

Why this interest is for sale

Chapter 1. Write the reason down before you price anything, in one sentence, with the evidence. Then ask whether your price is consistent with it.

Interest		Buyer / seller	
Fund		Reference date	

Reason	The tell	Evidence seen	Likely? (Y / N / ?)
Denominator: the allocation breached its band			
Liquidity: money needed by a date			
Manager fatigue: not backing this manager again			
A view on the assets: thinks the appraisal is too high			
The fund is ending and the assets are not ready			

The tell to look for	What it says
Several interests sold at once, across managers and vintages, on a committee calendar	Denominator: forced by arithmetic, not by information
A completion date the seller must meet, and a premium on certainty	Liquidity: the date is the negotiation; no financing condition is worth points
Seller exiting the next fund as well as this one	Fatigue as a verdict on the manager, not a portfolio decision
A single interest, offered quietly, seller relaxed on timing and accommodating on price	A view on the assets: the seller to fear
Term end and extension provisions in the documents	A clock, and a public one

The reason, in one sentence, with its evidence:

Is the price consistent with the reason? (a bid that clears both a denominator seller and an informed seller has misread one of them)

The net asset value, layer by layer

Chapters 3 and 9. Six layers produced by different parties, and a seventh the accounts have no place for. Rebuild the ones that move; accept the rest only on evidence.

Interest		Buyer / seller	
Fund		Reference date	

Layer	Who produces it	How it goes wrong	Reported (EUR m)	Your figure	Source
Gross asset value					
Debt					
Cash and working capital					
Accrued fees and expenses					
Accrued carried interest					
Other assets and liabilities					
Net asset value of the fund					
This interest, at its share					
7th: fees to term (not in the accounts)					

Item	Answer	Source document
Ask for, in this order (each makes the next readable)		
1. Latest audited financial statements, with the notes: valuation policy, debt terms, carry basis		
2. Latest quarterly report and the capital account statement for THIS interest		
3. The external valuation reports, or the valuation summary per asset with dates and valuer		
4. The asset schedule or rent roll, whatever the manager will give (if only one arrives, take 3)		
Carried interest		
Accrued carry assumes realisation at the reported gross value: restate it at your value		
Future carry belongs in the exit, not as a second deduction at entry		

Reading a valuation report

Chapters 4, 10 and 18. Four hours here replaces a fortnight of questions. One line per asset.

Interest		Buyer / seller	
Fund		Reference date	

Asset	Valuer, since	Valuation date / days before reporting	Basis of value	Special assumptions	ERV	Cap rate / exit yield	Capex allowance	Voids assumed

Asset sold	Price achieved	Preceding appraisal	Ratio	Quarters between	Market rising or falling?

The realisation history is the direct measurement of this valuer on these buildings. Averaged over falling periods it can replace alpha altogether (Appendix D). Ten observations across two managers beat any assumption.

Item	Answer	Source document
Also read		
Every change of external valuer: disclosed, rare, always worth a question		
Estimated rental values in successive reports against rents actually achieved on new leases		
Capital expenditure spent against budget		
Vacancy trend by asset, not by portfolio		

The four discounts

Chapters 5, 8 and 9. One price, four defensible discounts. The memo quotes the first; the committee should be shown the fourth.

Interest		Buyer / seller	
Fund		Reference date	

Input	Value	Source
Reported NAV of the interest, N		
Price as a share of reported NAV, p		
Appraisal above spot (Chapter 6, at your alpha)		
Unfunded commitment, U (expected drawings, not the maximum)		
Management fee, basis, remaining life		
Your discount rate		

Measured against	Formula	Value	Price or outlay	Discount
Reported NAV	$1 - pN / N$			
Spot value, appraisal unsmoothed	$S = N / (1 + \text{gap}); 1 - pN / S$			
Spot value plus the unfunded commitment	$1 - (pN + U) / (S + U)$			
The same, less the fees to term	$1 - (pN + U + \text{fees}) / (S + U)$			

Threshold	Formula	Your figure
Unfunded at which the headline is only 10% effective		
$U = N((1 - p) / 0.10 - 1)$		
Alpha below which the discount buys nothing		
the alpha at which $S = pN$		
Fees: value the manager must create for them to be free		
PV of fees to term		

On the book's interest: 18.00, 14.42, 13.01 and 9.18 per cent; unfunded threshold 30.8 million; alpha threshold 0.1317. The debt advantage of Chapter 12 goes the other way and is not in the four; with it the bottom line is 12.34 per cent.

Unsmoothing the series, and the lag

Chapters 6 and 7. $\text{true}(t) = [\text{reported}(t) - (1 - \alpha) \times \text{reported}(t-1)] / \alpha$, with $\text{true}(1) = \text{reported}(1)$. The threshold is the output, not the point estimate.

Interest		Buyer / seller	
Fund		Reference date	

Quarter	Reported index	Reported return	True return	Unsmoothed index	Valuation date

Alpha	Appraisal above spot	Spot value	Real discount at the offered price
0.25			
0.30			
0.40			
0.50			
0.70			
1.00 (no smoothing)			

Lag (quarters)	Spot value, carried forward at the last true return	Real discount
0		
1		
2		
3		
4		

When the recovered series has flattened, the lag is worth little and the smoothing is where the error is. Measure the lag: valuation dates against the reporting date first, then the fund's realisations against the preceding appraisal.

The tape, and the second road

Chapters 10 and 11. Value = $ERV \times (1 - \text{non-recoverable}) / \text{exit yield} - \text{capex}$. The second road shares no input with the first.

Interest		Buyer / seller	
Fund		Reference date	

Asset	Sector	ERV	Non-re c.	Exit yield	Capex	Gross value	Value	Valuer's yield	WAULT / expiries

From the tape to the interest	EUR m
Gross asset value, rebuilt	
Less debt at the asset level	
Plus cash and working capital	
Less accrued fees, expenses and carried interest	
Net asset value of the fund	
The interest, at its share	

The two roads	Value of the interest	Gap
Unsmoothing the reported series		
Rebuilding from the tape		

Diagnostic	Done	Finding
If they do not agree		
Rebuild far below unsmoothed: rerun with the valuer's own yields. Gap closes = a yield view; gap stays = capex, a fact		
Rebuild far above unsmoothed: rerun at alpha = 1; the portfolio may never have been smoothed much		
Both far below the reported figure: the case to trust		

The debt: the mark and the refinancing

Chapter 12. The mark is the smaller half of the debt question; the maturity against the fund's life is the larger.

Interest		Buyer / seller	
Fund		Reference date	

Facility	Outstanding	All-in rate	Years to run	Market rate today	Market value	Advantage	Interest's share
Facility 1							
Facility 2							
Facility 3							
Total							

Refinancing headroom	Your figure
Loan maturity against the fund's stated term (and extensions)	
Loan-to-value at the rebuilt gross asset value	
Lender's maximum loan-to-value at refinancing	
Gross value at which the loan is at that maximum (debt / LTV)	
Fall in value before a refinancing needs new equity	

Item	Answer	Source document
Three clauses to read before bidding		
Change of control: can a transfer of this interest trigger repayment?		
Prepayment: what does breaking a below-market fixed rate cost on an early sale?		
Cash trap and cure: at what covenant level are distributions trapped, and for how long?		
Covenants		
Each financial covenant, level, current headroom, testing date		
Breach consequence: cash trap, cure right or default; cure period		

On the book's fund: 121.28 of market value against 128.0 of par, 1.478 to the interest; loan-to-value 43.9 per cent; at a lender's 60 per cent the portfolio can fall 26.9 per cent before new equity is needed.

The one-page bid

Chapter 13. Six numbers. Anything else belongs in the appendix.

Interest		Buyer / seller	
Fund		Reference date	

The six numbers	Figure
1. Reported NAV, and the reference date it is struck on	
2. Adjusted value, with its three adjustments shown separately:	
spot value (unsmoothed and rebuilt)	
plus the in-place debt advantage	
less management fees to term	
3. The margin, stated as a margin and not disguised as a discount	
4. The price, in money and as a % of reported NAV	
5. Unfunded commitment assumed, and the expected drawdown profile	
6. The mechanics: who takes distributions, who funds drawdowns, what the price accrues	

Between reference date and completion	Convention agreed	Amount	Clause
Distributions			
Drawdowns			
Interest on the price			
Value movement (nobody adjusts: the buyer takes it)			

Margin on adjusted value	Price	% of reported NAV
10%		
12%		
15%		
18%		
20%		
25%		

On the book's interest: adjusted value 36.80; the offer of 82 per cent is a 14.21 per cent margin; a 12 per cent margin is 32.38 (84.11 per cent), an 18 per cent margin 30.18 (78.38 per cent).

Transfer and consent tracker

Chapter 14. Consents run in sequence, not in parallel, and the sequence is in the documents. A completion date promised without the notice periods belongs to somebody else.

Interest		Buyer / seller	
Fund		Reference date	

Step, in order	Clause	Whose consent / right	Notice period	Served	Deadline	Status
Transfer clause read; conditions listed						
Manager consent requested, with the three answers (who, funding, tax / regulatory)						
Pre-emption / right of first refusal notice						
Pre-emption period expires						
Lender consents (change of control)						
Advisory committee, if required						
KYC / AML documents delivered						
Tax clearance or event for fund / other LPs						
Side letters: transfer confirmed						
Conditions precedent satisfied						
Transfer agreement signed						
Completion; register updated						
Drawdowns and distributions in the interval settled						

Item	Answer	Source document
Shape of the offer		
All cash, deferred consideration, earn-out, fixed price plus unfunded, stapled primary: which, and why		
Deferred: the seller's rate against the buyer's; value created only if the seller believes the buyer will pay		
Staple: would you back the next fund anyway? If not, price par into a blind pool explicitly		
Exclusivity and a break fee compensating the diligence		

Sell or roll, and the redemption queue

Chapters 15 and 16. Solve for the exit, then ask the five questions the arithmetic does not answer.

Interest		Buyer / seller	
Fund		Reference date	

Continuation vehicle	Figure
Cash on the table (vehicle price x NAV)	
Term, fee, carried interest, preferred return	
Your required return	
Break-even exit multiple	
Break-even return, and the cost of the terms in points a year	
Your own rebuilt value against the vehicle's price	

Question	Answer	Source
The five questions		
Is the price arm's length? (your rebuild against the vehicle price)		
Why these assets: the best ones (upside moves) or the difficult ones (a rescue)?		
Accrued carry: crystallised at the transaction, or rolled?		
What is the new preferred return measured from?		
What does doing nothing default to?		

Redemption queue	Figure
Appraisal gap (Chapter 6)	
Required return	
Expected wait (quarters), and what the documents let the manager do (defer, gate, suspend)	
Break-even discount: $1 - [1 / (1 + \text{gap})] / (1 + r)^{\text{years}}$	
Fees while waiting	
Is the queue moving, on schedule?	

The queue pays a future NAV that has caught up with value. With the appraisal above spot, waiting realises the correction instead of selling it; with it below spot, the sign flips.

The portfolio bid, and the tail rule

Chapter 17. Quote the value-weighted discount. Write the tail rule before the work starts.

Interest		Buyer / seller	
Fund		Reference date	

Interest	Reported NAV	Adjusted value	Margin	Price	Discount	Reference date	Currency	Tier

Portfolio	Figure
Value-weighted discount (1 - total price / total NAV)	
Simple average of the line discounts (the one not to quote)	
Discount excluding the weakest line	
What all-or-nothing costs the seller, in points	

Tier	Rule	Names
Full underwriting	Every interest until about 80% of value is covered	
Reduced	Rebuild from sector weights and your own yields; read the debt maturities	
Rule-based: the tail	Least favourable adjusted-value ratio of the underwritten names, stated in the bid	

Item	Answer	Source document
Easy to miss		
Reference dates: five funds, five vintages of appraisal. The oldest first		
Currency: hedged, or an explicit line in the bid		
Overlap: same manager, or the same asset through different vehicles		

The stress case, and the decision record

Chapter 19. Not "what happens if" but "how far before I am wrong". Written before bidding, on one page.

Interest		Buyer / seller	
Fund		Reference date	

Scenario	Value of the interest	Change
Base case		
Exit yields +25 bp		
Exit yields +50 bp		
Capital expenditure +20%		
Rental values -5%		
Yields +50 bp and rents -5%		

For the price to equal the value	Threshold
Exit yields higher by	
Or estimated rental values lower by	
Or alpha below	

Decision record	Entry
The six numbers of the bid	
The seller's reason, and its evidence	
The two independent values and their gap	
The three things not established, priced through the margin	

On the book's interest: +45 basis points, -7.3 per cent of rental value, alpha 0.1317. Twenty-five basis points of exit yield is 7.79 per cent of the interest: get the yields right before alpha.

The first mark, and what would falsify the trade

Chapter 21. One paragraph agreed before completion saves the position. It has to be written before the first bad quarter.

Interest		Buyer / seller	
Fund		Reference date	

"The reported net asset value is expected to fall for the next ____ quarters as the appraisal absorbs evidence already reflected in our purchase price. A reported unrealised loss over that period is consistent with the thesis and is not, by itself, evidence against it. The thesis would be falsified by _____, not by a lower mark."

Falsifier	Threshold	Observed	Date
A realisation below its share of the rebuilt value			
Achieved rents below the ERV used in the tape			
A refinancing that requires equity (headroom of Chapter 12)			

Quarter	Reported NAV	Rebuild (every 4 quarters)	Realisations vs rebuild	Extension vote	Your alpha, measured

Re-run the rebuild every four quarters, not every quarter. Track the realisation history from day one. Ten interests priced this way are ten measurements of alpha no competitor can copy.