QUESTION 1 - 4

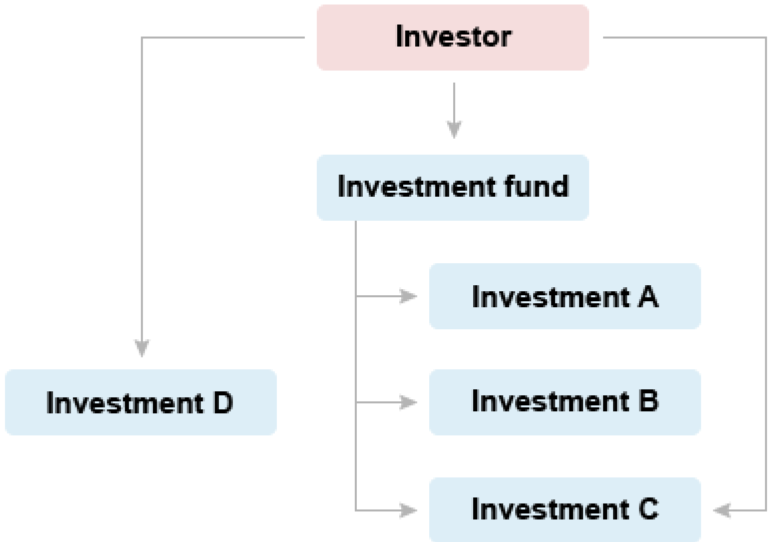
Julia Xiao, CFA, a senior associate at a large bank, is developing a training program for an incoming class of interns. For the first training session, she creates a summary that contrasts the features of public and private investments. She includes the information in Exhibit 1 and distributes it prior to her discussion of private equity and the J-curve effect:

Exhibit 1 Features of Public and Private Investments

Feature	Public	Private
Vehicle structure	Open-end	Closed-end
Return measures	Arithmetic or geometric	Internal rate of return (IRR)
Market liquidity	Liquid	Illiquid

Next, Xiao explains that private investments can be accessed through a commingled fund, direct investment, or a co-investment structure. She presents details about private investment structures and shares a diagram (Exhibit 2) that depicts methods to access private investments:

Exhibit 2 Private Investment Vehicles



Moving on to examples of private equity fund investments, Xiao shows the class a table of return data for portfolio companies in the bank's top private equity fund (Exhibit 3). She challenges the interns to explain what the data illustrates about the performance of the underlying portfolio companies, based on the metrics distributed to paid-in (DPI), residual value to paid-in (RVPI), and total value to paid-in (TVPI).

Exhibit 3 Private Equity Investments ($ thousands)

Investment	Invested capital	Distributions	Net asset value
Project Car	1,250	325	1,300
Project Bridge	1,750	775	1,450
Project Airplane	2,200	1,100	1,725

Xiao concludes by summarizing the differences in risk and return characteristics between public and private investments. She makes the following statements:

Statement 1: Private equity managers tend to be more specialized, and their portfolios exhibit less return variability than public market investments.

Statement 2: Compared with public equity, private equity is less reliant on price appreciation.

Statement 3: Private investing offers investors access to a broader range of companies, expanding risk and return potential beyond public market investing.

Question 1 of 12

Based only on Exhibit 1, which of the following private investment features *most likely* illustrates the J-curve effect?

A. Market liquidity

B. Vehicle structure

C. Return measures

Question 2 of 12

Based on Exhibit 2, which investment is *most likely* to increase investment exposure while reducing average fees?

A. Investment A

B. Investment C

C. Investment D

Question 3 of 12

Based on Exhibit 3 and the total value to paid-in (TVPI), which investment has the *best* performance?

A. Project Car

B. Project Bridge

C. Project Airplane

Question 4 of 12

Which of Xiao's statements regarding the difference between private and public investments is *correct*?

A. Statement 1

B. Statement 2

C. Statement 3

QUESTION 5 - 8

Phillipe Renaux, an associate at a fund of funds manager in Western Europe, is discussing potential managers for his portfolio with his colleague, Fernando Sanchez. Renaux is excited about Ahrendt Partners, a private credit manager he has identified, and notes that the Ahrendt team:

Attribute 1: employs skilled lawyers to review documents and negotiate terms.

Attribute 2: leverages the firm's equity research to enhance fundamental analysis.

Attribute 3: conducts in-depth, bottom-up analyses and fully underwrites each credit.

Sanchez, having a public equity background, is less familiar with private market investing, particularly regarding structuring transactions and how clauses can protect debt positions. Renaux explains that when a company is sold, in the private markets the debt is usually refinanced due to a clause in the private debt agreements that mandates the repurchase of existing debt upon a change in ownership.

Ahrendt is currently in the pre-commitment stage and is soliciting new limited partners for Ahrendt Credit Fund II. As part of their due diligence, Renaux and Sanchez are reviewing the past performance of Ahrendt Credit Fund I (ACFI), which had a 5-year life and recently closed. Exhibit 1 shows ACFI's year-end cash flows, which are a simple sum of the cash flows from its underlying investments, along with a comparable public market index and the index's annual returns.

Exhibit 1 Past performance of Ahrendts Credit Fund I

Year	Cash Flow (CAD millions)	Public Market Index	Public Market Index Return
0	−70	100	NA
1	−50	120	20%
2	0	115	−4.17%
3	10	105	−8.70%
4	20	130	23.81%
5	125*	150	15.38%

*Year 5 cash flow represents the fund's exit value

Sanchez calculates ACFI's IRR using the information in Exhibit 1 and compares it to the compound annual return of the public market index. After reviewing ACFI's IRR, Sanchez questions whether the fund's cash flows are an appropriate basis for calculating the fund's IRR. Renaux responds that a public market equivalent (PME) methodology should have been used for the IRR calculation and makes the following comments:

Comment 1: With a PME method, the choice of public market index is irrelevant.

Comment 2: A PME method simulates public market investments by assuming that cash outflows are invested in a public index and cash inflows are sold.

Comment 3: The IRR resulting from a PME approach assumes interim cash flows can be reinvested at the IRR rate, offering a realistic view of cash flows from private investments.

Renaux calculates ACFI's IRR using a PME method that compares the fund's asset values with the compound annual return of the public market index.

Question 5 of 12

Which attribute is *most critical* when evaluating a private, as compared to a public, credit manager?

A. Attribute 1

B. Attribute 2

C. Attribute 3

Question 6 of 12

A private debt agreement clause that mandates the repurchase of existing debt upon a change in ownership is *most likely* relevant to:

A. venture debt.

B. a leveraged loan.

C. a leveraged buyout.

Question 7 of 12

Which of Renaux's comments regarding PME methods is *most likely* correct?

A. Comment 1

B. Comment 2

C. Comment 3

Question 8 of 12

Using a PME methodology, ACFI's IRR is *closest* to:

A. 6.1%

B. 6.9%

C. 8.4%

QUESTION 9 - 12

Jorge Ochoa is a banker at Hedrick Bank, a large private bank, where he primarily assists high-net-worth (HNW) individuals. He works closely with Peter Dillon, an investment specialist, who recommends adding several new private investments to Ochoa's HNW portfolios. Ochoa asks about the implications of adding a new private equity position versus a new public equity position in the equity portfolio. Dillon responds:

Statement 1: Among different private equity investments, diversification benefits from investing in buyout equity investments is less common.

Statement 2: Private equity investments tend to exhibit above-trend growth due to managers' industry-specific skills in selecting and managing investments.

Statement 3: The performance evaluation of an equity portfolio with a new private equity investment should occur annually after receiving the audited statement.

Dillon recommends that Ochoa's clients partner with Maehara Capital Partners, a US-based real estate private equity firm, to acquire equity stakes in data centers. Maehara has 15 years of experience in this sector and has launched two successful funds. Through his connection with Dillon, Ochoa can provide his clients access to Maehara's new fund with a lower minimum investment. Clients will also benefit from reduced fees and the guidance of seasoned investment partners.

As part of the due-diligence process, Ochoa asks Dillon to provide Maehara's fund performance history. Dillon presents the year-end NAV, capital called, and distributions to limited partners (LPs) for the Maehara Real Estate Fund II (MREFII) over its seven-year life cycle, shown in Exhibit 1.

Exhibit 1 Selected Information on Maehara Real Estate Fund II (USD millions)

Year	0	1	2	3	4	5	6	7
NAV		80	135	160	185	150	115	60
Capital called	30	60	50	10				
Distributions		0	0	0	20	40	50	60

When evaluating MREFII's performance, Ochoa points out that the fund has underperformed relative to a publicly traded REIT index throughout its life cycle. However, Dillon argues that this direct comparison is not entirely fair, citing several important factors:

Factor 1: Delays in cash outflows from liquid investments can reduce the IRR.

Factor 2: A declining interest rate environment may slow or pause capital deployment.

Factor 3: Private funds from different vintage years would allow for more accurate performance comparisons due to the varying economic conditions they experienced.

Question 9 of 12

Which of Dillon's statements regarding the addition of a new private equity position is *most likely* correct?

A. Statement 1

B. Statement 2

C. Statement 3

Question 10 of 12

Which private market investment method is *most appropriate* for Ochoa's clients to invest in Maehara's new real estate fund?

A. Direct investment

B. Direct co-investment

C. Commingled investment fund

Question 11 of 12

The total value to paid-in of MREFII as of the end of Year 4 is *closest* to:

A. 1.10

B. 1.23

C. 1.37

Question 12 of 12

Which factor cited by Dillon regarding the private fund performance comparison is *most likely* correct?

A. Factor 1

B. Factor 2

C. Factor 3