

Reading 80**INVESTMENTS IN PRIVATE
CAPITAL - EQUITY AND DEBT**

1. (C) to prepare for an initial public offering.

Explanation

Mezzanine-stage venture capital financing provides capital during the period prior to an initial public offering.

(Module 80.1, LOS 80.a)

2. (B) Untrenched debt.

Explanation

Untrenched debt is a blend of different classes of debt and typically ranks between senior and subordinated debt. Mezzanine debt is subordinated to senior debt and often unsecured. Venture debt is the riskiest because it finances start-up companies that have high business risk and often lack positive cash flow and assets.

(Module 80.1, LOS 80.b)

3. (B) seed stage.

Explanation

In the seed stage of venture capital investing, capital is furnished for product development, marketing, and market research. The angel investing stage is when investment funds are used for business plans and assessing market potential. The early stage refers to investments made to fund initial commercial production and sales.

(Module 80.1, LOS 80.a)

4. (A) mezzanine-stage financing.

Explanation

Mezzanine stage capital prepares a company for an IPO. Angel investing and early-stage financing describe venture capital in a company's formative stages.

(Module 80.1, LOS 80.a)

5. (A) makes its first investment.

Explanation

The vintage year is typically defined as the year a private equity or venture capital fund makes its first investment. The year of the first capital commitment is not necessarily the same as the year of the first investment by the fund into a portfolio company, because there might be a lag between when the capital is committed and when it is deployed.

(Module 80.1, LOS 80.c)

6. (C) **Early stage.**

Explanation

The description relates best to the early stage wherein the capital that is supplied helps fund initial production and sales.

(Module 80.1, LOS 80.a)

7. (B) **business cycle expansion.**

Explanation

Funds that begin investing during a business cycle expansion are likely to earn higher rates of return if they specialize in early-stage companies. Funds that begin investing during business cycle contractions are likely to earn higher rates of return if they specialize in distressed companies.

(Module 80.1, LOS 80.c)

8. (A) **Mature.**

Explanation

Distressed debt is typically that of mature companies that have encountered financial trouble, which may be due to a temporary situation or a structural issue.

(Module 80.1, LOS 80.b)

9. (A) **private investment in public equity.**

Explanation

Private investment in public equities refers to a private equity firm providing equity financing to publicly traded companies. Angel investing refers to financing the formation of a business. Mezzanine-stage financing refers to capital provided to a firm as it prepares for an initial public offering.

(Module 80.1, LOS 80.a)

10. (C) **correlations of fund returns with equity returns to be biased downward.**

Explanation

Infrequent valuation results in downward bias in both standard deviations and correlations.

(Module 80.1, LOS 80.a)

11. (A) **Direct lending.**

Explanation

Direct lending is often senior and secured. Venture debt and mezzanine debt often have features such as warrants to compensate investors for taking on additional risk.

(Module 80.1, LOS 80.b)

12. (A) the portfolio company to one of the portfolio company's competitors.

Explanation

A trade sale involves selling a portfolio company to a competitor or another strategic buyer. An IPO involves selling all or some shares of a portfolio company to the public. A secondary sale involves selling a portfolio company to another private equity firm or a group of investors.

(Module 80.1, LOS 80.a)

13. (A) higher returns.

Explanation

Overall, investing in private debt is illiquid and riskier than investing in traditional debt. Given that investors want to be compensated for higher risk, private debt should have the potential to provide higher returns. Also, some private debt may include equity upside potential.

(Module 80.1, LOS 80.b)

14. (A) seed stage

Explanation

Seed stage financing is used for market research and to fund product development and/or marketing and is typically the first stage at which a venture capital fund will invest in a start-up company.

(Module 80.1, LOS 80.a)

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