




Question #1 of 52

Question ID: 1722827

The most common exit strategy for a build-operate-transfer (BOT) infrastructure projects involves:

- A) either liquidation of the assets, or an IPO. 
- B) transfer to a public authority at zero value. 
- C) a secondary sale to another private equity firm. 

Explanation




The most common exit strategy for a BOT project is the transfer of ownership back to the public entity at the end of the concession period, with an exit value of zero. A secondary sale to another private equity firm is possible, but is not a common exit strategy for BOT infrastructure projects.

(Module M2.5, LOS M2.e)

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Question ID: 1722799

The most appropriate way for private equity firms to align the interests of general partners (GPs) with those of limited partners (LPs) is by:

- A) paying the GP both a management fee based on the amount of capital invested, plus a performance fee based on profits above a hurdle rate. 
- B) granting voting rights to LPs on all investment decisions made by the GP. 
- C) paying a fixed annual salary to the GP and a performance bonus to the LP. 

Explanation

GPs are normally paid a management fee based on the amount of capital invested, plus a performance fee based on profits above a hurdle rate. While the management fee is merely a guaranteed income stream for the GP that helps cover the costs of running the fund, the GP only earns carried interest if the fund performs well and surpasses a predetermined hurdle (minimum acceptable return) rate. This helps to align the interests of the GP with those of LPs who seek high returns on their investment. The LPs receive neither a fixed annual salary, nor a performance bonus. LPs are unlikely to be granted any significant say in the investment decisions made by the GP.

(Module M2.2, LOS M2.b)

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Question ID: 1722781

An alternative investment vehicle that requires incentive fees to be calculated only on the portion of returns above a benchmark return is said to have a:

- A) hard hurdle rate. 
- B) high-water mark. 
- C) soft hurdle rate. 

Explanation




A hard hurdle rate means that incentive fees are earned only on returns in excess of the benchmark return. A soft hurdle rate means that incentive fees are calculated on the entire return, but they are only paid if the return exceeds the hurdle rate. A high-water mark specifies that incentive fees are only paid on returns that increase an investor's account value above its highest previous value.

(Module M2.1, LOS M2.a)

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Question ID: 1722785

Lisa and Michael's first question centers on primary differences between public investments and private funds. Which of the following statements accurately reflects similarities and differences between these investments?

- A) Public funds often require larger up-front capital commitments from investors. 
- B) Both public and private funds have indefinite lives and are highly illiquid. 
- C) Private funds lean toward being closed end, with fixed contractual terms. 

Explanation




While public funds are often open ended with indefinite lives, private funds tend to be closed-end funds with fixed contractual terms. Public funds often have indefinite lives but higher liquidity than finite-life private funds. Private funds (rather than public) often require larger up-front capital commitments from investors.

(Module M2.1, LOS M2.a)

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Question ID: 1722786

To help illustrate the life cycle of a private asset investment, Jenkins shows Lisa and Michael a graph that plots expected inflows and outflows as well as reflecting a timeline for when the Stratfords can expect the investment to become profitable. Assuming this graph follows a traditional cash flow path for private investments, the Stratfords can expect:

- A) no cash inflows during the capital commitment and deployment stages. 
- B) profits only in the exit stage of the life cycle. 
- C) cash outflows only during the capital deployment stage. 

Explanation




During the capital commitment stage, there are no cash inflows or outflows. During the capital deployment stage, there will only be cash outflows and no cash inflows. Profits will (hopefully) start to be realized in the capital distribution stage and continue on in the exit stage. Cash outflows will not only be confined to the capital deployment stage, as there may still be cash outflows occurring during the capital distribution stage.

(Module M2.1, LOS M2.a)

Question #6 - 6 of 52

Question ID: 1722787

Having experience only with public equities and fixed-income instruments, Lisa and Michael are concerned about the limited partnership agreements that Jenkins mentions as an important part of an investment in private funds. Which of the following statements most accurately describes what is found with these agreements?

- A) The terms and conditions are not impacted by the timing and size of commitments. 
- B) The agreement is standardized across all limited partners to ensure consistency. 
- C) The fees and rights are negotiable, and they will be outlined in the agreement. 

Explanation

The limited partnership agreement is a negotiated document that incorporates the fees, rights, terms, and conditions of the partnership. The agreement is not standardized across all limited partners, and the terms and conditions are impacted by the timing and size of partnership commitments.

(Module M2.1, LOS M2.a)

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Question ID: 1722824

The exit strategy that typically offers the most speed and least restrictions is a(n):

- A) private sale. 
- B) liquidation. 
- C) IPO. 

Explanation




Advantages of a private sale include the speed and flexibility with which a transaction may be executed. A public sale (IPO) typically has more restrictions, greater cost, and greater time to execute relative to a private sale. A liquidation of assets is usually the result of a failure or bankruptcy reorganization of a firm that has performed poorly over time and may be slow and subject to court restrictions or approvals.

(Module M2.5, LOS M2.e)

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Question ID: 1722825

When considering liquidation as an exit strategy for a private equity portfolio company, the general partner (GP) of the fund should primarily be concerned with:

- A) maintaining the portfolio company's brand reputation. 
- B) attracting new investors to the fund. 
- C) maximizing returns for investors. 

Explanation

The primary responsibility of the GP is to maximize returns for the investors in their fund. Thus, the goal of a GP during liquidation is to get the most money back for investors. In this scenario, the GP's priority isn't attracting new investors or maintaining brand reputation—it's recouping as much investment as possible.

(Module M2.5, LOS M2.e)

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Question ID: 1722829

Compared to a private sale, an IPO of MediQuick is most likely to offer:

- A) a guaranteed exit price. 
- B) broader access to capital. 
- C) a faster exit time frame. 

Explanation




An IPO would offer a broader access to capital compared to a private sale: an IPO would allow MediQuick to be traded on a stock exchange, attracting a vast pool of potential investors. (Conversely, in a private sale, the pool of potential investors in MediQuick would be limited.) However, relative to an IPO of MediQuick, a private sale could offer a guaranteed exit price negotiated with the buyer, and potentially a faster time frame compared to the complex process of an IPO.

(Module M2.5, LOS M2.e)

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Question ID: 1722830

Which of the following reasons least accurately describes a benefit of a private sale by SHL to a strategic buyer for MediQuick? Sale to a strategic buyer:

- A) generally results in a premium paid. 
- B) offers continuity of management and business strategy. 
- C) is more streamlined than an IPO. 

Explanation




Lack of continuity of management and business strategy is a significant disadvantage of a private sale to a strategic buyer. Strategic buyers will pay a premium for MediQuick if it presents opportunities for synergy with their existing business. Additionally, a private sale to a strategic buyer can be a faster process compared to an IPO.

(Module M2.5, LOS M2.e)

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Question ID: 1722831

A private sale by SHL to a financial buyer for MediQuick is most likely to be attractive because financial buyers:

- A) can access the widest possible pool of capital. 
- B) can complete the sale process relatively quickly. 
- C) are focused on maximizing long-term growth of the company. 

Explanation