



PARA BELLUM ADVISORS

PRIVATE CREDIT · LOCAL-CURRENCY COMMITMENTS

Commitment FX Drift – Local-Currency Private Credit Deals

SCENARIO TYPE	Private Credit – Local-Currency Commitments
ASSET CLASS	Sponsor-Backed & Direct Lending (IDR / VND / THB / PHP / AUD Pricing)
RISK FOCUS	Signing-to-closing FX drift, underwriting erosion, delayed hedge activation, governance gaps between deal teams and treasury, IC blind spots, repeatable leakage
PRIMARY OFFER	Derivatives Portfolio Review™
RELEVANT SERVICES	Commitment-point FX exposure analysis · Acquisition timeline risk mapping · Hedge feasibility diagnostics · Decision-rights alignment · IC framing and escalation logic

THE SITUATION

This was not a bad FX trade, a failed hedge, or a macro call gone wrong. It was a structurally ungoverned exposure window created by the commitment process itself – where FX risk became economically real at commitment, but operationally unowned until closing.

A Singapore-based private credit manager doing sponsor-backed and direct lending across SEA and ANZ. Deals are frequently priced and negotiated in local currency – IDR, VND, THB, PHP, AUD – but the fund's reporting and return optics are USD. Typical close timelines run 8 to 36 weeks depending on diligence, conditions precedent, and regulatory timing.

The recurring pattern: the fund commits to a local-currency purchase price well before closing certainty exists – and the FX rate moves materially before the wire is sent.

HOW THE RISK MANIFESTS

In cross-border private credit transactions, FX risk does not begin at funding. It begins at commitment.

Once a price is agreed in local currency – whether at LOI, term sheet, or equivalent binding stage – the fund is economically exposed to FX movements, even though no cash has yet moved. From that point, the USD cost of the transaction is floating while the fund's underwriting assumptions remain fixed.

Deals arrive at closing with materially different USD capital requirements than those presented to the Investment Committee, despite no change in asset quality, credit protections, or counterparty risk. The FX movement has simply occurred in a period that is neither explicitly hedged nor clearly owned.

Investment teams view FX as a treasury issue to be addressed at funding. Treasury teams see no executable exposure until closing is certain. The result is a structurally ungoverned window where FX volatility directly impacts returns but is not actively managed. Over multiple transactions, individual FX drifts accumulate into a measurable drag on portfolio-level performance – not through bad market calls, but through timing mismatches embedded in the acquisition process itself.

WHAT TYPICALLY BREAKS

The commitment gap

Local currency pricing becomes binding well before funding, while FX risk remains floating. The fund has limited flexibility to reprice, renegotiate, or walk away – yet bears full FX exposure throughout the window.

Fragmented ownership

No single function owns FX risk during the acquisition phase. Investment teams focus on credit and structure; treasury teams wait for certainty. A governance gap rather than an execution failure.

Late recognition of economic exposure

FX is treated as 'not real' until funding is imminent, even though economic sensitivity exists from the moment commitment is made. Decisions are forced at the least optimal point in the transaction timeline.

Retrospective acceptance

FX slippage is rationalised post-close as unavoidable market noise. Over time this normalisation masks the fact that the same exposure pattern repeats across deals and across origination cycles.

WHAT THE REVIEW REVEALED

The Derivatives Portfolio Review did not uncover a discrete execution error or a failed hedge decision. It revealed a repeatable exposure pattern embedded in the acquisition process itself.

Across reviewed transactions, FX exposure became economically live at commitment – typically at IOI or LOI – while operational ownership lagged until closing. During this interval, local-currency prices were fixed, USD economics were implicitly floating, and no function was explicitly accountable for the resulting drift.

Entry-price drift averaged a low-single-digit percentage of committed value per deal. Individually these moves appeared tolerable. In aggregate, they represented a material and recurring leakage against underwritten IRRs.

Underwriting materials assumed FX neutrality without an enforcement mechanism. Investment Committee packs referenced spot FX at signing but consistently lacked a quantified sensitivity analysis for the signing-to-closing window, or any defined threshold at which FX movement would trigger reassessment. FX impact was recognised only after capital was deployed – when repricing, resizing, or walking away was no longer feasible.

Decision-making around FX was framed as binary rather than conditional. The organisation implicitly treated FX management as a hedge-now-or-hedge-later choice, avoiding early action due to break risk and deferring decisions until certainty was high – by which point most FX damage had already occurred.

The issue was governance definition: no shared operating standard for when FX exposure began, who owned it at each stage, or what degree of USD erosion was acceptable before action was required. Losses that appeared deal-specific were process-driven and repeatable.

INTENDED OUTCOMES

- ▶ Re-anchor USD economics at commitment – FX exposure reframed as beginning when price becomes binding, not when funds move; USD entry economics no longer implicitly floating during the most uncertain phase of the transaction.
- ▶ Elevate FX into Investment Committee decision quality – FX sensitivity presented alongside credit and leverage risks, allowing explicit acceptance, mitigation, or deferral rather than silent absorption.
- ▶ Separate process risk from market risk – FX losses caused by timing and governance failures distinguished from those arising after risk was consciously owned; avoidable erosion no longer attributed to macro noise.
- ▶ Establish ownership without mandating execution – clear responsibility for FX exposure from commitment onward, without forcing premature action; ownership removes drift without prescribing instruments.

- ▶ Enable proportional responses – FX risk treated as conditional and staged rather than binary, allowing responses to scale with deal certainty rather than lag it.
- ▶ Prevent repeat leakage across vintages – episodic FX pain converted into institutional learning embedded at the process level rather than relying on memory or hindsight.

WHERE THIS APPLIES

Applies when the purchase or funding amount is in local currency but fund economics are USD or another base currency; close windows are long enough for FX to matter (weeks to months); and the platform does enough deal volume that repeatability is valuable.

Does not apply where the fund naturally matches currency through local-currency vehicles and liabilities; close timing is near-immediate or FX is contractually passed through; or deal sizes are so small that governance overhead dominates the incremental return.

TYPICAL ENGAGEMENT PATH

Derivatives Portfolio Review™ – Cross-Border Acquisition FX Exposure. Focused assessment of FX risk ownership, timing mismatch, and governance gaps between price commitment and closing across live and recent transactions.

Secondary: Policy and governance pack covering commitment-stage FX ownership, decision rights, and escalation triggers; counterparty and term feasibility support; execution roadmap for proportionate FX protection. Execution may be handed off to the client's treasury or PM function or progressed into Structuring-as-a-Service™ where lifecycle structuring or ongoing execution support is required.