IC Brief

PARA BELLUM ADVISORS

Commitment FX Drift – Derivative Portfolio Review

Scenario Type: Private Credit – Local-Currency Commitments
Asset Class: Sponsor-Backed & Direct Lending (IDR / VND / THB / PHP / AUD)
Capital at Risk: USD IRR integrity, entry multiple discipline, IC credibility, repeat-deal economics
Primary Failure Mode: FX exposure becomes economically live at commitment but remains unowned until closing, creating systematic USD entry drift
Primary Offer: Derivative Portfolio Review ™ – Deal-Stage FX Exposure Mapping & Governance Assessment

1. Decision Context

This scenario addresses a recurring but poorly surfaced issue in cross-border private credit origination: **FX risk enters the deal earlier than it is governed**.

The issue is not adverse FX moves, failed hedges, or poor execution.
It is a **process and ownership gap** between price commitment and funding.

Once a local-currency price becomes binding, USD economics float – even though underwriting, IC approvals, and risk ownership remain anchored to spot FX at signing. By the time the deal closes, entry economics may no longer match what IC approved.

2. The Structural Problem

In local-currency private credit deals:

- Pricing becomes binding well before funding certainty
- FX exposure is economically live but operationally ignored
- Treasury engagement is delayed until closing certainty exists
- Investment teams assume FX will be “handled later”

This creates a **structurally ungoverned exposure window** between commitment and closing.

FX drift during this period:

- Alters USD entry cost
- Compresses realised IRRs
- Weakens bid competitiveness
- Undermines IC credibility without any change in credit quality

3. Why This Matters at Portfolio Level

Individually, commitment-stage FX drift is easy to rationalise. Repeated across origination cycles, it becomes structural drag.

Typical portfolio-level consequences include:

- Systematic deviation between approved and realised entry economics
- Return dispersion driven by timing luck rather than credit skill
- Post-close FX explanations replacing pre-decision control
- Gradual erosion of underwriting discipline

The problem compounds quietly – and predictably.

4. What Tends to Surface on Derivative Portfolio Review

When reviewed diagnostically, the same patterns recur:

- **The Commitment Gap**
  FX exposure becomes live at LOI / term sheet, but no function owns it.
- **Late Recognition of Economic Exposure**
  FX is treated as "not real" until funding, despite material sensitivity.
- **Fragmented Ownership**
  Investment teams focus on credit; treasury waits for certainty.
- **Retrospective Acceptance**
  FX slippage is normalised as market noise rather than process failure.

These are not isolated mistakes. They are repeatable design flaws.

5. Diagnostic Approach

The Derivative Portfolio Review does **not** prescribe hedges.

Its purpose is to **map, quantify, and assign ownership** to FX exposure at the point it actually enters the deal.

This typically involves:

- Mapping commitment points across live and recent transactions
- Identifying when FX becomes economically binding vs operationally owned
- Quantifying signing-to-closing FX sensitivity and historical drift
- Reviewing IC materials for implicit FX assumptions
- Assessing decision rights, escalation triggers, and timing options

The output is clarity – not execution.

6. Intended Outcome

The Derivative Portfolio Review is designed to restore **decision quality**, not to mandate action.

Key outcomes include:

- Re-anchoring USD economics at commitment
- Elevating FX into IC decision scope alongside credit risk
- Separating process-driven FX erosion from consciously owned market risk
- Establishing ownership without forcing premature hedging
- Enabling proportional, staged responses as deal certainty evolves

Most importantly, it converts episodic FX pain into institutional learning.

7. Applicability

Most relevant where:

- Deals are priced in local currency but reported in USD
- Close timelines extend weeks or months
- Platforms originate repeatedly in the same markets

Less relevant where:

- Currency is naturally matched
- FX is contractually passed through
- Close timing is near-immediate

8. IC Takeaway

This is not an FX forecasting problem. It is not an execution problem

It is a **governance and timing problem**.

Left unexamined, commitment-stage FX drift quietly converts disciplined underwriting into avoidable return erosion.

9. Engagement Path

Primary: Derivative Portfolio Review ™ – Commitment-to-Close FX Exposure Mapping & Governance Review

Secondary / Bespoke: Policy and governance framework for commitment-stage FX ownership; IC framing and escalation logic; feasibility assessment for conditional or staged protection.

Execution may remain internal or progress into Structuring-as-a-Service™ where lifecycle structuring or coordination is required.

A full structural narrative is available for readers who wish to review the underlying mechanics, trade-offs, and remediation sequencing in greater detail.

Disclaimer

Illustrative scenario for discussion purposes only.
Not a transaction summary or client-specific case study.