IRONTON CAPITAL
2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

When you first become an accredited investor, learning the terms used for private equity can take some time and is often confusing. These are the terms that we use at Ironton Capital, in plain language, so you can better understand the terminology used with private equity funds.

Accredited Investor

You must be an accredited investor to invest in private equity.
You qualify as an accredited investor if you meet one of three criteria:

- Investable assets of $1M or more, excluding primary residence equity (individually or with spouse or partner)
- Individual income of $200k or more in the last two years
- Household income of $300k or more over (with spouse or partner) in the prior two years and reasonably expects the same for the current year

The SEC has been directed by Congress to develop a test for non-accredited investors to show they have the competence to invest. Stay tuned; hopefully they will issue guidance on this soon.

Learn more details on the SEC Website.

Alternative Investments

Alternative investments, or "alts," refer to investments outside the public stock and bond markets. These include private equity, venture capital, hedge funds, and other non-traditional assets. (see Ironton Capital Overview)

Blind Pool (Not Applicable to Ironton Capital)

A blind pool is a type of private equity fund where investors commit capital without knowing the specific investments in advance. At Ironton Capital, we do not use blind pools. Instead, we identify investments before you commit and provide full transparency on your portfolio.

Capital Call (Not Applicable to Ironton Capital)

A capital call occurs when a private equity fund requests additional investment from its investors over time, instead of requiring the full commitment upfront. Ironton Capital does not use capital calls; investors make a single investment, and we manage it from there.

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Capital Structure (Not Applicable to Ironton Capital)
Capital structure refers to how a company finances its operations using a mix of debt and equity. Some private equity funds use debt (leverage) to increase returns, which also increases risk. Ironton Capital does not use leverage in our long-term investments, focusing instead on capital preservation.

Carried Interest
Carried interest is the share of profits earned by the general partner of a private equity fund. It serves as a performance incentive, aligning the general partner's success with investor returns.

Catch Up
A catch-up provision ensures that once limited partners receive a preferred return, general partners receive a portion of profits before the standard profit split (typically 80% to limited partners and 20% to general partners) begins.

Commitment Period
The commitment period is the time frame during which a private equity firm invests the committed capital. Investors' funds remain tied up during this period as assets are acquired, developed, or improved.

Debt Fund
A debt fund primarily invests in loans rather than equity. Debt funds, like Ironton Capital's short-term or medium-term income funds, generally offer lower risk and provide regular income, making them a suitable option for investors seeking steady cash flow.

Usually they don't appreciate in value and they're very consistent in generating income today that you can live off of. Long-term funds which tend to be equity funds usually don't generate any income (or they generate very little). That income is very unpredictable, so if you're retired and relying on this income stream, it'd be an inappropriate choice. The debt fund would be better for you.

If you're younger and you're investing for the long haul, equity funds could be a great choice. Check with your advisors!

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Distressed Debt
Distressed debt refers to loans or bonds issued by companies or property owners in financial trouble. Banks and lenders often sell these assets at a discount, creating potential investment opportunities in turnaround situations.

In short, a deal fell through and the bank got a loan back, but wants to sell it cheap to get it off the books. We'll set up a debt fund to invest in that type of distressed debt. Often they're outstanding opportunities.

Distribution
A distribution is a payment made to investors from a private equity fund. Distributions may come from income generated by an asset, refinancing proceeds, or the sale of an investment.

There are a few ways this might happen. The first type of distribution would be a return of your initial invested capital. That would be a tax-free event.

Another might be an income distribution. If we build a new apartment complex, it may take us 2-3 years to do it. When that is done, if we don't think it's the right time to sell, we have a cash-flowing asset. Once a quarter, we can send the profits back to you. That would be an income distribution.

Another type of distribution is when we do a refinance and we can return some of your initial equity and sometimes some profit.

And then finally, when we sell the property, there might be some distribution of your initial capital if it hasn't been done already. Then all your profits on the long-term gain which is a much more favorable form of tax treatment. Those are the types of distributions that you'll most commonly see from us.

Would You Like an Investment Review For Free?
Book Your Complimentary 15 minute Consult
and we'll look at which funds may best fit your portfolio
so you can go from active to passive investing...
irontoncapital.com/review

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Distribution Waterfall

The distribution waterfall determines how profits are shared between limited and general partners. Typically, investors receive a preferred return first, followed by profit-sharing based on agreed-upon terms.

For most long-term funds, there's a preferred return that's paid out to the investor and then the profits after that have a split. Usually the large percentage of it goes to the limited partners and a small percentage goes to us, the general partners, as an incentive to do a good job for you. Usually once you get above a 20% annualized return on any given project, there's a slightly larger bonus to us for finding an unusually good project for you.

Due Diligence

Due diligence is the research and analysis conducted before making an investment, including reviewing financial statements, market conditions, legal documents, and other factors to assess risks and potential returns. At Ironton, we have 8 Factors that we always consider for Due Diligence. (see the 8 Factors of Due Diligence)

Feeder Fund

Many institutional-grade investments have very minimum investments. For example, one of our best Sponsors has a $3 million minimum! A feeder fund pools capital from multiple smaller investors to meet the minimum investment requirements of a larger fund. This allows individual investors to access private equity opportunities typically reserved for institutional investors.

Access to these funds used to be only available to the very wealthy, or institutional investors like university endowments or pension funds.

For someone smaller as an individual investor that wants to write a check for $50K or $100K, it would be very difficult to amass a $3M minimum payment to get into a fund like that. So what we can do at Ironton is set up a feeder fund, and that's where we can bolt together up to 100 investors. Maybe each writes a check for $50K. Then we have five million dollars in total and that meets the minimum. Ironton can invest for you to get you into a fund you otherwise would not have access to. We've done this on numerous occasions to get investors access to very, very exciting opportunities. (see Ironton Capital Overview)

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Fund of Funds
Ironton Capital's Structure! A fund of funds invests in multiple private equity funds rather than directly in individual projects. This approach provides diversification across asset types, strategies, and geographic locations to tightly manage risk. (see 4 Pillars of Diversification)

At Ironton, we invest with sponsors. The sponsor does the actual investing and daily management. The benefit of this is that we can work in multiple different states and find a local partner with very deep roots in that market. They know the city planning department, how to get the permits, they've got relationships with general contractors, they know the environmental problems like hurricanes that might happen periodically and what to do to mitigate those risks. They know how to get insurance to mitigate the hurricane risks, for example.

We work with sponsors that have deep, deep knowledge. We invest in them and they run the project day to day. They're also the ones who guarantee the loan.

This enables us to set up basically like a stock mutual fund for you across a lot of different investments and really spread out your risk. (see Ironton Capital Overview)

General Partner (GP)
The general partner manages a private equity fund and is responsible for investment decisions. Unlike limited partners, GPs have unlimited liability and earn compensation through management fees and carried interest.

You, as an investor with us, are a limited partner. You have no liability for anything that goes wrong. The worst thing that could happen is that we make a disastrous set of investment choices and you don't get your investment back. There's always a small chance that that could happen.

On the other hand, if things go very poorly for us as general partners, we might have liability over and above the amount of money that we put into the investment fund. This structure saves you a lot of stress and you can sleep better at night. (see How Private Equity Companies Work for You)

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

General Partner Commitment
The general partner commitment refers to the amount of personal capital invested by the GP in the fund. This aligns their interests with investors by ensuring they share in the risks and rewards. It shows that we're committed and we've got skin in the game just like you do.

Hedge Fund (Not Applicable to Ironton Capital)
There are three categories of alternative investments: hedge funds, venture capital funds, and private equity funds.

Hedge funds use complex investment strategies, including derivatives and short-term trading, to generate returns. Unlike private equity, hedge funds focus on liquid investments and tend to have higher risk and turnover.

We are an example of private equity, and we're really different from the other two. A hedge fund uses options and other types of really fancy financial derivatives to play the market. A lot of times those are very short-term bets and those tend to have higher returns and higher risk. It's the polar opposite of what we do.

Hurdle Rate
The hurdle rate is the minimum return investors must receive before the general partner earns carried interest. Common hurdle rates in private equity range from 5% to 8%.

Hurdle rate is just another way of saying the preferred return. For most of our long-term funds, it's either a 5% or an 8% preferred return that you as a limited partner get paid before we as a general partner see any share of any profits.

Get The Complete Guide to Passive Diversified Real Estate Investing for FREE...and learn our entire investing strategy in 2 hours or less!
https://irontoncapital.com/guide

Download Now:

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Internal Rate of Return (IRR)
IRR measures the annualized return of an investment, accounting for the timing of cash flows. It helps investors compare private equity performance to other investments like a savings account or bonds.

Imagine that you're investing in Ironton's national diversified fund and there's 10 investments in the fund. In one of those investments, we're going to build a new apartment building. We take all of the cash flows associated with that investment, and the internal rate of return for that would probably be about 17%. This allows you to compare. If you took $100,000 to a bank and you had a savings account that paid 17%, you would be able to basically recreate the cash flows that we gave you with that apartment investment. It's just a way of measuring the rate of return over time. (see Ironton Capital Overview)

Investment Strategy
An investment strategy defines how a private equity fund selects and manages investments. Ironton Capital focuses on diversification, capital preservation, and targeting annual returns (after expenses) of 16–20% while minimizing risk (see 4 Pillars of Diversification).

For example, if you're investing in our long-term fund, our investment strategy is to get you some returns around 16 to 20% a year with the minimum amount of risk possible. We've got a real focus on making sure that we can at least return your initial investment to you and not lose any of your capital. Our low-risk strategy always focuses around that.

Then, from a broader standpoint we have our 4 Pillars of Diversification investment strategy where we mostly invest in multifamily with a little in hospitality, self-storage, student housing, and/or industrial. To further diversify, we'll usually be about half new construction and half heavy renovation of existing assets. We also like to be in multiple different sponsors and in multiple states - ideally at least eight to 10 different states. Our investment strategy is just the basket of all those ideas of how we try to protect your capital and still earn a good return for you.

Investment Vehicle
An investment vehicle is simply a financial structure, such as a fund or platform, used to pool and deploy capital into investments.

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Leverage (Not Applicable to Ironton Capital)
Leverage refers to borrowing money to increase potential returns. While some funds use leverage to boost profits, it also increases risk. Ironton Capital does not use leverage in its long-term investments.

For example, in our National Diversified Fund, our goal is to make 16 to 20% annualized returns for you. One technique that I could do to boost the amount of return is I could borrow money, let's say at 8%, and I might be able to even give you better returns.

However, that adds a layer of risk that I'm not comfortable with in this stage of the market cycle, so we do not use leverage with our long-term fund. There may be a time in the future where it's appropriate, today isn't that day.

Our short-term income fund uses a small amount of leverage, less than 10%, not to increase returns, but rather as a liquidity vehicle to match up supply and demand of capital.

What I mean by that is the short-term income fund makes hard-money loans to people doing fix-and-flips or other types of renovation products in real estate. Each month they might originate 10 new loans, and they might have 10 loans that get paid off. They match the cash flow timing of these 10 loans coming in. When they get paid off, this cash is coming back into the fund, and the cash going out of the fund is the 10 new loans that we're about to make.

Sometimes the timing isn't exactly perfect, and the cash needs to go out before the cash comes in from a payoff. That's when you use a line of credit as a way to smooth out the cash flow. The only leverage that we use at Ironton is in the short-term income fund. It's a very limited amount, and it's only for that limited purpose.

Limited Partner
A limited partner is an investor in a private equity fund with no management responsibilities or liability beyond their investment amount.

A limited partner is you, the person watching this video, who is putting money into either our short-term fund, medium-term income fund or our long-term national diversified fund. As a limited partner, you have no liability, as opposed to the general partner, us, who have all of the liability if something goes wrong. (see How Private Equity Companies Work for You)

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Liquidation Stage

The liquidation stage is when private equity funds exit investments by selling assets and distributing profits to investors. This is typically the final stage of the investment cycle.

Liquidation stage is the most exciting part of being in a long-term fund. We've built the apartment, or we've renovated, and we've leased it up at higher rents. We've stabilized the asset. We've got the property under contract, and now it's time to sell this thing and get the money back to you with all your profits. That is the most fun part of the entire game.

Liquidity Premium

The liquidity premium compensates investors for tying up their money in long-term, illiquid investments. Private equity funds offer higher returns than public markets to account for reduced liquidity.

One of the things that you've probably noticed about our long-term national fund is that it pays 16 to 20%. That is a lot more than the stock market, which on the long haul will pay about 10%. Part of this 7 or 10% extra return we can generate for you is the liquidity premium.

Liquidity is just a fancy term saying, "Can I get my money out on short notice any time that I want?" If you take money out of your checking account and send it to Vanguard and put it in the S&P 500 index, you might change your mind a week later. You can go to the Vanguard site, sell, and about three days later, the money's back in your account. That's called a highly liquid investment because you have easy access to it, and you have the decision rights of when you want the money back.

If you invest in our long-term fund, the money is stuck for four to six years, and you don't have any decision rights about when you're going to get the money back. Therefore it's called illiquid, not liquid. That's why we pay you more. If we had the same returns as the stock market and the stock market is liquid and we're not, nobody would pick us, everybody would pick the stock market. That's why it's called a liquidity premium. (see How Private Equity Companies Work for You)

Lock-Up Period

A lock-up period is the minimum time an investor must hold their investment before they can withdraw funds. Private equity funds often have lock-up periods of several years.

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Management Fee
The management fee is the annual fee paid to the general partner for overseeing the fund and executing its investment strategy.

The management fee is contractually determined between you, the limited partner, and me, the general partner. As the limited partner, you are hiring me to pick different types of real estate investments for you. In our long-term fund, the fee is about 2% per year of AUM or assets under management. And then there's a bonus that we get paid after you get your preferred return if we're highly successful in doing a good job finding highly profitable projects for you called the waterfall. This is a typical expense structure across most private equity funds. (see Ironton Capital Overview)

Modified Internal Rate of Return (MIRR)
MIRR is a more precise version of IRR that accounts for varying cash flow timing. It provides a more accurate measure of long-term investment performance.

MIRR or XIRR is a modified internal rate of return. An internal rate of return just helps you take a look at a number of cash flows from an investment and figure out what's the average annualized rate of return.

If you go to Excel and type in IRR as the calc, it's going to assume that every period is exactly the same length. Usually the default period would be one year long. For a rough cut, that's great, but if you have exact dates when you're putting money in, it's much more accurate to have different cash flows with the project assigned to an exact date. To do that in Excel, you would use a formula called XIRR.

Multiple on Invested Capital (MOIC)
MOIC measures the total return on investment without factoring in time. A MOIC of 1.9 means an investor receives $1.90 for every $1 invested. While useful, it does not account for the duration of the investment, which is why we prefer IRR which is time focused.

If you can get a 10x multiple on investment capital in three years, that is unbelievably outstanding and you probably had to take on a very high amount of risk to accomplish that. If you got a MOIC of 10 over let's say 30 years, that would be a relatively low rate of return, and likely a very safe bet. We personally don't care for MOIC because it doesn't talk about the amount of time involved. You can take a look at a number of different projects with different lifespans and compare the IRR, and since the IRR takes the amount of time into the calculation, it's an apples to apples comparison.

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Net Asset Value (NAV)
NAV represents the total value of a fund's assets minus liabilities. It is used to track investment performance over time. The net asset value is just the value of the investment that you've made with Ironton or in your stock fund or some other private equity fund like us.

Let's imagine that our National Diversified Fund raises $10 million and we make 10 investments and they're for a million dollars each. This is a very common structure for us. The initial investment value is going to be $1 million for each of those 10 investments.

One of those investments might be to build a new apartment complex. Let's say that 30 months, two and a half years in, the asset is built. It's been leased up and we got an appraisal and we did a refinance associated with that and we returned some of your capital.

Since I've got an appraisal, I know what the value of that asset is as of right now and I can adjust the net asset value for your investment - up or down. If we invested a million, and maybe after it is built, it's worth two million and we're able to return $500K to all the investors. Then the net asset value of what remains would be $1.5 million. It would be the two million of equity that was indicated by the appraisal minus the distribution that we've made. You still have $1.5 million left inside of our fund. When we refinance it again or if we sell it, we'll be able to release more of that value to you.

Private Equity
Private equity refers to investments in privately held companies or real estate assets. Unlike public stocks and bonds, private equity investments require investor accreditation and typically offer higher returns with longer holding periods.

Private equity is a set of investments that are not public like the S&P 500 Index or NASDAQ or public bond indexes. A typical IRA and your 401k will usually have a lot of different mutual funds that invest in the public markets. On the other hand, private equity does not trade on a stock exchange. It's just a contractual arrangement between you, the limited partner, and me, the general partner.

Generally speaking, you need to be an accredited investor to be able to participate in private equity and always speak to your CPA and financial advisors before investing. Usually private equity has much, much, much higher returns than public investments, but there are also risk factors associated with the funds.

Confidential. All Rights Reserved. Ironton Capital LLC

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Private Equity Fund
A private equity fund pools investor capital to invest in private businesses or real estate projects that are not listed on a public market. (see Ironton Capital Overview)

Private Market
The private market includes investments not traded on public exchanges, like NASDAQ or the S&P 500 or the Dow Jones. They can include private equity, venture capital, and privately issued debt. (see How Private Equity Companies Work for You)

Private Placement Memorandum (PPM)
A PPM is a legal document outlining the details of a private equity investment. It includes fund strategy, risks, terms, and legal disclosures.

A private placement memorandum is a written summary of the key information about a private equity fund like Ironton, and we'll talk about the investment strategy, the background of the fund managers, the types of risks that we have, what we're going do to manage all those risks, legal and tax implications, and a lot of other things. It's something that you'll want to read in detail with your attorney or your financial planner and probably your CPA before you make a decision to invest.

Risk Diversification
Risk diversification involves spreading investments across different asset types, strategies, sponsors, and locations to reduce overall risk. At Ironton we have 4 Pillars of Diversification.

Risk diversification is how we try to build a portfolio in our long-term fund of assets so that we can be reasonably assured that we can get all of your initial capital back and smooth out the investment returns. There's four methods we use to diversify risk. (see 4 Pillars of Diversification)

As you're making investment decisions, you want to make sure whatever you choose to invest in has got a thoughtful risk diversification approach involved with it.

You need to be sure you talk to your CPA and your financial advisor about those before you make a decision to invest in private equity, as in all your investment decisions.

Confidential. All Rights Reserved. Ironton Capital LLC

IRONTON
CAPITAL

2755 S Locust St Suite 150
Denver, CO 80222
support@irontoncapital.com
irontoncapital.com

Time Horizon
The time horizon is the expected duration of an investment. Ironton Capital offers short-term, medium-term, and long-term investment options with varying liquidity.

Time horizon is just another fancy word that fancy people in the finance industry like to use to make them sound more sophisticated than they probably are. It is simply how long we expect to hold on to an investment.

For example, Ironton's short-term fund has a lot of liquidity and you can get out with 30 days notice. Our medium-term fund, you have to be in it for at least a year, then you can get it out with 90 days notice. Our long-term fund, the National Diversified Fund, is a four to six year commitment on the time horizon with no liquidity. (see Ironton Capital Overview)

Venture Capital (Not Applicable to Ironton Capital)
Venture capital (VC) funds invest in early-stage companies with high growth potential, offering the potential for high returns, but also carrying significant risk. Instead, Ironton Capital focuses on lower-risk private equity investments in real estate. VC funds, on average, will have higher returns than PE funds in general, and Ironton in particular. Our goal is capital preservation and not maximum return.

A typical VC fund, if it's very early stage, might have 100 different companies. They expect 2 or 3 of those companies to be grand slams, unbelievably successful. 10 or 15 will return the investment plus a little bit and 80 to 85 will just go bust and not get any return back at all. It's a very high risk, high return.

Ironton's the opposite of venture capital. We're obsessed about getting your initial capital back to you, not taking a lot of risk. We're only trying to get 16 or 20% per year returns with the least risk possible. (see Ironton Capital Overview)

Would You Like an Investment Review For Free?
Book Your Complimentary 15 minute Consult
and we'll look at which funds may best fit your portfolio
so you can go from active to passive investing...
irontoncapital.com/review

Confidential. All Rights Reserved. Ironton Capital LLC