- ▶ Legitimate charitable contribution
- ▶ Fee structure
- ▶ Audit support/contingency
- ▶ Legal opinion

Oil and Gas

- ▶ Drilling/Royalty/Working Interest/Service
- ▶ Leasehold markups
- ▶ Drilling, Completing, Operating markups
- ▶ Lease vs. well bore interest
- ▶ Engineering and geologic valuations
- ▶ Hedging strategies
- ▶ GP/LP interests/insurance protection
- ▶ Infrastructure in place

Qualified Opportunity Zones

- ▶ Tax deferral/ tax free
- ▶ IRS comments/ clarification
- ▶ Must make economic sense
- ▶ Specific property vs. a fund
- ▶ Experience of a developer/ real estate or business
- ▶ Tax Opinion
- ▶ Management – 10 year minimum

Background Checks & Bad Actors

► Rule 506 of Regulation D

► Dodd Frank

► Effect of September 23, 2013

Covered Persons in Background Checks:

- The Issuer
- Directors, General Partners, Managing Members
- Executive Officers
- 20% Beneficial Owners of the Issuer
- Persons Compensated for Soliciting Investors

Disqualifying Events:

- Certain criminal convictions
- Certain court injunctions and restraining orders
- Final orders of certain state and federal regulators
- Certain SEC disciplinary orders
- Certain SEC cease-and-desist orders
- FINRA membership suspension or expulsion



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- DUE DILIGENCE, LLC -

Thank You

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