Question 1 of 69

Which of the following is NOT true of mezzanine debt?

- **A.** Mezzanine debt has a fixed coupon rate that is higher than the coupon rate on senior debt.
- **B.** Mezzanine debt is a medium-term, highly illiquid debt instrument that does not involve amortization.
- **C.** Mezzanine debt is unsecured, medium-term debt that often includes a payment-in-kind toggle and an equity kicker.
- **D.** Mezzanine debt is unsecured debt that does not require credit ratings and has higher priority than leveraged loans.

Question 2 of 69

VD Linestar, a venture debt fund, is reviewing a potential investment opportunity in a Q-Leap, a start-up company. Q-Leap has previously received equity investment from a venture capital fund, PrimerJenkins. Which of the following is VD Linestar most likely to consider in deciding whether to provide financing to Q-Leap?

I. Q-Leap founders' credit scores
II. PrimerJenkins credit-worthiness and track record
III. Debt-to-equity conversion terms via warrants

- **A.** II and III only
- **B.** II only
- **C.** I, II, and III
- **D.** I only

Question 3 of 69

A company with a weighted average cost of capital of 14.5% replaces some of the equity in its capital structure with mezzanine debt. Which of the following is the resulting weighted average cost of capital?

- **A.** It is about 14.5%.
- **B.** It is more than 14.5%.
- **C.** It cannot be determined with this information.
- **D.** It is less than 14.5%.

Question 4 of 69

Over the period 2004 to 2016, investments in which of the following credit investment vehicles outperformed relative to the others?

- **A.** leveraged loans
- **B.** direct lending strategies
- **C.** high-yield bonds
- **D.** business development companies

Question 5 of 69

Which of the following best describes blanket subordination?

- **A.** Blanket subordination permits payment of principal to the LBO investor while the senior debt is outstanding.
- **B.** Blanket subordination permits payment of principal or interest to the mezzanine investor while the senior debt is outstanding.
- **C.** Blanket subordination prevents any payment of principal or interest to the mezzanine investor until the senior debt has been fully repaid.
- **D.** Blanket subordination prevents any payment of principal to the LBO investor until the senior debt has been fully repaid.

Question 6 of 69

A firm's bond indenture includes an incurrence covenant. Which of the following most accurately describes this firm's position with respect to this bond?

- **A.** The firm would not be in technical default on the loan if the incurrence covenant is breached due to an external factor.
- **B.** The firm would be in technical default on the loan if the conditions of the incurrence covenant are not regularly met.
- **C.** The firm would be in technical default on the loan if the incurrence covenant is breached for any reason.

Question 7 of 69

A defaulting firm recently filed for bankruptcy. Which of the following most likely represents the recovery rate of the firm's equity holders?

- **A.** 20%-30%
- **B.** 5%-15%
- **C.** 0%

Question 8 of 69

The risk of default for high-yield bonds was greatest during which of the following periods?

- **A.** 2019
- **B.** 2005
- **C.** 2014
- **D.** 1990

Question 9 of 69

Which of the following is an issue with using subordinated debt with time-based step-up rates?

- **A.** borrowing firm may not have sufficient cash flows to make the interest payments in later years
- **B.** covenants on the subordinated debt may be prohibitively restrictive
- **C.** borrowing firm may not have sufficient cash flows to make the balloon payment at maturity
- **D.** financial criteria may never be met to increase the interest rate on the debt

Question 10 of 69

Which of the following are typically unsecured forms of debt whose repayments do not involve amortization of loan principal?

I. High-yield bonds
II. Leveraged loans
III. Mezzanine debt

- **A.** II only
- **B.** III only
- **C.** I and III only
- **D.** I only

UpperMark

Question 11 of 69

Subordinated debt with warrants provide issuers which of the following advantages compared to other bonds?

- **A.** lower interest rates and less restrictive covenants
- **B.** more restrictive covenants and shorter maturities
- **C.** less restrictive covenants and equity upside potential
- **D.** more credit enhancements and lower interest rates

Question 12 of 69

Which of the following statements apply to the practices of bank and non-bank venture lenders?

I. Bank lenders provide larger loans than non-bank lenders.
II. Banks engage in venture lending to secure future business from the start-up.
III. Non-bank lenders charge higher interest rates than bank lenders.
IV. Non-bank lenders' primary motivation is generating high yield.

- **A.** I and III only
- **B.** I, II, and IV only
- **C.** II, III, and IV only
- **D.** II and IV only

Question 13 of 69

Which of the following subordinated debt products repays its loan in a one-time lump-sum payment at maturity?

- **A.** subordinated debt with payment-in-kind interest
- **B.** subordinated debt with step-up rates
- **C.** subordinated debt with warrants
- **D.** subordinated debt with profit participation

Question 14 of 69

A $1.8 million loan, arranged using a profit participation model, starts in January 2019 and has a maturity date of 2021 when its principal will be repaid. The profit participation scheme is 3.5% of earnings before interest and taxes (EBIT), with an annual floor and cap of $75,000 and $85,000, respectively. The yearly EBITs from 2019 through 2021 are $2,000,000, $2,300,000, $2,700,000, respectively. Which of the following is the profit participation amount the lender will receive in 2019, 2020, and 2021, respectively?

- **A.** floor; $80,500; cap
- **B.** floor; floor; cap
- **C.** 70,000; $80,500; 94,500
- **D.** 70,000; $80,500; cap

Question 15 of 69

The Alliance Company is seeking debt financing. It believes that it can pay 11% on its debt because it has started to generate stable revenue, but it does not have collateral to offer for the debt. Which of the following best describes whether mezzanine financing would be appropriate for Alliance?

- **A.** It would not be appropriate, because it cannot pay a high enough return on its debt and there is no collateral.
- **B.** It would not be appropriate, because the stable cash flow means that Alliance can get higher-rated debt financing.
- **C.** It would be appropriate, because it has stable cash flow and the 16% return on the debt is usually sufficient for mezzanine debt investors.
- **D.** It would be appropriate, but it is likely that Alliance would have to offer an equity kicker.

Question 16 of 69

Which of the following have the highest recovery rates?

- **A.** senior unsecured bonds
- **B.** first-lien term loans
- **C.** secured bonds
- **D.** subordinated debt

Question 17 of 69

Which of following are reasons for start-up firms to choose venture debt financing over equity financing?

- **A.** lower cost of financing and reduced ownership dilution
- **B.** speed of financing raise and considerable management focus
- **C.** increased number of equity financing rounds and equity dilution
- **D.** adding lenders to the board and drawing on their expertise

Question 18 of 69

Distressed debt investing is particularly exposed to which of the following types of risks?

- **A.** business risk
- **B.** credit risk
- **C.** market risk

Question 19 of 69

Which of the following subordinated debt products eventually gives its investors equity in the issuing firm?

- **A.** subordinated debt with profit participation
- **B.** subordinated debt with warrants
- **C.** subordinated debt with payment-in-kind interest
- **D.** subordinated debt with step-up rates

Question 20 of 69

Which of the following is true of project finance of an infrastructure project?

- **A.** The loans are paid back with cash flows from the project.
- **B.** The loans provided are typically recourse loans.
- **C.** The loans are funded with an equal mix of equity and debt.
- **D.** The loans provided are not secured.

UpperMark

Question 21 of 69

Which of the following is FALSE regarding the risk and rewards of venture debt funds and venture capital funds?

- **A.** Venture debt funds are exposed to less downside from failing investments than venture capital funds.
- **B.** Break-even investments result in a total loss of venture debt funds, while venture capital funds recoup their initial investment.
- **C.** Profitable investments generate higher equity gains for venture capital funds than for venture debt funds.
- **D.** Venture debt funds depend on a low rate of defaults because they do not have sufficient upside exposure in successful investments to compensate for failed ones.

Question 22 of 69

According to Schultze, which of the following represents the most important skill for distressed investing?

- **A.** locating firms with strong balance sheets
- **B.** identifying the fulcrum security
- **C.** originating debt with a loan-to-own perspective
- **D.** purchasing impaired debt in a fire sale

Question 23 of 69

A three-year non-amortizing bond with an initial principal of £1,800,000 has an 11% payment in kind (PIK) annual compounding interest rate. Which of the following comes closest to the total PIK interest paid by the borrower and the total cash received by the investor (assuming no default)?

- **A.** Borrower pays £653,028.80; investor receives £2,348,145.80.
- **B.** Borrower pays £661,735.80; investor receives £2,461,735.80.
- **C.** Borrower pays £653,028.80; investor receives £2,453,028.80.
- **D.** Borrower pays £661,735.80; investor receives £2,686,358.80.

Question 24 of 69

Which of the following least experience(s) early negative returns associated with the J-curve effect?

I. Direct lending funds
II. Mezzanine financing
III. Venture capital funds

- **A.** II only
- **B.** I only
- **C.** II and III only
- **D.** I and II only

Question 25 of 69

In which of the following ways do warrants differ from equity options?

- **A.** They have shorter maturities.
- **B.** They are dilutive to the underlying stock.
- **C.** They are standardized securities.
- **D.** They are issued by listed firms.

Question 26 of 69

A traditional bank provides a company with mezzanine financing, where the amount of the loan is greater than the collateral value of the company's available assets. This form of financing is referred to as which of the following?

- **A.** blanket financing
- **B.** stretch financing
- **C.** excess financing
- **D.** subordinated financing

Question 27 of 69

A provision that prohibits mezzanine investors from being repaid until the senior debtholders have been repaid completely is referred to as which of the following?

- **A.** springing subordination
- **B.** takeout provision
- **C.** blanket subordination
- **D.** PIK

Question 28 of 69

MetaSchool, a virtual reality education start-up, is considering financing options for its growth over the next 5 years. Which of the following advantages of venture debt financing may lead MetaSchool to choose venture debt over equity financing?

- **A.** higher operational support provided by the lender
- **B.** securing financing over the long term
- **C.** significantly lower equity dilution
- **D.** low interest rate on the warrants issued to the lender

Question 29 of 69

A distressed debt investor purchases a fulcrum security as part of a strategy to take ownership of a distressed company undergoing Chapter 11 organization. Which of the following best describes the investor's rationale for selecting this security?

- **A.** The security will be able to execute a cramdown on the distressed firm due to the security's subordinated position.
- **B.** The security is most likely to convert to equity in the reorganized company after the company emerges from Chapter 11 bankruptcy.
- **C.** The security is most likely to hold a blocking position in the distressed firm as the firm goes through Chapter 11 organization.
- **D.** The security will receive the largest cash payout in the reorganized company after the company emerges from Chapter 11 bankruptcy.

Question 30 of 69

An eight-year non-amortizing bond with an initial principal of $2.6 million has an 12% payment in kind (PIK) annual compounding interest rate. Assuming no default, which of the following comes closest to the total cash received by the investor?

- **A.** $5.6865m
- **B.** $5.8275m
- **C.** $6.2165m
- **D.** $6.4375m

Question 31 of 69

Which of the following is a typical parameter of venture lending deals?

- **A.** 3%-4% interest income
- **B.** 25% or more equity participation
- **C.** 10%-15% fee income
- **D.** 12%-18% target IRR

Question 32 of 69

An investor has purchased a non-investment-grade bond. Which of the following may represent the credit rating of this bond?

I. S&P's BBB
II. S&P's B
III. Moody's Baa
IV. Moody's Ba

- **A.** I and III only
- **B.** II only
- **C.** I and II only
- **D.** II and IV only

UpperMark

Question 33 of 69

DMZ is a start-up with a valuation of $60 million, looking to raise an additional $40 million. After a previous round of equity financing by VEQ1, a venture fund, DMZ's founder holds 65% of the equity. DMZ has approached a venture equity fund, VEQ2, for 70% of the new round and a venture debt fund, VDT, for the remaining 30%. To sweeten the deal for VDT, DMZ is attaching a warrant with coverage of 8% of loan value. Which of the following comes closest to DMZ's founder's stake after the second round of financing?

- **A.** 32.55%
- **B.** 36.53%
- **C.** 43.84%
- **D.** 46.86%

Question 34 of 69

A U.S. company recently emerged from Chapter 11 bankruptcy. Which of the following most likely resulted for the company's stakeholders?

- **A.** Senior debt holders received a 115% haircut on new debt.
- **B.** Equity holders suffered 110% loss of capital.
- **C.** Subordinated debt was converted into the company's equity.

Question 35 of 69

Which of the following is consistent with growth of the distressed debt market?

- **A.** more cov-lite loans, increasing default rates, and increasing recovery rates
- **B.** fewer cov-lite loans, declining default rates, and increasing recovery rates
- **C.** more cov-lite loans, increasing default rates, and declining recovery rates
- **D.** fewer cov-lite loans, increasing default rates, and declining recovery rates

Question 36 of 69

Baltech Corp. has declared Chapter 11 bankruptcy and presented a reorganization plan to its creditors. Viktors Licis, a creditor of Baltech, plans to block the reorganization plan by establishing a blocking position. Which of the following would enable him to accomplish this?

- **A.** if he files an objection to the reorganization plan within 120 days after the bankruptcy filing
- **B.** if he holds two-thirds of the dollar amount of any claimant class
- **C.** if he holds one-third of the dollar amount of any claimant class
- **D.** if he files an objection to the reorganization plan within 60 days after the bankruptcy filing

Question 37 of 69

Pixelate, a start-up game developer, seeks to raise $30 million: 70% in equity and 30% in venture debt with a warrant coverage of 10% of loan value. Given that Pixelate's pre-money valuation is $50 million, which of the following most closely corresponds to the equity percentage of the warrants?

- **A.** 1.25%
- **B.** 1.27%
- **C.** 1.80%
- **D.** 1.84%

Question 38 of 69

Which of the following characterizes the business approach of different categories of venture lenders?

- **A.** International financial institutions are the primary venture lenders and they pursue social objectives.
- **B.** Specialized venture banks charge the highest rates and convert warrants into large equity stakes.
- **C.** Venture debt funds seek high growth, shorter-term investments, and charge high interest rates.
- **D.** Venture debt funds are less expensive than banks since they have access to low cost capital.

Question 39 of 69

A firm's assets are financed with 65% debt at an interest rate of 7% and the rest in equity. The firm's beta is 1.2. The expected return on the market portfolio is 10% and the risk-free rate is 3%. Which of the following comes closest to the firm's weighted average cost of capital?

- **A.** 8.16%
- **B.** 8.54%
- **C.** 9.36%
- **D.** 9.82%

Question 40 of 69

A borrowing firm is required to submit periodic audit reports to its creditors. This requirement is referred to as which of the following in the firm's bond indenture?

- **A.** affirmative covenant
- **B.** negative covenant
- **C.** maintenance covenant
- **D.** incurrence covenant

Question 41 of 69

A $4 million loan is arranged using a profit participation model. The loan starts in January 2016, and its principal will be repaid at maturity in 2019. The profit participation scheme is 4.6% of earnings before interest and taxes (EBIT), with an annual floor and cap of $235,000 and $250,000, respectively. The yearly EBITs from 2016 through 2019 are $5,000,000, $5,200,000, $5,400,000, and $5,800,000, respectively. Which of the following is the profit participation amount the lender will receive in 2017 and 2019, respectively?

- **A.** $239,200; $250,000
- **B.** $239,200; $266,800
- **C.** $235,000; $250,000
- **D.** $235,000; $266,800

Question 42 of 69

Typical venture lending terms are characterized by which of the following?

I. Duration of 1-3 years
II. Arrangement, prepayment, and success fees of 1%-2% of capital
III. Repayment schedules of interest-only periods followed by amortization
IV. Warrant coverage of 20%-25% of the loan amount

- **A.** II and III only
- **B.** I, II, and IV only
- **C.** I and III only
- **D.** I, II, and III only

Question 43 of 69

A distressed debt investor invests in a bond portfolio with a 24% annual default rate. If 68% of each bond's value remains unrecovered in the event of default and the investor requires a 6% risk premium from this investment, which of the following best represents the investor's minimum criterion for success?

- **A.** minimum credit spread of 10.32%
- **B.** minimum credit spread of 13.68%
- **C.** minimum credit spread of 17.68%
- **D.** minimum credit spread of 22.32%

Question 44 of 69

Which of the following bonds has the smallest credit spread?

- **A.** a bond rated A
- **B.** a bond rated Aa
- **C.** a bond rated D
- **D.** a bond rated Caa

Question 45 of 69

A company's capital structure is composed of senior debt, mezzanine debt, and equity, the cost of which is 6%, 14%, and 18%, respectively. If 30% of the firm's capital structure is equity and the rest is senior debt and mezzanine debt, and the firm's weighted average cost of capital is 10%, which of the following comes closest to the percentage of senior debt?

- **A.** 45%
- **B.** 47%
- **C.** 65%
- **D.** 68%

Question 46 of 69

Investors who seek to buy the debt of distressed firms that they expect to experience a turnaround, often for a fraction of the debt's face value, are sometimes referred to as which of the following?

- **A.** scavengers
- **B.** hunters
- **C.** prefs
- **D.** vultures

Question 47 of 69

Which of the following claimants have the highest claim to assets during a bankruptcy?

- **A.** mezzanine debt
- **B.** senior unsecured debt
- **C.** subordinated debt
- **D.** preferred equity

UpperMark

Question 48 of 69

Which of the following terms is used to describe a fee paid to lenders of subordinated debt with payment-in-kind interest to compensate for the time lag between commitment on the loan and disbursement?

- **A.** arrangement fee
- **B.** origination fee
- **C.** ticking fee
- **D.** detention fee

Question 49 of 69

According to Antczak, Lucas, and Fabozzi (2009), which of the following are ways in which covenants may control risk for lenders?

I. Performance and reporting requirements
II. Control of market risk
III. Preservation of collateral
IV. Use of excess cash flow

- **A.** I and III only
- **B.** II and IV only
- **C.** I, II, III, and IV
- **D.** I, III, and IV only

Question 50 of 69

Which of the following is true of mezzanine debt?

- **A.** It is the least expensive form of debt financing and is more subject to the J-curve effect than other private funds.
- **B.** It is the least expensive form of debt financing and is less subject to the J-curve effect than other private funds.
- **C.** It is the most expensive form of debt financing and is less subject to the J-curve effect than other private funds.
- **D.** It is the most expensive form of debt financing and is more subject to the J-curve effect than other private funds.

Question 51 of 69

In the context of the bankruptcy process, which of the following best describes the notion of cramdown?

- **A.** A situation in which the bankruptcy court sells off the assets of the troubled firm and uses the proceeds to pay off the senior creditors.
- **B.** A situation in which a few of the creditors of a firm that has filed for reorganization buy out all of the small creditors and the equity holders of the troubled firm.
- **C.** A situation in which a bankruptcy plan cannot be agreed upon between a debtor firm and its creditors and the bankruptcy court imposes a plan on the parties.
- **D.** A situation in which the equity holders and the creditors of a troubled firm force the management to file for bankruptcy protection.

Question 52 of 69

Comparing mezzanine debt to leveraged loans, which of the following characteristics do the two forms of financing have in common?

I. Cash coupons
II. Method of amortization
III. Require a credit rating
IV. Term to maturity

- **A.** I, III, and IV only
- **B.** II and III only
- **C.** I and IV only
- **D.** I and II only

Question 53 of 69

Which of the following is governed by Chapter 11 of the U.S. Bankruptcy Code?

- **A.** debt management
- **B.** corporate restructurings
- **C.** corporate liquidations
- **D.** mergers and acquisitions

Question 54 of 69

SUP, a start-up with a current valuation of $40 million, seeks a $20 million second round of financing for the next phase of its growth. A previous round of equity financing by VC1, a venture fund, has left SUP's founder with 70% of the equity. SUP has approached VC2, another venture fund, for the second round of equity financing. Which of the following represents the equity percentage that SUP's founder will give up after the second round of financing?

- **A.** 21.57%
- **B.** 23.33%
- **C.** 25.25%
- **D.** 28.52%

Question 55 of 69

Use the information below to answer questions 55 through 56.

Interlend is a large private equity firm that specializes in issuing mezzanine loans to a variety of businesses. Interlend has participated in many LBOs and has built up a sizable equity stake in many companies through their activities in this area. Many of these LBOs were by the management of the companies. A few years ago, Interlend provided funds so that the managers of a company could take over the company and immediately initiate research and development into products the managers had been trying to pursue against the wishes of the previous board of directors. Interlend benefited from generous equity kickers when the products the managers were researching went into production. Recently, Interlend was approached by the CEOs of Broadbox Inc. for funding for recapitalization. Broadbox's CEOs want to increase leverage, but do not wish to use commercial banks for loans or investment banks to issue bonds. One reason the Broadbox CEOs want to avoid banks is that Broadbox already uses a significant amount of bank debt financing. Broadbox's CEOs are requesting that Interlend consider extending several forms of mezzanine capital. Broadbox's CEOs have asked about receiving mezzanine financing in the form of senior subordinated mezzanine debt, junior subordinated mezzanine debt, and convertible preferred stock. Which of the following would likely be Interlend's response?

- **A.** All three types of financing are available.
- **B.** A mezzanine financing firm can issue tiers of debt, but not preferred stock.
- **C.** There are no tiers of mezzanine financing.

Question 56 of 69

Use the information below to answer questions 55 through 56.

Interlend is a large private equity firm that specializes in issuing mezzanine loans to a variety of businesses. Interlend has participated in many LBOs and has built up a sizable equity stake in many companies through their activities in this area. Many of these LBOs were by the management of the companies. A few years ago, Interlend provided funds so that the managers of a company could take over the company and immediately initiate research and development into products the managers had been trying to pursue against the wishes of the previous board of directors. Interlend benefited from generous equity kickers when the products the managers were researching went into production. Recently, Interlend was approached by the CEOs of Broadbox Inc. for funding for recapitalization. Broadbox's CEOs want to increase leverage, but do not wish to use commercial banks for loans or investment banks to issue bonds. One reason the Broadbox CEOs want to avoid banks is that Broadbox already uses a significant amount of bank debt financing. Broadbox's CEOs are requesting that Interlend consider extending several forms of mezzanine capital. Broadbox has conventional loans from commercial banks. If Interlend intends to receive payments on the mezzanine debt before the bank loans are paid off, it should take which of the following steps?

- **A.** Interlend should include a springing subordination clause in the inter-creditor agreement.
- **B.** Interlend should include a blanket subordination clause in the inter-creditor agreement.
- **C.** No steps are necessary, since mezzanine debt can be paid without any approval from senior creditors.
- **D.** No steps are possible, since mezzanine debt cannot be paid any cash return while senior debt exists.

Question 57 of 69

An insurance company has provided mezzanine financing to LongTerm, Inc. As part of the financing agreement, the insurance company can purchase the senior debt once a certain portion of it has been repaid. This agreement is referred to as which of the following?

- **A.** debt structure flexibility
- **B.** acceleration of repayment
- **C.** takeout provision
- **D.** springing subordination

Question 58 of 69

Which of the following is required before bankruptcy approval can be sought for acceptance of a plan of reorganization?

- **A.** Two-thirds of the claims in each class of creditors vote in favor of the reorganization plan.
- **B.** Two-thirds the number and one-half the dollar amount of the claims in each class of creditors vote in favor of the reorganization plan.
- **C.** At least half the claims in each class of creditors vote in favor of the reorganization plan.
- **D.** One-half the number and two-thirds of the dollar amount of the claims in each class of creditors vote in favor of the plan.

Question 59 of 69

Hannibal Merlot is a distressed debt investor who recently purchased a distressed company's fulcrum securities. Which of the following most accurately characterizes these debt securities?

- **A.** mezzanine
- **B.** junior
- **C.** senior
- **D.** high-yield

Question 60 of 69

Natasha Petrovsky is considering an investment in either mezzanine debt or high-yield bonds. Her goal is to invest in a relatively short-term investment of about 5-7 years with reasonable liquidity. Compared to high-yield bonds, mezzanine debt is more appropriate for Natasha with respect to which, if either, of these two properties?

- **A.** short-term horizon only
- **B.** neither liquidity nor short-term horizon
- **C.** both liquidity and short-term horizon
- **D.** liquidity only

UpperMark

Question 61 of 69

A large company's credit risk is affected by which of the following factors?

I. Company-specific risks
II. Macroeconomic events
III. Broad liquidity crises

- **A.** I, II, and III
- **B.** I and II only
- **C.** I only
- **D.** II and III only

Question 62 of 69

Which of the following best describes mezzanine debt compared to high-yield bonds?

- **A.** Mezzanine debt has a longer tenure, lower coupon rate, and lower recovery rate.
- **B.** Mezzanine debt has a longer tenure, higher coupon rate, and higher recovery rate.
- **C.** Mezzanine debt has a shorter tenure, higher coupon rate, and lower recovery rate.
- **D.** Mezzanine debt has a shorter tenure, lower coupon rate, and higher recovery rate.

Question 63 of 69

Compared to non-venture capital-backed start-up companies, venture capital-backed companies exhibit higher rates of which of the following?

I. Survival
II. Initial public offerings
III. Acquisition
IV. Failure

- **A.** I, II, and III only
- **B.** II and III only
- **C.** I, II, III, and IV
- **D.** II, III, and IV only

Question 64 of 69

A portfolio's annual default losses as a percentage of its value is 14.3% and the portfolio's expected recovery rate in the event of default is 44%. An investor who is keen to invest in this portfolio requires a 7.2% risk premium. Which of the following comes closest to the minimum credit spread that the investor would require to invest in this portfolio?

- **A.** 12.04%
- **B.** 15.2%
- **C.** 18.23%
- **D.** 21.5%

Question 65 of 69

Timothy Maven is a portfolio manager who focuses on alternative investments and often purchases fulcrum securities for his portfolio. Which of the following best describes Timothy Maven?

- **A.** He is a commodity pool operator.
- **B.** He is a real estate investor.
- **C.** He is a distressed debt investor.
- **D.** He is a mezzanine debt investor.

Question 66 of 69

Which of the following applies to the risk exposure of venture loans?

- **A.** Venture loans have higher exposure to start-up failure than equity investments.
- **B.** Venture loans have low default rates since they are usually repaid before start-ups fail.
- **C.** Venture lenders have a subordinated claim to early round equity investors.
- **D.** Venture loan defaults outnumber start-up failures.

Question 67 of 69

An investor purchases a firm's fulcrum securities. Which of the following investment strategies is the investor most likely pursuing?

- **A.** active distressed debt not seeking control
- **B.** active distressed debt seeking control
- **C.** leveraged buyout
- **D.** passive distressed debt

UpperMark

Question 68 of 69

Which of the following apply to direct lending strategies?

I. Fund manager fees are assessed on invested capital.
II. They suffer early negative returns of the J-curve effect.
III. Most of the loans are secured or senior in the capital structure.
IV. Borrowers of the loans are above investment grade.

- **A.** II and IV only
- **B.** I and III only
- **C.** I, II, and III only
- **D.** II and III only

Question 69 of 69

Compared to corporate bonds, loans have:

- **A.** less default risk, less interest rate risk, and less liquidity.
- **B.** less default risk, more interest rate risk, and less liquidity.
- **C.** more default risk, less interest rate risk, and less liquidity.
- **D.** more default risk, more interest rate risk, and more liquidity.

UpperMark

Answer Sheet

Question #	Question ID	Your Response				Flagged
1	L1-5.1.5-001	A	B	C	D	☐
2	L1-5.1.7-004	A	B	C	D	☐
3	L1-5.1.5-002	A	B	C	D	☐
4	L1-5.1.1-001	A	B	C	D	☐
5	L1-5.1.5-024	A	B	C	D	☐
6	L1-5.1.2-012	A	B	C		☐
7	L1-5.1.2-019	A	B	C		☐
8	L1-5.1.2-013	A	B	C	D	☐
9	L1-5.1.6-019	A	B	C	D	☐
10	L1-5.1.5-029	A	B	C	D	☐
11	L1-5.1.6-016	A	B	C	D	☐
12	L1-5.1.7-012	A	B	C	D	☐
13	L1-5.1.6-014	A	B	C	D	☐
14	L1-5.1.6-011	A	B	C	D	☐
15	L1-5.1.5-016	A	B	C	D	☐
16	L1-5.1.2-020	A	B	C	D	☐
17	L1-5.1.7-010	A	B	C	D	☐
18	L1-5.1.8-012	A	B	C		☐
19	L1-5.1.6-015	A	B	C	D	☐
20	L1-5.1.6-018	A	B	C	D	☐
21	L1-5.1.7-011	A	B	C	D	☐
22	L1-5.1.8-015	A	B	C	D	☐
23	L1-5.1.6-005	A	B	C	D	☐
24	L1-5.1.5-030	A	B	C	D	☐
25	L1-5.1.6-017	A	B	C	D	☐
26	L1-5.1.5-028	A	B	C	D	☐
27	L1-5.1.5-021	A	B	C	D	☐
28	L1-5.1.7-002	A	B	C	D	☐
29	L1-5.1.1-004	A	B	C	D	☐
30	L1-5.1.6-006	A	B	C	D	☐
31	L1-5.1.7-005	A	B	C	D	☐
32	L1-5.1.2-010	A	B	C	D	☐

33	L1-5.1.7-009	A	B	C	D	☐
34	L1-5.1.2-021	A	B	C		☐
35	L1-5.1.2-014	A	B	C	D	☐
36	L1-5.1.8-017	A	B	C	D	☐
37	L1-5.1.7-007	A	B	C	D	☐
38	L1-5.1.7-003	A	B	C	D	☐
39	L1-5.1.5-005	A	B	C	D	☐
40	L1-5.1.2-015	A	B	C	D	☐
41	L1-5.1.6-007	A	B	C	D	☐
42	L1-5.1.7-006	A	B	C	D	☐
43	L1-5.1.8-002	A	B	C	D	☐
44	L1-5.1.2-011	A	B	C	D	☐
45	L1-5.1.5-004	A	B	C	D	☐
46	L1-5.1.8-001	A	B	C	D	☐
47	L1-5.1.2-018	A	B	C	D	☐
48	L1-5.1.6-013	A	B	C	D	☐
49	L1-5.1.2-017	A	B	C	D	☐
50	L1-5.1.5-027	A	B	C	D	☐
51	L1-5.1.8-018	A	B	C	D	☐
52	L1-5.1.5-013	A	B	C	D	☐
53	L1-5.1.8-019	A	B	C	D	☐
54	L1-5.1.7-008	A	B	C	D	☐
55	L1-5.1.5-015	A	B	C		☐
56	L1-5.1.5-023	A	B	C	D	☐
57	L1-5.1.5-025	A	B	C	D	☐
58	L1-5.1.8-016	A	B	C	D	☐
59	L1-5.1.8-005	A	B	C	D	☐
60	L1-5.1.5-012	A	B	C	D	☐
61	L1-5.1.2-022	A	B	C	D	☐
62	L1-5.1.5-014	A	B	C	D	☐
63	L1-5.1.7-001	A	B	C	D	☐
64	L1-5.1.8-014	A	B	C	D	☐
65	L1-5.1.8-004	A	B	C	D	☐
66	L1-5.1.7-013	A	B	C	D	☐

67	L1-5.1.8-003	○ A	○ B	○ C	○ D	☐
68	L1-5.1.4-002	○ A	○ B	○ C	○ D	☐
69	L1-5.1.3-010	○ A	○ B	○ C	○ D	☐