Private Equity Fund of Funds & Secondaries – Certification Quiz Questions

Module SEC-05 – LP-Led Secondary Deal Analysis for Private Credit Fund (3-Hour Case Study)

23. You are reviewing a potential LP-led secondary deal for a ~9% stake in a private credit fund. The core assumptions for this deal, including the selling LPs' NAV, fees, reference date, and close date, are shown in the image below this question.

    Which of these is most likely to be **INCORRECT** or **INCOMPLETE?**

Private Credit - LP-Led Secondaries Deal
($ in Millions USD)

Fund Assumptions:	Units:			Units:	
Name of Fund / Investment:	*Name*	Siren IV	# of Months in Full Period:	*#*	12
			# of Quarters in Full Period:	*#*	4
Management Fee:	*%*	0.75%	# of Months in Quarter:	*#*	3
Carried Interest:	*%*	15.0%			
Hurdle Rate:	*%*	6.0%	Fund Inception:	*Date*	2021-12-31
			Fund Life:	*Year*	8
Current Benchmark Rate (SOFR):	*%*	3.50%	End of Fund Life:	*Date*	2029-12-31
Invested Capital, Net of OID:	*$ M*	$ 961.7			
Invested-to-Committed Capital Ratio:	*%*	90.0%			
Estimated Fund Size (Committed Capital):	*$ M*	1,068.5			
Scenario:	*Case*	Base			

Secondary Assumptions:	Units:			Units:	
Seller's Commitment:	*%*	$ 100.0	Bid Discount / (Premium):	*%*	0.0%
% of Total Fund Size:	*$ M*	9.4%			
			Reference Date:	*Date*	2026-09-30
Entire Fund Fair Market Value (FMV):	*$ M*	917.3			
(-) Accrued Carried Interest:	*$ M*	(45.7)	Quarters to Deal Close:	*# Quarters*	1
Fund NAV:	*$ M*	**871.7**	Deal Close Date:	*Date*	2026-12-31
Seller's Fair Market Value (FMV):	*$ M*	85.9	Deferral Quarters:	*# Quarters*	2
(-) Accrued Carried Interest:	*$ M*	(4.3)	Funding Date:	*Date*	2027-06-30
Seller's NAV:	*$ M*	**81.6**			
(x) (1 - Bid Discount):	*%*	100.0%	# of Quarters from Reference Date to Funding Date:	*# Quarters*	3
Purchase Price:	*$ M*	**81.6**			
(+) Post-Record-Date Calls:	*$ M*	0.5			
(-) Post-Record-Date Distributions:	*$ M*	(7.5)			
Adjusted Purchase Price:	*$ M*	**$ 74.5**			

	Senior		Loss Rate	Mezzanine		Loss Rate
Scenario:	Default %	Recovery %	Senior	Default %	Recovery %	Mezzanine
Base	2.5%	70.0%	0.8%	6.0%	50.0%	3.0%
Downside	3.5%	60.0%	1.4%	8.0%	40.0%	4.8%

a. There are too many total quarters between the reference date and the deal closing/funding date.

b. The Carried Interest and Management Fees are both unrealistically low for a private credit fund; the Management Fees should be at least 1% of committed capital, for example.

c. The 90% Invested-to-Committed Capital Ratio is inconsistent with the Management Fees; if they really are only 0.75%, this number should be closer to 95%.

d. The Downside Case is too "tame," or the Extreme Downside Case is missing; slightly higher Default Rates and lower Recovery Rates are not a true stress test.

24. As part of the same analysis for this LP-led secondary private credit fund deal, you have set up a waterfall schedule to determine the Accrued Carry as of the deal's reference date, as this is a key component of the Seller's NAV.

    You may assume the private credit fund follows the assumptions shown in the previous question (e.g., 0.75% Management Fee, 15% Carry, and 6% Hurdle Rate).

    The image below presents a summary of this "Accrued Carry" waterfall, with Totals for each line item on both a Gross and Net basis on the left-hand side. Note that only the "Net" output of the waterfall, such as the LP Net Cash Flows, TVPI, and DPI, is shown rather than the full detail.

    Based on this image, which of the following statements are **CORRECT** observations or insights about this deal?

    This question has **3 correct answers** and 3 incorrect answers. You must select **ALL 3 correct answers** and no incorrect answers to earn a point for this question.

Fund-Level Cash Flows Through Secondary Deal Reference Date
($ in Millions USD)

Gross Cash Flows from Portfolio:	*Units:*	TOTAL:	2025-09-30	2025-12-31	2026-03-31	2026-06-30	2026-09-30
Gross Cash Flows:							
(-) Initial Investments:	*$ M*	$ (980.0)	$ -	$ -	$ -	$ -	$ -
(+) Original Issue Discount:	*$ M*	18.4	-	-	-	-	-
(+) Cash Interest:	*$ M*	316.3	24.2	23.6	22.9	22.8	23.3
(+) Principal Repayments & Maturities:	*$ M*	56.1	4.0	4.0	4.0	4.0	4.0
(-) Loss Rate and Defaults:	*$ M*	-	-	-	-	-	-
(+) FMV of Remaining Loans:	*$ M*	917.3	-	-	-	-	917.3
Total:	*$ M*	**$ 328.1**	**$ 28.2**	**$ 27.5**	**$ 26.9**	**$ 26.7**	**$ 944.6**
Gross MOIC (No Recycling):	*x*	**1.34 x**					
Gross MOIC (Recycling):	*x*	**1.39 x**					
Gross IRR:	*%*	**11.0%**					

Net Cash Flows and Carry:	*Units:*	TOTAL:	2025-09-30	2025-12-31	2026-03-31	2026-06-30	2026-09-30
Management Fee:	*$ M*	$ 23.5	$ 1.8	$ 1.8	$ 1.8	$ 1.7	$ 1.7
Investments + Management Fees:	*$ M*	985.1	1.8	1.8	1.8	1.7	1.7
Net Distributions + Portfolio FMV:	*$ M*	1,289.7	28.2	27.5	26.9	26.7	944.6
Total GP Profit in Period:	*$ M*	45.7	-	-	-	-	45.7
LP Net Cash Flows:							
LP Cash Outflow:	*$ M*	(985.1)	(1.8)	(1.8)	(1.8)	(1.7)	(1.7)
LP Cash Inflow:	*$ M*	1,244.0	28.2	27.5	26.9	26.7	898.9
LP Net Cash Flow:	*$ M*	**$ 258.9**	**$ 26.4**	**$ 25.8**	**$ 25.1**	**$ 25.0**	**$ 897.1**
Distributions to Paid-In Capital (DPI):	*x*		**0.27 x**	**0.30 x**	**0.32 x**	**0.35 x**	**1.26 x**
TVPI (No Recycling):	*x*	**1.26 x**					
TVPI (Recycling):	*x*	**1.30 x**					
Net Internal Rate of Return (IRR):	*%*	**8.8%**					

a. It's virtually impossible for there to be 0 Losses or Defaults over the first ~4 years of this fund through the reference date, so row 12 is suspicious.

b. If a higher percentage of the Interest were Cash rather than Paid-in-Kind (PIK), the Gross IRR and MOIC would increase due to the higher FMV of Remaining Loans.

c. While the Total Original Issue Discount (OID) and the Fair Market Value (FMV) of Remaining Loans do not have a direct mathematical relationship, they are indirectly related and affect each other in this model.

d. If the loan issuance dates and maturity dates from different investments overlapped more frequently, there would likely be a larger difference between the TVPI with No Recycling and the TVPI with Recycling.

e. The Gross – Net Gap of ~2% here does not make sense because the Management Fees are only 0.75%, so it should be closer to a ~1% Gap.

f. The fact that the "Total GP Profit in the Period" in column E matches the single GP Profit in column Y is an expected result and means that no Carry has been distributed as of the reference date.

25. You've now completed the analysis of this LP-led secondary deal for the ~9% stake in the private credit fund, but the Net IRR is too low over the approximate 3-year holding period.

    Your internal target for the Net IRR is 20%, but the deal currently produces 15% under most scenarios.

    The overall loan portfolio is currently marked to market at ~95% of face value, the average Debt / EBITDA is in line with market comparables, the weighted-average effective interest rate is ~11%, and the weighted-average Default Rate is expected to be ~3%.

    Which of the following is the **MOST REASONABLE** way to improve the deal's Net IRR?

    a. Offer a significant Bid Discount, such as 10%, so that your firm acquires the stake at closer to ~85% of its face value.

    b. Propose a longer deferral period, such as 1 – 2 extra quarters, as this will increase the Net IRR by reducing the holding period.

    c. Negotiate with the existing LPs and the GP to reduce the Carried Interest percentage or increase the Hurdle Rate on just this specific ~9% stake in the fund.

    d. Use instruments like interest rate swaps or credit default swaps to boost the effective interest rate or reduce the impact of the expected defaults.