

The Private Equity Book



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The Private Equity Investment Group (PEIG) is a network of over 397,000 private equity industry professionals from all over the world who actively network, partner, and refer resources and leads to each other. 

It is the goal of this organization to encourage private equity professionals to exchange resources and advance careers and business interests. Join the Private Equity Investment Group for free at PrivateEquity.com



The Certified Private Equity Professional (CPEP) Program is a private equity training and certification program that may be complete by private equity and investment industry professionals. This professional certification program was developed by

the Private Equity Investment Group.

The CPEP program was specifically designed for those professionals who work in the private equity industry, or have investment industry and finance experience and would like to further develop their professional skills in the area of private equity. You can learn more about the CPEP here: <http://PrivateEquity.com/Private-Equity-Certificate>

Investor Contact Details: Are you trying to raise capital for your private equity fund or private corporation? Our database division builds and updates several databases of institutional investors and fund managers.



Our databases include full contact details on over 4,900 different potential investor sources of many types, including wealth management firms, single and multi-family offices, institutional investment consultants, and fund of hedge funds. All of our directories of investor contact details are guaranteed to be updated and accurate.

1. If you are a private corporation or individual looking for capital from private equity funds, please visit: <http://PrivateEquity.com/Private-Equity-Directory/>
2. If you are a private equity fund manager looking to raise more capital for your fund, please visit: <http://PrivateEquity.com/Investor-Directory/>



Wilson Conferences

Wilson Conferences hosts capital raising workshops, family office and investor conferences, and alternative investment networking events around the world. These are exceptional opportunities for private equity executives, investors, and industry professionals who want to expand their network and build relationships while learning from industry leaders. We have conferences and workshops in top global cities including: New York; Miami; Chicago; Los Angeles; San Francisco; Houston; Las Vegas; and more. To see the latest schedule of upcoming events, visit: WilsonConferences.com

Capital Raising Workshops



We offer intensive, fast-moving capital raising workshops which allow you to leave with a customized capital raising plan in hand. At these capital raising workshops, fund managers, service providers, and business executives enjoy a full, catered day of training focused on capital raising and investor relations.

In these collaborative seminars, you will learn alongside your industry peers who share your desire to more effectively target investors and market your services. Our capital raising workshops include the following training areas: Capital Raising Core, Marketing Materials & Copywriting, Influence & Persuasion Deep Dive, and Attracting Investors by Constructing an Investor Funnel.

To find a full list of upcoming capital raising workshops and our latest brochure, please visit: <http://WilsonConferences.com/>

Family Office Conferences

Wilson Conferences is hosting several family office conferences this year that tackle the biggest issues in the industry including co-investing and direct investments, starting and operating a single family office, and managing a diverse family office portfolio. Family offices are a growing investor group and Wilson Conferences has established itself as the leader in family office workshops and industry gatherings.



We have the largest lineup of single family office and \$1B+ family office speakers you will find at any conference this year. If you are looking to form new family office relationships, learn how these investors operate, or identify ways to work together with family offices on co-investments and direct deals, you should consider our family office conferences:

The Largest Family Office Association | 13 Events | 400+ Family Offices Speakers



Charter Membership

If you would like special reserved seating and open access to all of our events (a \$12,939+ value) by becoming a Charter member for \$385.00 to start and \$197.00 a month. You can cancel at any time. Visit the following page to reserve your seat at our events: WilsonConferences/Association

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Private Equity Careers



PRIVATE EQUITY RECRUITING IN THE RECESSION

In a shaky private equity industry, a Forbes article suggests a survival instinct has kicked in for private equity firms.

Of course, capital is the primary focus of private equity firms, but in order to survive in these uncertain financial times many have shifted their focus to human capital. Strong leadership will likely be the difference between a collapsing firm and a successful one. So having capable veteran executives has become a vital element in private equity. But how do firms find a worthy candidate? Ana Dutra heads the leadership development division for executive recruiter Korn/Ferry International and she confesses that finding the best candidate is not an exact science. There is, however, a method most executive recruiters use.

From time to time, firms use a rating system that analyzes, among other things, the candidate's entrepreneurial energy and experience in turnaround circumstances. One private equity executive recruiter said that the key is focusing *long-term* on a good, adaptable candidate, as the industry is very fast-paced and subject to major changes. Most recruiters agree that hiring a seasoned veteran who brings leadership credentials is critical for firms, especially in today's shaky market. As the private equity industry expands into emerging markets having a strong executive will likely prove to be the edge on the new firms.

LAUNCHING YOUR PRIVATE EQUITY ANALYST CAREER

A private equity analyst is a much sought-after position in finance; it often leads to high compensation and eventual promotion. Thus, the industry is highly competitive. You may be wondering, *"How do I stand out from the hundreds of other analysts?"*

We have tailored our Private Equity Training program to satisfy competitive individuals like yourself. [The Certified Private Equity Professional program](#) is a 100% online private equity training on investment strategies, terms, trends, and best practices using our study guide, video resources, and career guide.

If you are interested in boosting your resume and advance your private equity career, take the first step [here](#).

PRIVATE EQUITY BUSINESS SCHOOL

The private equity job market is highly competitive and while few firms explicitly require applicants to have an [MBA](#), it certainly improves your chances of being hired. A

recent survey of private equity firms in Europe and the U.S. reveals that 52% of the executives at the partner level or above held an MBA. The fact that more than half the executives hold a Master's in Business Administration is pretty conclusive evidence of the value of graduate-level education.

Another survey by Financial News showed that private equity is an increasingly popular destination for MBA graduates. In a survey of five leading MBA schools, the number of graduates taking jobs at private equity firms has more than doubled over the last six years. The study compared graduates from Harvard Business School, Stanford Graduate School of Business, the Wharton School at the University of Pennsylvania, the London Business School, and Insead.

The number of Harvard MBA graduates moving into the private equity and venture capital industry rose significantly from 2003, when only 8% of grads chose private equity, compared to [26%](#) of last year's graduates. The rise in graduates selecting investment banking was much lower with only a 2% uptick over the same time period. Stanford's Graduate School of Business showed a corresponding pattern with a 10% increase from 2003 to last year's graduates and only a 1% lift for investment banking.

The results of the survey suggest that graduates believe they can make more money working with a private equity firm. Other reasons for choosing private equity may be the hands-on experience you receive working in the industry, as well as the high-caliber of professionals working at private equity firms. With so many graduates from top business schools flooding the industry, the talent at big and small private equity and venture capital firms is noticeable.

Apax Partners OKC held the highest percentage of partners with MBAs at 77% of its partner-level executives. Top private equity firms Kohlberg Kravis Roberts and Blackstone Group had high proportions of MBAs among their senior staff too, with 61% and 63%, respectively.

SUGGESTED ITEMS TO INCLUDE ON A PRIVATE EQUITY RESUME

A good resume is key to landing a job in private equity. Below is a list of suggested items that should be on a private equity resume. If you do not have all of these factors, you may not be excluded from consideration, but having these may increase your chances of finding employment:

- Valuation, quantitative, due diligence, management experience and abilities
- [Certified Private Equity Professional \(CPEP\) certificate](#)
- Education - Ivy league, MBA, Quantitative focused PhD
- Signs of loyalty, passion, and being humble
- Experience in venture capital
- Something extra, such as PR expertise, asset gathering ability, or Information Advantage, or experience working in the sector that the PE firm works in.
- High quality names - large wire house experience

- How much money did you personally bring in to the firm or make for the firm?
- A stomach for a high commission/bonus structure

PRIVATE EQUITY RESUME

Writing a private equity resume is unique from other resumes. It generally requires experience in finance as a prerequisite for being considered for a position in private equity. Below are some suggestions on how to compose a great PE resume.

I just found a great article on crafting the ideal private equity resume from [Mergers and Inquisitions](#). The presumption is that the applicant has worked in the investment banking sector or currently works as an investment banker. Another presumption is that you hold an MBA from a good school. These two elements are not necessarily required, but they are highly recommended for entering the private equity industry.

Here are some tips from M&I, as well as my own, on creating a great private equity resume:

1. **Resume Appearance:** There is no excuse for a poorly written or incorrectly structured resume. If you are having trouble composing your resume, seek help. There are a lot of resources that can help you make a winning resume. Here are just a few:
 - Contact your old professors, or better yet, speak with someone who has a job in private equity. Even if you're confident in your resume, it doesn't hurt to have it edited by someone you respect.
 - Look online for guidelines to writing a resume, but be careful to get your advice from qualified sources like Vault, who focuses specifically on business careers.
 - Check out a career advice book to get good tips on writing a resume. It may seem like a lot of work but resumes are your first impression with your employer. Why not put in the extra effort?
2. **Focus on Professional Experience:** While other employers in other industries focus on academic standing, personality and other things, rather than strictly your professional experience, private equity is different. A potential employer wants to know everything about what you've done at your former job, so don't spare any details that can help you appear as experienced as possible. There is a reason that private equity firms want to hire people that have worked in investment banking or a similar financial area for at least two years: they don't want train you, they want a prepared associate who is experienced enough to enter private equity and immediately produce results. Showing significant work experience by emphasizing the deals you worked on and how you contributed are key in this resume.

Here are some key elements to highlight when explaining your past work experience:

- The number of deals you have worked on
 - The types of deals you have worked on - M&A (sell side and buy side), IPOs, Follow-Ons, Convertibles, Debt
 - The skills you gained - LBO modeling, accretion/dilution modeling, DCF skills, valuation.
3. **How to Write About Your Deals:** The key for writing about your past deals that you've been involved in is to be unique and demonstrate how you specifically influenced and contributed to the deal process. Rather than just listing your duties that you carried out during the deal process, specifically mention how you helped in the deal. M&I have a great example of what NOT to do and then a re-write of what to do:
- Poor example:
 - \$5B Sale of Company Y to Company X
 - Drafted Offering Memorandum and Management Presentation and tracked status of deal with potential buyers
 - Managed due diligence process between Company Y and different buyers and responded to all inquiries
 - Better example:
 - 5B Sale of Company Y to Company X
 - Worked directly with CFO to build complex operating model of company involving 40 different properties across multiple states
 - Created market analysis showing favorable trends in casino construction despite subprime-related problems; led to 2 private equity buyers remaining in the auction process until the final round

If you enjoyed this article and are interested in entering the private equity industry, you should also consider the [Certified Private Equity Professional](#) designation, a training program that prepares participants with a strong background and knowledge of private equity.

Participants are provided with resume coaching and template, video and other multi-media resources, a career guide and other valuable tools to help you succeed in private equity. To learn more about this private equity training program [follow this link.](#)

PRIVATE EQUITY JOB INTERVIEW

Every training session, we are adding new career resources for participants in the Certified Private Equity Professional program. (To gain access to career advice and many other private equity resources, check out the [\(Certified Private Equity Professional program.\)](#)

When I was putting together our career guide, I started thinking about best practices for preparing for a private equity job interview.

Preparing for a job interview is difficult because you never know what to expect. In fact, many employers will deliberately make you uncomfortable or throw surprising questions at you in order to see how you respond. This certainly makes preparing for the interview difficult, but not impossible. Here are three ideas for how to better prepare yourself to nail a private equity job interview.

- **Do your homework:** You want to know your record and accomplishments very well. It's easy to think that you already know everything you've done, because you're the one who did it. But you need to be able to clearly and concisely answer questions about your professional history. It's tougher than you'd think. Focus on your most impressive and relevant accomplishments and what exactly you contributed in your last position.

You also need to do your homework on your potential employer. Few applicants really become familiar with the firm they are interviewing with, and I think that's a lost opportunity to show your abilities. If you have clearly studied your potential employer, it will become evident in the interview and you will likely gain an edge on other applicants.

- **Practice:** Private equity positions are very sought after and therefore often have a very rigorous interview process. Many professionals just assume that all interviews are the same and do little to prepare for the interview. I recommend that you spend many hours practicing for the interview, as many as it takes for you to feel comfortable and confident.

Your practice can be simply reviewing your answers and rehearsing by yourself, or you can enlist a friend, professor, family member or roommate to act as the interviewer. Be sure to make the practice as realistic as possible so you don't form bad habits that will carry over to the interview.

- **Do a lot of Interviews:** Sure, you may have your sights set on one particular private equity firm, but that doesn't mean you shouldn't apply to others. If for no other reason, it's great practice so you are confident for your primary job interview. You can even call up various private equity firms and request an informational interview just to get comfortable talking with buyout firms.

TIPS FOR MAKING MORE MONEY IN PRIVATE EQUITY

Private equity is a competitive sphere and firms attract top talent from the financial industries with challenging work and high compensation. These professionals expect high compensation and many firms satisfy their employees' expectations. But still some private equity professionals naturally want to increase their compensation. We frequently receive e-mails from private equity professionals looking to make more money, so here are 9 tips that will improve your chances of doubling your compensation in private equity:

1. **Make a plan:** Map out where you want to go in the next 1, 3, 5 and 7 years on paper within a career or business plan. Dream big and work backwards from there.
2. **Stop thinking** about putting in your time and instead start positioning your own unique value and contribution.
3. **Add to your resume:** If you have been in the same job for several years and do not understand why you haven't been able to climb the ranks at the firm, one way to improve your chances of getting promoted is to build your resume. If you are talking to your boss about a promotion it would be really impressive to show that you are currently enrolled in a part-time MBA program so that you can better contribute to the private equity firm (as long as it clearly does not affect job performance) or that you have completed a [Private Equity Training Program](#) to increase your knowledge of the business.
4. **Switch jobs.** If your current employer is not giving you opportunities or avenues to grow, get out and move on to a bigger opportunity. If this is not an option, create "WOW" projects within your job. If you don't know what this means read Tom Peters books for motivation and instructions on this detail.
5. **Be pro-active** in becoming friends with those who are either hubs for industry contacts or are the direct professionals who you want to work for in 3-5 years, friends hire friends.
6. **Invest in yourself.** Complete [Private Equity training or certification programs](#), look for a mentor, or invest in books and a coach that will help you improve your compensation.
7. **Create** at least 3 drafts of your resume before showing it to anyone; if possible create a pitch book on yourself and your career explaining why someone should hire you. Provide an estimated ROI (i.e. how much you can contribute and returns you can bring in for the company; don't set it too high or you will just fall short of your own goal), examples of past deal you've helped put together, work samples if you have permission to share, etc.
8. **Join toastmasters**, get comfortable and good at speaking at events, seminars, and conferences it positions you as an authority and forces you to master some niche topics
9. **Read at least 30 minutes** of training materials or niche books which directly connect with the skills needed to perform very well at your dream position. [CPEP](#) members will have access to a career workbook that is a great way to grow your knowledge by actively working toward your goals each day.
10. **Work hard.** In every job I have ever had, I have made an effort to outwork my coworkers. More often than not, your coworkers will follow suit and the whole company benefits from your example. Managers notice this and will reward your hard work.

I hope these tips help you achieve your goal of increasing your private equity compensation. This article is for those looking to advance their career in private equity. Another great way to improve your current private equity career or enter the private

equity industry is to [join the Certified Private Equity Professional designation](#). Each Certified Private Equity Professional participant receives access to our career coaching, resume feedback, resume template, educational videos and other resources.

[Click here](#) to learn more about this Private Equity Training Program.

PRIVATE EQUITY AND VENTURE CAPITAL NETWORKING TIPS

The private equity job market is very competitive and it may be difficult to break into the industry. While a large part of securing an interview at a private equity or venture capital firm is having the proper credentials (i.e. MBA and financial work experience), another important aspect is networking.

By putting in some extra work networking you make a contact who leads you to a job opening, or you may just learn valuable tips from other private equity or venture capital professionals. No matter your field, networking is critical for advancing in the financial world. Here are a few basic networking opportunities you may have overlooked:

- [Linkedin.com](#): The biggest and probably the best networking website is [LinkedIn](#). This website's sole purpose is to connect professionals and make business contacts, so having an updated and active LinkedIn account is an easy networking tool that often leads to great contacts. Make sure that your profile is professional and shows all your skills and past work experience. A photo will lend some personality to your profile too. Join the [private equity LinkedIn group](#), if you haven't already.
- [Facebook.com](#): Another networking website is [Facebook](#). Although Facebook has a more social networking focus, many business people use this site as a tool for professional networking. Word of caution: if you use Facebook for its social features, like connecting with college friends, then make sure there are no comments or photos on your profile that you wouldn't be comfortable with a potential employer seeing.
- [IFA Life](#): A reader suggested another networking tool, [IFA Life](#), a professional networking website for financial planners and investment professionals. The site is predominantly in the U.K. but is expanding to the US.
- Join forums: The internet provides so many opportunities to connect with other private equity and venture capital industry contacts, and forums are great for this. The Private Equity Forum is connected to the 9,000+ member private equity group and is a good place to ask questions and meet people. There are also many forums exclusive to venture capital or angel investing.
- Attend events: In large cities like NY, there is always [a networking event](#) or private equity lecture to attend. This goes for most major cities too, especially areas with major financial sectors like Chicago and Boston. [Visit Wilson Conferences for our upcoming conferences and networking events](#). Also, check out online conferences ([webinars](#)) that are often led by well-known speakers.

TOP 4 PRIVATE EQUITY JOB SITES

Here are the top 4 websites that I've found with information to contact private equity firms or private equity position listings. There is no guarantee that these sites will land you a job but it is good to use all resources out there. For career advice on getting a job in private equity, see our [career guide](#).

- Private Equity Firm Jobs: This website provides a database of hundreds of private equity firms with contact details. Those seeking a career in private equity can use this database to directly contact private equity professionals and make yourself visible to buyout firms. I recommend this most because it is pretty affordable for students and young professionals compared to other job listing databases and it allows you to narrow your search to only private equity firms (not a ton of irrelevant financial firms like other jobs). Furthermore, you can purchase a database of a particular geographical region (narrowing your search and saving you money).
- For those searching for 100k+ salary jobs, [Finance Ladder](#) hosts 348,000 jobs and 17,000 Active Employers in the finance industry paying at least six figures. This is better for those professionals with executive experience and those with academic or professional experience. They are best suited for a higher level position.
- The standard in financial career databases is [eFinancialCareers](#). This site shows at least 400 open private equity positions.
- As I previously mentioned, [Private Equity Jobs Digest](#) tracks hundreds of private equity jobs and is routinely updated and monitored. In addition, it lists profiles of major private equity recruiters and has a number of resource links. Basic access is free and upgrading to premium is \$25 a month (with a 100% money back guarantee).
- You can also visit [PrivateEquity.com](#) to place your own job listing or to find career opportunities.

FOUR TIPS FOR TRANSITIONING TO PRIVATE EQUITY

Transitioning from one industry to private equity can be very difficult, especially for those who have spent many years in a different industry and want to start over in private equity. Private equity is a competitive industry and unless you have experience in a related industry, you are at a disadvantage to other candidates.

I created a video resource for the [Certified Private Equity Professional program](#) on transitioning. Here is a summary of those tips:

Step 1: Go back to school:

- Consider enrolling in a full-time MBA program at a well-known business school, or other graduate degree.
- Top schools are preferred but not mandatory
- Prepare for a pay cut and some time before you are able to enter the industry
- Read about the industry

Step 2: Enroll in a professional designation program:

- [Certified Private Equity Professional](#), [Certified Hedge Fund Professional \(CHP\)](#), or other programs in [Financial Modeling\(CFMS\)](#), [Investment Banking\(CIBA\)](#), [Qualified Family Office Professional \(QFOP\)](#)
 - Demonstrates that you are serious about private equity
 - Teaches you about inner-workings of the industry
- Consider other training programs and long conferences
- Focus on those training programs that give you face-time with private equity professionals
- Look for intensive, private equity-specific training programs at various institutes, universities

Step 3: Get in the industry and network:

- Conferences and trade shows
- Join the [Private Equity Investment Group](#) and professional networking websites
- Email and call private equity professionals
- Informational interview
- Reach out to recruiters
- Buy a PE pro lunch

Step 4: Distribute Your Resume

- Make sure your resume is visible
- A firm may be looking for someone with your particular skill set and experiences. Make that search easier
- Post your resume online
- Consider your qualifications and target firms
- Focus by investment area, geographical location, relevant qualifications

WHY COMPLETE A PRIVATE EQUITY TRAINING PROGRAM?

There are many training programs to prepare you for a career in the investment banking and traditional business fields. But there are very few catering to the needs of those who would like to work in private equity. I talk to young professionals every day who want a program that focuses exclusively on private equity. [The Certified Private Equity Professional program](#) is designed specifically with these professionals and students in mind.

On the other hand, some professionals feel that a certification or training program is a waste of time but the number of private equity portfolio managers, partners and analysts that list certifications on their background suggests otherwise. A certification inspires confidence in your clients who know that you have been trained specifically in your field and that you are knowledgeable about the industry.

Similarly, a certification in private equity demonstrates to potential private equity employers that you are passionate about working in private equity and willing to invest your time toward that goal. I believe that completing a training program is a great way to build your skills and knowledge about the industry, network with other participants and firms, and add a valuable experience to your private equity resume.

The [Certified Private Equity Professional](#) (CPEP) program is a private equity training and certification program that may be completed by anyone 100% online in just months. This Private Equity Training program provides participants with a strong knowledge of private equity and prepares them for a career in the industry. Our staff has invested time and effort to develop the CPEP program and we have built many valuable tools for our participants including: a private equity career workbook, several videos on different aspects of private equity, a resume template and many other resources. Graduates can enter the private equity job market feeling confident with the preparation they receive through our [Private Equity Training Program](#).

Our program is limited to just 25 professionals per quarter, and after joining you can choose from our 12 annual examination dates, held on the 12th of each month. The entire program, including the exam, is completed online with no testing centers or travel required. Individuals have already signed up for this program. To reserve your spot before we reach the 25-member limit, please [see this page](#).

Who Should Enroll in This Program?

Potential participants in the [Certified Private Equity Professional](#) program include analysts, due diligence professionals, private equity fund managers, lawyers, accountants, recruiters and marketing/sales professionals.

For more information, including benefits of the program, frequently asked questions and how to register, see the [Certified Private Equity Professional website](#).

VENTURE CAPITAL ASSOCIATE RESPONSIBILITIES

An associate position in a venture capital firm is one of the most sought-after destinations for recent business school graduates. While most gain a year or two of experience in the investment banking sector after obtaining an MBA, associates are generally young, smart talent hoping to succeed in a competitive and exciting industry. The very high rate of compensation also helps attract elite young professionals to venture capital.

The common responsibilities of a venture capital associate can be divided into three categories: due diligence, sourcing deals and supporting portfolio companies.

Due Diligence:

- Researching and talking to competitors

- Talking to customers
- Interviewing and gathering information from industry experts
- Working with technical consultants to evaluate technologies
- Conducting background checks on management
- Talking with previous investors
- Building valuation models

Sourcing Deals:

- Consulting and meeting with investment banking analysts
- Consulting with market research firms
- Attending trade shows, investment conferences and other relevant events
- Networking with other VCs
- Consulting lawyers and accountants

Supporting Portfolio Companies:

- Helping conduct research on behalf of the company
- Attending the Board's meetings
- Supporting and advising the management team
- Find and screen possible management candidates
- Work with potential acquirers of the company
- Help acquire other companies and find new sources of capital

These are the majority of the duties that associates perform, and it gives you an idea of the work that an associate does at a venture capital firm.

Source: Tuck Center for Private Equity and Venture Capital

QUESTION: HOW IS PRIVATE EQUITY COMPENSATION AFTER THE RECESSION?

I recently received an e-mail from an investment professional asking about the state of private equity and compensation trends at buyout firms:

PE info can be difficult to find publicly. I read on your blog that PE compensation was increasing amid the financial crisis. Your post was dated late 2008. Have you seen any updated data on PE compensation?

The most recent compensation data is available through Glocap, though it is a little expensive. Here is a link to purchase that [report](#).

I created a video for the [Certified Private Equity Professional program](#) this week on how to launch your private equity career.

Below is a summary of compensation Trends as well for you to read on.

- Buyout compensation has declined or at least stayed the same, but is still highly competitive to other industries. Given the economic and financial troubles in 2007-2009, no major decline is OK.
- Venture capital compensation did not fall last year as much as it did for buyout firms. (VC compensation is not reliant on transaction charges so decline in deal-flow is not felt as much.)
- Associate compensation is competitive with other financial industries. The largest reduction in compensation was at the associate level (first on the chopping block). Last year, average associate compensation fell by 10% to \$275,000. In 2008, associate compensation at big buyout firms rose 6% and went up 22% in 2007 (year of the mega- buyouts).
- One concern is the carried interest tax proposal working its way through Congress this year. Currently, carried interest is taxed at a rate of 15% but proponents of reforming the tax laws have argued for taxing carried interest as ordinary income which could be as high as 35%. The latest draft of the Senate bill has been diluted somewhat to tax only 65% of the carried interest as ordinary tax and the rest at the normal 15%. Private equity firms will have to make cuts to make up for the lost revenue from carried interest taxation. This will likely effect private equity compensation.

According to the latest reports I have read, overall compensation has stalled. I expect that compensation will remain stalled and even decline until deal flow returns. This combined with a carried interest tax could negatively affect compensation.

WHAT SKILLS STUDENTS SHOULD LEARN FOR A CAREER IN PRIVATE EQUITY

While traveling, I've been going through some white papers. One particularly interesting paper is by a professor at Stetson University titled "Understanding the Skills Needed for Careers in Private Equity Investing." The research identifies a major disconnect between general finance education and what is needed for investing in private equity.

Although many professionals receive a general business school education and work one or two years at an investment bank or other finance firm, it would be great if an MBA included a more focused study on private equity to prepare graduates for a very unique field. There are signs of a shift toward educating students on private equity is the Tuck School of Business's Center for Private Equity and Entrepreneurship as well as the University of North Carolina's Kenan-Flagler Private Equity Fund which is largely run by students. I hope that more research is done to show how students and business schools would benefit from a curriculum with a strong focus on private equity.

It's crucial that students have at least a basic understanding of how to value companies,

structure a deal, complete accurate due diligence, manage a portfolio, and negotiate with investors and keep them satisfied. The price for on-the-job training for a venture capitalist could be millions of dollars from your investors, so it's important to have a curriculum that addresses specific skills necessary for working in private equity. The skills that private equity professionals should have beyond the existing MBA and finance degree curriculum are:

1. Being able to realistically value businesses in an illiquid start-up context
2. Contractually structuring the investment
3. Maintaining an effective personal network to both ensure adequate deal flow, and also assist portfolio companies in securing critical resources
4. Possess the negotiating skills associated with both purchasing and selling an investment
5. Being able to coordinating thorough and effective due diligence

If you have not developed these skills or your business school has not addressed these needs, the author prescribes ways to improve these crucial areas:

1. Do not rely on the “general business requirements” to meet these skills.
2. Some of these skills are process skills, meaning that they are developed by practice – not merely through understanding the process.
3. Due diligence is on virtually no one’s curriculum. There are great books available and free resources online to give you at least a surface knowledge of this area.
4. A course in private equity investing can be demonstrated to accomplish the purposes of the business capstone class, and might be offered in lieu of Strategic Management, for example.

PRIVATE EQUITY LEARNING

Private equity courses offer students and career professionals an opportunity to learn more about a challenging industry. Private equity can be hard to understand without a professor or instructor explaining the key concepts. This is why private equity courses are seen as valuable to individuals looking to learn more about buyout firms and how they operate.

Terms like “enterprise value” and “EBITDA” can seem pretty intimidating if you do not have the resources to help you get through the fundamentals and complex aspects of the industry. Buyout firms seem like a mystery if you do not have a course or training program that gives you a complete understanding of every part of the industry.

Luckily, there are many ways to learn more about the industry:

- **Enroll in a PE Course:** Whether at a university or business school, or through a PE training program, you should definitely consider enrolling in a PE course.

Most courses give you all the reading materials and resources that a typical classroom course would but focus entirely on the buyout industry. How much more confident would you feel after completing a whole course on the subject?

- **Attend a seminar or conference:** These can prove more challenging because the lecturers typically expect that you already know a good deal about the industry or even work for a PE firm. It might be over your head if you have not already spent a good deal of time studying the industry.
- **Find free resources:** There are many free resources available to you if you cannot afford a course or training program. While I can't say that it will be more valuable than a PE course (you get what you pay for), you will be able to get a nice introduction to the industry without having to pay a dime.

Our team has put together a 100% online private equity training and certification program that provides you with career tools, resume feedback, career coaching, and video training modules. This program is called the [Private Equity Certified Professional \(CPEP\) Designation Program](#).

PRIVATE EQUITY CFO

Over the last few years' private equity firms have succeeding in attracting many chief financial officers from jobs at large public companies. These CFOs opt out of cushy, high-ranking positions to work for private equity firms and their portfolio companies.

Private equity firms are willing to compensate chief financial officers very competitively; there is a high demand for executives with experience managing a company's finances with a wide range of responsibilities including financial planning, record keeping, and protecting against risk. Chief financial officers also make the move for the possibility of sharing in the immense profits from a successful private equity deal when the portfolio investment is sold to another buyer or taken public.

One negative aspect for entering the private equity industry is that many private equity CFOs must move from company to company as their services are required. Chief financial officers often give up a safe and consistent job with great pay for the career in private equity, but find that not all private equity firms are successful. CFOs are then faced with the decision between taking a potentially higher-paying and exciting position in private equity (with the risk of losing money in the new job), or remaining in a stable, well-paying job with one company.

The idea of moving to a private company may be attractive to an experienced CFO because private-equity-backed companies are often in a transitional period that allows for the chief financial officer to use his talents to improve the company. The challenge of taking an underperforming company and having a vital role in its success can be appealing to CFOs unsatisfied in their current work.

More Valuable as a Private Equity CFO

Despite the tech burst, which showcased the risk to those working at private-equity-backed firms, many CFOs welcome the risk. The huge monetary incentive if they are able to produce positive results and make the company attractive to the public or another buyer. Additionally, chief financial officers may feel undervalued or unappreciated at a standard post within a firm. In many large public companies, the CEO often dominates the lower-level executives like the CFO, but many chief financial officers working in smaller private-equity-backed companies are regarded as vital to the success of the company and treated with more attention. In private equity, CFOs are a "hot commodity" and the private equity model allows them to showcase their talents in an important way. Although CFOs are in high demand, when making the decision to transition to private equity, they may have to prepare for a period of unemployment.

CFOs working in private equity have taken on a different role than they did a few years ago, according to Chad Brownstein, a managing partner at ITU Ventures in Los Angeles. "Before, venture capital firms hired smart numbers guys from accounting firms (as CFOs) that the CEO could manage." Now it seems that private equity firms are willing to pay a CFO higher and offer a more prominent role in the company. Rather than focusing mainly on accounting, today's private equity CFO also takes on a major interest in the company's capital structure and finances. Mr. Brownstein illustrates the point, sharing "Every CFO we have is part of our network. We are working equally as hard to get the right CFO as the (right) CEO. It's a critical role."

As chief financial officers anticipate a greater role and higher compensation in private companies the transition from large public companies to smaller private equity firms may become more and more attractive, even with the inherent risks.

FIVE TIPS FOR FINDING A PRIVATE EQUITY JOB, FAST

Many professionals are eager to get into the private equity industry, so a question I receive often is "How do I quickly get a private equity job?" The fastest method is not always the most productive, but I understand wanting to quickly enter the industry.

First, you should be cautious if you are only entering the industry because you do not have another job and you are in a hurry to find employment. If this is the case, make sure that you really want to work in private equity. If this is not the case and you really just want to get a job in the industry as fast as possible, here are five tips to getting a job quickly at a buyout firm:

- Make a list of firms you want to contact. If you have the money to spare, you can expedite this process by purchasing a [private equity directory](#) of funds and contact details. You can also do your own research to find a few firms that are appealing to you and match your expertise and talents.

- Narrow your list to funds that are within traveling distance. Target these firms exclusively so that you can focus your efforts on a select number and not waste time trying to appeal to every firm you find. It's important to look realistically at firms and consider whether you would be happy living in the city or whether you'd be better off locating firms that are close by so that repeat interviews are not a problem.
- Start courting these firms as fast as you can. Execution is key and each step in the process should be executed as fast as possible. Make your resume and edit it repeatedly in a single day or on the weekend and have it mailed out or delivered in person by Monday.
- Don't be afraid to cold-call a firm. Cold-calling is a little nerve-wracking, especially if you don't work in PE and are a little nervous to talk with a buyout executive. You have to get over these reservations if you're going to work for the firm and advance your career.
- Follow up after an interview or a contact. If you don't hear back from a prospect after a couple weeks or after the time the contact said to expect a call, you should follow up. If they didn't choose you they may still give you a reason why that you can work on.

These are my top five tips for quickly working at a private equity firm. The emphasis in this article is on speed and execution in quickly finding a private equity job.

PRIVATE EQUITY CAREER MISTAKES

There is a fine line between being competitive while pursuing a job and annoying the potential employer. The following is an explanation on the top five career mistakes that you should avoid. It is targeted toward professionals in the finance and investing industry, which is highly competitive. Many people's enthusiasm for getting the job leads them to commit errors that ruin their chances. I receive many applications from people looking to enter the private equity industry and almost all of these applicants (although well-meaning) unknowingly make at least one of these mistakes.

Here are five very common mistakes:

1. **Don't be annoying.** "Annoying" may seem a bit harsh, but I don't know how else to describe ten e-mails confirming that you received the first e-mail. By pursuing a hirer or recruiter too aggressively, his desire to give you a shot will decrease, rather than increase.
2. **Don't be overconfident.** Confidence is healthy and necessary, especially in the business world. Being overconfident, to the point that you claim to know everything, begs the obvious questions, "Why would I hire you? Shouldn't you hire me?" Especially for entry-level positions, this is the wrong attitude. You should be eager to learn more about the industry from those with experience. You send the wrong message by marketing yourself as better than everyone and imply that you are a know-it-all.
3. **No long resumes or emails.** Resumes should be kept short. I understand that you want to highlight all the qualifications and attributes that make you the right

candidate for the job, but the people who read your resume are busy and want it written concisely and clearly. The same applies to emails; I know of people (myself sometimes included) who will stop reading emails because they are epic essays that do not have a clear objective. The best emails are brief and to the point.

4. **Generic is boring.** You have to separate yourself from the other hundreds of emails or applications. By trying to appear well-rounded, you sometimes underplay your specific abilities and areas of expertise. There are thousands of people with finance experience who want to work in private equity so you have to differentiate yourself from the herd. Employers want to hire people that fill a specific void in that private equity firm.
5. **Passion is not enough.** This is a lesson for those applicants who think that passion alone can get them in the door. I've seen this first hand with internship applicants with e-mails like "Working in private equity is my dream! I love the industry; it's so exciting..." It's great that you're excited about the industry and employers do look for people passionate about the industry, but often people with little qualifications or experience use this enthusiasm as a way of compensating. Employers see through this so back up your communications with something stronger than exclamation points.

SETTING GOALS FOR YOUR PRIVATE EQUITY CAREER

It is a common conception that a way to advance in life--especially in your education or career--is by setting goals. Having a goal, like becoming an executive or making a profit in the first year running a start-up, gives you something to strive for. At the end of the year, most of us end up wondering why we still have not achieved our goals. Goals are important, but you need to take concrete steps to reach that goal. It's easy to fall into the trap of simply setting a goal and not doing much to reach it.

Setting a goal for your private equity career is important in establishing where you are now and where you want to be in the future. The following is an example of a step-by-step plan to advance your private equity career. Every person's goals will be different but the process is important in getting what you want.

Step 1: Where are you stand?

How can you decide where you want to be if you do not know where you are now? It is important to assess your current situation and figure out if you are satisfied at your current position or if you would like to move up. Some people are lured by the high pay and reputation of private equity but years later once they enter the industry they realize their last job was better. So really look at your current job--whether it is inside or outside of private equity--and decide whether you really want to leave this position or if you are actually satisfied there.

Step 2: Where do you want to go?

Assuming you've decided to enter private equity or advance your existing private equity

career, you have to ask yourself: Where do I want to go? I believe that many of the obstacles we face in life are self-created. Advancing your career is a question of whether you want to put in the necessary work. For some, it is easy. For others, the task is arduous and requires a lot of effort for a little payoff. So assess your own motivation and commitment to advancing your career and set a realistic goal based on that. You may want to move into a more senior management position in the firm but you are not willing to get the (sometimes) necessary MBA. Figure out where you want to be and take steps to get there.

Step 3: Develop a Strategy.

Private equity is a highly competitive industry. You will have a tough time making it into private equity without a well-thought-out strategy for reaching your goals. Whether you already have a job in private equity or you are looking for your first, you will need a plan. I have written previously on developing a strategy for advancing your private equity career.

Here is a summary:

- Become a student of the private equity industry by reading news articles and following blogs like this one; joining a local or [online private equity networking association](#); frequently having conversations with private equity professionals.
- Narrow your search to 1-2 positions taking into account what area of private equity you are most passionate about; what fits your unique abilities and qualifications best; salary; location; competitiveness of industry etc.
- Find a private equity mentor. Look for someone with experience in the industry and reach out to finance professors, family, friends and past associates.
- Develop Your Unique Selling Proposition; discover what makes you more valuable and different from other candidates. Consider special skills, second languages, valuable experience in a related industry, designations or awards etc.
- Find a private equity internship if you are having trouble landing a paid position at a private equity firm.
- Develop your private equity resume and interview skills.
- Improve your education with an MBA or [professional designation](#) that give you the background necessary to stand out as a private equity job candidate.
- Land the unadvertised private equity job through cold-calling buyout firms; exchanging e-mails with private equity professionals; attending networking events; offering to work for a free trial period.
- Update your resume with new qualifications and experiences you've added from the previous the other steps in your plan as well as feedback from your mentor and interviews. Reach out to professionals you have met during your research for potential job opportunities. Check back with firms you have spoken with previously.

This is a loose set of suggestions for advancing your private equity career and should be adjusted based on your chosen career path.

Step 4: Stay with your strategy.

In my experience, the most common reason for not getting a job in private equity is that the person gave up too soon. It can be really tough and even demoralizing to interview with firms and get rejected. But it is a learning process, listen to their reasons for not selecting you and adjust your strategy to improve the areas you are lacking in. You may feel like you are wasting your time but you will *absolutely* be wasting your time if you give up at the first challenge you face. You may need to take a less desired job in the mean time before you get the one you want, but you should still be working toward your goal during this time.

Step 5: I reached my goal, what now?

Congratulations, you've reached your goal. But now you may be wondering what to do next. If establishing your goals and developing a strategy to achieve them has worked for you, continue to assess your situation and find new goals. I do this regularly to ensure that I am never treading water. It is always helpful to be working toward a goal.

I hope this has been a helpful guide to advancing your career in private equity by setting career goals.

For more private equity career articles, training videos, a career guide, resume coaching and other resources check out the [Certified Private Equity Professional program](#).

PRIVATE EQUITY INTERNSHIP TIPS

About a year ago, I published a post here asking for interns to help with the private equity blog, the [Private Equity Investment Group](#) networking association, writing the free private equity e-book, and similar projects. Many people, mainly MBA students and recent graduates, responded with strong interest in landing a private equity internship.

Most respondents were seeking an internship with a private equity or venture capital firm and I noticed that almost every e-mailed answer was different, varying from a two sentence note with a rough resume attached to a very lengthy memo with a cover letter and resume. As the majority of respondents were mistakenly under the impression they were applying for an internship with a private equity firm, this gives me a good opportunity to provide some advice on applying for an internship or paid position at a buyout shop.

I have reviewed a lot of internship applications and here are some common problems or things to avoid:

- **Check grammar and spelling:** Here is a common mistake that I'm always surprised to see because it is so easy to fix. If you really want a position, why not spend an extra fifteen minutes reviewing the application to fix obvious grammar and spelling errors? I know that managers often interpret this as either the applicant has a poor attention to detail (a critical and valued skill in private equity) or the applicant is simply lazy and does not want the job as much as someone who put in the extra effort to have a well-edited application. In such a competitive job market, this kind of mistake could mean the difference between you getting the job and the other person who went the extra mile.
- **Don't Mass E-mail:** I can tell when I receive a mass e-mail and when it is an e-mail for a specific job opening. Private equity employers can tell the difference too. If it doesn't sound forced, it may be good to include a comment that shows you have been following the firm and know something about it. If the firm invests primarily in a specific industry you can say something like, "I believe that my previous work experience in the energy sector would be very valuable to Example Buyout Firm because your firm has a long history of investing in this industry."
- **Be Professional Not Funny:** I believe that humor rarely works in the introduction to a potential boss. It's not that the manager or recruiter lacks a sense of humor, it's just too risky that a little joke will not translate well over e-mail or you will simply look unprofessional. I have received e-mails about the internship that were intended to be humorous but came off weird or annoying, such as one memorable e-mail that began, "READ THIS MOST IMPORTANT EMAIL FROM YOUR FAVORITE PERSON." Having never met the person, it was misleading and overall off-putting. This is not to say that you should be uptight when interviewing or communicating with a potential employer, but always maintain a professional attitude. Once you get the job and get to know your coworkers better you can relax more; there is a time and place for humor.
- **Missing Attachment or Information:** This is a common problem that I see, applicants will e-mail an incomplete e-mail missing vital information or documents. For example, I have received an e-mail with no name and I have been sent an application where the person referred to a resume that was not included. These are simple understandable mistakes (I often forget attachments) but in such an important e-mail it's worth reviewing to make sure everything is included and then having a friend or colleague double-check.
- **Not Too Long, Not Too Short:** Private equity partners and recruiters are extremely busy so they prefer a concise and direct e-mail. When applying for a job, I would suggest a cover letter explaining what position you are applying for, why you would like the job, and what qualifications you have. Then an easy-to-read resume attachment. Too often applicants will write excessively long e-mails or a one sentence note.

Here are some suggestions to have a great e-mail or letter application for an internship and full-time position.

- **Double check:** As I have noted, it is worth the extra effort to review and revise your writing. A well-written and carefully checked communication will often put you above other candidates.
- **Get Feedback:** If you are applying for an internship or job in private equity, it's a safe bet you have a few great resources you've overlooked. Most applicants for a full-time position have already worked in finance or a related field and hopefully you have kept a good relationship with your former boss and colleagues. If you left on good terms why not run your resume and cover letter past your old coworkers to see if they would add or omit anything. If you're applying for an internship you can ask a former employer, family member, friend, or professor to review your application.
- **Highlight Your Strengths:** Often I see applicants note their weaknesses rather than strengths. An e-mail will typically go something like, "I know that I do not have the same academic qualifications as other candidates but..." While it's important to be aware of the weaknesses in your resume, leave it there. The employer will see these shortfalls, if he cares, and there is no reason to remind him of what you lack. Usually the example sentence will continue "...but I do have the following qualities..." I would remove the first part of the sentence and focus on your strengths exclusively.
- **Be Persistent:** I always have to add a reminder that success in business and life comes with persistence. If you don't land your dream job move on to other opportunities or review your efforts and make improvements. Private equity is a tough market; you have to be tough too.

This post is not in any way guaranteeing that you will land a private equity internship or job but a well-written e-mail or letter is the first step in getting to the interview, then it's all you. I hope this was helpful.

PRIVATE EQUITY CAREER ASSESSMENT

This week, I was preparing for a project and although I felt I had done a good job on it, I asked two other people in the office to give it a second look. Asking for a second opinion is always a good idea; the benefit of having someone else's independent take on your work gives you confidence if the person approves and allows you to fix mistakes you might have missed if he or she does not approve.

Preparing your private equity resume and getting yourself ready for interviews are crucial in starting or advancing your private equity career. Because these tasks are so important, you should ask a respected peer for an assessment--whether it regards your resume, when you're preparing for contract/salary negotiations, or before an interview. I have found that you benefit immensely from a third party. We recommend having at least two other people look over your resume, preferably more.

Benefits of an Independent Assessment

- **Fact-checking exaggerated claim:** If you plan to say on a [resume](#) or [interview](#) that you "Managed operations for X division" someone at that company may remind you that you did not have this title. You may have completed 90% of the work managing that division but if the private equity firm checks that claim and sees that someone else was manager of that division during the time you claim, your whole resume and credibility will be called into question. This is why it is important to have someone questioning each statement you give in an interview or on a resume.
- **Reminding you of your qualifications:** The [resume](#) and the interview are places to brag, which can be difficult for some people who are modest by nature or expect that managers want someone who is modest. While modesty is a great quality, it's hard to get a job unless you accurately and strongly present your worth. I always look at the interview process as an opportunity to give my case why the company should hire me. If you want to present a convincing case, you need to show off all the reasons you are *the best* person for the job. As I said, some people are uncomfortable with this idea, so a third party can help draw out your qualifications and remind you why *you are* the best for the position.
- **Simple typos or grammar issues:** I cannot tell you how many applications I have looked through that are riddled with typos and grammar mistakes. Most employers (fairly or unfairly) consider this a reflection of your abilities. These mistakes can reveal a number of things about your character and work ethic such as: inattention to detail, poor education, failure to self-edit, etc. It is hard to blame the employer for this, you give them very few examples of your ability to write and work. So if one of your writing samples (the resume) has flaws, the employer has to draw some conclusions about you. The best way to find these mistakes is to have at least two people look over your resume. The [Certified Private Equity Professional program](#) offers free resume reviews to all participants.
- **No surprises:** Employers often try to throw you a curve ball in the interview. She knows that you have rehearsed your answers in anticipation of his questions. So a good interviewer will push you away from your "script" with an atypical question. Practicing your interview with a third party is a great way to learn how to think on your feet and respond confidently. The best practice interviewer is someone who works in private equity or is knowledgeable about the industry so that she can give you realistic and unexpected questions.
- **Assessing your abilities:** A third party can also let you know what positions you should be looking at. This person can give you an independent assessment of you and your qualifications. Again, it is best to get someone with some experience in the industry or knowledge of private equity such as a former employer, associates, or a business/finance professor. For instance, you may have the skills and intelligence to work in a more senior role at a private equity firm but a third party could advise you that you need to improve your education through an MBA to seriously be considered for the position. Conversely, you may

not realize that you are qualified to advance to a higher position in the firm. A third party's assessment will help you realize your full potential and how to achieve realistic goals.

Having a third party assess you during your private equity career is a good idea, especially during the resume and interview process. This is one article that is included in the Private Equity Career Guide provided to participants in our [Private Equity Training Program](#).

PRIVATE EQUITY SERVICE PROVIDER JOBS

I receive many e-mails each month from professionals interested in working in private equity. They are hardly ever searching for a position outside of a private equity firm, as a service provider. This is not really surprising considering the great compensation and benefits from working for a private equity firm, but a service provider career can be just as rewarding. You miss out on some great job opportunities by strictly limiting your career search to the typical positions within a buyout firm such as analyst, associate or junior portfolio manager.

While some service provider jobs may seem less glorious than working directly for a private equity firm, there are great career opportunities for someone who has experience in fields that may not fit exactly into private equity. For example, an accountant may have an interest in private equity but has no experience in raising capital, investor relations, finding and executing deals or any other part of the buyout process. While he may have a tough time finding employment in a private equity, he could be taken on as a specialized alternative assets auditor. This offers competitive compensation and a chance to work one on one with buyout firms because service providers work with multi-million dollars and even billion dollar clients.

Attorneys, third-party and fund-of-fund marketers, fund administration and IT technology service providers can also work in the private equity industry. By taking the less traveled route, career professionals can land high-paying and rewarding jobs in private equity.

TOP 10 STEPS TOWARD A PRIVATE EQUITY JOB

Landing a job in private equity is difficult but it is not impossible if you work hard and develop a plan for getting into the industry. The following is my top 10 steps for getting your foot in the door with a private equity firm. I cannot guarantee that these steps will get you a private equity job but by following this plan you will at least improve your chances and make yourself a more attractive candidate for private equity firms. For more career articles and videos, see our [Private Equity Training Program](#).

Step 1: Be Sure You Want to Work in Private Equity

- Private equity is a competitive field; do you have the passion and interest in private equity to compete in this industry?
- If you are dedicated to working in private equity it will show in your ability to network, knowledge of the industry and all your actions toward working in the industry.
- On the other hand, if are not passionate you will not be able to compete in the field of private equity with those individuals who are willing to go the extra mile to get a job in the industry.

Step 2: Become a Student of the Private Equity Industry

Take meaningful steps to enhance your understanding of private equity by:

- Subscribing to private equity newsletters
- PrivateEquityBlogger.com newsletter or another PE site
- Reading at least a chapter of a private equity-related book daily
- Joining a local or collegiate private equity association or club
- Talking with professionals in the industry as much as possible

Make sure you know:

- Who the major players are in the private equity industry or within your niche, if you focus on a certain investment area?
- What terms are important to know?
- What are the responsibilities for different positions in a private equity firm?

Step 3: Decide What Job You Want

Narrow down your search to 1 or 2 positions:

- Consider what area of private equity and investment industry you are most passionate about.
- Find what position fits your abilities and qualifications best.
- Consider other variables such as salary, location, competitiveness of industry.
- Try to find a job that fits these criteria.

Step 4: Find a Private Equity Mentor

Choose the right mentor:

- Find someone with experience in the industry.
- Reach out to finance professors, family, friends for connections to mentors

- Do not over-communicate with your mentor by sending long emails or calling too often.

Step 5: Develop Your Unique Selling Proposition

- What makes you different from other candidates?
- Do you have valuable experience in a related industry?
- Do you have any special skills?
- Do you have any designations or awards that show your ability to perform?
- If not, develop these areas to give you an advantage over other candidates.

Step 6: Complete at Least One Internship

- An internship is a great way to get your foot in the door.
- Be open to unpaid internship, experience is valuable.
- Look for one in a niche or field related to where you would like to work.
- Consider working at a service provider or help a private equity start-up.

Step 7: Private Equity Resume

Typical characteristics of a private equity resume:

- Reputable or ivy-league business school
- Professional designation (CPEP, for example)
- Past experience or specialization (PR, Marketing, etc.)
- High quality names for last employer, especially investment banks or related firms.
- Crafting a quality resume [here](#).

Step 8: Land the Unadvertised Private Equity Job

Find the unadvertised private equity job by:

- Cold calling firms
- Exchanging e-mails with private equity professionals
- Attending networking events
- Offering to work for a free trial period

Step 9: Consider Working for a Private Equity Service Provider

Consider all avenues for working with a private equity service provider:

- Information technology
- Fund Administration
- Third Party Marketers and Sales
- Compliance Services

Step 10: Now You're Ready to Apply to a Private Equity Firm

- Update your resume with new qualifications and experiences you've added from the previous nine steps as well as feedback from your mentor and interviews.
- Reach out to professionals you have met during your research for potential job opportunities.
- Check back with firms you have spoken with previously.
- Be persistent.

ENTRY LEVEL PRIVATE EQUITY JOBS

If you're looking to work in private equity, it's likely that you have wondered, "What Are the Best Entry Level Private Equity Jobs?" This is a great question, and I have talked to this issue many times. Here are some of the best entry level private equity jobs out there:

Analyst: A common entry level job at a private equity firm is as an analyst. Typically, these professionals come from a job in finance (usually at an investment bank) where they worked as an analyst too. Still it is usually seen as a promotion or at least an opportunity to advance to a better position at a PE firm compared with analysts at investment banks.

As an analyst you will complete a variety of tasks, most importantly evaluating potential investment opportunities by completing valuations, identifying problems and potential in the company as well as completing due diligence on companies. In this position you will use highly sophisticated financial models to inform the private equity firm's decision to invest in the company. The analyst will also determine whether a potential investment fits with the buyout fund's portfolio based on the firm's financial statements.

Associate: An associate is the other typical entry level private equity job. Associates usually have a strong and often diverse background in addition to solid skills in financial analysis and valuation. Associates have a number of tasks that can range across all aspects of the deal-making process. An associate must have technical expertise in each area that the firm invests in to make competent decisions regarding investments. Of course, an associate must have the financial modeling skills that an analyst possesses, too. Additionally, an analyst will talk personally with clients and team members. Associates are often groomed on a partner-track so that eventually they will scale the ranks to the top of the company.

Associates should have highly developed skills in the following areas:

1. **Technical skills-** Firms often specialize in a certain sector or domain. An associate's responsibility is to gain expertise in that area.
2. **Analytical skills-** Associates must be able to understand business models, research and collect relevant data, and conduct an extensive analysis on potential

investments. The [top MBA programs](#) prepare candidates for this area of the job to a small extent, but further self-preparation is recommended.

3. **Interpersonal skills**- Not only are interpersonal skills important for succeeding in the firm, a large part of a private equity associate's job is networking with contacts--from investors to service providers. Interpersonal skills are essential for success in the private equity industry

The analyst and associate are the two most common entry level private equity jobs although you may find specialized positions in the private equity firm, as well.

FAQ: HOW TO WORK IN PRIVATE EQUITY

As a new resource to this blog, I will be answering the [frequently asked questions](#) that I receive by e-mail each week. Today I am focusing on a common one, a student or financial professional says they want to know how to work in private equity. If you want to learn more about how to start a career in private equity, see our [Private Equity Career Guide](#)

Question: I want to know How to Work in Private Equity

Answer:

This is a complicated question because there are many ways to begin a career in private equity. Many professionals come from a career in a related industry such as investment banking, corporate finance, venture capital, etc. This path is typically that of someone who studied business in college and went straight to work in finance or business management. After a few years, this person decided that private equity is an attractive field because of the competitiveness and challenges in deal making and, of course, the compensation.

Others try a more direct route to the industry. These people know that private equity is where they want to work and they do not want to work elsewhere. In my experience, this is a much more difficult way to enter the industry. Private equity firms to hire a person with experience or proven talents to bring to the firm and who does not require a lot of training. For a rookie who has just graduated business school and is looking to make the jump to the "big leagues" without spending some time in the "minors", it's hard for a private equity employer to know whether the candidate is qualified or ready for a demanding job (forgive the baseball references). The firm does not want to spend a lot of time training a new hire only to see the professional quit after a year.

So, I recommend getting a good amount of experience working alongside private equity firms or in a related field. There are a few ways to get this experience.

- **You can devote 2-4 years at an investment banking firm** or corporation and then use that experience to try to make the transition. This shows you can work in finance and have been a quality employee for the investment bank or corporation.

- **Try to land an internship with a private equity firm or venture capital firm.** This is difficult; many firms would rather invest the time training an employee than an intern. But if you can get some work experience at a firm, you will be able to show future private equity employers that you are able to work hard and that you are familiar with the field. The firm you intern with may even take you on at a full-time position if you prove yourself.
- **Work for a service provider to private equity firms.** I work with a hedge fund marketer who got his start with a service provider to hedge funds. He started out working unpaid to prove to the marketer that he could bring in money for clients, and then he was hired full-time. This gave him experience working directly with hedge funds. After a year or two he had built a good list of contacts at hedge funds and was receiving job offers to work in-house for several hedge funds. The same goes for private equity firms. Working at a service provider to private equity firms is a great way to learn more about the industry and develop relationships with private equity firms that may hire you later on.
- **Consider a training or certification program.** There are a few training programs out there that will help you develop some experience and knowledge of the industry so that you have something to show in an interview. This will also build your familiarity with the industry so you can talk confidently in an interview or when networking. To get information on our private equity training program, [click here](#).

These are just some answers to how to work in private equity. Private equity professionals come from many different backgrounds and there is not necessarily one perfect path to a career in private equity. Hopefully this has given you some ideas on how to work in private equity.

TOP 25 BUSINESS SCHOOLS FOR PRIVATE EQUITY

I am frequently asked, what are the best private equity business schools? There are a very limited number of business schools specifically offering training in private equity but many B schools have courses covering private equity, M&A, buyouts, buying and selling companies and valuation. Other lists do exist but I think a lot of these do not really rank based on private equity but rather they are just great business schools.

I have worked and talked with many business schools and based on these experiences I am making a list of the best business schools for private equity. If your school is not listed and you feel it deserves to be included, please send me an e-mail. To learn about our online private equity certification program which provides participants with a strong background and education in private equity, [follow this link](#).

List of the Top 25 Best Business Schools for Private Equity

1. **Harvard Business School- Private Equity and Venture Capital:** Harvard Business School is respected as one of the best in the world (if not the best). HBS offers a five-day long program on private equity and venture capital in the fall. *October 31–November 4, 2010* (HBS Campus) for a cost of \$9,250.

Additionally, Harvard offers Private Equity and Venture Capital – Asia, June 8–11, 2011 (Tsinghua-SEM, Beijing, China) \$7,750 USD

2. **Dartmouth** offers a private equity focused Masters in Business Administration. This still stands out to me as one of the most concentrated schools on private equity. Also the Tuck School of Business is friendly to private equity students, offering internships in the industry, private equity clubs and private equity fellowships. [see here.](#)
3. **University of Pennsylvania:** Wharton is a great business school for private equity with Wharton Private Equity Partners, a fourteen-year-old association representing 2,500 alumni. This group also holds interesting private equity related events and lectures. For more info on WPEP, [see here.](#)
4. **University of Chicago Booth School of Business:** Through the University's Private Equity/Venture Capital club students enjoy a variety of year-round social events, invited presentations, and panel discussions featuring speakers from a wide range of industries. Booth's PEVC club also provides a forum for students to share experiences and discuss mutual interests in entrepreneurship, venture capital, and private equity. Finally, the club aims to enhance the sense of community at the Chicago Booth. For more information on University of Chicago's Private Equity and Venture Capital Club [see here.](#)
5. **The University of North Carolina Kenan Flagler:** Now, this school deserves to be seriously considered simply because it offers its students an awesome opportunity to run a private equity fund. I wrote on this previously when one of the students approached me, and since then the students have launched a second private equity fund. Read that article for more information on the [student-led private equity fund.](#)
6. **New York University:** I spoke with a professor at New York University's Stern School of Business this year and he expressed his interest in expanding the school's programs and lectures on private equity. This is in addition to the current offerings on private equity such as the recent 5th Annual NYU Stern Private Equity Conference that took place this past March. This event and others are put on by the Stern Private Equity Club.
7. **Columbia University Business School:** I have been really impressed by [Columbia's Private Equity Program](#) which links alumni working in private equity with current Columbia students. From their website: 'In 2007 Columbia Business School launched the Private Equity Program, which serves as the School's primary point of contact with the private equity industry, unifying students, alumni and the business community into a single network. The program is dedicated to forging ever closer ties with the private equity industry by reinforcing the School's commitment to linking theory with practice and by engaging alumni who continue to lead the development of the private equity and venture capital industries worldwide.'
8. **Duke University:** Despite Duke University's shying away from private equity in its investments, the Fuqua School of Business is very dedicated to educating its students for careers in private equity. Like other top-tier business schools, Duke

runs a [large private equity club](#) as well as an asset management club and venture capital club. 'The Duke Private Equity Club is a student-run organization committed to enhancing the connection between the private equity industry and the entire Duke University community of students, faculty and alumni. Throughout the year the club sponsors events that provide educational, career and networking opportunities for its members.'

9. **Northwestern University Kellogg Business School:** Kellogg seems to provide a pretty good education in private equity with PE veterans on the faculty but really it is just a quality business school that is worth consideration no matter what your end goal is. [see here](#)
10. **Yale School of Management:** Yale graduated Stephen Schwarzman (but just as an undergraduate, he went to HBS for business school). But still, this is a solid business school and it hosts a popular conference on private equity every year for the last ten years that is coming up this November. [See here](#)
11. [Stanford Graduate School of Business](#)
12. [University of Virginia Darden School of Business](#)
13. [Cornell University](#)
14. [Georgetown University](#)
15. [University of California, Los Angeles](#)
16. [University of Michigan](#)
17. [University of California, Berkeley](#)
18. [Massachusetts Institute of Technology](#)
19. [University of Texas, Austin](#)
20. [University of Southern California](#)
21. [Indiana University](#)
22. [Arizona State University](#)
23. [Emory University](#)
24. [University of Rochester](#)
25. [Carnegie Mellon University](#)

Business schools are great and many times employers require you to have obtained an MBA before hiring or promotion. But business schools often do not offer very in-depth training that prepares you for a career in private equity. A great way to supplement your education is by enrolling in the Certified Private Equity Professional program which offers training in private equity 100% online. To learn more about the CPEP program and how it can prepare you for a career in private equity [follow this link](#).

PRIVATE EQUITY POSITIONS

If you're considering applying for a job in private equity, here is a brief introduction.

Private equity jobs are typically separated by primary areas: number crunching; appraising and executing deals; and originating deals.

"The Number Crunchers"

The number crunching area consists of the junior staff. These employees are usually offered short two year contracts and their main duty is to analyze potential investments. The number crunchers look at the accounts of the companies that the fund is considering and constructing financial models for calculating how much these companies are worth.

Appraising and Executing Deals

After the number crunchers finish calculating and analyzing the investments, the next set of people take over the deal. These people, sometimes called the principals, take the information that the number crunchers gathered and decide whether the investment is beneficial to the firm and what the price should be set at. If these people decide that the investment works for the private equity firm, then they help execute the deal.

"Originators"

This leads to the "originators" who are more senior than those who appraise the deals. These people are typically the fund's partners and their responsibility is to oversee the deal while it is being executed. Their duties also include originating new deals by finding more companies to invest in. These people use their senior status to build relationships with top executives in companies, possibly using that connection to coordinate a deal later. After the deal has been completed, the principals and partners nurture the company. This nurturing role may involve a position on the company board and advising a strategy that will lead to increased profits.

Necessary Skills for a Job in Private Equity

In order to be seriously considered at any position in a private equity firm, you generally need an excellent academic record--usually an MBA from a quality university. In addition, many recruiters want professional experience of at least a year in investment banking or a relevant industry. The salaries in the private equity industry range by

position, but data suggests that private equity compensation is exceptionally high.

PRIVATE EQUITY ASSOCIATE

A private equity associate is the typical entry-level position for MBA graduates. An associate candidate should be able to perform at all stages of the deal, from making the deal to operations and even fund raising. For a video on private equity associate compensation, [join the Certified Private Equity Professional program](#).

A worthy candidate should possess three core skills:

1. **Technical skills**- Firms often specialize in a certain sector or domain. An associate's responsibility is to gain expertise in that area.
2. **Analytical skills**- Associates must be able to understand business models, research and collect relevant data, and conduct an extensive analysis on potential investments. Most MBA programs should prepare candidates for this area of the job to a small extent, but further self-preparation is recommended.
3. **Interpersonal skills**- Not only are interpersonal skills important for succeeding in the firm, a large part of a private equity associate's job is networking with contacts--from investors to service providers. Interpersonal skills are essential for success in the private equity industry.

Private equity associates are expected to interpret data rapidly, interpret it effectively and come up with a conclusion. Although an associate's duties vary by firm, that any associate should possess.

PRIVATE EQUITY NETWORKING EVENTS TIPS

Many professionals fail to take advantage of these opportunities, even those who attend. [As a Platinum Member of PrivateEquity.com](#) you'll have free access to our networking breakfasts and big discounts on conferences. Here are 5 tips that should prepare you for attending a networking event or conference:

1. **Don't Be Shy:** it's a good start to attend a private equity event but you do not gain anything if you do not talk to other attendees, speakers and sponsors. The event is only valuable if you make it valuable, so network and socialize with those around you.
2. **Don't Scare People Off:** Another mistake is to be too forward when approaching managers or service providers, especially those looking to land a job in private equity. Instead of sharing insights and thoughts on the industry, many young professionals will focus entirely on their own needs (a job) and ignore those managers or executives that are not currently hiring. This is the wrong mentality. Assuming you have been following the industry and paid good attention to the speaker, you will have a good starting point for initiating a

conversation. Ask questions when appropriate and listen when the other person is speaking. If you are looking for a job, don't start a conversation with that problem. Those who work in the industry are not paying to hear someone complain about not working in private equity. But you should mention it if the timing is appropriate.

3. **Get Your Name Out There:** If you cannot find a hiring firm or no firms are interested in your product or service, don't despair, get your name out there. It may just be an inconvenient moment or the person you are talking with is not the right person at the firm; for example, if you are marketing your auditing service to a principle in charge of evaluating deals, he may not be interested. Give him your business card regardless, in a quarter the firm may be looking for a new auditor and still have your card. Even if you do not directly land a client through this method, it boosts your firm or your own name recognition. If you're looking for a job (from analyst to executives) give your card out, when the firm is eventually hiring they will probably have your name on file.
4. **Prepare an Elevator Pitch:** It may not sound great, but you are a product that needs to be sold. Therefore, you need to have a great elevator pitch that comes out effortlessly. Whether you are looking to network, marketing to investors or job seeking, a solid elevator pitch is necessary. Be concise and include only essential information.
5. **Look and Act like a Professional:** Even though you are not at work when you're attending an event or conference, act like you are. You are meeting potential clients and partners, so you essentially are working. Wear a suit and if it's hot, as many crowded events are, at least make the initial effort and take off your coat once you sit down. Your mother was right; first impressions are very important. So, look your best (haircut, shave and a suit) or no one will take you seriously. It's better to be overdressed than underdressed. Remember your manners, especially if it is catered event and use language that you would be comfortable using in the office.

Visit WilsonConferences.com for our latest upcoming networking breakfasts and conferences. You can meet our team and other private equity professionals to discuss the industry, find investment opportunities, and build relationships with other dealmakers.

PRIVATE EQUITY NETWORKING TIPS II

These are some of my favorite more general private equity networking tips. Networking is an especially important for private equity, because no matter which aspect you are involved in so much of the work is personal. It's all about who you know; whether it is finding potential investors or meeting entrepreneurs. So here are some basic but helpful private equity networking tips, I'll be adding more in the future:

1. **Be aware of the impression you make-** Are you someone who gives help or advice for the sake of helping out another professional or are you someone who looks only to advance yourself? If you are greedy and care only for your personal success you will come off as such a person and people will not want to do

business with you. Building relationships that benefit both parties will ultimately reward you in return.

2. **Be excited about what you do-** When you're talking to other professionals you don't want to complain about your job or talk about the least attractive aspects of it. You should be excited and therefore exciting to listen to so that your audience wants to know you and possibly even do business with you.
3. **Prepare and practice your self-introduction-** Of course you understand your job but you have to be able to explain clearly what you do and what makes that interesting. Sometimes first impressions really are everything, so eloquently and confidently introducing yourself is a crucial aspect of networking.
4. **Anticipate rejection and overcome it-** Not everyone is going to be interested, so take rejection in stride and move on to better prospects. I appreciate rejection because then I don't waste my time on someone who isn't really interested so I can find someone who is.
5. **Bring business cards...everywhere-** You never know where you are going to meet a contact so bring business cards anywhere you go. Sometimes I find myself making a great contact at a friend's dinner party or sitting next to me on an airplane.
6. **Repeat People's First Names-** This plays to the more personal side of networking, where you are building more personal business relationships. Thanks to David Drake of LDJ Capital for this addition.

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DO YOU REALLY WANT TO WORK IN PRIVATE EQUITY?

I receive e-mails every week from eager young professionals looking for an entry point to the private equity industry. A familiar phrase is "I want to work in private equity" but I would guess that few really consider if they can commit to a career in private equity. So, I'm asking potential private equity professionals: do you really want to work in private equity?

There are an infinite number of careers you can pursue, but if you are reading this, we can probably assume that you have settled on finance. Committing yourself to working in the private equity industry is a necessary first step toward achieving that goal. If you are simply trying for any business or finance job that you can find, you are at a disadvantage to those who have a single goal of working at a buyout firm.

If you do not commit exclusively to private equity you have to spread yourself and your resources over several industries which makes it significantly more difficult to meet with people connected in each industry. While you are being spreading yourself too thin

across hedge funds, private equity, mutual funds and other areas; a committed competitor is networking with private equity professionals, joining private equity associations, interviewing at with managers and partners and taking other concrete steps toward a private equity career.

If you really want to work for a private equity firm, it will show in your self-discipline, networking, knowledge of the industry, passion and, ultimately, your actions. You can change your mind later, but if you want to try to work in this industry - go all in and learn as much as you can. Make the decision to change focus, commit to it for three to five years and see what comes of it.

A common question during an interview with a private equity firm or recruiter is "Why do you want to work in private equity?" If you can offer an honest answer that displays your dedication and interest in the industry, then you are on your way.

If you'd like to learn more about the industry, please see our [Career Guide](#) which has helpful resources for advancing your private equity career.

PRIVATE EQUITY JOB MARKET

Many [Private Equity Blogger](#) readers are MBA students/recent graduates or professionals hoping to make the switch from another finance career to private equity. I have made a point to update the site with as many resources as possible related to private equity careers. For other Private Equity Blogger career resources please refer to the list at the bottom of this post.

Speakers for the recent private equity and venture capital conference at the Harvard Business School cautioned that today, MBA grads need to have some patience--along with good grades and experience. Those who graduate with a Master's in Business Administration are faced with a very adverse private equity job market, perhaps only rivaled by the burst of the tech bubble. Many firms are imposing a freeze on hiring or even cutting jobs--see [Carlyle cuts 10% of staff](#). This leads Rob Go, a senior associate with Boston-based VC firm Spark Capital, to warn, "Think about the funds that you want to join and then think out two to three or four years."

Interestingly, the private equity industry speakers suggested that hopefuls turn to alternate routes rather than focusing only on private equity, such as with the government or within a start-up:

"If I were looking for a job, I'd work at [the Department of Energy] for a few years and then come out and [find] a clean tech firm that has to penetrate those [regulatory] networks," said Craig Driscoll, a partner at Lexington, Mass., venture capital firm Highland Capital Partners LLC.

Another suggestion was to make an effort to separate yourself from the other job candidates with special skills: "Take an unconventional path and be okay failing," said

Josh Wolfe, co-founder of Lux Capital Management, a New York venture capital firm. "Running with the herd made sense with the vast majority of the evolutionary past, but it doesn't make a lot of sense in an investment world."

The moderator of the event, a partner and head of a New York-based private equity recruiter, similarly spoke of thinking outside the box by seeking positions besides an analyst or partner. Instead, he advises to look into investor relations or risk management for private equity firms because positions such as the CFO or COO for a large firm can be highly lucrative and rewarding.

Although the panelists cautioned against working at a second- and third-tier private equity firm, they concluded on an optimistic note, with one VC remarking: "In 2001 to 2003, we saw MBAs with anxiety, but that vintage of MBAs has turned out pretty well. The people that have been through a crisis come out more battle hardened."

TOP PRIVATE EQUITY TRAINING PROGRAMS

In this article I would like to run through some of the top private equity training programs available today. It can be difficult to understand the benefits and disadvantages of each program so I hope to tease out some of these issues today. There are many financial designations and training programs out there but few focus entirely on private equity. The following is an overview of some of the private equity training programs available today.

Private Equity Training dot com

This website is geared toward people who simply want to learn more about the industry but do not want to enroll in an intensive training program. The site offers prep materials on private equity including a guide to the leveraged buyout (LBO) model, a general PE guide, or an interview guide. This is not your traditional training program but more of a resource provider. According to the site, it is for investment bankers, consultants and students.

Certified Private Equity Professional

If you're looking for something more in-depth, you may be interested in a professional certification. The [Certified Private Equity Professional](#) (CPEP) program is designed exclusively for those who work in the industry, would like to begin working for a buyout firm, or would like to better understand and serve their PE firm clients. The CPEP program is completed 100% online which agrees with many working professionals and students, or those that live outside the United States.

This is a more intensive training program than some of the others available and gives participants a wide breadth of PE knowledge, rather than a strict focus on LBO modeling or another specific aspect. The program has a required reading list, several complimentary resources including career coaching videos and explanations of some of the complex aspects covered in the reading and more, as well as an exam that tests your knowledge of the industry.

Once you have passed the exam and completed the program (typically within 3-6 months) you will receive a designation that you can include on your resume showing that you have a strong knowledge of private equity and you have received training in the industry. Many participants view this as a valuable qualification to add to their resume separating themselves from other job candidates and increasing their confidence walking into an interview. If you would like to learn more about this private equity training program [visit the CPEP website](#).

The Private Equity Institute

This program combines the classroom with online courses so it could be either convenient or inconvenient if you don't live where the courses are offered. If you do not live in New York City though, you cannot enroll in this company's class room courses and would have to take the online courses only. These courses cover many different aspects of private equity from Private Placement Memorandums, legislation and SEC rules, marketing, valuation and investors. Depending on where you are or what you want to learn and where you are in your career this could be a helpful training program to consider.

Private Equity Seminars and Conferences

Now if you are super-busy and do not have any time to enroll in this program, the CPEP or PEI program might be a bad fit. Instead you should consider a short seminar or conference. These are typically 1-2-day conference in major cities that have speakers from PE firms but they do not often provide the kind of PE training that professionals are looking for.

Admittedly I am somewhat biased toward the Certified Private Equity Professional designation as I helped develop this program. But I believe there is value in all of these programs and training seminars. I hope this has been a good overview of the top private equity training programs out there today.

I have worked alongside the [Private Equity Investment Group](#) team to develop the [Certified Private Equity Professional designation](#). This program is designed specifically

for private equity and provides participants with the resources and knowledge to work in the industry. For more information on how you can enroll in this private equity training program [visit our website.](#)

Private Equity Capital Raising



TIPS FOR PRIVATE EQUITY FUND MARKETING

The marketing of private equity funds can be a difficult business, especially if you're fresh in the industry. Success in fund marketing comes largely from building a reputation within the private equity sphere, but consistent work toward building your presence will at least get you in the door. Here are some private equity fund management best practices:

1. **Focus on Building Authority:** The power of true authority within an industry trickles down and puts other influential factors into motion which help you develop valuable relationships
2. **Move the Free Line:** Give away your best ideas within press inquiries, books, interviews, articles, white papers and videos
3. **Diverse Investor Case Studies:** Have at least two case studies of investors choosing to place capital with your firm for each of the major distribution channels you are focusing on raising capital from. For example, have six total case studies if 90% of your efforts are focused on family offices, wealth management firms, and HNW individual selling.
4. **The 4 P's of Marketing Materials:** Focus on Pedigree, Process (USP), Portfolio Risk, and Presentation Quality

PRIVATE EQUITY CAPITAL RAISING BEST PRACTICES

Richard Wilson is an expert in capital raising and has helped many alternative investment funds raise capital. We often trade capital raising advice and talk about what strategies alternative investment firms are employing to raise funds. Today he will share with us some advice on capital raising. If you're interested in contacting potential private equity investors, why not look into the [Private Equity Investor Directory?](#)

Lately I have been meeting with and speaking to many experts in capital raising that collectively have raised over \$100B within the alternative investment industry. One thing keeps coming up again and again while we complete these interviews.

That is that while there are best practices, time saving strategies, costly mistakes to avoid, and blazed paths to follow part of the winning solution for private equity fund marketing is simply working your face off.

You have to make mistakes, take action, implement what you learn, and try what is being taught. You cannot outsource everything, you have to invest your personal time in doing these things and as Wyatt Wood small says knowing plus doing is when learning occurs. Simply knowing something leads to 0 growth and 0 progress; you can know everything in the world but without taking action you are not going to raise a single dollar. Jeffrey Gitomer was one of the first "sales gurus" that I was trained by and he always talked about waking up every morning and kicking your own ass. If you do this daily, and with focus you are 20x more likely to eventually succeed and raise the capital you need.

I hope this post is reassuring to those who are reaching out to potential investors daily and constantly improving their marketing materials and a source of motivation for those who have been putting it off for too many months or years without serious attention.

PRIVATE EQUITY FUND MARKETING COW PATHS

The following is a short guest post from capital raising Richard Wilson.

I recently heard Eben Pagan speak in LA at a marketing conference on how business is typically conducted. I was reminded of that talk while I was in Boston last week for our Hedge Fund Premium [networking event](#) (which was great).

The streets in Boston were actually old cow paths that the city decided to just pave over to create the roads of the city. The result, is a very complicated maze of one way streets which really only make sense to the most veteran cab drivers. This is not the cows' fault, they simply walked in the direction of least resistance. The point here is that nobody stepped back and looked at where the cows had wandered and asked if there was a better way to get the project done...they simply followed where cows had walked in the past.

Pagan's point in telling this story was that in every business, every form of marketing and even within the fund business there are cow paths everywhere. Are you and your business wandering around on cow paths of what others have done in the past, or are you building a super highway straight towards your goal?

Areas to examine for private equity fund managers could include hiring, capital raising, employee management, performance reporting, transparency, governance, and investor relations. Our team often steps back and looks at competitors, other industries, and steps to the work we are trying to complete to see if there is a more direct or efficient way of completing it. Hope this story helps.

PRIVATE EQUITY ADVERTISING AND MARKETING

There are many restrictions on private equity fund advertising and marketing. Private equity firms do not contact average, non-accredited investors to invest with their funds. While this means private equity firms will not take out TV or radio commercials, there are many grayer areas where many private equity firms are now self-promoting or more subtly establishing their branding. To gain access to the contact details for thousands of private equity investors check out the [Private Equity Investor Database](#).

I never provide financial advice on PrivateEquityBlogger.com and this is surely not a recommended or list of “safe” ways to market your fund. No matter what you hear from a consultant or at a conference always check with your own compliance officer or legal counsel before taking any action. Here is a list of ways in which funds are currently marketing their strategies:

- **Websites** – Many funds have websites describing their firm and investment strategy/focus. Some go as far as to explain what their strategy is in detail along with their current assets under management and who is on their portfolio management team. These websites may cost between \$1,000 and \$25,000 to create and generally \$30-500/month to maintain. A few private equity managers or mid-level employees even run blogs.
- **Public Relations Professionals** – Many private equity firms actively engage public relations firms to help increase the number of quotes or in-story mentions their firm’s executives get placed within mainstream media outlets. These consultants may work on some one-off crisis management projects for a premium but generally prefer \$2-12k/month retainers instead.
- **Book Publishing** – One of the many ways which private equity managers are promoting their businesses is through publishing books on the topic of private equity or business more generally. These books may be on industry trends, portfolio management theories or one’s experience in the industry. Many professionals within the wealth management space are hungry to learn more about private equity and books which bridge the gap between what can be learned within editorial articles versus an educational book. Some niche publishers will publish books by private equity managers but most avoid publishing anyone who doesn’t have a marketing network or a real “media brand” behind their name which has been built up for several years. Due to this fact some private equity managers self-publish their own books through programs such as Lulu.com.

- **[Conferences](#)** – One of the ways in which private equity managers market themselves each week is by speaking at conferences and events within the industry. These events could discuss marketing and sales, private equity in general or be on niche subjects related to what the firm invests in such as technology or alternative energy. This strategy can be highly effective because it can support and serve as a direct marketing arm for the strategies mentioned above. Most speaking engagements do not pay, but many firms will at least cover your expenses and display your logo and name prominently at the event. Broker dealer conferences can also be productive events for hedge fund managers to attend. If you can gain a distribution agreement with HNW-focused broker-dealer and obtain a speaking engagement or booth at their event, it can be a great way to get your foot in the door with some new face-to-face relationships with HNW advisors with the specific broker-deal group holding the conference.

- **External Consultants** – While not technically advertising, thousands of firms choose to use the help of external consultants to help market their private equity funds. These consultants could be experts within raising capital within a specific channel, creating marketing materials or creating a marketing message. Those consultants who take on whole or partial responsibility for raising assets on behalf of the private equity manager are often referred to as third party marketers.

- **Television Interviews** - It is becoming increasingly more common for private equity partners to appear on CNBC, Bloomberg or Fox Business to provide commentary. This is a powerful way to reach a broad audience and establish your brand. A capable public relations firm will be able to get you interviews and opportunities to comment on the financial talk of the day. With more and more viewers shifting to online resources, there are a great number of online media outlets like the Deal which regularly interview private equity managers.

[Database](#) - Another way to boost your brand recognition and market yourself to private equity investors is to make sure that your firm is included in private equity directories and databases like the [Private Equity Directory](#)

Naturally, it is important to complete thorough due diligence upon any groups which you ask to represent you in the market for both effectiveness and compliance reasons. Do not simply sign-up with someone to represent your firm simply because they promise that they can raise the assets which you have been looking to raise.

There are many other ways to market and grow your private equity fund which are not related to advertising or traditional marketing but most of these fall under more traditional means or external consultants.

FOUR CAPITAL RAISING SECRETS

Richard Wilson is an experienced third party fund marketer who consults with hedge funds and writes for HedgeFundBlogger.com. I talk weekly with Richard and he always has some great tips on raising capital, the following is a guest post on raising capital.

There are many aspects of capital raising which are counter-intuitive. These tend to involve lessons learned the hard way, over time that eventually gives managers who have moved up the learning curve of raising capital a distinct advantage.

Here are the Top 4 Capital Raising Secrets I have experienced and noticed first hand that many \$100M-\$300M alternative asset funds are still picking up as they grow.

- **Daily Action is How Capital is Raised:** It may seem overly simplistic but many capital raisers or fund principals focus either on very short-term results or only on capital raised and not on daily progress. Your CRM system can easily produce tangible investor pipeline development reports which can track exactly how many tangible physical actions were taken every day towards raising capital. This has to be part of what you consider evidence that capital raising efforts are well underway. Focusing only on capital brought in leads to un-managed expectations and high turnover with both third party marketers and in-house marketers.
- **Moving up the Capital Raising Learning Curve Quickly is a Competitive Advantage:** How well trained is your team? The average fund spends less than 2 days a year, or less than \$1,000 per employee on training, yet a huge multiple of this sum of money on marketing materials, overhead and infrastructure. What if your team was trained to raise capital 3x more than your competition? What if you could work 20% more efficiently and get 20% more accomplished every single day? That would lead your firm on a path to raising an exponentially higher amount of capital than others because you would more quickly be able to experiment and move up the learning curve on how to raise a lot of capital for your fund. Which leads to the next secret of capital raising:
- **Speed of Implementation:** This is something I covered in details during my last in-depth fund marketing seminar called Hedge Fund Marketing Mechanics. The faster you move forward, experiment, test, learn, re-adjust and try more capital raising plans the faster you can adapt. The saying goes the most successful plants and animals on earth long-term are not the fastest or strongest, they are the most adaptive. This is something I remind myself of every day in our own business and when consulting with funds on capital raising plans.
- **Choosing the right investor channel is key** and 5 minutes of planning can save you 5 weeks of experimentation and painful cold calling to the wrong investors. I have learned this the hard way, trust me it is always best to research exactly which channels of investors and in which geographical regions are going to be most interested before trying to reach out to everyone you can. This may seem obvious to \$10M+ funds but as you hire third party marketers, train new

professionals on your team, and delegate it needs to be passed on to everyone. Every team has limited resources so where you spend those each and every day is one of the most important decisions you can make.

E-MAIL MARKETING BEST PRACTICES

Email Marketing Best Practices

1. **Understanding Importance of Copy:** What is the difference between a \$1 and a \$100 bill? The message on the paper. The message on your email, the message on your investor letters, and the message on everything you write makes the difference between it being worth \$1,000 and \$100,000. I think that sales copy writing is consistently under-valued and overlooked by business and investment professionals of all types. One of my best tips for email marketing would be to simply not overlook the power of a carefully constructed email marketing campaign or well written piece of communication.
2. **Use the professional's first name** within the subject of emails to them - Marketing Sherpa 2008 study showed this increased open rates by 30%, using both the first and last name increased open rates by 22%.
3. **Focus on the Headline:** The most important part of any piece of copy is the headline. Often times over email the headline of the email is a slight variation of the subject line, perhaps the subject line minus the person's first name. Focus on fitting a benefit and then the chain reaction of that benefit into the headline if possible. "Double Your Capital Raising Resources to Cultivate More Investors Each Day" We have found that putting the benefit after your firm name is most effective. Just be careful not to promise benefits that are odds with your compliance department.
4. **Focus on the Start:** Hook the reader within the first paragraph. Make sure the first paragraph is no longer than 2 sentences and provides a very concise summary as to what will be discussed within the following message. If possible, try to fit in both what the benefits will be of hearing this information and what the dangers are of not paying attention to this information. Psychology studies consistently show that professionals are almost twice as likely to listen more closely and take action on information related to a fear or some negative result rather than some potential benefit or positive outcome. This does not mean you should scare clients into working with you, but you should hook readers using framing which mentions the positive as well as negative consequences of not taking action. The recent use of email browsers which let you preview the first 50-150 words of email messages make the start of your email even more important.
5. **Use Professional Email Distribution Services:** Use a professional email distribution services such as [Aweber](#), this costs \$10/month or less to start using. By using this service your emails will be delivered more often, your campaigns will be more organized and the service will more than pay for itself through saving you and your time valuable time. Make sure that whatever service you use, you consider opt-in confirmation and enable an unsubscribe link at the bottom of each email you send.

6. **Automate Relationship Development:** Use automated follow up emails. Write a series of 20 educational emails covering industry white papers, industry findings, commonly misunderstood terms, and information about your fund. Once you have qualified an investor, ask for their permission to opt into an email list which will automatically email these professionals once a month for the next 20 months. If you deliver value within each of these 20 emails your further inquiries will be well received. We currently use [Aweber](#) to send out automated emails to over 50,000 professionals each month.
7. **Use Stories:** Whenever you are writing an email or sales letter try to incorporate a story of some type. How was this product created? How did your career and experience evolve and bring yourself to this point where you have gained this knowledge? If you scroll up to the beginning of this post, you will see that I have a short story about my own experience with email marketing which led me to write this article.
8. **Picture & Signature:** End your communication with a picture of the professional on your team which is held out as the communicator or leader. Make sure that a real scanned signature and professional picture are included to help readers connect with your team.

I hope these tips help you improve your email marketing campaigns!

PRIVATE EQUITY FUND MARKETING

The following is a part of our guide to private equity fund marketing tactics that we are building. These are strategies that fund managers should investigate further while working to raise capital for their funds. Before taking any of these actions please consult with your compliance and legal counsel for confirmation that you are able to use these methods to market your specific fund. If you're interested in contacting potential private equity investors, why not look into the [Private Equity Investor Directory?](#)

An Educational Marketing Approach

In a survey of institutional investors, the high majority said that they are unwilling to invest in something that they do not understand. Therefore, your job in marketing your fund is explaining the fundamental aspects of the fund. Your chances of successfully marketing your fund will rise significantly if you take a more educational and easy-to-understand approach.

One way to out-market your competitors is by moving away from the secretive approach, wherein, some fund managers purposely position their fund to appear "black box" and top secret. Instead, you could market your fund as a more open, transparent alternative. Explaining your investment process and strategy in a straight-forward way removes some of the shroud around alternative assets. With impending regulation over the private equity industry it makes sense to embrace transparency and it lays a solid

foundation for a future general-limited partner relationship.

While your explanation can be simple, *this does not mean that you or your fund are simple*. You can still note that your fund uses advanced methods or models for managing its investments. This is a crucial point in simplifying your fund marketing technique: do not undervalue your company giving the investor the impression that you are behind the curve. If the investor wants to know more, most institutional and individual private equity investors are experienced enough to ask for more details which you can gradually offer. The trick in doing this right is striking a balance between providing enough detail and real meat that an institutional investor or consultant will gain some granularity without completely overwhelming the investors or wealth managers who may be less versed in common private equity fund portfolio management techniques.

If you're interested in connecting with a pool of thousands of potential private equity investors, check out the [Private Equity Investor Directory](#).

PRIVATE EQUITY PUBLIC RELATIONS

The value of public relations is an often underestimated or entirely ignored aspect of private equity fund marketing. While there are certainly some exceptions, many private equity firms fail to realize the benefits that can be achieved through public relations. The press sometimes vilifies the private equity industry as vultures preying on struggling companies or merciless owners that strip down and sell off businesses. This view is most likely just the result of a few controversial deals but the private equity industry has not made much headway in repairing its image. Public relations are a key element in removing the stigma of private equity.

Private Equity Public Relations

The media is always hungry for new stories about alternative investing, but some private equity firms keep a no-media policy. This approach only adds to the public's suspicion of the secretive industry. Private equity managers can gain greater visibility for their firm and contribute their thoughts on any deals or trends, rather than allowing the media to draw conclusions based on limited facts and insights.

I would strongly encourage you to talk with your legal counsel to see if they would approve of your discussions with the media--so long as you stick to industry trends, general market trends and long-term movements you are seeing within the industry. If possible, carry out the following steps for implementing a solid public relations program in your private equity firm.

Four Tips for Taking Advantage of Public Relations for Your Private Equity Firm

1. Legal Advice - Speak to your legal counsel to check on exactly what you can say or not say to the press.

2. Reach a Publication - Develop a list of 10-15 targeted publications which you would like to appear in. Identify the editor of financial columns within that publication or news source and introduce yourself to them as a resource.

3. Go Out - Speak at public events, conferences, networking events and other places in the industry where you will be heard not only by others in the industry but probably a few members of the press as well.

4. Share your Knowledge - Consider writing a book on your insights and experience. Private equity is often misunderstood and one way to increase transparency is to publish a book explaining the industry and how private equity firms work. Yes, writing a book sounds extreme to many who are already working 50 hours a week but that is also why it would be so effective to consider doing so. A book on private equity does not have to be exhaustively long, for example, Orit Gadiesh of Bain & Co. wrote [an excellent concise book](#) on the lessons she learned from working in private equity.

PRIVATE EQUITY FUND MARKETING POWERPOINT

In the last decade, marketers have adapted new technologies to attract investors or business partners. However, the PowerPoint presentation remains a standard and effective way to market and present to an audience. Fund marketers and business owners trying to attract investors will benefit from having a solid, professional PowerPoint. Every fund will have a different presentation but there are some common threads for making a great PowerPoint. Here are some tips on improving your PowerPoint presentation.

Private Equity Fund PowerPoint Improvement Tips

Update your PowerPoint quarterly: Most potential investors are likely to have already seen your one pager which is updated monthly. The presentation should mention your performance but the main purpose of it is to present your team's pedigree, investment process and risk controls. Hire a professional editor to spend 1 hour reviewing the presentation after each major review, this typically costs less than \$100.

3 Areas of Focus: As mentioned within the bullet point above the three areas of focus within your presentation should be team pedigree and experience, investment process

and risk controls. Many managers tend to be very high level while describing their investment process and risk controls, often times using terms which are seen too often within generic industry presentations. You have to let out enough of your strategy within your marketing materials so that others know there is actually something there. Solid returns alone, even within these recent markets is not enough, you must provide some explanation of your consistent process, system and parameters for operating. Please see the following bullet points for advice on each of the three most important sections of your PowerPoint presentation

Team Pedigree: Take the time to describe all of the relevant experience that your team holds and try to explain those experiences in ways that mesh well with your firm's investment process and approach to managing risk and executing deals. Many times certain types of experience can be valuable to managing a portfolio of investments but many times that connection needs to be spelled out within the presentation. If after creating this section, you realize that your team consists of just one or two professionals without a long industry track record consider beefing up your close advisory board with industry veterans and experts in risk and portfolio management. It is important to retain capital raising talent as well, but without proper portfolio and risk management professionals or advisory professionals in place you may just spin your wheels. As you expand your team make sure and include a team hierarchy tree to your presentation, this may include your advisory team and a few service providers or research groups which you work with daily and rely upon for operations.

Investment Process: This is the most common area of PowerPoint presentations which needs improvement. I have found it easiest to try to break your investment process into 3-5 steps which could then as appropriate be broken down further during a due diligence phone call or within meetings with potential investors. I would start with a single page displaying the 3-5 step investment process your firm uses; I would follow this by 1-2 pages explaining each step of the process in great detail. This should be written with extensive enough detail not to bore seasoned investors but general enough not to lose amateur investors. Described the tools you follow, valuation process, the decision making process, research inputs, parameters for refining the universe of potential investments and triggers that may affect how the portfolio is constructed at each step. Providing a few private equity deal case studies within this part of the PowerPoint may be helpful. Use real life examples from the previous quarter and update these frequently so that analysts will be able to read into your decisions in context of the recent market conditions.

Risk Management Techniques: Analyzing the risks in investing in a certain industry or especially with young companies is a key concern for investors. Your risk management techniques can be placed within a separate section of the presentation or

tacked on to the end of your investment process section within your PowerPoint. It is hard to go over-board on explaining with granularity what risk management techniques your firm employs. Start with the status quo, what tools, research, stop loss provisions and industry analysis methods does your fund rely on? Next move on to proprietary models you may be using, exclusive industry and potential investment research or experience which provides additional insight into how to manage risk within your portfolio.

More is More. It is often better to go overboard with details on your investment process and risk management details rather than not provide enough information. That being said, never let your presentation grow to over 25 pages unless you have 3 or more products being presented within a single presentation. Getting your PowerPoint right is about balancing transparency and granularity with confusion and information-overload. Everyone is busy and often getting someone to invest 3 minutes to review your one pager can be a challenge of its own.

Remember, listening can be many more times powerful than talking as everyone can talk and most people can't listen, and the more you listen the more you learn so that when you do talk your words are more effective and influential.

PRIVATE EQUITY AND VENTURE CAPITAL ELEVATOR PITCH

The elevator pitch is the situation in which a person with a business opportunity or idea has a chance opportunity to attract a potential investor--like a short elevator ride with a wealthy investor. Unlike formal meetings where you are able to show data, slides or videos and give a lengthy proposal to investors, the elevator pitch is a brief oral presentation that will hopefully interest the investor enough that he will want to hear more through a full presentation.

Be Brief and Interesting

The key to a successful elevator pitch is brevity. While you don't want to appear unprofessional by not listing enough real details, a quick outline of your business idea will leave your audience interested. Too often, great opportunities with investors are squandered by a boring, drawn-out presentation which would be better suited for an office than whatever casual setting. Remember, elevator pitches take the investor's time and if it isn't short and interesting, the investor may immediately reject your idea.

Try for a Full Meeting

If the potential investors seem interested in your idea--and most investors make it very clear when they are not--then try to arrange for a full meeting to discuss your idea, or at least offer to send the investor a more detailed business plan. The point of the elevator pitch is not to immediately secure an investment, it is to court potential investors and

spark interest in your idea.

Explain Your Idea for the Investor

Your idea may be really exciting to you, but investors are mostly interested in making money from your idea. So explain your idea in terms of benefiting the investor, like how your idea will prevail over your competitors and how that will translate to profits. The point is to not get too wrapped up in your idea that you forget to highlight incentives for the investor too.

The elevator pitch is a great tool for conveying your idea simply to potential investors, and while it may not always work for you, when it does work it can be really great, just [ask Joe Luciano](#). He understands the power of the pitch; Luciano is the owner of Motion Golf, and in 2006 he made an incredibly successful pitch to a roomful of investors. Using the elevator pitch method, he gave a short speech of how his use of business idea for sophisticated video technology in golf could make the investors rich. One of the investors liked his pitch so much that he invested \$600,000 and has since invested more than \$2 million in Luciano's company. As success stories like this show, developing a good elevator pitch is critical for entrepreneurs looking for capital.

PRIVATE EQUITY INVESTOR AVATAR

Continuing with our private equity capital raising focus this week, I thought today would be a good day to talk about using an investor avatar. An investor avatar can significantly help your capital raising efforts by giving you a better idea of who you are looking to attract and what strategies will be most effective with that individual or institution.

Investor Avatar Definition: An investor avatar is a well-defined picture of the exact type of investor that your fund is targeting to raise capital from.

Investors do not want to be spoken to as a mass; they want to receive a message that is directed specifically to the individual. It is critical that your capital raising efforts and marketing materials are crafted to speak directly and powerfully to a single type of investor. If your investment fund is ideal for wealth management firms to invest in then it is important that your PowerPoint presentation, newsletters, conference calls, and educational marketing materials must be customized for that marketplace.

Investors want you to have a well-defined avatar in mind while raising capital because you waste less of their time when you do. By being exclusively focused on one or two types of investors you will ensure that you have considered their needs, challenges, and

other choices in the marketplace.

Take a few minutes right now and think about which 1-2 types of investors you are focusing on primarily. Now think about these five questions:

What is absolutely unique about that investor?

What is their history in investing in your type of investment fund?

What risks are they considering while looking to invest in your fund?

Why would they not invest?

How educated are they about your type of fund and asset class?

Thinking about these questions with your team can help upgrade your marketing materials and approach to capital raising.

PRIVATE EQUITY THIRD PARTY MARKETING

If you are starting a third party marketing career you are in good company, dozens of highly experienced investment and private equity fund marketing/sales professionals are entering the industry each year. While some professionals may leave an investment manager or buyout fund to start their own third party marketing firm many more first work or partner with an existing third party marketing firm. The benefits of starting or working for a third party marketing firm are many and doing either is relatively easy to do. It's a great way to get to know the industry and get your foot in the door when you otherwise might not be able to.

If you can raise capital, and consistently bring in \$100m-\$200m/year you can typically eliminate most types of political/corporate risks while earning 2-10x more than you would while working for a large institution such as Lehman Brothers or Goldman Sachs. As the economy goes through this rough patch and bonuses are skimmed and 50-year-old executives laid off I see this trend of third party marketing startups and career moves increasing.

PRIVATE EQUITY MARKETING MATERIALS HELP

Below is a list of my top 10 tips to those professionals who are looking to create a pitch book for a private equity fund. My advice to both \$30M and \$1M private equity funds is that you can never start this process early enough, it is an iterative, constantly evolving project which will never be complete. Here are the top 10 tips for creating your private

equity marketing materials. To help your capital raising efforts consider the [Private Equity Investor Database](#).

1. Think long-term. Invest in creating a robust institutional quality pitch book the first time around and complete 5 drafts of it internally before showing it to a single investor.
2. Stress your team, investment process and risk management controls and how they all interact inside the operations of your private equity fund.
3. Make your competitive advantage clear and do not rely upon canned phrases such as “positive returns within bull or bear markets” anyone who reviews private equity fund materials for a living see these by the hour. Your advantage must be unique.
4. Stress the importance and individual functions of your team, your experiences and pedigree. This should be the foundation upon which everything else is built.
5. Do not send any pitch book or marketing material out before speaking with a qualified compliance or legal counsel on your team.
6. Create a one-page marketing sheet, full 13-20+ page PowerPoint presentation and one-page newsletter which would be released monthly providing your view of the markets within your niche area of expertise.
7. Work with high caliber service providers so that you don’t bring extra skepticism upon a relatively new fund which may already be scrutinized by potential investors and advisors.
8. Use your whole team and prime brokerage business partners and other service providers to improve your marketing materials. Professionals who work in prime brokerage or administration see many types of marketing materials and can help provide valuable feedback at no additional cost to your fund.
9. Do not create a PowerPoint presentation that is longer than 30 pages. There are some institutional money managers who run 3 similar funds and will sometimes cover each of these within a single presentation, but this is the exception. 95% of the people who you will send the PowerPoint presentation to will not read more than 15 pages of the material unless you are walking them through it over the phone or in person.
10. Purchase the rights to graphics, choose a unique, simple and professional layout for the presentation and use the new Windows Vista diagramming tools to create institutional quality presentation. Coming into a meeting with a word document or 25 pages of bullet points is not very effective. It is hard enough to catch an investors’ attention and bring them to the table to discuss your fund, you don’t want to lose them due to the aesthetics of your PowerPoint.

PRIVATE EQUITY TEAR SHEETS

Whether you design your one pager marketing piece by yourself, hire a designer or work together with a third party marketer you need to make sure that it includes certain elements and characteristics so you will not turn off potential investors. Your one pager is your most important piece of marketing material.

1. **Less is more.** Make sure that your one pager includes some white space and that the font is not too small. Size 8 or 9 font is too small. Readers will glaze over if your one pager is not easy to read so don't worry about cramming every statistic or detail onto it as you possibly can. Make it easy to consume and institutional feeling.
2. **Disclosures:** Check with compliance but be careful writing the marketing copy of the one pager in one font and then writing disclosures in a much smaller font. I have never seen a one pager without disclosures.
3. **Performance:** Include performance since inception, performance year-to-date, performance vs. S & P 500, and performance vs. most appropriate alternative investment benchmark such a Tremont Long/Short Index, etc.
4. **Elevator pitch:** Place this near the top of your one pager, what exactly makes your fund unique? What is your truly Unique Selling Proposition that will catch the investors' attention? This should be defined very carefully and repeated during phone calls, meetings, within marketing materials and through your company emails. You should be able to summarize it within 1-2 sentences.
5. **Investment Process:** Detail your investment process steps, if possible use symbols or pictures to show the segmented steps of the process to make it easier to understand, at least at a high level.

PRIVATE EQUITY INVESTOR CONFIDENCE

Are private equity investors becoming more optimistic? According to a recent survey of institutional investors: yes. The Collar Capital report finds that more investors are expecting bigger gains on their private equity investments than last year, signaling that the perception that many investors had of private equity has shifted to a more positive and hopeful one.

One third of institutional investors expect annual returns of at least 16% on their private equity investments over the next 3-5 years. That's an increase from last year's 29%. Admittedly, it's not a huge increase, but it's a start. More importantly, 87% of investors expect a net internal rate of return of 11% or more. Whether that optimism translates into better fundraising and whether those expectations will be met by private equity managers is another matter still. Nevertheless, this should give private equity firms some confidence when pitching to old and new investors.

"Last year was a horrible time for raising private equity," Frank Morgan, president of New York-based Coller Capital U.S., said in an interview. "People feel that 2010 and 2011 will be good vintage years and they expect higher returns."

Thirty-four percent intend to increase their private equity target allocation over the next 12 months, up from about 18% in last winter's survey. However, the number of investors that plan to decrease their private equity allocations is also up, to 16% from 12%. Last year, the majority of investors, 70%, expected to maintain their private equity allocations during the 12-month period.

“One of the themes of the survey is people are coming back to private equity. They are more selective,” Mr. Morgan added.

Eighty-one percent of those surveyed expect to invest with private equity managers they have not invested with before in the next two to three years, this year's report said. The most cited reason for investing with new general partners is a policy to continue to expand relationships. [Source](#)

ILPA UPDATED VERSION OF PRIVATE EQUITY PRINCIPLES

Toronto (January 11, 2011)- The Institutional Limited Partners Association, (“ILPA”), a not-for-profit organization committed to serving institutional investors of private equity, today released an updated version of its Private Equity Principles (the “Principles”) and the first of its five recommended Standardized Reporting Templates as part of its continued commitment to drive asset class best practices and support long-term partnerships between Limited Partners (“LPs”) and General Partners (“GPs”).

First published in September 2009 with the aim of providing a set of globally recognized industry guidelines, the initial version of the Principles has successfully received formal endorsement by 140 industry organizations. The updated 2011 Principles maintain the three guiding tenets of “Alignment of Interest”, “Governance” and “Transparency”, while further incorporating feedback solicited throughout 2010 from GPs, LPs and industry third parties to increase focus, clarity, practicality and adoption.

New components in the updated 2011 Principles have been included to allow funds to adopt the guidelines more effectively and include:

An appendix on Carry Claw back best practice guidelines (given the complexity of this subject) Increased clarity and description of the three existing guiding Principles Expanded context around the purposes of key guidelines

“Since the Principles were first launched in 2009, communication between LPs and GPs has been enhanced, improvements with respect to alignment of interests have been recognized and GPs have been proactively contributing to the ongoing development of the ILPA best practices,” said Tim Recker, Chairman of the ILPA. “Moving into 2011, alignment of interest, governance and transparency will become even more important to strengthen private equity as an asset class, especially as liquidity returns to the market, investments shift towards global emerging markets where risk exposures increase, and investors become more discerning about the various asset classes post-financial crisis.”

As part of its efforts to generate greater industry efficiencies, improve uniformity and transparency, and reduce expenses in administering and monitoring private equity investments, ILPA has also launched the Capital Call and Distribution Notice Templates – the first of its series of five Standardized Reporting Templates which have been developed in consultation with GPs. Standardized templates for annual and quarterly reporting as well as portfolio metrics are also in development.

“The launch of the first industry-sponsored Standardized Reporting Template in private equity is a significant milestone,” said Joe Dear, Chief Investment Officer at the California Public Employees' Retirement System (CalPERS). “Institutional investors and their constituents will benefit from the additional transparency and consistency that standardized reporting offers, which will help improve risk management and portfolio monitoring, thereby creating a more sustainable asset class and a win-win for GPs and LPs alike.”

Going forward, ILPA will issue further appendices, where relevant, to the updated 2011 Principles to address new topics as industry best practices continue to evolve. Suggestions for such consideration can be submitted by members and/or interested third-parties to the ILPA Best Practices comment site on the ILPA website www.ilpa.org.

John Breen, Head of Funds & Secondary's at the Canada Pension Plan Investment Board, said “While the updated version of the Principles provides latitude for using different ways to achieve common objectives, the overriding spirit of the document is universal. This update is an example of how GPs and LPs have worked together to create appropriate frameworks for best practices which will enhance the long term attractiveness of the private equity asset class. Private equity remains a growing component of our long term global investment strategy and alignment, governance and transparency are critical success factors.”

The ILPA Principles and Standardized Reporting Templates are only a few facets of the work undertaken by ILPA as it highlights the value that comes with having direct accountability from private ownership of a business, not only to the investment industry but to the ultimate beneficiaries of this value creation – the pensioners, charities, educational foundations, employees and companies.

Along with promoting industry best practices, ILPA addresses key issues that impact private equity, including regulatory reform, risk management and the amount of capital circulating in the industry.

The ILPA's education platform which includes executive level course curricula enables private equity professionals to stay abreast of key issues impacting the market. The ILPA hosts networking events throughout the year to allow its members the opportunity to connect with their fellow LPs, and it also hosts an annual meeting between GPs and LPs.

About the ILPA:

The Institutional Limited Partners Association is a not-for-profit association committed to serving limited partners investors in the global private equity industry by facilitating value-added communication, enhancing education in the asset class and promoting research and standards in the private equity industry. ILPA has over 240 institutional member organizations that collectively manage approximately \$1 trillion of private equity assets. For a copy of the ILPA Private Equity Principles and a list of endorsing organizations, please visit www.ilpa.org or contact Kathy Jeramaz-Larson.

About the ILPA Private Equity Principles:

First published in September 2009, the ILPA Private Equity Principles outline best practices with respect to establishing strong governance, appropriate transparency and the alignment of interests between LPs and GPs. Since 2009, the ILPA has surveyed participants in the private equity industry, including both LPs and GPs, and found that most LPs use the Principles as a framework to help assess GPs and believe that incorporating the Principles during discussions with GPs will help align the interests between the two parties. Additionally, a majority of responding GPs believe the Principles will enhance GP/LP relations and provide long-term benefits to the private equity asset class.

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FAMILY OFFICE PRIVATE EQUITY ALLOCATION

Single family offices represent a rapidly growing group of private equity investors and it appears that these investors are looking to further increase their stake in private equity. A report by Rothstein Kass estimates that 70% of single family offices plan to increase allocation to private equity, an impressive number and a needed vote of confidence in private equity.

For the 151 surveyed single family offices, the most popular private equity strategies were. Investment preferences are likely to include established companies (59%), mezzanine financing (39%) and second-round financing (32%). Although single family offices currently prefer hedge funds (85% reporting investments in hedge funds) roughly half reported currently being invested in private equity. The mean investable assets of single-family offices stand at roughly \$416 million in 2011, and private equity firms would surely like to get a chunk of that capital. If you're interested in a free report on family offices or other resources on family offices, visit FamilyOffices.com

"Raising Capital from Single-Family Offices – Considerations for Financial Firms," which was co-authored by Forbes Insights and private wealth expert Russ Alan Prince, also states that almost 70 percent of survey participants plan to increase allocations to the private equity sector in 2011. Investment preferences are likely to include established companies (59 per cent), mezzanine financing (39 per cent) and second-round financing (32 per cent).

Approximately 85 percent of single-family offices surveyed currently invest in hedge funds, with roughly half reporting active private equity sector investments.

Mean investable assets of single-family offices stands at roughly USD416 million in 2011, up from approximately USD236 million reported in 2010.

Nearly all single-family offices rely on external investment management professionals, with roughly 22 percent also indicating internal investment management capacity.

"One of the greatest challenges in understanding the single-family office sector arises in defining its scope. Surging interest in the space has compelled a variety of wealth management firms to market themselves as family office providers, contributing to widely disparate notions of what these structures encompass," says Flynn. [Source](#)

If you're interested in a free report on family offices or other resources on family offices, visit FamilyOffices.com

PRIVATE EQUITY SEED CAPITAL SOURCES

Private Equity seed capital is the money a private equity fund tries to raise to launch or within its first year of operating to try to "get off the ground" and hopefully raise enough assets to appear respectable to initial investors and provide initial momentum towards breaking even as a business. Private equity fund seed capital is in high demand, there are literally hundreds of investment groups looking for it right now and only a select few will receive any significant amount of it. Looking to meet new private equity investors? See the latest version of [The Private Equity Investor Directory](#)

Private Equity Fund Seed Capital Sources

Private Equity Fund Seed Capital Source #1: High Net Worth individuals (accredited investors) who are familiar with your trading skills, past portfolio management experience, or clearly understand your competitive advantage in the marketplace.

Private Equity Fund Seed Capital Source #2: Family & Friends who are accredited investors.

Private Equity Fund Seed Capital Source #3: Private Equity Firms. Some already established private equity funds have huge amounts of free cash flow and are looking for ways to re-invest it within area they understand and do not directly compete with products that they plan to create on their own. Many buyout firms have jumped into the space of seeding private equity funds and many will in turn work on raising assets for your fund once it will benefit both your fund and themselves.

Private Equity Fund Seed Capital Source #4: Associated banks or investment networks.

will often seed new private equity fund products they are launching with significant levels of capital.

PRIVATE EQUITY CAPITAL INTRODUCTION

As part of our ever-expanding collection of articles on private equity fund marketing and private equity capital raising, I thought it would be a good idea to explain what is a private equity capital introduction.

Capital introduction is typically the phrase that refers to the introductions that prime brokerage houses will make on behalf of their money managers to help raise their assets under management. Some prime brokerage houses will have several capital introduction professionals in house or a whole team dedicated to the work. The prime broker gets compensated through trades or deals made by the manager so the more assets they have under management the more they will get paid each quarter on those larger trades.

Most capital introduction professionals are paid on salary and bonus on overall investment and trading activity and not by earning a percentage of fees from assets raised like a third party marketer. Capital introduction services have come under some scrutiny in recent years and there are talks of it going away completely due to a possible conflict of interest--this has been heavily scrutinized in the hedge fund industry when capital introduction services work as an intermediary between hedge funds and institutional investors, but it is also questioned in the private equity industry.

I hope that this brief explanation of a private equity capital introduction was helpful.

USE OF PERSONAL CONTACTS IN CAPITAL RAISING

Richard Wilson is an expert in capital raising and has helped many alternative investment funds raise capital. We often trade capital raising advice and talk about what strategies alternative investment firms are employing to raise funds. He shared a discussion he recently had on a radio show talking about capital raising during which he was asked about whether fund managers need tons of personal contacts to raise capital for their fund and to stay in business? Here is his answer:

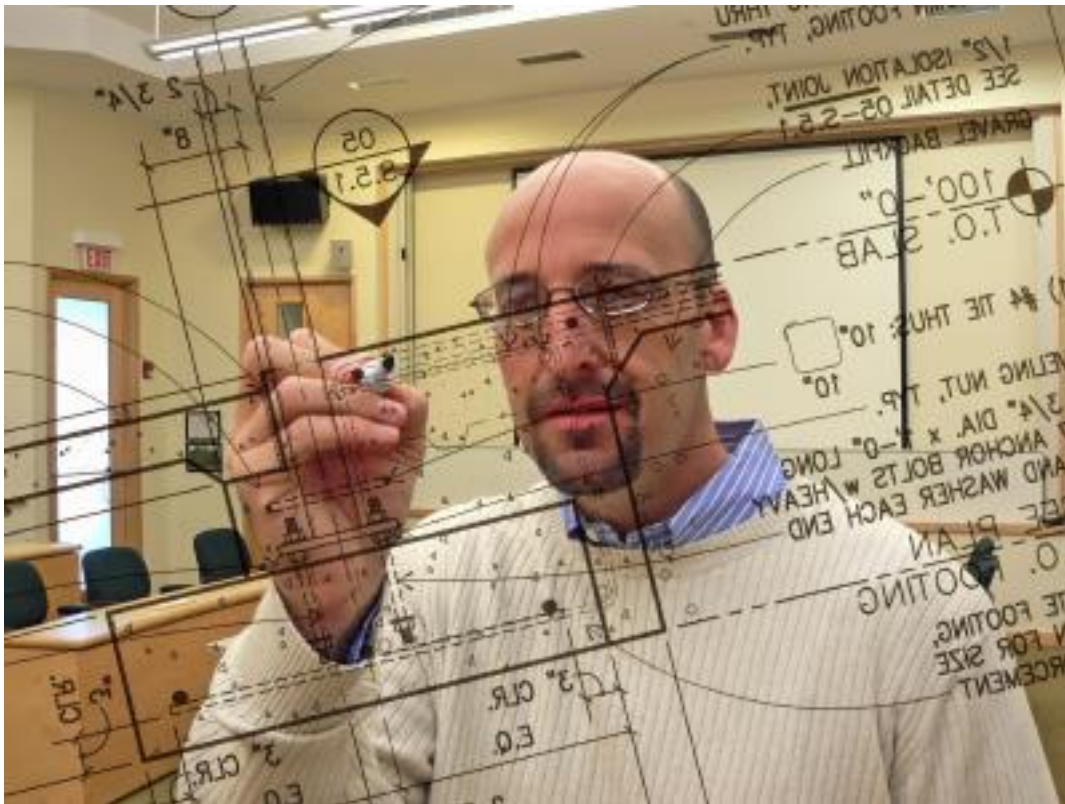
No. While some private equity funds do have a capital raising edge by having hundreds of high net worth, seeding, or institutional investor friends already in place most funds have only a small group of personal relationships when they first launch their business. Regardless of the size of their personal network, managers must have marketing processes and potential investor cultivation processes in place to continually turn over new potential investors, introduce them to your private equity fund, and move them through a 7+ touch relationship development pipeline towards a due diligence

conference call, in-person meeting, or direct investment.

It is critical to have these capital raising processes in place, documented, and refined based on what you learn about how other private equity funds are raising capital and working with new investors. If you are about to [start a private equity fund](#), pay attention to these capital raising processes upfront. If you run a medium or large sized fund you can diversify your investor pipeline and improve the effectiveness of your communications by creating a flow chart or documented process that your marketing and sales team will follow.

Raising capital for your private equity start up fund is difficult without a strong [database of private equity investors](#). Even established private equity firms can benefit by expanding their list of private equity investor contacts. To learn more about our Private Equity Investor Database with thousands of private equity-focused contacts, [follow this link](#).

Private Equity Knowledge



WHAT IS PRIVATE EQUITY?

Private equity is a well-known industry in the financial world and it is becoming a more familiar term for the general public as high-profile companies are purchased and taken private by buyout firms like Chrysler, Toys R Us, and Hilton Hotels. But there are still people who frequently ask me, "What is private equity?" So the following is a brief answer to this question. To learn more about the private equity industry consider joining the [Certified Private Equity Professional program](#). This 100% online program provides participants with a strong education in private equity that prepares professionals to work in private equity or alongside private equity firms. [Click here](#) to learn more.

A lot of the confusion in defining private equity is that it encompasses several niche industries. There are important distinctions between buyouts, venture capital, angel investing, mezzanine financing and distressed investments. But all these industries often get lumped together as private equity. So, to simplify things, when I am talking about private equity I am mostly talking about buyout firms. So, what is a buyout firm? What does it do?

Buyout Firms

A private equity firm launches private equity funds which are large pools of private capital used to invest in companies. These funds are managed by private equity general partners, principals, associates, analysts, in-house or third party marketers--positions depend on the size of the firm. Fund marketers work to reach a capital goal for a fund from capital sources, such as institutional investors (pension funds, endowment funds, etc.) or high-net-worth individuals.

In a typical buyout: The private equity fund seeks out opportunities to invest its capital. When the management team discovers a possible opportunity it will conduct due diligence and valuation on the firm to decide how much it should offer and what the potential return on the investment would be. Then the firm will buyout shares of the company--often using leverage as well as the private capital from the fund--to takeover a controlling interest in the company.

Buyout firms invest long term, as opposed to hedge funds or other investment funds, and will work to improve the company and generate profit through cost-cutting, selling assets and motivating management (who now have more control of the company, answering to the PE management, not ordinary shareholders). It will usually install an advisory board to guide the company; this board is drawn from the buyout firm's

associates, general and limited partners and others. Management will receive the kind of support and control necessary to make concrete changes to the company but, if the management is the problem, the buyout firm may install new leadership in the company.

After the private equity firm has expanded or improved the company it will look toward an exit--maybe through an IPO where shares are offered again to the public, or a strategic buyer-- or decide to invest more money in the company. The exit is how the private equity firm makes its money back on its initial investment to give returns to investors. The hope is that the company can be sold for a significant profit.

Mezzanine Financing

Mezzanine financing refers to a combination of debt and equity financing. Mezzanine financing is typically used by expanding companies that need money but don't want to go public and risk losing ownership of the company. Mezzanine lenders offer the company the desired funds and do not require collateral. However, mezzanine lenders charge unusually high interest rates (often 20-30%) because the risk for the mezzanine lender is very high.

In addition to high interest rates, mezzanine lenders can convert their loan to equity or ownership if the company defaults on the loan. So, although there is a major risk that the lender may lose a lot of money on the loan, the borrower also faces significant risk. Mezzanine financing particularly attracts privately-owned companies, because it is a way to secure funds from lenders that have no active interest in the company. The dual risks to the mezzanine lender and the borrowing company make the exchange much more involved and lasting. Thus, the mezzanine lender carefully looks to reduce risk by investing in an established, promising business. Companies hoping to attract mezzanine funding usually submit detailed proposals that assure the lender that the investment will be profitable.

Venture Capitalists

Venture capital firms are typically private partnerships funded by pension and endowment funds, corporations, venture capitalists, and largely wealthy individuals. The venture capital firm opens a fund, pooling money from investors to expand smaller companies.

Starting a Fund

A venture capital firm will attract investors and pool their money in a fund. This fund is operated by the venture capital firm which discovers promising startup and smaller companies to invest the fund's money in. The purpose is to profit from the company's

future success. Investors supply various amounts of money, amassing a substantial sum for the manager to invest.

Investing

The firm or fund has an investment profile and invests accordingly, for example a fund may focus on electronics and invest in emerging electronics companies. The hope is that the capital provided to the company will help it grow to a point that it generates high returns to the venture capital fund's investors. Profits result from expansion through an initial public offering (IPO) or another company purchasing the company. If either a public offering where the public is able to buy shares of the company or an acquisition occurs, then the fund cashes out. If the venture is a success the investors receive more money than their initial investment.

Risk

Venture capital is naturally a risky business and venture capital firms suffer many failed investments, but a company that succeeds often generates huge profits that overshadow other losses for the fund.

Angel Investors

An angel investor is a wealthy individual who provides capital to an expanding small business. An angel investor typically invests his own private money, unlike collective venture capital funds. The angel invests in the startup process and has a personal stake in the company's success.

Similar to venture capital investments, angel investors are vulnerable to a high risk of failure, but if the company is successful the possible returns are equally high. Startup businesses often fail, costing angel investors large sums of money. Angel investors compensate for this by demanding a high percentage of any success. Angel investors are an important way for small businesses to gather the capital necessary for major expansion.

WHY PRIVATE EQUITY FIRMS BUY BIG AND USE LEVERAGE

As a business broker that specializes in smaller deals (total deal size between \$2,000,000 and \$20,000,000) I often see companies at or below the smaller end of our range that have trouble attracting interest from Private Equity Groups. Generally, a Private Equity Group wants to invest in companies at least \$5,000,000 and to borrow a substantial portion of the purchase price. Even PEGs with lots of money to invest want to leverage the deal.

So, why would a PEG that will happily do a \$5MM deal with half borrow from a bank not be interested in doing a \$2.5MM deal. Clearly they have the money to do the deal and there is more room to grow the smaller company. Furthermore, the unleveraged company is less risky.

To understand the PEGs motivations, you need to look at it from their perspective. Let's say that a hypothetical PEG has three employees each paid \$200,000 a year that will

look at deals and oversee the companies that they buy and \$400,000 a year in overhead for rent, travel, receptionists, etc. The total amount needed to run the PEG may be \$1,000,000 a year.

Let's assume that our PEG can comfortably oversee 5 companies at a time while also looking for new acquisitions and exiting mature investments. If they buy 5 companies for \$2.5MM in year one, they have invested 12.5MM. Most of the profits of those companies will be absorbed in the operating cost of the PEG or be re-invested into the operating companies to grow them so if they double the value of those companies over 5 years they have generated a return of 14.8%. That's not an acceptable rate of return given the risks of Private Equity. Investors in a PEG understand that they are taking large risks in illiquid investments and demand returns commensurate with that risk.

On the other hand, if our PEG buys companies worth \$25MM, but borrows \$12.5MM and doubles the value of each company over a 5-year period, their return on equity more than doubles to 32%, a far better return. ($12.5\text{MM} \times 1.32^5 = 50\text{MM}$) Of course the companies will have the additional interest expense and principal repayment as they retire the loan, but the larger companies should generate enough cash to more than cover that expense.

So, to produce a reasonable rate of return the PEG wants to buy larger companies and use leverage to magnify their returns.

There are exceptions to this generalization. Some PEGs specialize in turn-around situations, where they buy companies that are in trouble. These companies can be less expensive and are harder to leverage because banks will not loan against cash flow when there is no cash flow. Most PEGs will consider smaller deals as add-ons to an existing platform company, especially if the company allows them to expand their product offerings or geographic coverage. Finally, PEGs will sometimes buy several smaller companies and merge them in a roll-up. This allows them to cut expenses at the companies, achieve economies of scale, and end up with a stronger company at a lower multiple of EBITDA.

Written by David Annis, one of the founders of Valuations, LLC. Article [source](#)

LESSONS FROM PRIVATE EQUITY BOOK REVIEW

This is the first book review on this blog but in the future, I will be adding more recommended books on private equity. I am currently reading a book on valuation and another on constructing a successful elevator pitch. I hope to develop a library of helpful private equity books on this site and I am working on putting together an e-book that will be available for free download as a complimentary resource for readers here.

Lessons from Private Equity Any Company Can Use is a smart, concise guide to restructuring and employing profit-maximizing practices applicable to any firm. The book is written in a simple language that does not require prior knowledge of private equity but uses the ideas that private equity firms use to extract value and promote efficiency.

Rather than a comprehensive book on private equity, *Lessons from Private Equity* is a memo to CEOs describing the basics of private equity and how the fundamental goals of private equity firms can be used to improve any company. The case studies used in this book illustrate the point that utilizing private equity methods for managing a firm has led many public companies to success. The Sealy Corporation and Nestlé are the most prominent examples referred to throughout the text as examples and indeed both these firms have demonstrated great business management skills in producing profits to public investors (Nestlé more so than Sealy in recent years).

The authors provide a step-by-step process for success:

1. **Define the Full Potential:** Use strategic due diligence to set a target "increased equity value."
2. **Develop the Blueprint:** Develop a plan for achieving that goal.
3. **Accelerate Performance:** Putting the plan into action by matching the blueprint to your company and overcoming obstacles to success.
4. **Harness the Talent:** Hiring the individuals that can make your company's blueprint a reality by either looking inside the company or seeking outside talent.
5. **Make Equity Sweat:** This is a fundamental aspect of private equity firms managing a company, relying on "managing working capital aggressively, disciplining capital expenditures, and working the balance sheet hard."
6. **Foster a Results-Oriented Mind-Set:** Take the private equity disciplines learned in the book and implement them permanently into your firm's culture and periodically reevaluate your company to ensure it is maintaining the formula for success.

The strength of *Lessons from Private Equity* lies primarily in its brevity (it is just over 100 pages long) and its straight-forward approach. The ideas put forward are not counter-intuitive, they rely on basic strategic due diligence to identify underperforming areas and people to establish a more efficient firm. This book is ideal for executives and young professionals hoping to reach the higher rungs of a company, but also applies to entrepreneurs managing small companies. *Lessons from Private Equity* is accurately priced low because of its short page-length but I found a great deal of value in this little book.

The authors of *Lessons from Private Equity* are Orit Gadiesh and Hugh MacArthur are both experts in improving management from the large private equity firm Bain Capital. Gadiesh serves as the chairman at Bain and has been listed on both Forbes' "The Hundred Most Powerful Women in the World" and the "Most Powerful Women in Business". MacArthur heads Bain's Global Private Equity business and advises private equity firms on strategic due diligence on targeted firms and improving performance of those companies.

PRIVATE EQUITY VINTAGE YEAR

I was looking through some of the training videos we're uploading for the [Certified Private Equity Professional program](#) and I found a topic that I had not defined on here: vintage year.

The vintage year is the year in which the private equity or venture capital fund first makes its investment. So, this is the time when the capital is first contributed from the private equity fund. This should be distinguished from vintage returns which refers to the years of the highest returns within a private equity investment.

Here is more on Vintage Year Private Equity:

Investors can use the vintage year of an investment to further explain its returns. Having a vintage year occur at the peak or bottom of a business cycle can affect the later returns on the initial investment. During peaks in the market, new companies are more likely to be overvalued based on the current economic outlook. This increases the expectations on an investments' return because more money is initially contributed. Inversely, companies are typically undervalued during low points in the market; because less capital is initially contributed, these companies or projects have less pressure to generate big returns. [Source](#)

THE NEXT DOT COM BUBBLE?

What can we take away from the successful IPO of real estate website Zillow.com this week? At least one observer is suggesting that this spells the beginnings of the next dotcom bubble. I'm not so sure. While there are certainly some bloated valuations of internet companies in the last couple years--especially of ones that had yet to prove that they could monetize their idea (think Twitter and Facebook--before all the ads). "The mere fact that LinkedIn and HomeAway did so very well only helped [Zillow], and put even more euphoria into an IPO that didn't need it," said Scott Sweet, senior managing partner at IPO Boutique. "It already had the demand anyway."

Zillow is the latest in a string of hot Internet companies — including LinkedIn — to create a market frenzy in its first day of trading. But for some of those stocks, that burst of enthusiasm vanished rapidly. Chinese social networking site Renren Inc., for instance, is now trading below its IPO price after soaring as much as 57% in its May debut. Similarly, shares of online radio service Pandora traded below its June IPO price for several days before rebounding. [Source](#)

There are always going to be some shaky companies--especially web-based ones like Zillow or LinkedIn--that will open to high estimates and then settle to a more reasonable stock price (or fall off a cliff like in Renren Inc.'s case) but there is not the same type of sustained fervor and willful ignorance among investors to buy into *any* dotcom upstart like we saw at the end of the 1990's. I think that this is partly because the companies are better run and more accountable and also because investors

are more familiar with the website company model and know what to look for and what to look out for.

I'm not willing to say this absolutely is not the makings of the next dot com bubble (I'd have to be crazy to venture any definite prediction of where this is headed) but I have found that dotcom companies are more thoroughly vetted by investors, especially venture capitalists and private equity investors, than they once were and that the fundamentals of the companies are significantly more secure than they were for the majority of the companies during the last dotcom bubble.

FOUR TIPS FOR STARTING A PRIVATE EQUITY FUND

I am regularly asked for tips and strategies for successfully starting a private equity fund. We are working on a Private Equity Startup Kit but in the meantime here is a list of four tips for starting a private equity fund.

4 Tips for Starting a Private Equity Fund

1. It takes experience to launch a private equity fund. Seldom do you see a private equity firm launched by someone who is inexperienced in managing a fund or in the industry that the fund is specializing in. Many private equity managers have worked for several years in private equity, rising from an analyst or associate to the top rungs of a private equity or venture capital firm. Few investors will seriously consider a fund that is managed by an individual with irrelevant or limited experience.

There can be exceptions like if the GP has years of experience and expertise in an industry or region that the fund will be investing primarily in. For example, a professional who has worked in the technology for years and has proven he or she has the ability to lead a private equity or venture capital firm, then investors may overlook the lack of experience specifically in the buyout industry. Or, someone may specialize in emerging markets and have a good grasp of the growth potential in areas like Brazil or China. However, these are not often the case and I would say that the majority of private equity managers come from private equity or a closely related industry like corporate M&A.

2. Starting a private equity fund is not a get-rich-quick scheme, it may take several years before your private equity firm becomes profitable and stable as a business. This is especially true if you do not put in place a consistent and effective marketing process that will keep your asset level at a sustainable level. No one should launch a private equity firm if they are looking to make a quick buck (or, rather, a few hundred thousand bucks). Private equity investors look for managers that have a long-

term strategy for providing consistent positive returns.

3. Complete thorough due diligence on your service providers. I heard of a fund last month that was quoted at over \$80,000 for their legal formation costs, which is at least \$35k above what most other firms charge for this same service. If you don't shop around you could end up paying twice as much to service providers as you need to. No, you should not select service providers based on price but you should always sit down or have conference calls at least with three prime brokerage firms, three auditors, and three administration firms before deciding who to work with. This will help you avoid overpaying and make sure that the service providers you work with are high-quality and will perform well.

4. Always be growing relationships. This is different than "always be selling." Selling can be spotted from 5 suits away and a networking event, and felt by how someone asks what company you work. It is always best to take the high road; the long-term approach yet always be looking out for those individuals who you should invest a significant portion of your time getting to know. The benefits of doing so could be valuable advice, leads or an allocation. If you are always looking to close than no professionals along the way will want to give you feedback on your marketing materials or suggest an alternative path to raising assets.

If you are interested in connecting with thousands of potential private equity investors, please see our [database of Private Equity Investors](#).

THE STRUGGLE FOR PRIVATE EQUITY FIRMS DECIDING VALUATIONS

The Times had an article today on how different private equity firms arrive at different valuations for the same company. For example, in a club deal involving two or more buyout firms, one private equity firm may look at the target and estimate that it is worth \$10 billion while the other private equity firm (looking at the same company with more or less the same information) could arrive at a radically different number.

This can occur at the initial valuation of a buyout target or throughout the life of the investment as the buyout firms calculate whether the investment was a good one, and maybe a buyout firm is making fifty cents for every dollar invested in the portfolio company. (Or 25 cents on the dollar, as TPG estimates its stake in Freescale Semiconductor is now worth.) This can be even more problematic when one investor tries to buyout another investor's stake in the company--the buyer may estimate a value that is less than the seller believes that the stake is worth. Anyway, the article gives a pretty good summary of this dilemma and how private equity firms sort out different values and may even inflate values.

But private equity investing is private, so company values are negotiated confidentially and are not openly available.

Yet more than a few well-heeled Wall Street deal makers have an interest in how investments like Freescale play out. Public pension funds, endowments and other institutions piled into private equity in good times. Some deal makers are trying to keep those investors happy by giving some investments higher values than they may deserve.

Accounting rules give the deal makers a lot of wiggle room, because even experts often disagree on how to value investments. At the big firms, at least, independent auditors examine the figures and how they were reached.

But analysts agree that valuations on the books of private equity firms can be skewed by the firms' motivation to place high values on their investments. In a business driven by big money and bigger egos, they want to claim the best returns possible to lure new investment dollars and the fat fees those dollars bring. [Source](#)

THE PRIVATE EQUITY SECONDARY MARKET

The private equity secondary market is an oft-overlooked area of private equity. Fortunately, Arnaud van Tichelen, Caracalla Capital and Scalar Partners have released a new study on the Private Equity Secondary Market.

ABSTRACT

During the current liquidity crisis, the Private Equity industry has been reshaped and experienced a significant increase in the level of interest and activity in the secondary market. However, despite its growth, the market is still inherently inefficient and pricing tends to vary widely among bidders. Investors need to be aware of the challenges and dynamics of this fast evolving market and to carefully analyze each potential sourced opportunity.

This research paper attempts to analyze the characteristics of the Private Equity secondary market. Furthermore, it analyses the valuation in the market and provides an actual valuation of a real secondary investment opportunity supported by the development of a secondary valuation model. This analysis is based on more than 25 interviews conducted with expert participants in secondary's.

Currently, transaction volume for secondary's is near an all-time high which generates further liquidity and benefits the asset class as a whole. Near-term and long-term factors are driving a fast growing market which many expect will grow about 16% annually (CAGR) in the next five years. However, opportunities on the market are mirrored by significant challenges. Although the top-down method is helpful in determining the value of a potential secondary, empirical data clearly shows that a bottom-up valuation is crucially important in determining the value of an asset in the secondary market.

PRIVATE EQUITY SECONDARY MARKET VALUATION ANALYSIS

Arnaud van Tichelen, Caracalla Capital and Scalar Partners are pleased to announce the publication of this study on the Private Equity Secondary Market [English updated version]. We hope the market intelligence and data provided in this report will allow investors to better understand the secondary market and seize its growing opportunities.

Contributors to the study:

Altamar Capital, Arcano Capital, Breslin AG, Campbell Lutyens, Caracalla Capital, Fidequity, HarbourVest Partners, Headway Capital, Lexington Partners, Pantheon Ventures, Preqin, Scalar Partners, SJberwin, Secondmarket and UBS Private Funds Group all contributed to the information in the study and we are thankful for their participation.

About the study:

This 200-page study is a complete guide to the Private Equity Secondary Market including a valuation model. The study reviews the market, its characteristics and issues (volume, participants, deal structures, sale process, legal and fiscal issues, historical analysis, outlook of the market) but also covers market valuation (pricing, theoretical analysis of top-down and bottom-up valuation approach, case study of a real world LP interest valuation).

The study was first released in Spanish last June and is updated and translated to English in this new version.

Valuation model:

A valuation model was developed in partnership with several contributors. This fully flexible model can be used to value an LP interest using a bottom up approach on the Private Equity secondary market. This model is available upon request.

About the Author

*Arnaud van Tichelen recently graduated with distinction from ICADE's international business administration program (E- 4). During ICADE, Arnaud worked 6 months at UBS within the M&A team and 6 months at Comgest (asset management) as an equity analyst. He currently works in the Investment Banking Division of UBS in London (Consumer Products and Retail Group). He can be contacted at a.vantichelen@gmail.com

PRIVATE EQUITY MEZZANINE DEBT FINANCING

It occurred to me recently that I had been largely ignoring an important aspect of the buyout industry: mezzanine debt. Fortunately, Partners Group sent me a report detailing the latest trends in mezzanine financing and how Partners Group and other

private equity firms have used mezzanine debt to achieve better equity returns.

As I noted Back in 2008, mezzanine financing became an attractive alternative solution in the banking crisis as credit froze and obtaining loans became increasingly difficult. That largely explains why mezzanine debt was so popular over the last few years.

What is Mezzanine Debt?

Mezzanine debt is often used in leveraged buyouts to enhance equity returns. In a company's capital structure, mezzanine debt is subordinated to senior debt obligations, but ranks ahead of preferred and common equity. Partners Group has observed through its investment experience that the asset class has exhibited remarkable resilience through the recent financial crisis.

Partners Group is convinced that mezzanine currently represents an exceptional investment opportunity. As an introduction we observe:

- Mezzanine debt in Europe outperformed nearly all asset classes during the financial market crisis from 2007 to 2009
- The peak to trough drawdown of the asset class during the crisis was 11% compared to many other asset classes in the 50-60% range highlighting the relative stability of mezzanine loans in the crisis
- With 50% recovery rates given default, a mezzanine lender can realize default rates on over half its portfolio and still not experience a loss of principal. This is due to high historical recovery rates and high contractual coupon payments that generate significant interim cash flows
- With historical default rates peaking in the 12-13% range in 2008, and projected default rates in the 2-4% range going forward, mezzanine currently represents a very attractive risk/return profile for investors regardless of market direction
- Relatively low leverage and historically high equity cushions in the capital structures of leveraged buyouts today enhance the risk characteristics of an already stable asset class
- High contractual coupons offer investors steady cash flow margins over variable base rates (in Europe), as well as enhanced return potential through payment in kind interest
- The performance of mezzanine throughout the market crisis, as well as the prevailing attractive characteristics the market exhibits, suggest that mezzanine is currently one of the most attractive asset classes

[Click here](#) to download the report, *Mezzanine Investments: Stability Through the Storm*, produced by Partners Group

PRIVATE EQUITY FIRMS SETTling INTO CHINA

The following is an article I wrote for SeekingAlpha.com, where I am a contributor.

I have been closely following the growth of private equity in China because I believe it is one of the most important and exciting new markets for the industry. As the country opens up more and more to financial institutions by easing typically stringent regulations, the potential for buyout firms operating in China is huge. This is why you see many firms moving into China even though they may not begin doing large deals for a few years still. It's about getting your foot in the door and setting up offices in the country before your competition.

There are still major obstacles to working in China but the prospects are bright and many firms believe it is worth navigating complicated (and sometimes unfair) regulations. The government is working to make the country more receptive to private equity firms, with actions like this week's announcement that China will allow insurers to invest up to 5% of their total assets in private equity. These types of initiatives are key in developing private equity activity in China.

Yuan-Denominated Funds Dominate

Although there have been some promising private equity funds in China, the industry still lacks the credibility that it has gained in other parts of the world. It is encouraging that private equity firms have started opening funds in the Chinese Yuan currency. Having a fund denominated in the local currency has helped these buyout firms attract local investors, which is a key step to working in the country successfully.

David Rubenstein told the audience at a WSJ China Financial Markets Conference, "“For any of the large private-equity firms in the West to be a real player in China, you probably should have a [Yuan] fund.” ([source](#)) His firm, Carlyle Group, has already launched its second Yuan fund in the country after partnering with the cities of Beijing and Shanghai. And it appears that Mr. Rubenstein is correct, funds denominated in the Yuan have raised 77% China-focused private-equity funds raised in 2010.

US Looks to Raise Taxes While China Offers Breaks

According to a [recent article](#), cities across China are competing to be crowned the capital of private equity. Various Chinese cities including Shanghai, Chongqing and Beijing have been offering incentives such as tax breaks, giving financial aid, and policy support. All of this is aimed at luring private equity firms into setting up shop in the cities. This is in stark comparison to the actions of US state and federal government and those in Europe, too.

In the West, governments have been making moves to close the carried interest tax "loophole" and have been increasing regulation of banks, private equity and hedge funds. All of this only makes other countries like China that much more appealing to private equity firms looking to make returns without too much oversight and taxation. So we see private equity firms receiving tax cuts in China while the U.S. looks to increase the tax burden on domestic buyout shops.

Buyout firms--including Blackstone ([BX](#)), Carlyle and TPG--have been meeting with representatives from each city. The reception to foreign private equity firms has been surprisingly welcoming considering the criticism that the industry still faces even here in the U.S. which is generally regarded as more embracing of free markets and capitalism. TPG recently set up its second China fund, the Western China Growth fund in Chongqing, with other private equity firms expected to follow suit moving into China.

Looking to the Future

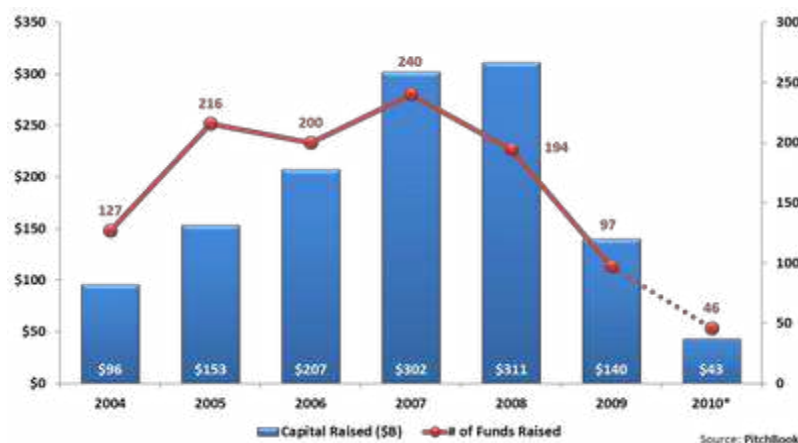
Most of the major international players in private equity have recognized the enormous growth potential in China--with a population of 1.3 billion people and a climbing GDP--and are in the process of opening or have already opened offices in the country. It will be exciting to see in the coming years how private equity firms are able to generate returns in emerging markets like China and India. There are so many new and expanding companies in China and I believe that there is a real need for the kind of services and management that a strong private equity firm provides.

Disclosure: No positions

THE SORRY STATE OF PRIVATE EQUITY FUNDRAISING AND THE LOOMING OVERHANG

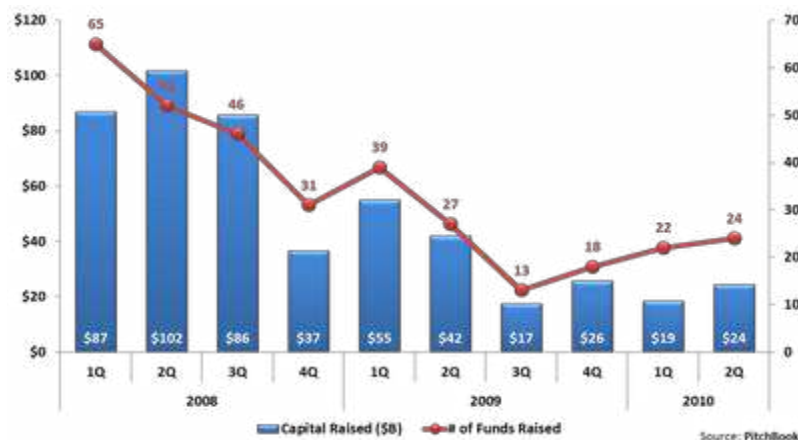
The following is another article that I wrote for SeekingAlpha.com, where I am a contributor.

The number of private equity funds closed is on pace with 2009, according to the latest data from [Pitch Book](#). That's not great news, but definitely not a surprise. 46 funds closed during the first half of 2010, which is significantly less than the 70 funds closed during the same period last year. But there has been an upward trend of an 85% increase in the number of funds closed since 3Q 2009.



Capital Raised Still Low

That the number of funds closed has been on the upswing is significant but less so when you look at the amount of capital raised during these quarters. Private equity firms raised just \$43 billion in the first and second quarter of this year. That's equal to 3Q and 4Q 2009 but far from the \$97 billion raised in the first half of 2010.



It's hard to make a purely economic argument for these numbers, like that fears of a double-dip recession are driving investors away. Or that investors are turning to more traditional investments (the stock market does not look any more inviting, and hedge funds are able to raise money).

A dragging economy and unstable markets combine for poor conditions for raising funds for long-term investments. Hedge funds enjoy the luxury of being able to promise good returns quickly (and since 2009, for the most part they've made good on that guarantee) and perhaps most importantly hedge funds allow investors to withdraw money on a quarterly or annual basis. Private equity funds that require investors to tie their money up for years in long-term commitments have a tough sell against stocks and hedge funds. It might just be that investors are looking for a way to make money quickly, which would explain why so many institutional investors are pulling money from the industry.

As James Tisch of Loews Corp. ([L](#)) recently told Bloomberg, One of the biggest problems I see with private equity is that you put your money in and then you have to wait five or ten years to get it back. My view is, what's the use of having money if you can't get access to it?

Private equity firms face a big problem if other investors feel similarly.

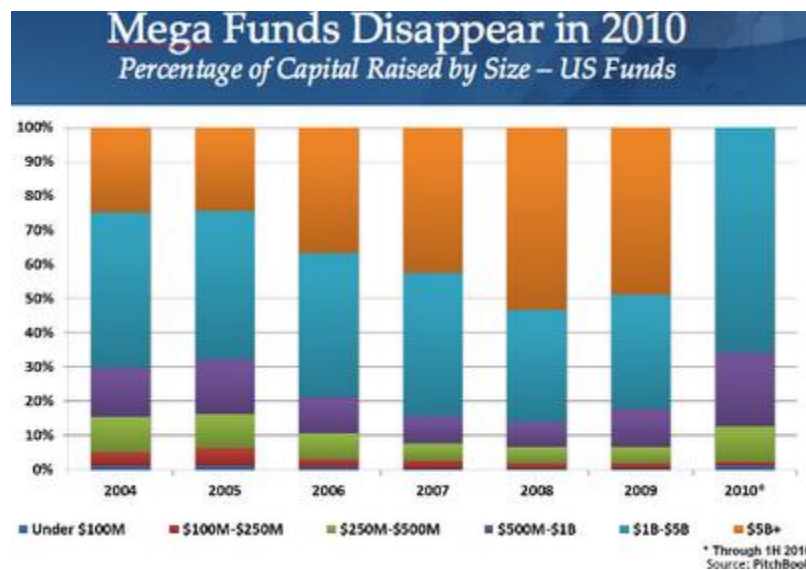
Institutional Investors Run from Private Equity

According to [Bloomberg](#), pension funds, endowments, and mutual funds reduced new commitments to private equity firms by more than 50%. The article asserts that the problem is that buyout firms have grown to bloated and managers can no longer make the same returns for investors that they used to.

Era of Mini Funds?

While that may be bad news for the private equity giants, that could provide an opening for smaller and mid-market private equity firms to make deals and reach new investors once investor confidence returns. As the next graph shows, the end of the era of "mega" funds has come as fewer mega funds are being raised in 2010 in favor of smaller "mini" funds.

Private Equity Overhang



Private equity firms still have a *massive* store of dry powder. Pitch Book finds a \$418 billion overhang in 2010, increasing more than \$211 billion since 2007. All that dry powder has a deadline and firms are very aware of that which could stimulate some big (possibly ill-advised) private equity deals in the coming months.

Unless private equity firms can put that dry powder to use and prove that funds can generate returns for investors, managers will have a tough sell to investors. The fundamentals of big buyouts are being questioned by investors who don't understand the benefits of investing in the mega buyout firms anymore. Blackstone ([BX](#)), Kohlberg Kravis Roberts & Co. ([KFN](#)), TPG, Carlyle Group and the other buyout giants used to be turning investors down. Now, they are trying to convince investors that the buyout model is still viable. With the poor returns of the last three years, the multi-billion-dollar overhang and the success of hedge funds, that argument is becoming an increasingly difficult one to make.

Data from [Source](#)

Disclosure: No positions

[HOW PRIVATE EQUITY CONSULTANTS HELP BUSINESSES SUCCEED](#)

There is a misconception that private equity owners want to control their portfolio investments and directly manage the firm. Rather private equity firms often act like business consultants to their portfolio companies. Private equity firms typically do not want to want to act as a business owner or CEO of the company, instead the management tries to ensure that the company has the tools and management to improve performance.

The buyout team will try to put in place the best environment for the company's management team to succeed. Additionally, the private equity management and staff will look at a number of factors to improve performance: what is costing the company time and money, the efficiency of the management and employees, what assets could be trimmed or sold off, and other areas that can save the company money and make for a streamlined, efficient business. In this way private equity firms act more like an outside business consultant that works with the company long time and has a lot of capital to make massive improvements.

In my opinion, this makes a private equity consultant even more valuable than an outside business consultant who usually works short-term, gives an analysis and then leaves it to the company's management team to implement the suggested strategy. Private equity consultants operate as long term owners and have a vested interest in the success of the company and therefore will make sure that the management implements the changes, or they will take action to remove the inflexible management.

PRIVATE EQUITY CARRIED INTEREST ALLOCATION

We've talked a lot in recent months about how private equity compensation will be affected by proposals from Congress to change the taxation of carried interest. This is a big concern, as the carry is a huge part of the private equity compensation structure. So, I thought it would be good to look at how carried interest is allocated in private equity firms. To help get a clear picture of how buyout firms are currently distributing carried interest, I'm relying on data collected in PEP Digest's Carried Interest and Compensation Survey.

Partners Carried Interest

The Carried Interest and Compensation Survey reveals an increasing weighted average allocation toward partners as the fund's size increases. In other words, partners receive a larger share of the carried interest as the fund's AUM increases. The only exception is at the highest AUM category of more than \$1 billion (partners managing funds in this category actually take home a smaller percentage of the carry than partners in funds

with under \$100 million AUM). The average allocation of carried interest for partners is 68.6%.

Top Professionals Carried Interest

As you might expect, given that partners take in a share of the carried interest relative to the size of the fund, the top professionals at private equity firms are given a smaller percentage of the carry as the fund size increases. So, the carried interest compensation for top professionals at private equity firms is an inverse relationship to the size of the buyout fund. The average carried interest allocation for top professionals at private equity firms is 10.5%.

Mid-Level Professionals Carried Interest

With mid-level professionals the allocation is mixed suggesting that the percentage varies by individual firm and how the management is negotiating compensation agreements with its employees. For example, a mid-level professional may be extremely valuable and in line for promotion so the management will allocate a larger percentage of the carry as part of a larger compensation package aimed at retaining the person. Others may be of less value and are given the standard percentage or even less.

According to the survey data, at the smallest funds (under \$100MM AUM) middle professionals are given 8% but that number increases and decreases by the AUM category. At a fund with \$250MM-\$500MM a mid-level professional can expect 9.1% but at a larger fund of \$750MM-\$1B he or she may take home just 7% of the carry. Logically, funds exceeding \$1B give top to middle level employees a larger share of the carried interest because the partners are taking a smaller cut. The average carried interest allocation for mid-level professionals is 8.55%

Entry Professionals

Entry professionals are paid comparably to administrative staff and receive significantly less of the carry than middle level professionals. Still, the overall compensation of entry professionals is very competitive with other financial jobs and the opportunity to advance in a private equity firm usually helps retain employees past the entry level phase. Entry level professionals receive an average carried interest allocation of 0.66%.

Administrative Staff Carried Interest

In funds across the AUM spectrum--from under \$100m to more than \$1b--administrative staff take home less than 1% of the carried interest but almost always

more than half a percent. The average carried interest allocation for mid-level professionals is 0.65%.

DIFFERENCES BETWEEN VENTURE CAPITAL AND ANGEL INVESTORS

Buyout firms focus on the later stages of a business and rarely invest in start-ups because it does not play to the strengths of a private equity firm's management and the risks are significantly greater. But that does not mean young companies do not receive private equity funding, it just comes from venture capital firms and angel investors.

The line between venture capital and angel investors is often blurry. The typical distinctions are in the size of the investment, stage of financing, structure of the fund or investor group and the background of the venture capitalist and that of the angel investor.

Size of Investment

The size of investments ranges by the investor, but typically an angel investor will invest a significantly smaller amount of capital in a start-up than a venture capitalist would. This is true for a few reasons: investable income, stage of the business, risk and structure of the investor and/or fund.

Many angels are high net worth individuals who had a successful career and are now retired or working less. These angel investors often have less capital that they are willing or able to put into what is often a risky investment. Venture capital firms, on the other hand, collect capital from investors and pool their money into funds so they have more capital on hand for investing in a start-up. Venture capital firms can invest anywhere from \$100,000 to millions of dollars in a single start-up while angel investors on average invest around \$40,000 but that number can be much higher and much lower.

Stage of the Business

The stage of the business is important, meaning that angel investors tend to invest in start-ups at the very early stages of the company. This involves a great deal of risk which limits the investors' capital commitment. But that is typically not a big impediment to the start-up because in the first year(s) of operation, the business requires less capital from outside investors.

Once the firm has developed and proven it has the management or the idea that could evolve into a much larger, more profitable business, a venture capital firm may step in. Though some venture capital firms focus on early stages of the start-up, many invest in companies with a short but proven track record of producing a consistent profit.

Venture capitalists therefore focus on the later stages of a start-up and give guidance to the management team during what can be an extremely trying expansion process.

Structure of the Fund

While some angel investors work together in angel investor groups and form venture-like funds, many times angel investors invest independently in a business. This goes to the nature of angel investment, which is that angels often have a personal connection to the business or the owner(s). Angel investors often work or formerly worked in the area of business. So, a former Silicon Valley tech company owner may become an angel investor who looks for new technology firms. The angel investor will use his past experience to advise and assist the start-up so the investment is more of a close partnership than simply a monetary transaction.

Venture capital firms often have a similar background, but the venture capital funds' management team is full-time venture capitalists, not part-time investors. The venture fund's goal is to produce successful businesses to generate returns to the fund's limited partners. Unlike angel investors, the venture capital fund derives its income directly from management and performance fees paid by the fund's investors. Of course, the larger performance fee is contingent on the portfolio investment's ability to make a profit so the VC team has a big incentive to grow young companies into bigger, more efficient firms.

Background of the Investor

As I've just written, angel investors and venture capitalists are different in that the former often invests independently almost as a hobby or part-time interest, while venture capital firms invest through funds and sometimes alongside other venture firms in club deals. But the backgrounds of angel investors and venture capital investors have some connections. For example, many venture capitalists and angel investors come from a background working in technology. In the last 12+ years, many angel and venture investments have been in tech start-ups (although this is not the only area of investment, health care, biotechnology, financial services, etc.) so the investors reflect the companies invested in.

The Center for Venture Research provides a profile of a typical angel investor that gives some insight into angel investors' backgrounds:

“The average private investor is 47 years old with an annual income of \$90,000, a net worth of \$750,000, is college educated, has been self-employed and invests \$37,000 per venture. Angels often invest close to home with seven out of ten investments made

within 50 miles of the angel investor's home or office. According to CVR "Informal investors are older, have higher incomes, and are better educated than the average citizen, yet they are not often millionaires. They are a diverse group, displaying a wide range of personal characteristics and investment behavior."

I hope this has given a clear distinction between venture capital and angel investors.

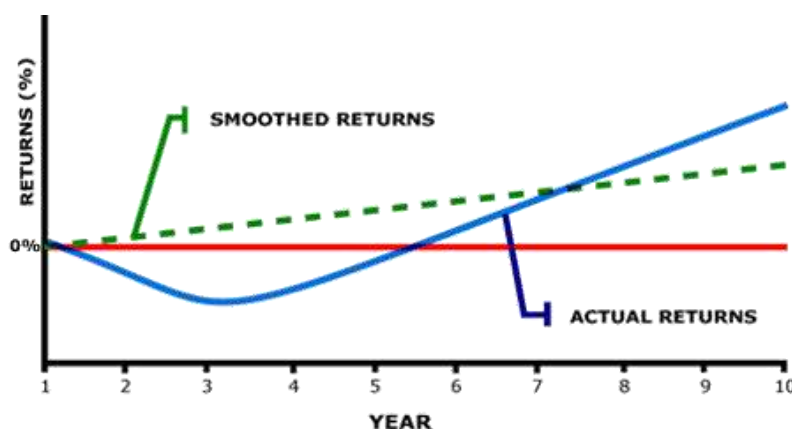
PRIVATE EQUITY J CURVE

Continuing with my goal of providing free educational articles on private equity, the following is a brief introduction to the J Curve and its application to private equity and venture capital.

The J-Curve shows an investor the compound return over time (IRR) of a private equity fund in order to assess its performance. Any private equity fund will exhibit strongly negative returns in the early years as the money is drawn down either through management fees or capital calls. After investments begin to mature, positive inflows of cash come back into the fund until the number of outflows precisely matches the amount of inflows, creating an internal rate of return (IRR) of zero.

As the fund continues its lifespan, the IRR should move into the arena of positive returns demonstrating long-term investments maturing and producing the desired returns.

The J-Curve is so named because the curve resembles a J, usually with a less sharp curve. It is often compared to the shape of a hockey stick. Here is an example of the J Curve:



This is just a brief introduction to the J Curve, if you want to add more to this article send me an email.

If you would like to learn more about the J Curve and Private Equity portfolio management, I recommend the following two books by the same author: [Beyond the J Curve: Managing a Portfolio of Venture Capital and Private Equity Funds](#), and [J Curve](#)

[Exposure: Managing a Portfolio of Venture Capital and Private Equity Funds](#). I am considering adding to the list of required reading for next quarter's [Certified Private Equity Professional program](#).

THE GOOD AND BAD OF EBITDA

The following is a guest article written by Bryan Sayers at [Forex Fraud](#), an online resource to the investment community that highlights the growing problem of fraud in the investment markets.

In this article, he discusses the advantages and disadvantages of relying on [EBITDA](#) for valuation.

The Definition of EBITDA

It occurred to me that I have not provided a definition for a very common term in private equity. Earnings Before Interest, Taxes, Depreciation and Amortization--or EBITDA--is a measurement used in valuation for the cash flow of a company.

Private equity firms often look to this measurement as a quick picture of a company without the complicating elements--interest, taxes, depreciation and amortization. This presents us with a straight forward idea of the money a company is bringing in.

The calculation for EBITDA or Earnings Before Interest, Taxes, Depreciation and Amortization is as follows:

$$EBITDA = \text{Revenue} - \text{Expenses (excluding Interest, Taxes, Depreciation, Amortization)}$$

This is a common indicator used in mergers and acquisitions as well as when private equity firms are considering a buyout of a company. EBITDA is often times used to decide how much a company is worth, how much leverage a deal requires and other areas of a buyout or merger.

Valuation Tools: EBITDA is Helpful, But Know the Disadvantages, Too!

Searching for hidden gems in mountains of financial data is a difficult task at best, but the task is made more manageable when assisted by a financial metric that adds value to data screening techniques. Many have chosen "[EBITDA](#)" to be their perfect rule of thumb. EBITDA arrived on the financial scene in the 1980s when leveraged buyouts were center stage. It provided a quick indication of a company's ability to generate cash flow to pay down the associated debt to come. Analysts began to favor the measure, especially when appraising capital-intensive industries with major depreciation outlays extended out over long time periods. Technology companies now commonly quote the figure in reports if it is to their advantage to do so.

[EBITDA](#) champions contend that the accounting measure provides a sense of how much

cash a young or fast-growing company can generate to pay all of the “bad stuff” that follows “Earnings Before”, or EB. The “bad stuff” consists of interest, taxes, depreciation and amortization. Many analysts choose to go a step further to calculate the ratio of Enterprise Value to EBITDA as one more useful comparative. Enterprise Value starts with market capitalization and deducts debt and cash. Proponents believe that “EV” represents what the true worth of the company’s business potential would be if it were to be acquired, and when divided by EBITDA, the multiple may supply an excellent tool for uncovering undervalued stocks.

EBITDA is not a measure of true cash flow, but the insights it provides relate cash flow more to valuation than do most other common financial statistics. Simple revenue multiples rarely convey important information on operating margins. Price-earnings ratios, though more informative, are subject to business cycle swings and various timing issues tied to the bottom line. Nevertheless, screening software can easily discern EBITDA when plowing through financial databases in a much more straightforward manner than do complex technical indicators employed by [forex software](#). Manipulations of basic data are not a necessity.

However, EBITDA has become ensconced in the financial analysts’ bag of tricks. As private equity firms prospect for undiscovered “nuggets”, it would behoove each analyst to recall the downside risk of using this measure in their various evaluations. Here are a few concerns to be aware of:

- Standard-setting bodies have yet to develop or enforce a definition of EBITDA. As a result, companies can create their own or use aggressive accounting policies to distort and erode the reliability of the measure;
- Various industries are capital-intensive, but the measure ignores capital expenditures, resulting in evaluations that could be either unrealistic or very misleading. If a company chooses to lease instead of purchase its material assets, then the accounting treatment could vary and distort results;
- Since EBITDA is not a true cash flow indicator, it will miss factors pertaining to working capital needs, debt repayments or financing activities;
- Lastly, the measure can actually make horribly unprofitable firms seem to have more future potential that can be justified by actual results. Some detractors jokingly state that EBITDA was invented to disguise bad earnings announcements.

Private equity analysts are always in search of a helpful metric to guide their prospecting efforts. EBITDA has evolved as the preferred measurement tool over the past few decades, if frequency of application in valuation terminology warrants that recognition. In any case, analysts should be forewarned that EBITDA would be more useful when evaluating firms in the identical industry, even when they have widely varying tax rates, capitalization structures and depreciation policies.

This article was contributed by Bryan Sayers at Forex Fraud, to visit his website [follow this link](#).

WHAT IS THE WORKING CAPITAL RATIO?

As part of the goal of this blog, to educate readers on all aspects of private equity, we are expanding our educational definitions of common private equity terms. The working capital ratio is both an indicator of a company's short-term health as well as its efficiency.

A company can either have positive working capital or negative working capital. If the company has positive working capital it means that the firm's current assets are sufficient to cover its current liabilities. Logically, if a company's current assets cannot cover its current liabilities then it has negative working capital.

Working Capital Ratio Formula

The calculation for the working capital ratio is the following: working capital equals current assets subtracted from current liabilities.

Working Capital = Current Company Assets - Current Company Liabilities

What does Working Capital show?

Working capital gives us a good short-term picture of the company's financial health as well as how efficiently the company is being managed. If a company's current assets are less than its current liabilities, then it will likely encounter difficulties paying off creditors which could result in bankruptcy. Additionally, a negative working capital may indicate to investors that the company does not have a reliable or efficient method of collecting money from customers--which could leave it vulnerable if it is unable to pay its creditors because the customers are slow to pay or default on payments.

I hope this has been a helpful summary of the working capital ratio. This has only been a brief introduction; I will expand on this term as well as others in the future.

GENERAL PARTNER FEES

Private equity investors overwhelmingly responded positively when asked whether negotiating power had shifted in their favor. According to Prequin, 81% of investors see a change in power allowing limited partners to more strongly enforce their demands on general partners in fund terms and conditions this past year. The following notes are the key findings of the Prequin PE Fund Terms 2010 report:

- 81% of respondents reported seeing a shift in the balance of power towards the investor during negotiations of fund terms and conditions in the past year.

- Fund managers are already responding to investor demands for concessions: 41% of investors polled reported seeing an improvement in the share of deal-related fees they are set to receive from funds in the past year.
- Despite concessions, the proportion of investors agreeing that GP-LP interests are properly aligned has decreased from 69% in 2009 to 58% in 2010, showing increasing investor dissatisfaction with fund terms.
- The majority of respondents (71%) told us they may not invest in a fund as a result of it failing to adhere to ILPA's Private
- Equity Principles. This included a significant 13% which stated that they definitely would not invest in a fund that did not follow the principles.
- Management fees remain a major source of discontent for investors with 64% of respondents expressing dissatisfaction at the level and structure of management fees charged.
- 54% of investors feel that the more LP-friendly terms and conditions they are now seeing will continue to be offered over the longer term. Just 9% felt any concessions were only temporary.

This is a very important trend that I have been following since the middle of the recession. As fundraising has grown increasingly difficult even after the peak of the financial crisis because buyout funds have still failed to make the type of visible recovery that hedge funds and other industries have made, general partners have felt pressure to cater more to limited partners. This includes reducing fees, not requiring lock-up periods, and a stronger adherence to the ILPA Private Equity Principles.

[FIVE RESOURCES FOR FINDING INVESTORS AND RAISING CAPITAL](#)

The current fund-raising market is difficult, especially for young private equity firms without a proven track record. Finding private equity investors is a demanding process even in boom years and after a couple years of poor returns and with the competition from the much more quickly recovering hedge fund industry, fund marketers must use all available resources to raise assets. The following article gives four resources for reaching investors and raising capital and will be part of my complimentary 20+ page guide to private equity fund marketing that will be available for download this week:

1. **Placement Agents:** Private equity firms sometimes hire placement agents to help connect management with potential investors. These third party agents have attracted negative press over pay-to-play agreements with state pension funds which have resulted in government investigations; however, new SEC rules are aimed to prevent such problems. Despite the ethical violations of a few, placement agents are still a legitimate and necessary way to raise capital for many firms. These agents sometimes raise private equity for companies but many perform the same capital raising role for private equity firms.
2. **Look for Different Types of Investors:** Reaching investors is difficult if you are always contacting the same institutional investors or wealth management firms. Consider expanding your list of investors to include a wide range of potential limited partners including: wealth management firms, family offices,

pension funds, sovereign wealth funds, endowment funds, foundations and institutional investment consultants. Many private equity firms overlook these various capital sources and stick to familiar investors. In a tough fundraising climate marketers should be reaching out to ALL potential investors across the board. We currently offer a database of all these different types of potential private equity investors, see [Private Equity Investor Directory](#).

3. **Issue a Press Release:** This method is tried and true as firms have used it for years to gain name recognition and grow their brand. But many private equity firms still overlook this opportunity. I think this is a mistake considering the potential number of investors a press release could reach in media publications. Think about the confidence boost when you contact a potential investor and introduce your firm and he replies "I saw an article about you the other day." This name recognition goes a long way in building the initial trust with an investor.
4. **Expand Your List of Private Equity Investors:** While you have now opened up your fund to new types of investors you also need to simply expand the number of investors you can reach. Attending networking and working with placement agents can yield some results but to vastly increase the size of your potential investor list you should consider a directory of investors. For a directory of more than 3,800 private equity investors [follow this link](#).

THE DEBATE BETWEEN PRIVATE EQUITY FIRMS AND INVESTORS

Representatives from the buyout industry and investors met this week to discuss the demands investors have for their managers. The meeting was sponsored by the Institutional Limited Partners Association and some of the biggest names in private equity attended to discuss a series of demands issued by investors in the last year.

Investors are primarily asking for lower fees and more rights, but it's unclear whether private equity firms are willing to meet this challenge. On one hand, investors feel unsatisfied after 2-3 years of poor performance by private equity firms and do not see the sense in paying so much for so little return. This is reasonable, but I do not think that managers are going to budge much and will largely meet these concerns symbolically (like attending the ILPA meeting).

It's not that managers are so stubborn or so greedy, it's that they feel that they will soon be performing well enough again to justify their fees and that they need to keep those fees to keep their staff from leaving to competing firms like hedge funds or the surviving investment banks. I think those small to mid-size firms that are really having trouble attracting investors (*not* those firms that attended the ILPA meeting) will probably offer lower fees and better terms to investors and then gradually raise fees to a competitive level once returns increase and investor confidence stabilizes.

One good comparison is the hedge fund industry which has been trying to evade investor's demands for lower fees and better terms since the recession began. After a

year of stellar performance hedge funds survived long enough to regain some footing in negotiations so they can tell investors "Look at the returns I generated for you in 2009, I can do the same for the next X years if you stay with me." And if investors leave the hedge fund there are many others waiting to invest with a well-performing hedge fund. Private equity firms may be waiting for such a good turn around, whether they get it or not, well that's the looming question mark.

MARKET CAPITALIZATION

This blog is an educational resource for those wanting to learn more about the private equity industry so from time to time I will offer definitions and explanations of industry concepts.

One way to measure the value of a company which is typically used by private equity firms is the target company's market capitalization, also known as market cap. This number is a calculation of the number of shares available to the public multiplied by the market price per share.

Market capitalization is an important consideration in mergers and acquisitions because it gives the buyer an estimate of what to bid. A buyer should expect to pay a premium on the market capitalization so this number is more of a minimum price but you will probably have to pay a higher price to gain a majority interest in the firm. In some cases, stockholders may be eager to unload their shares but the market is too thin, in this situation private buyers can get a lower price than what the market capitalization would suggest.

Valuation of the firm should not rely solely on its market capitalization, but also other factors such as quality of management, long-term growth potential, and how much debt the firm has. I hope this has answered the question what is market capitalization?

Market Capitalization calculation:

(total number of shares outstanding) X (the current share of the company's stock)

For a great explanation of market capitalization [read Private Equity: Transforming a Public Corporation to Increase Value](#)

Private Companies and Earnings Forecasts

One of the benefits that privately-held companies enjoy is that they are not slaves to the analyst's forecast. Public companies are pressured to meet often unattainable earnings predictions and when a company falls short of this they see an immediate drop in their stock's price. Furthermore, as author Harold Bierman Jr. notes in *Private Equity*, "Just meeting the forecast is not adequate since it shows an inability of the firm to beat the forecast."

This is not a problem for private equity-owned companies, although the company still has to meet goals but because the private equity backer has a more active role in the company the pressure falls primarily on the buyout firm. The targets are set by the management in concert with the private equity firm so there is a more reasonable quarterly expectation.

Additionally, analyst predictions often deviate from the public company's own estimates because they aren't looking at the same data and analysts do not have the first-hand perspective that the company does. Indeed, some firms refuse to help analysts or even acknowledge their earnings estimates. This disconnect does not exist in the private equity world because the private equity firms have staff actively involved in the company with a direct knowledge of the company's operations and performance.

The freedom from analysts' predictions and from submitting earnings reports allows private equity-owned companies to make the kind of major turnaround decisions that will bring about long term growth without answering to analysts or public investors. A public company may exhaust itself answering media inquiries after a weak quarter or doing damage control to stave off a fall in stock price, when the company should really be focusing on improving its performance. On the other hand, private equity investors tend to have a long-term mindset understanding that there may be some difficult quarters before a larger payout can be generated.

SELECTING THE RIGHT PRIVATE EQUITY FUND MANAGEMENT

Selecting a private equity fund to partner with or invest in can be difficult. With so many choices and limited information on many buyout firms, you should be careful in deciding what firm is best suited to their risk appetite and specific needs. This is the third part in a series of four articles on how to choose a private equity fund.

Management is one of the most important aspects of a private equity firm, having the wrong management team in any part of the business could hurt the firm's performance significantly. I think it's best to break down management into three tiers: selecting transactions and investments for the firm; day-to-day operational duties in raising capital, structuring and finally executing the deals; and the management in place at the fund's portfolio companies. It's useful to consider the management through each of these aspects in order to get a sense of the private equity firm's general management. For example, management issues at a fund's portfolio company, such as an unusually high turnover rate, signals problems in the private equity firm's management as well.

Private equity firms that have an impressive and consistent performance record usually

have a consistency in their management approach. These firms have the structure in place to fluidly find and execute deals before the opportunity is lost. Poor management can cause private equity firms to act too slowly and fail to make decisions. A strong management team will have ultimate decision-making authority on what deals to open and which ones should close. A firm with a solid management team has consistent, disciplined growth--not volatile returns that subject LPs to a quarter of big losses for one with high returns.

Once the firm's management has sourced, structured and executed a deal another management team has the responsibility for transforming the acquired company. If the company is purchased for reasons other than inadequate management, then the portfolio company's existing managers might remain on staff. Other times, the business is underperforming primarily because the existing management is either inefficient or lacks the knowledge and resources to expand the company. In this case, the private equity firm may recommend an addition or actively replace the management with executives that will be able to lead the company more effectively.

A portfolio company's executives are often representative of how the private equity firm manages. For instance, if the company's executives are frequently replaced it shows that the buyout firm either cannot choose a qualified executive or it lacks the ability to lead the executives. There are plenty of opportunities to lead the portfolio company's management and the most secure companies often have a wealth of resources available to them. Private equity firms can give their portfolio company every opportunity to succeed by offering: experienced board members, advice from experts in the industry, and capital support to ideas that could grow the company.

A final level of analysis should examine what executives the firm typically places on a board or turns to for advice and analysis. If these executive consultants have an inconsistent track record of poor performing companies and irrational decisions, then they are not the type of people you would like advising your investments. I hope this gave a helpful outline on analyzing a private equity funds management. Tomorrow's final installment in this series will cover a private equity firm's reputation in the industry and with past partners.

CONSIDERING THE A PRIVATE EQUITY FUND'S PAST PERFORMANCE

Selecting a private equity fund to partner with or invest in can be difficult. With so many choices and limited information on many buyout firms, investors should be careful in deciding what firm is best suited to their risk appetite and specific needs. This is the second article in a series of four on how to choose a private equity fund. The following is explaining how a private equity fund's past performance and individual deals help in deciding what private equity firm to partner with.

Past Performance

Along with sector specialization, another important factor in selecting a private equity fund is the firm's past performance. It is worth laboring over all aspects of the private equity firm's track record, looking at not only each investment and fund, but the overall profits and losses for the firm. The firm's history will reveal what deal structure they prefer, their use of leverage, minority vs. controlling interest and how their returns match up to their predictions.

When looking at the performance, if the firm has launched multiple generations of funds examine how consistent each fund performs. Is the firm a consistent performer, or do some of its funds produce high returns while others collapse? Investors are often satisfied with a solid private equity firm that has proven less volatile even if it means that you do not receive as high of a ROI as the riskier fund. As the numerous investment frauds this decade show, if a fund is promising unheard of returns there is probably a reason for it--and it's often illegal or at least unethical practices. (After all, Bernard Madoff promised some investors annual returns as high as 46%).

If a business is looking for a buyout or significant private equity investment, here are some factors to consider:

- What percentage of transactions placed under letter of intent are actually closed?
- How do past sellers feel about their dealings with the private equity firm? Are they satisfied or do they feel ignored or taken advantage of? It's important to get a sense of the buyout firm from people who have worked with the firm but are not on the payroll.
- Did the firm keep with the original guidelines in the letter of intent? Although the document is usually non-binding, adherence to the core agreements builds a foundation of trust for both parties.
- How professional was the transaction process? Especially if you want to be the primary decider in the direction of business, you should examine how past partnerships have succeeded (and failed). Although buyout firms do sometimes takeover a controlling interest of a company--in spite of the owner's objections--it is not always as dramatic as the owner may suggest. In some cases, the private equity firm and the company have already agreed on terms but the business owner attempts to back out later. Similarly, if a disagreement resulted in litigation, the owner or buyout firm may be bitter and give a less-than-truthful take on the deal. In other words, be sure to get both sides of every deal.

Some of the above factors were partly based on Module IV of *Private Equity: History, Governance, and Operations*.

As always, the preceding article is no way a means of private equity, financial advice or solicitation to sell private equity or investment products. Please seek a qualified financial or legal adviser.

SELECTING THE RIGHT PRIVATE EQUITY FUND

Selecting a private equity fund to partner with or invest in can be difficult. With so many choices and limited information on many buyout firms, investors should be careful in deciding what firm is best suited to their risk appetite and specific needs. The following is partly based on a section in *Private Equity: History, Governance, and Operations*. This is the first in a series of articles on how to choose a private equity fund:

Sector Specialization

The first factor to consider is sector specialization. Many funds primarily invest in a small number of sectors and seldom deviate from these areas. This should not be seen as a deficiency or an alarming lack of diversification, rather this approach ensures that the private equity firm is knowledgeable about the industry and will be more likely to predict changes.

A frequent downfall for private equity firms or venture capitalists is that they invest too far from what they understand. A buyout fund that has always invested in technology companies may run into trouble buying out a manufacturing firm. The complexities of the industry will be a major struggle for a fund that has no experience in production and distribution of supplies, competitive pricing, expanding the customer base, keeping the workers satisfied and compensated as well as any number of aspects that are unique to the manufacturing company.

Additionally, less specialized funds may be more likely to invest in volatile sectors that they do not fully understand, thus exposing its investors to significant losses. Perhaps the most dangerous and common trait among less specialized funds is that they will chase whatever industry is currently "hot." Traditional investors will know that this is a flawed strategy, as the area that is popular and generating big returns is often a bubble on the brink of bursting.

This was most evident in the late investors in the internet companies in the very end of the 1999 and beginning of 2000. These investors followed the exciting dot-com firms that had been making big returns, but in the first quarter of 2000 the bubble burst. Stock prices plummeted, leaving investors with sometimes total losses on their investments and once heavily capitalized companies filed for bankruptcy. A way to prevent this type of exposure is by investing with a fund that invests in a limited number of sectors and is dedicated to improving companies within that area rather than only investing in the popular investments.

Another benefit to investing in a specialized private equity fund is that the fund will have a wealth of industry relationships. This will be useful throughout the investment; in the day-to-day operations of the company, facilitate possible mergers or acquisitions within the industry, access to industry-seasoned executives and other resources that would not be immediately available to non-specialized funds. Perhaps the biggest hazard for selecting a highly-specialized fund is that it could be more susceptible to industry declines. In the current recession, many industries are struggling, such as real estate. Real estate private equity funds were therefore hit hard by the collapse in the housing market and the changing property valuations.

Overall, when selecting a private equity fund, specialization in a limited number of industries offers a number of long-term benefits. The fund's management will be more likely to anticipate changes in the industry, have helpful contacts in the sector, have an understanding of a portfolio company's operational needs and problems and avoid chasing the "hot industry."

THE PROS AND CONS OF AN INITIAL PUBLIC OFFERING

When a company is taken private by a buyout firm, the end-goal is to hold a successful [initial public offering](#). Although the company may be sold to another private equity group, merge with another company or be acquired by another firm, most buyout firms favor the IPO exit. As the initial public offering may be returning as a popular exit for buyout firms, it seems that this will always be the favored exit strategy used by private equity firms. The following is a look at the pros and cons of an initial public offering.

Benefits of an Initial Public Offering

- **More Capital.** An initial public offering allows a firm to raise significant capital. Many firms choose to hold an IPO to fund future expansion of their business. It may also provide a firm with the necessary cash to survive until the product or service is launched successfully.
- **Greater Stability.** Being listed as a public company may bring a stronger reputation in the business world. Investors and potential business partners may be more likely to work with a public company because it requires stability and increased accountability.
- **Obtaining loans.** Some lenders may be more likely to give a loan to a public company than a firm held by a private equity firm. Similarly, debt rating agencies may improve the company's score because it goes public.
- **Greater liquidity.** One of the biggest benefits of an IPO is the liquidity it brings. Management with a stake in the firm and private equity investors can now sell shares to new investors. However, they are often prevented from selling for a "lock-up" period, usually about 6 months.

- **Management Talent.** One typical way of compensating executives is through stock options and an IPO permits a firm to offer shares in the company in addition to salary. This is a great bargaining chip for getting talented management when the cash available for salaries isn't high enough.
- **Mergers and Acquisitions.** A firm hoping to finance a merger or acquisition deal can use the funds raised by selling shares to the public.

Now, we can look at the downside to an initial public offering. The biggest drawback is simply the expense associated with an IPO.

Downside to an Initial Public Offering

- **Cost.** According to [Private Equity: History, Governance and Operations](#) the cost of an initial public offering "can be in excess of 10 percent of the overall IPO offering amount." This is a significant expense that should be included when considering an IPO. The costs come from the management publicizing the company and putting together a prospectus; paying underwriters (could be as high as 7% of the offering); and paying legal and filing fees required for going public.
- **The SEC.** By selling shares to the public, a company is required to register with the Securities and Exchange Commission. Whereas the company had more leeway in its private days, it must now abide by laws and regulations demanded by the SEC. Ensuring the company is in compliance with the laws requires a lot of time and money. The company must draft documents it never had to before, like quarterly statements, and putting together a board of directors.
- **Listening to Shareholders.** Sometimes an idea or goal for the business may not benefit the shareholder in the short-term but it would be better for the company in the long-term. These types of ideas are often shot down by shareholders that won't tolerate the risk and don't want to see their stock value drop. Shareholders also have a say in compensation for executives and the influence of the public may also play a role in deciding who gets paid what.
- **Answering to the Public.** Private companies don't have to deal with satisfying all its shareholders and their sometimes tiring inquiries. A public company needs to meet with Wall Street analysts and shareholders who rightfully want to know more about the company they are invested in, or considering investing in.

VENTURE BUYOUT

Venture buyout is a relatively new term (apparently coined by Harvard Management Company's Peter Dolan) which describes what some consider an emerging new asset class that combines elements of venture capital and private equity buyouts. A venture buyout firm seeks to fill a void by investing in middle-stage companies that traditional buyout funds and venture capitalists pass over.

Venture buyouts can be seen as an alternative to venture capital that is invested in startup companies trying to expand because a venture buyout somewhat sidesteps the

early stage of a business and takes over an existing small company. This is also an alternative to traditional large buyouts because it requires less capital and targets more entrepreneurial companies.

A venture buyout fund typically collects capital from limited partners to buyout a small later-stage company. The targets are similar to the firms that venture capitalists invest in but the venture buyout is unique because it seeks to "carve out" a startup business like a private equity buyout while maintaining the entrepreneurial aspect of venture capital. The venture buyout may buy up a smaller company and try to increase its value and to turn it around by fixing management or operations problems.

Some venture capitalists have turned to the buyout model to diversify their portfolio with a more established middle-stage company, to counter its high-risk entrepreneurial ventures. While buyouts typically hold a company for about 5-7 years, a venture buyout would try to improve the business in a much shorter time. Although the venture aspect means that venture buyouts have some risk, the funds typically use less leverage than a large buyout because the buyout targets are smaller companies. Also, venture buyouts groups--because they are relatively small compared to the large buyout firms-- will usually take on less companies in their portfolios than larger private equity buyout firms would.

START A PRIVATE EQUITY FUND

Most private equity fund startups I speak with want referrals to respected service providers or advice on attracting seed capital. Almost none have a business plan for their private equity fund and only a few have PowerPoint presentations explaining their investment strategy.

If you are a fund manager in this position that doesn't mean you have done anything wrong but you may consider writing both a private equity fund business plan and comprehensive 15-25-page PowerPoint presentation now to make it easier to work with service providers, third party marketers, institutional consultants, and potential investors. To gain access to the contact details for thousands of private equity investors check out the [Private Equity Investor Database](#).

Richard Wilson offers some helpful tips on starting a private equity or hedge fund.

Parts of your private equity fund business plan should include:

- **Management** - What team members are required to run the fund effectively? What is the chain of command, how are decisions made and what happens if 2-3 professionals disappeared tomorrow? Who would take over responsibilities and what would happen to your investor's funds? The importance of a well-constructed and managed team cannot be overstated.

- **Investment Process & Risk Management** - Managing risk is what running a private equity fund is all about. Meet with your prime brokerage firm's risk advisory division, speak with your traders and portfolio managers, and network with other managers to pick up some best practices within this space. At the end of the day your risk management approach, investment process and team must be molded into one cohesive group all pointed in the right direction. There is no magic bullet to raising assets or gaining seed capital but getting this combination right is the most important thing you can focus on.
- **Service Providers:** Who are you going to use as your prime brokerage firm, fund administrator, auditor or third party marketer? How will this evolve as your fund passes the \$100M and \$300M marks? Will you use multi-prime brokerage services? Capital introduction teams? Multiple third party marketers? Your choice of firms within this space can affect the levels of assets you manage, the quality of advice you receive and the reputation of your firm as a whole. Our advice would be to meet and interview at least 3 service providers of each type in person or over several phone calls and go with one that is well experienced yet not so large that your sub \$1B account is not an annoyance to them.
- **Infrastructure & Technology:** Meet with other local private equity fund managers, your trader, your prime brokerage firm and other service providers to nail down exactly what you will need in terms of reporting, processing and functioning as not only a private equity fund, but a small business. When you start a private equity fund you become an entrepreneur and you have to face all of the challenges that come with that position in addition to those challenges found in managing your portfolio. Many funds under-estimate the costs of some of the technology needed to operate as they grow beyond more simple \$1-\$5M fund operations.
- **Marketing:** Nothing is traded or managed until the dollars come in. Anyone who joins your firm or board will want to know how you are looking to grow your business. What channels of investors will you approach? Institutional investors including fund of private equity funds, consultants, large family offices and pension funds or smaller family offices, wealth management firms, high-net-worth individuals, and accredited investor clubs? Here is a hint, in our asset raising experience the later should be 80% of your focus if you are managing less than \$100M. What resources do you or should you have in place to meet these goals? Third party marketers? Databases of investors? An in-house marketing specialist? How much does this cost and when should these resources be put in place? We offer a [Private Equity Investor Database](#) which includes more than 3,800 private equity investors that can jump start your capital raising efforts and raise your assets under management.

We will be expanding our thoughts here on what should be included in a Private Equity Fund Business Plan. We will also be providing an example business plan eventually that will provide you with a template to use for your own private equity fund startup work. One of the first steps toward a successful private equity firm is having a large directory

of private equity investors, consider the [Private Equity Investor Database](#) which includes thousands of private equity investors.

PRIVATE EQUITY ELEVATOR PITCH

I recently read a valuable book on developing a great elevator pitch. An elevator pitch is defined in [Elevator Pitch Essentials](#) as "an overview of an idea, product, service, project, person or other Solution to a problem and is designed to just get a conversation started." Although an elevator pitch is essential for many careers, venture capitalists and entrepreneurs would especially benefit from reading this. I am often contacted by entrepreneurs wondering how to attract investors to their idea and having a well-crafted elevator pitch is crucial. [Elevator Pitch Essentials](#) is a concise guide to creating an effective elevator pitch by Chris O'Leary. Mr. O'Leary is a successful entrepreneur, with an impressive career in leading and advising start-ups.

One of the best aspects of Elevator Pitch Essentials is the author's sharing of his professional experiences. His experience working with start-ups like Sales Logix allows venture capitalists and hopeful entrepreneurs to learn from an active member of the start-up industry. The book is brief, straight-to-the-point while entertaining (like an elevator pitch) and inexpensive. I recommend this book to anyone hoping to perfect their current pitch or learn how to get some interested in a potential business or investment opportunity.

PRIVATE EQUITY SECONDARY MARKET OVERVIEW

Generally, the secondary market for private equity is a market for the buying and selling of capital commitments to private equity funds by limited partners. The secondary's market has seen a large boom recently as many private equity investors are selling their investment commitments at considerably lower prices than the estimated value. The financial crisis and low performance of many private equity funds has led to this major push to 'dump' private equity investments even at a short term loss because the investors believe that it could get worse or cannot afford to remain committed to the fund as long as they are obligated. As the private equity secondary market becomes more and more popular, it's important to have an understanding of what the secondary's market for private equity is.

By definition, private equity investment is different from the public investment markets where anyone can purchase shares of publicly traded companies. The private equity secondary market is a way for private equity investors to exchange pre-existing investor commitments, similar to public exchange markets. A big difference though is that the private equity secondary market is involves trading illiquid assets of long-term commitments to private equity funds.

The emphasis of these commitments is *long-term* because limited partners typically commit to private equity funds for at least 5 years and as long as 10 years for some fund.

The reason is mostly that private equity funds seek to maximize profits of portfolio companies by restructuring and reducing the areas that cut into profits. To be successful, private equity firms prefer a longer time period to make the changes and for good reason.

By having a longer time frame to carry out the adjustments, private equity firms are able to find what is best for the company's success rather than worrying over producing near-immediate returns to investors. This is also a concern of private equity for limited partners because they attach themselves to the fund for such a long time period, during which various problems could occur within the investment or beyond (such as the current financial crisis) which causes the investor to want to cash out early.

This is where the secondary market for private equity proves useful to investors who want to exit their long-term investment. Especially in times of turmoil, private equity investors may want out and in this event activities in the secondary market surge. A great example of this is the aftermath of the Dot-Com crash where many private equity investors, especially those in venture capital funds, scrambled to sell off their investments that were rapidly sinking in value. During the time period of the Dot-Com bubble's burst and the subsequent retreat by limited partners, the volume of transactions in the secondary market rose from an estimated 2-3% to 5%. This led to a massive influx of undervalued investments, a large amount from tech-focused venture capital funds, and after a couple years the private equity secondary market was more reasonably priced to the actual value. This may change again, however, as many nervous or hurt private equity investors are selling off investment commitments seemingly at a much lower price than the actual value, similar to the aftermath of the Dot-Com collapse.



Types of Transactions on the Private Equity Secondary Market

- **Sale of Limited Partnership Interests:** The most common transaction on the private equity secondary market is the sale of limited partnership interests. Nearly all private equity funds (mezzanine fund, venture capital fund, angel investor fund etc.) can be sold on the secondary market and many investors use this to sell capital commitments to funds to other investors hoping to benefit

from what they think is an undervalued investment. There are several variations on the basic sale of a limited partnership interest: a structured joint venture is a typically more complicated exchange where the buyer and seller negotiate terms that suit both parties. Securitization is an option for investors that want some liquid assets by investing its limited partner interests into a new vehicle, often a collateralized fund obligation which issues notes or other liquid assets to the investor in return. A stapled transaction is a negotiated agreement when a general partner is raising another fund which ties the limited partner's current fund investment to the new fund.

- **Sale of Direct Interests:** This is different from the sale of limited partnership interests because it trades a direct investment in operating companies rather than in an investment fund. A secondary direct transaction is the sale of a captive portfolio of direct investments that must be either actively managed by the buyer or the buyer is supposed to arrange for a manager. Synthetic secondary transaction occurs when a secondary investor purchases a limited partnership holding a portfolio of direct investments. A tail-end transaction deals with the interest in a private equity investment that is nearing or has passed its expected life.

The secondary market is of special importance as private equity investors look to the private equity secondary market as an exit for their declining investment or to avoid expected declines.

Partial source: [Wikipedia](#)

HOW PRIVATE EQUITY PORTFOLIO COMPANIES CAN SUCCEED

The economic downturn and the financial collapse of this year have left many private equity firms struggling to produce returns from their portfolio companies. The executive management of these firms have an important role in the company's survival by providing clear leadership and sound strategy in unsettling times.

Mark Rittmanic is the founder of ForteCEO, a leading senior interim executive firm for private businesses in the United States. He offers private equity portfolio firms and other private businesses the opportunity to work with ForteCEO's executives--all of which have at least 20 years' experience leading successful businesses--to exploit profitable areas and overcome obstacles. Mr. Rittmanic offers his thoughts on how private equity portfolio firms can survive in a challenging economy here.

"Four Survival Tips for Struggling Private Equity Portfolio Firms"

1 Immediate Renewal Leadership: A challenging economy can be a blessing when you see and react to issues that were not revealed when the tide was high, especially leaders who are not able to adapt. If you have a struggling leader with a "deer in the headlights" reaction to the business downturn, you need to take decisive action and

bring in overqualified leadership to steer the ship through the storm. Since you need this assistance right now, and likely will not need this level of leadership long term, consider an interim CEO to work with the current team and help them succeed.

2 Demand Industry Expertise: Many PE firms have operational partners as a first line of defense for portfolio assistance. A prolonged downturn, which certain industries are currently facing, is no time for on the job training in a new industry. If your operating bench is light on the right industry experience, consider ForteCEO's operating executives who have led business renewals in more than 30 industry sectors.

3 Don't Assume We Have Seen the Worst: We are preparing clients in certain industries to survive 2009 with 30 to 40% lower annual revenues. At first blush, this seems impossible, and it may be with your current leadership. But taking a focused, zero-based approach with people, clients, operating expenses, product SKU's and service offerings usually results in a dramatically different view of what is necessary for survival. It just takes a leader who has done it before.

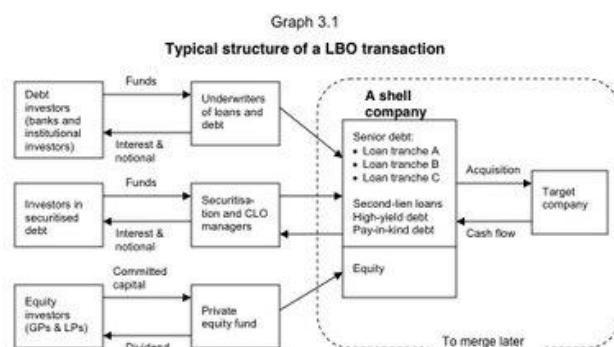
4 Get Everyone Involved: In the middle market, greatest companies are based on getting extraordinary accomplishments from ordinary people. This is never truer than when the firm is under fire. Take advantage of times like these to galvanize your team around the goal of survival, which may include pay cuts and other sacrifices for all parties until you are out of the woods. Don't shield your people, landlords, vendors or other key constituents from your challenges. Make them part of the renewal effort.

By Mark Rittmanic, Founder of [ForteCEO](#)

HOW LEVERAGED BUYOUTS WORK

Leveraged finance has been a key resource for private equity as many deals use leverage to purchase companies that would otherwise be impossible to acquire. Many of the major private equity deals were financed primarily through debt, with the percentage of leverage sometimes being as high as 90% but typically in the 60-70% range. Leveraged buyouts have been very popular for most of this decade until the global credit crunch which has largely restricted the amount of leverage offered for LBOs.

How Leveraged Buyouts Work



Leveraged finance in private equity has its positives and negatives. Principally, the benefit is that private equity groups can acquire majority shares without first having the necessary capital; the negative is the risk involved in such a deal, financing a deal using a large

amount of debt has an inherent risk that the deal will not be successful and the buyer is faced with having to pay off the loan. Often the private equity buyout uses the assets of the company it is acquiring as collateral for obtaining the loan. For this reason, leveraged buyouts (LBOs) have attracted a lot of criticism in the investment community, but these types of deals are still made. Often times, a successful leveraged buyout provides impressive returns to investors. Below is a graph from a report on leveraged buyouts by the Committee on the Global Financial System that shows how the typical leveraged buyout is structured (it's a little fuzzy but hopefully not too hard to read.)

The leveraged buyout firm usually repays the deal sponsors in three to seven years depending on the arrangement, and there are different ways in which the LBO firm repays this debt. Options for repayment include: dividend recapitalization, selling the acquired firm to other private equity firms or alternative buyers, or through an initial public offering (taking the company public through a stock offering). In this decade, there has been a noticeable resurgence in the popularity of leveraged buyouts; global leveraged buyout fund-raising increased from less than \$100 billion in 2004 to more than \$200 billion in 2007.

Advantages of Leveraged Buyouts

Leveraged buyouts have provided high returns to investors who are open to the element of risk that is present in financing deals through leverage. Beyond the aspect of returns to investors, private equity firms that acquire a controlling interest in a company are often able to improve performance by providing a heightened level of management oversight and improved corporate governance. Private equity investors enjoy greater freedom from SEC regulation than investors in public companies, and they use that freedom to sometimes actively manage the company. The methods by which the private equity backer will improve a company are direct oversight of management by the private investors, using pay-for-performance incentives for managers and addressing structural problems that eat away at profits.

Another benefit for a leveraged buyout of a public company is the reduction in inefficient use of free cash flows. Often managers of public companies that gather large operating profits but are unable to find good investment opportunities will be motivated to dump the money into low-return projects instead of returning the profits to investors. A firm acquired in a leveraged buyout will put that money toward debt repayment. Lastly, firms bought through an LBO tend to focus on the long-term because there is little pressure to provide short-term profits. Many view this as a benefit of leveraged buyouts because it allows for structural changes and long-term profit producing changes.

Leveraged Buyouts in a Bad Market

The mortgage meltdown has made leveraged buyouts very difficult as they rely on sizable loans which the investment banks are not as willing to offer now. The banks tightening the purse-strings has forced buyout firms to either scale back the size of their investments or seek other sources of capital. While leaders of top private equity like

Steve Schwarzman and David Rubenstein [have been optimistic](#) this week over the return of leveraged buyouts, Bloomberg reports "Announced transactions by leveraged buyout firms have dropped more than 70 percent so far in 2008 from the same period a year earlier." Private equity firms hope that the injection of capital back into the banking system by the federal government will help solve some of the illiquidity in the market and revamp leveraged buyouts.

Tags: Leveraged buyouts, LBOs, LBO, Leveraged buyout definition, leveraged buyout, what is a leveraged buyout, benefits of leveraged buyouts, leveraged finance, what is an LBO? Private Equity leveraged buyout, Leveraged buyouts news

Link to This Resource: [Leveraged Buyouts](#)

MERGERS AND ACQUISITIONS STRATEGIES

Acquisitions and mergers can bring big profits to companies but all-too often this is not the case because acquirers fail to notice some key problems that could be avoided. I recently read a relevant article on some common pitfalls for mergers and acquisitions that lead to big losses and big wastes for both parties involved. Today's post focuses on some of these problems and simple resolutions that can lead to successful mergers and acquisitions. The following issues are especially relevant to private equity groups in acquisitions.

Problems and Solutions for Company Acquisitions and Mergers

1. **Poor Match:** There have been many mergers and acquisitions that have failed because the companies simply don't match; either operationally or strategically, and sometimes because the products and services of the companies are too different. When a company strays outside of its territory it can sometimes lead to poor performance. So, when considering a merger or acquisition, be realistic of the weaknesses and difficulties in taking on the other company.
2. **Give the People What They Want:** A common problem in mergers and acquisitions is that the acquirer brings on the other company's staff but assumes that they will work as productive and contently in your completely different work environment. Different firms have different work environments and cultures that you should be sensitive to in a takeover. Taking into consideration the factors that make these professionals productive could save you some two week's notices and hopefully improve your company as a whole.
3. **Conducting Strict Due Diligence:** Due diligence is a crucial aspect of Mergers and acquisitions, and if performed rigorously it saves a lot of time and trouble by catching potential issues and problems early. Conduct this process to the greatest degree possible but know that there are some problems that come up unexpectedly regardless.
4. **Betting the House:** The implicit hope in a merger or acquisition is that it will benefit your company, but many deals end up hurting the acquirer. An example could be a high-growth rate company taking on a steady but slow-growth rate company, which could slow down the high-growth company and have a negative

impact on business and profits. The idea is to be careful that conducting a merger or acquisition won't end up negatively impacting your firm's success. Another problem for your company could be simply betting too much on the success of the merger or acquisition, to the point that even a moderate failure can end up really hurting your firm. The typical case of this is a leveraged buyout that uses too much debt so that anything but a highly profitable success ends up costing the buyer more than it makes from the merger or acquisition.

5. **You Got to Give a Little...Or a Lot:** An acquisition is typically a major deal that requires the acquirer to give a large amount of resources in order for the acquisition to be beneficial. Don't think of it as sacrificing your resources, think of it as re-investing in your company because it's really adding value to a company that you are very much invested in. So adequately allocating resources for every stage of the deal is connected to, rather than separate from your business--from due diligence to structuring the deal to incorporating the firm into your company.

Both acquisitions and mergers are consuming and require a lot of investment from a company for it to be successful. These tips will help you toward an acquisition that benefits both parties involved and ultimately create a better business.

Source: Bruce R. Evans is the Managing Partner at Summit Partners' Boston office. His article offers key points of success and failure in Mergers and Acquisitions.

OVERVIEW OF PRIVATE PLACEMENT MEMORANDUM

A private equity firm offers a private placement memorandum to potential investors. The document explains an investment opportunity to potential limited partners, and the firm hopes they will be interested enough to invest capital in the investment.

Private equity firms usually include in the private placement memorandum a wide range of information that a limited partner would like to know when considering the investment. This includes summary terms and conditions proposed by the firm that a limited partner may negotiate if the LP decides to invest. In public capital investment offerings, the Securities and Exchange Commission regulates the document, but a private placement memorandum is not regulated and therefore the material and specifics provided to the limited partners may vary by firm. This article will cover what is most often included in a private placement memorandum, but private equity firms may choose to exclude any of these sections or add one that is not present.

The private placement memorandum is a document for private equity firms hoping to attract investors, and limited partners rely on the PPM to make their decision based on the information presented in it.

Here are some general sections of the private placement memorandum:

- **Executive Summary:** Some information usually included here would be the size of the fund, expected close date, and the management team's experience in past funds. Additionally, this section includes a brief description of the General

Partner, the investment strategies used, and the opportunities and challenges in the current market.

- **Firm and Fund Investment Strategies:** This is more or less self-explanatory but what you want to present is the firm's past performance and history; how it has succeeded and what strategies were used. How the firm's advantages and resources will succeed in the specified market? This section is a detailed overview of the fund's investment strategy discussing the geographical focus of the fund, stage and relevant factors in its market. This is also an opportunity for the General Partner to present a thorough explanation investment strategy, process, deal sourcing and exit strategy.
- **Investment Professionals and Committee:** This section presents the investment professionals involved in the new fund and explains their role. An especially important detail here is the history and experience of the investment professionals. Principal investors' records are often included here with current board positions held in portfolio companies of the firm's past funds. This is important information for the potential Limited Partners to know as it gives them an idea of the firm's degree of involvement in portfolio companies and the individual partner's ability to manage a new fund. Second in this section, firms often provide information on the Advisory Board or Investment Committee. This section varies by different firms but often larger Limited Partners will hold seats on the Advisory Board which is of particular importance in for prospective LP's. This shows the details of the Advisory Board's members, scheduled meetings, as well as valuation methodology and important factors when considering new investments.
- **Investment Performance Record:** This section varies by firm because of different sizes and especially the difference between how long a firm has been established. Generally, firms use a table format to present the fund's investment track record. This table usually includes past fund sizes and IRR performances of the funds (typically stated in terms of gross returns rather than individual LP's net returns over fees).
- **General Partners and Limited Partners Terms and Agreements:** This is where the firm gives its initial proposal of terms and agreements between the General Partner and the Limited Partners. Most importantly, the agreements cover the management fee, the General Partner's commitment the fund, distribution of the capital call schedules, and the fund's cooperative investment policy. Of interest to the investors is the percentage of profits that the General Partner takes, known as "carry".
- **Legal and Tax Concerns:** Tax treatment varies by whether the investor is U.S. based or non-U.S. based, and this section will briefly address different tax treatments and how it effects the Limited Partners.
- **Fund-related Investment Risks:** This section typically covers three areas of investment risk: business, management and fund risk. Business concerns would address concerns over the investment's industry and risks inherent to the industry and possible uncertainty in the business environment. The management concerns are usually relationships to other entities, possibly a parent company.

The fund-related risks may include cross-fund investments, principal's co-investment activities or investments in public equities.

- **Accounting and Reporting:** Included in this section is an explanation of the allocation of returns and losses and accounting for stock options. This section gives a schedule for audited and non-audited financial statements that are delivered by the General Partner. This gives Limited Partners an idea of the valuation of their investment and a way for keeping track of their capital commitment.

Again, this is a general overview of the typical sections of a private placement memorandum which may be subject to change by private equity firm, as it is not regulated by the SEC. In the future I will provide an article on the important factors that Limited Partners consider in a private placement memorandum.

Source: [Tuck Center for Private Equity and Venture Capital](#)

TOP 5 ADVANTAGES OF PRIVATE EQUITY

Investing in a private equity fund has a lot of advantages compared to other investment areas, here are just five advantages of private equity for not only investors but also the companies that private equity firms acquire:

1. Companies that are backed or acquired by private equity firms are often made more efficient and produce higher profits, which benefits now only the private equity firm but also the company. Private equity firms use skilled management teams to correct the problems and ineffective parts of the company and many times this intervention prevents the company from further declining or even failing.
2. The management receives carried interest, a portion of the profits, so managers and their staff are motivated to produce good results to investors. Although carried interest is often criticized for taking money from the investors, it is a very big incentive for managers.
3. By definition, private equity firms work outside the public eye and do not have to follow the same transparency standards that public firms and funds must adhere to. This allows private equity firms to reform the companies without the constraint of having to report quarterly to the SEC or similar distractions.
4. Private equity firms generally perform very rigorous due diligence on potential investments. By utilizing a team of researchers the private equity firm is able to identify most risks that would not otherwise be found.
5. Private equity managers are paid very well and so it is easy to attract high caliber, experienced managers that tend to perform very well. The same goes for lower level employees at private equity firms, they tend to be the top young business school graduates.

BOLT-ON ACQUISITION EXPLANATION

A bolt on acquisition is a term in private equity that refers to when a private equity-backed company acquires another company as a "bolt on" to enhance the private equity-backed company's value. A video explanation of this concept will be available exclusively to participants of the [Certified Private Equity Professional program](#).

This method has gained popularity particularly in down markets when private equity firms need another source to enhance the appeal of the company prior to sale. According to a recent news article, the current economic decline has given way to a rise in bolt on acquisitions.

This is especially evident in a new BDO survey of private equity firms in the UK. The survey reports that private equity firms still want to make acquisitions, with 51% of the private equity firms expecting to acquire another business prior to being sold on. As valuations decrease, 97% of private equity firms predict that at least one in four of the companies in their portfolios to undertake a bolt on acquisition prior to exit. Additionally, 70% of the firms responded that at least have of their portfolio companies would add a bolt on acquisition.

Roger Buckley, corporate finance partner at BDO Stoy Hayward's Birmingham office observed:

"Although private equity company sales are slowing, there is a massive demand to bolt on acquisitions to existing investments. There are over 1,200 mid-market private equity portfolio companies and bolt-on deals will underpin a lot of M&A in the mid-market for the next few years."

In an uncertain global financial market, private equity firms are using bolt on acquisitions to add value of their portfolio companies.

[THE PRIVATE EQUITY TAX DEBATE](#)

Private equity firms, along with hedge funds, have received a lot of criticism asserting that they receive preferential tax treatment. The charge stems from a "tax loophole" involving the substantial performance fees that private equity managers receive, which make up a large part of the managers' income.

The performance fees are taxed by only 15% rather than the top income tax of 35%. This has caused some public criticism, especially among politicians who have put forth legislation to correct the tax treatment of management fees.

Private equity and hedge fund managers have protested any changes to the current tax code. Private equity managers argue that they should not be taxed at 35%, claiming that their performance fees are different than general income. They believe that carried interest is a logical reward for their invested time, resources and services, and the risk of loss involved in private equity.

Whether carried interest will be considered as general income is of huge importance to managers, as they stand to lose substantial earnings through this tax reform. [Here](#) is a really well done and extensive article that looks at the possibility of increasing tax on private equity carried interest and the possible ramifications of this.

PRIVATE EQUITY FUND OF FUNDS MANAGER SELECTION

Private equity fund of funds are investment vehicles that pool investors' money to invest in private equity funds. A fund of funds manager is, of course, important for the success of the fund of funds, therefore selecting a qualified fund of funds manager should be considered thoroughly.

There are three major qualifications to look at when selecting your manager: performance, management team, and the strategies and deal funds.

Performance

Unlike traditional financial markets, the performance of private equity fund of funds is more difficult to analyze. This is because in private equity the investor must consider four elements: the internal rate of return (IRR), multiples, timing and return of cash. These all must be taken into consideration and weighted more or less equally when examining a manager's global performance. Additionally, the private equity manager should have a proven **long-term** record, showing that he is capable of surviving good and bad financial cycles.

Management Team

When performing due diligence on a fund of funds you should follow the basics that apply to other funds, and a consistent focus is on the management team and operations. This is a critical point for selecting a manager, while he is the head manager, his management team often decides the success of the fund. 'Back office' operations should be a big concern for investors, and as private equity evolves a greater transparency in the 'back office' is expected by investors. Overall, you should look for a coherent and competent team standing behind the manager.

Strategy

In terms of strategy, many managers differ but the quality to look for here is clarity. A good manager can clearly and expertly explain his strategy to the investors. Specifically, in the area of private equity fund of funds, a manager should have prior experience in private equity that has constructed his strategy.

Experience

The popularity of fund of funds has led to the emergence of many "me too" funds that

have little to no prior experience in private equity or managing a fund of funds. Proven experience in private equity or managing a fund is a big factor to consider when selecting a manager. Seniority often makes for a more knowledgeable and competent manager--although there is also very successful rookie fund managers--but also an experienced manager usually brings a strong staff that has confidence in the manager.

These are just some major points to consider when selecting a private equity fund of funds manager, but extensive interviews and research will ultimately weed out the less qualified managers and hopefully lead the fund of funds to success.

FINANCING MANAGEMENT BUYOUTS

A management buyout is when a company's existing managers purchase a large or majority share in the company. This form of acquisition requires the managers of the firm to use a large amount of money, often this capital comes from private equity investors. In return for providing the capital, private equity investors receive shares of the company which will hopefully increase in value under the management buyout. Managers will take the company private to realize the company's potential performance and possibly attract public investors later.

This buyout may be leveraged using debt or directly through the investors' capital. The managers contribute too. Although they do not have the means that investors have, managers invest what they can to purchase a small share of the company. The terms of the contract will vary between buyouts, but the investors usually develop an exit strategy of 3-5 years. The primary goal is the same for managers and investors: to increase profitability. Management buyouts can be risky for investors and the managers too but if it is successful both parties often net huge gains.

WHAT IS PRIVATE EQUITY CARRIED INTEREST

Carried interest is the percentage of profits that the general partners of a private equity fund receive as an incentive for good performance. The carried interest compensation typically ranges from 20-30% of profits which is a substantial amount of money for the fund's investors.

Private Equity Carried Interest

A private equity fund is a partnership created to obtain a significant (often majority) stake in an expanding or underperforming company. Outside investors, the limited partners, provide most of the funding capital typically 90-97%. The remaining funding of 3-10% is provided by the general partners of the fund who in turn receive management fees. The typical compensation set up for private equity fund managers is

1-2% of the total fund assets and the carried interest. This arrangement is often very beneficial for the manager and serves as a method for investors to motivate and reward good performance by the general partners.

Carried Interest Tax

There is a large amount of controversy surrounding the taxation of private equity carried interest. Currently, carried interest is taxed as long-term capital gains but advocates for private equity tax reform would like carried interest to be taxed as ordinary income. The change would raise taxes for carried interest from the current 15% to as high as 35%. The most recent attempt to alter the taxation of carried interest was proposed by Republican Senator Charles Grassley but private equity advocates challenged the proposal and it is unlikely that private equity tax reform will occur anytime soon.

THE PRIVATE EQUITY IMAGE PROBLEM

Private equity is, by definition, a private industry that operates outside the traditional, public investment system. The huge impact that the private equity industry has on the financial market, and more recent high-profile buyouts have caused concern outside the industry and led calls for greater transparency in private equity. So why does private equity have such a bad reputation?

Key factors that contribute to private equity's bad reputation:

- **Size:** The relatively new development of private equity, specifically the buyouts of large companies, has caused much public concern because the private equity industry is less than transparent but private equity greatly affects financial markets.
- **Media:** Private equity enjoyed little attention from the media while private equity groups made smaller deals. Then, when the size of the deals increased and the impact of private equity was realized, the media struggled to define an industry that few really understood. Now, private equity firms are making an effort to work with the media and explain the private equity process.
- **Public Interest:** Private equity is a global industry so there is less involvement at the local level, and therefore a stigma is attached to private equity that it operates outside the public interest. Critics argue that private equity is exclusively motivated by capital and does not contribute locally. The substantial inflow of foreign capital to private equity funds does not help this image.
- **Employment:** There is a belief that when private equity firm's takeover company's jobs are lost. A private equity firm may cease control of an underperforming company to help it realize its full profit potential. During the reorganization and restructuring some jobs are lost, but according to a recent study private equity firms often create more jobs, boosting employment.

HOW TO IMPROVE THE PRIVATE EQUITY INDUSTRY'S IMAGE

The private equity industry has suffered from a negative public perception largely stemming from a lack of transparency. The annual Davos World Economic Forum discussed how the private equity industry could improve their reputation; here are some of the solutions offered by the co-founder of the Carlyle Group David Rubenstein:

- **Improving Transparency:** The most important change that the private equity industry must address is the lack of transparency over how the industry operates. To do this private equity groups must appeal to more than their investors by reaching out to labor unions, public groups and communities affected by deals.
- **Opening to the Media:** The media has played a major role in portraying the private equity industry as secretive and untrustworthy. This stereotype is furthered by the private equity industry's reluctance to respond with openness toward media. Recently, private equity has made attempts to improve its relationship with the media and its critics but more needs to be done to repair its poor public image.
- **Focusing on Benefits:** Private equity has been charged with primarily focusing on profits while the public suffers. As I've mentioned previously, a report on private equity revealed that in the majority of acquisitions by private equity groups employment in the company actually rises. Reports and data like this should be used by private equity groups to combat criticism. Despite some highly publicized negatives, the private equity industry has positive effects that it should capitalize on to improve its public image.

PRIVATE EQUITY REAL ESTATE

Private equity investment in real estate has increased in recent years, the following article is an overview of private equity real estate. For a database of contact details for over 1,000 private equity firms see our [Private Equity Directory](#).

Private equity real estate is a sometimes risky but often lucrative investment area that has become increasingly popular in the last few years. Private equity real estate typically involves a private equity firm collecting money from investors to create a private equity fund, which then looks for potentially profitable real estate to purchase. The private equity fund creates a portfolio of real estate investments that the fund manager believes will be relatively low-risk while still lucrative.

Private equity real estate funds three major investing strategies:

1. **Core-Plus:** This strategy is generally low risk with low returns. The Core-Plus strategy involves investing primarily in core properties, with a small amount requiring some form of enhancement.
2. **Value Added:** This strategy usually generates higher returns than Core-Plus, but carries greater risk. The idea is to buy property, make some improvement on it to raise the property's value and then sell it at a higher price than originally purchased. Value-added improvements range from solving management/operational problems, physical improvements, or solving capital constraints.

3. **Opportunistic:** This approach is generally the riskiest, but sometimes the most profitable. The opportunistic strategy usually involves investing in properties that require a high degree of improvement and other riskier potentially profitable real estate investments like raw land and niche property sectors.

Drawbacks to Private Equity Real Estate

- **High Entry Fee:** Due to the substantial amount of capital needed for investing in real estate many funds require very large minimum investments.
- **Low Liquidity:** Private investment in real estate requires investors to have limited access to their money because it is locked up in long-term investments. Some real estate investments can last more than ten years while the property is improved.
- **Volatility:** As recent failures in the housing market demonstrate, the real estate market is subject to both boom and bust cycles. For investors the real estate market is sometimes incredibly profitable but there is also a high degree of risk as housing prices can fall and the fund can fail.

The private equity real estate industry has increased in size since 2000. While the housing crisis has hurt many in the financial industry it has also led to very cheap real estate that private equity funds are purchasing for huge profits.

HOW PRIVATE EQUITY AND HEDGE FUNDS CONNECT

Private equity and hedge funds have developed a strong relationship benefiting both partners. Private equity groups own many hedge funds and make long-term investments in hedge funds. Hedge funds have entered the private equity world too, joining with major players in the private equity industry to make large buyout deals. The attraction for hedge funds is the large amount of capital flowing into private equity from institutional investors and the hope that hedge funds can boost performance through buyouts. In 2006, the average hedge fund returned 13.9%, while the average buyout fund returned 25%.

Hedge funds aren't limited to big buyouts, they have started lending capital to smaller startups and middle-market firms. The move to private equity is logical, hedge funds have always tried to capitalize on often risky opportunities to make money. However, the risk may be too great for hedge funds in private equity, because hedge funds are known for making short investments. Private equity buyouts and even smaller venture capital investments are typically longer investments. Another risk is the illiquidity in private equity, which may be a problem for hedge funds if investors want to cash out their investment. Hedge funds are not afraid of risk so the relationship between private equity and hedge funds will probably only grow stronger in the future.

Conclusion

I sincerely hope that this free e-book has provided you with tremendous value. We are always working to provide more resources to private equity professionals and this e-book will continue to be updated to reflect our latest videos, articles, and insights on private equity. If you would like to stay in touch, please visit PrivateEquity.com where you can find daily news articles [on the blog](#), a [video library](#), [events](#), and [interviews](#).

I hope that we can meet in person at one of our live networking breakfasts, capital raising workshops, and investor conferences. To see a schedule of our upcoming events, please visit WilsonConferences.com

Thank you for reading this free e-book and best of luck in your career.

- The Private Equity Investment Group Team



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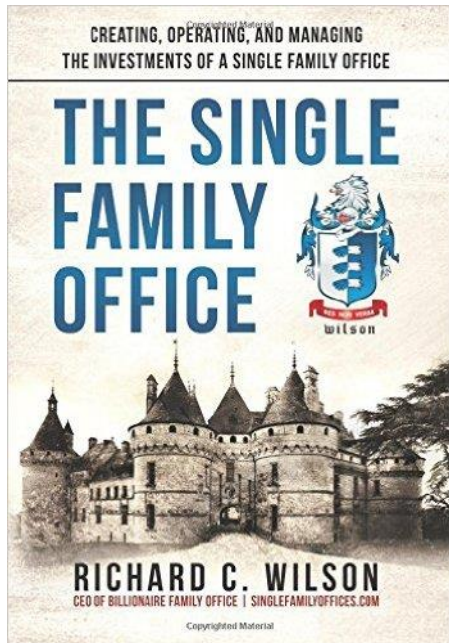
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Bonus: Two Free Family Office Book Chapters



The Single Family Office: Creating, Operating & Managing the Investments of Single Family Offices is the first book to focus on providing transparent case studies, best practices, mistakes to avoid, and models to follow if you are looking to run a single family office or have one started for your family or client.

As of 2015 when this book was published, we believe it transparently quotes and interviews more single family offices than every other book in print today combined. To add another dimension of value to the text, and to make it more interactive at the same time we have included 40+ videos & audio interviews, and over 9 hours' worth of recorded webinar content for you to stream or download for free. Our hope is that this text will become a central resource and guide for families

around the world and for generations to come.

In short we are offering a \$1,000 single family office training program in the form of a \$7 paperback book, and we hope you enjoy the read. Richard C. Wilson helps \$100M+ net worth families create and manage their single family offices and currently manages 14 clients including mandates as the CEO of a \$500M+ single family office and Head of Direct Investments for another with \$200M+ in assets. Richard is also the founder of the Family Office Club, the largest membership-based family office association (FamilyOffices.com), along with holdings in the training, single family office management (SingleFamilyOffices.com), investment conference, search, data research, physical bullion, private equity (PrivatEquity.com), food, and energy industries.

Through operating the Family Office Club Association Richard has created the first platform business focused on the family office industry. He has spoken at over 150 conferences in 17 countries and has the #1 bestselling book in the family office industry. Richard has his undergraduate degree from Oregon State University, his M.B.A. from University of Portland, and has studied master's level psychology through Harvard's ALM program while previously residing in Boston.

More on the book: <http://FamilyOffices.com/The-Single-Family-Office-Book/>

Chapter 1: Introduction to Single Family Offices

Single Family Office Definition: A single family office is a holistic, full-balance-sheet wealth management solution for an affluent individual or family.

Free Video: While recently meeting with a single family office in Prague, I recorded this short video defining the term:

<http://SingleFamilyOffices.com/SFO-Explained>



According to the 2013 World Wealth Report by Capgemini, there are 111,000 ultra-high net worth individuals (those with \$30M or more in net worth) around the world. Our experience suggests there are between 7,000 to 10,000 formalized single family offices globally. Our research and surveys also indicate that there are over 20,000 families with \$100M in wealth or greater. If you look at global wealth trends, you can see that there is an astounding increase in new wealth being created, and not only in traditional wealth hubs like North America and Europe, but we are already seeing a shift in affluence to emerging markets such as China, India and fast-growing economies in the South Pacific.

With so much new wealth creation, single and multi-family offices have emerged as a preferred structure to handle the needs of high net worth individuals and ultra-high net worth individuals. The family office model provides a much-needed structure for managing wealth and all of the important services that are used by exceptionally affluent families.

Single family offices have the ability to best serve ultra-wealthy families, in the most focused, holistic, and aligned way possible. The amount of alignment is high with most multi-family offices, but as the diagram below depicts, you move further out of alignment with different types of service organizations which serve varying types of families and non-family clients, each of which have very distinct needs and place unique demands on the core service and investment team.



Single family offices are not well understood, and yet they are all around us and actively engaged in business, the community, and any number of different activities that affect us. Single family offices are often behind venture capital firms, operating private businesses, backing the powerful politicians that we love (and those that we don't), and owning the sports teams that we enjoy watching. Ultra-high net worth individuals control more than one-third of the total high net worth individual wealth in the world and represent less than one percent of the global high net worth individual population. These individuals possess extraordinary assets and represent some of the greatest success stories in modern history, from Wal-Mart's Sam Walton to the Wizard of Omaha himself, Warren Buffett. With these families' major impact on society and business, it is no wonder that so many people are interested in learning more about how these affluent families protect their assets and manage their resources.

As I noted in the preface, one of my least favorite statements I hear in the family office industry is, "If you have seen one family office, you have seen one family office." This is a common excuse employed by people who are asked directly about industry best practices and commonalities. The comment often has the effect of skirting a direct question and avoiding analysis of the single family office industry. There are certainly many variations on single family offices, but I believe it is disingenuous to brush off someone's sincere pursuit of guidance in this industry by simply stating that every family is unique. In fact, our team has found many best practices, areas of common ground among family offices, and strategies that apply to many different single family offices. Instead of saying, "if you have seen one single family office, you have seen one single family office," we prefer to think about the persistent patterns and themes that we have discovered in our relationships with more than 1,000 single family offices and how we can solve common problems and deliver solutions to these families.

Family businesses dominate the corporate world globally, and entire industries, such as beer, cable TV, and newspapers, are run by just a small handful of powerful families. Many family-owned businesses have a competitive advantage because of their long-term view and investment periods (Eisenmann 2000). At the same time, multi-generational struggles, governance issues, and what is best for the family vs. best for shareholders of one specific business entity the family owns are not always aligned (Minichilli 2010).

The concept of a single family office has roots back in the 6th century, when stewards would be appointed to manage the assets of kings. Wealthy European banking families formalized this practice for industry titan's over several centuries, and the modern-day family office structure took shape when J.P. Morgan founded the House of Morgan to manage his family's assets. In the 1880s, the Rockefellers founded their own family office, and since then, thousands of additional single family offices have been organized.

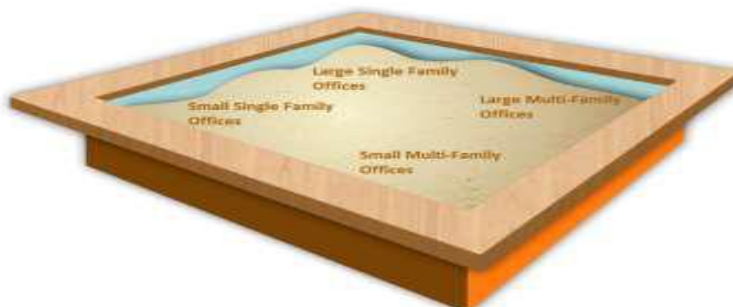
Free Video: If you would like to learn more about the history of the family office industry, please see this short video recorded at 10,000 feet in the Swiss Alps:

<http://SingleFamilyOffices.com/History>



As I alluded to above, single family offices are thriving globally, with a new organization being launched every day. Our team estimates that there are nearly 5,000 single family offices globally, a good portion of which have no website, no business cards, and only a select few people who are informed regarding their actual legal structure or holdings.

I have found that it is helpful to segment the family office industry by size and number of clients. In the image below, you can see the Family Office Sandbox, with single family offices and multi-family offices divided and then each half divided by size.



This rudimentary representation is helpful when you are thinking about how the family office industry is composed and where your family office might fit in. It has become common to use the term “family office” to describe the entire industry without consideration of the different challenges, values, objectives, structure, and composition of a small multi-family office, a global multi-family office with thousands of clients, a \$2 billion single family office, and a \$100 million single family office. In this book, we focus on the single family office side of the sandbox and how families can form, manage, and preserve their own single family office.

Free Video: While in Liechtenstein for a family office conference, I recorded a video on the state of the single family office industry:

<http://SingleFamilyOffices.com/Industry>



Some commentators in the press have claimed that the family office industry is not an industry; but family offices, and particularly single family offices, have unique needs, challenges, resource demands, and aspirations. The single family office segment alone controls over \$1 trillion, and several forces are speeding up the formalization of this space. If you have attended one of our family office conferences or met with a group of family offices, you will have seen first-hand the common interests, characteristics, and organizational structure that set family offices apart from other firms and defines this industry.

The Family Office Club is an association that I founded in 2007 has more than 80,000 global members, making it by far the largest association in the industry. Our mission at the Family Office Club is to make the family office industry more efficient as a marketplace, help ultra-wealthy families learn the fundamentals of family offices, and to grow the industry on a global basis.

Free Video: Here is a short video overview recorded in Prague to explain the single family office industry.

<http://SingleFamilyOffices.com/SFO>



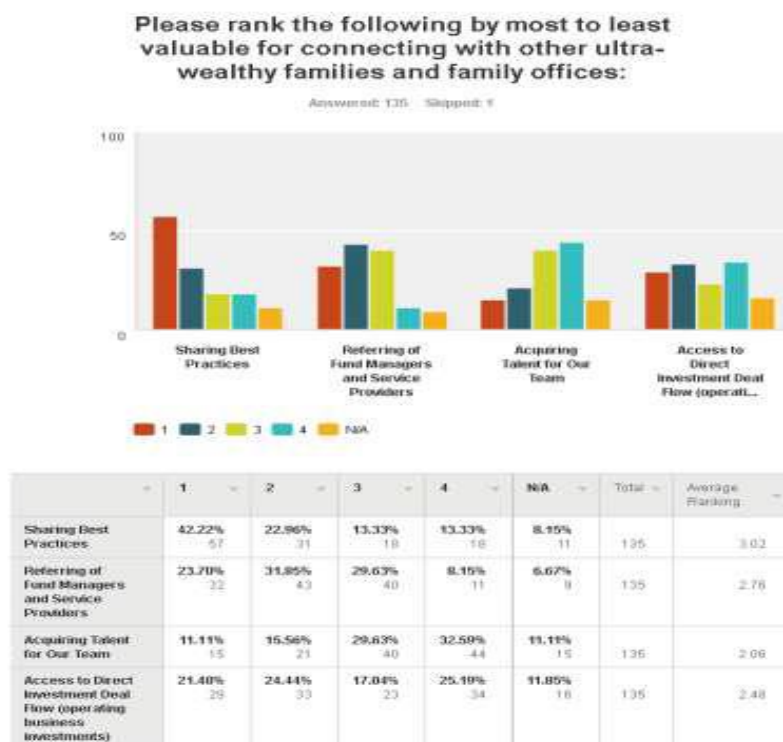
At the Family Office Club Association, we believe that it benefits all parties when we connect ultra-wealthy families and family offices of all types to each other and to the fundamentals, common pitfalls, and best practices of the industry. The educational aspect of this

mission is an area that we have made great progress on to-date, but there is much work left to be done. In 2010, I appeared on *The Brian Tracy TV Show* which aired on affiliates of NBC, FOX, ABC, etc. Another guest of the show was a wealth manager from New Jersey who had never heard the words “family office.” If a New Jersey-based wealth manager with \$500M in assets under management can operate without hearing the term “family office,” we have to assume that there are scores of ultra-wealthy individuals who became wealthy from owning mineral rights in Texas, a manufacturing plant in Penang Malaysia or real estate holdings in Sao Paulo Brazil may not have heard of the term “family office” either in the course of their work.



We recently conducted a global family office benchmarking study and found that above and beyond anything else, families want to connect with other families to share best practices. We also found that while finding new talent is sometimes the most important component, the referral of service providers and fund managers was often highly valued as well.

Here is the data on that survey data point:



A large part of our education at the Family Office Club is tailored to single family offices, and that has resulted in meeting 61 billion-dollar families and hundreds of families with \$100 million or more in assets over the past several years. These families' stories, questions, challenges, and requests have fueled requests to publish this book.

Free Video: To learn more about why the family office industry is thriving and why it will continue to do so, please see this video: <http://SingleFamilyOffices.com/Industry-Growth>



The book begins by covering the basics of the industry, the history of single family offices, the individuals who typically make up the team, as well as operations. In the second part of the book, we cover how to start a single family office. In the third part of the book, we examine investment processes, direct investments, cash management, alternative investments, trusts, taxation, and other investment-related issues. In the fourth and final part of the book, we explore softer issues on the psychology of money, bringing up children in an ultra-wealthy family, virtual family offices and the future of the single family office industry.

Free Resources: Throughout the book, you will find links to templates, video modules, expert audio interviews, etc. In spite of the private nature of this industry, we have made these resources 100% free to access, with no registration, email opt-in, or cost associated with it. We have found that the more value we give away openly the more powerful ultra-wealthy and \$1B+ families approach us regarding working together.



Single Family Office Interview: To top off this chapter, I would like you to listen to a one-hour interview that I conducted with a Canadian \$1B+ commodity single family office; please find that at: <http://SingleFamilyOffices.com/Audio3>

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If you would like to order your copy of <http://FamilyOffices.com/The-Single-Family-Office-Book/> simply fill out the order form at the end of this book or visit the following link:

https://www.amazon.com/Single-Family-Office-Operating-Investments/dp/1503345033/ref=sr_1_2?ie=UTF8&qid=1464210990&sr=8-2&keywords=family+office+book

Chapter 2: Single Family Office Talent & Teams

"The secret of success is not in doing your own work, but in recognizing the right man to do it." - Andrew Carnegie

To run a successful single family office, you need a diverse team to handle the many types of investments in the context of taxation and legal issues. Both long-standing single family offices and seasoned single family office executives find frustration in the inefficiency of finding professionals with single family office talent.

While some claim that every single family office structures their team differently, I have not found that to be the case. There are certainly a number of variations in team structure at the 5,000+ single family offices globally, but there are more commonalities than differences.

The most dominant things affecting a team structure include the level of net worth of the family, whether they actively run operating businesses, the number of unique family generations and family groups being served, the level of direct investment or co-investment activity being pursued, and whether the family is engaging many outside investment consultants, due diligence consultants, etc., or attempting to conduct most of that work in house.

Video: Top Single Family Offices: To watch a short video on best practices used by top family offices, please watch this short four-minute video from Prague in the Czech Republic:

<http://SingleFamilyOffices.com/Top-SFO>



Many times, the patriarch, matriarch, or individual who created the wealth makes the hiring decisions inside of the single family office, and that person's ability to trust the expertise and experience of the employee is a chief concern. Many families hire professionals they have known for several years already, instead of someone else who may be technically better qualified, because the family needs to be able to work with someone who will exercise discretion, balance competing priorities, and not violate family values and norms.

At the same time, many single family office executives are slow to move jobs because they don't know where to look for their next position. Many large single family offices don't speak with each other often, and if they were seen shopping their résumé around, then they may be let go without another job lined up. More than a dozen \$500M+ single family office CEOs and CIOs have approached our firm for help in finding their next family office position, because of the aforementioned issues.

For example, while writing this chapter of the book I was recently approached by a Chief Investment Officer of a \$3B+ single family office who explained that he felt underpaid and undervalued at his current employer and he didn't foresee the situation changing anytime soon. The patriarch in this case created their wealth by being thrifty and they aren't intending on changing that attitude now that they are protecting their wealth via a single family office.

Most single family offices that I have worked with employ 4-7 full-time professionals. The team will typically include two to three of those professionals who have 15+ years of experience, often in a specific niche or area of expertise. The five most valued types of expertise:

1. Family Office CEO Chief Investment Officer (CIO) level investment expertise
2. Private Equity or Direct Investments
3. CFO/Accounting Expertise from other family offices, trusts, private banks, or wealth management firms
4. Taxation and Trust & Estate Law
5. Risk Management / Insurance

The most common error committed by aspiring family office professionals are approaching would-be family office employers without a clear focus or expertise. If you do not have one of the above types of expertise, you will have a tougher time convincing a single family office to enlist your services. At our Single Family Office Summit, I met a professional who wanted to work for a family office. I inquired into his background and learned it was fairly diverse (a few years of real estate management, a short stint at a technology startup, sales and marketing jobs, etc.). When I asked if he had a specific area of expertise or focus that he felt would be especially valuable to a family office, he shrugged and said that he was more of a general management type who could help with whatever the family needed. I understand that job-seekers don't want to close the door on any opportunities and appear too narrowly focused on a single area of business, but this can make the decision difficult for a single family office. You are essentially asking a single family office to bring you into the fold and provide compensation commensurate with what you could command in the private sector, but you aren't clearly explaining why that money would help the family and why you are more deserving of a position than other potential employees. In short a balance must be struck between a macro understanding of various functions but a clear ROI on investing in you is needed.

For example, our team is trying to attract a new executive to Wilson Holding Company right now, we know that he can wear many hats and probably indirectly boost our revenues enough to pay for his salary, but we are hesitant to pull the trigger until we find a division in our business to run. We haven't been able to find one so we are conducting due diligence on a distressed 17-year-old data services business and will hopefully acquire that for ourselves so this professional can ramp up the revenues of this company, pay for himself in very direct fashion, while also leveraging his legal counsel and operational execution skills across our entire portfolio of businesses. While writing this chapter I introduced a \$1B+ single family office CIO to a \$600M mini corporate conglomerate owned by two families and they have a similar type of negotiation starting now, how to form a new business or expand a division to create a clear ROI on the new executive being hired.

Top family office executives are often compensated with a \$200,000-\$400,000 base salary along with some performance-based bonus or performance pay. Most professionals who are capable and experienced enough to serve as a family office CEO or CIO can easily command at least \$300,000 a year in the marketplace; this is why most single family offices

have \$100M or more in capital—otherwise, a relatively high percentage of the overall capital will be spent each year on human capital overhead each year. In other words, if you have under \$100M in net worth and are not careful your overhead could effectively create a high management fee if you try to match the brain trust of a \$1B+ single family office. Since many single family offices are set up to primarily defend the portfolio and preserve capital, there is not typically a strong incentive to aim for 30-50% returns per year, but rather to diversify, protect the capital, and produce 6-15% type returns over a whole portfolio.



Single Family Office Audio Interview: To add some color to this chapter, we have interviewed a single family office CFO who talks about their acquisitions in 20 different companies with a two person team, and how much acquiring new talent costs for a single family office. To stream or download this audio interview for free, please see <http://SingleFamilyOffices.com/Audio4>

Chief Executive Officer (CEO) Responsibilities: The CEO role typically includes selecting the systems, consultants, software programs, overseeing the CIO, CFO, while another staff to make sure they are performing as expected, and helping make hiring decisions for the core team and advisory board. Many times, the CEO is a family member or someone such as a CPA or investment consultant that has worked for the family for some time. Other times, they are hired away from other single family offices, or taken out of roles where they were expected to wear many different hats at once while serving ultra-wealthy families in a private bank or asset management firm. One of the biggest mistakes consistently made by single family offices is placing a CEO in operational control of the total organization, overseeing the entire team including the CIO, yet financially rewarding them as if they were not leading an investment organization. In other words, if the CIO of your the family, the CEO should as well.

Many CIOs and CEOs leave their current positions or constantly have one foot out the door due to not being able to participate in upside performance of a portfolio, and even if a CEO seems to be one-step removed from day-to-day CIO responsibilities, they are responsible for the total team and results at the end of the day, and that should always be reflected in their level of compensation. Out of the 55 families we know with \$1B or more in capital, 10% of the executives from those families came to us because of frustration with their current compensation level.

Chief Financial Officer (CFO) Responsibilities: CFO responsibilities include working on tax returns, finance procedures, financial reporting, accounting, partnerships, financial models, lending, family bank responsibilities and oversight, cash flow management, bill paying/bookkeeping, direct investment ROI and acquisition/sell responsibilities, lines of credit, loans, etc.

Not all family offices have a formal CFO; many times, the CEO or CIO is also playing the CFO role. But many families with over \$500M in assets, or more complex smaller size portfolios, do have a formal CFO separated from other roles.

Chief Investment Officer (CIO) Responsibilities: The CIO of a single family office helps form and direct the implementation of the investment portfolio of the family. Their responsibilities can include investment policy management, tactical and strategic investment decision making, portfolio risk management, and oversight or hands-on due diligence of potential investment fund managers and direct investment opportunities. Many CIOs of family offices are hired away from private equity funds, banks, wealth management firms, or investment consulting firms, as most families would like to employ someone with 10+ years of experience with the ability to understand broader global trends, while paying great attention to detail to help protect the family from making bad investments.

The work required of a CIO will vary based on the size of the portfolios, areas of investment being considered, and whether the family office employs an active CFO or CEO at the time. In many single family offices, the CEO is a family member who may be too busy to work 40-50 hours/week on family office matters.

Chief Direct Investments Officer (CDIO) Responsibilities: Many family offices do not have this position formalized yet, but some family offices have hired someone to do nothing but look after their operating businesses and help acquire new ones. This role may involve some raising of capital for the businesses, or buying and selling an operating business from time-to-time as well. One family office I have worked with has 20 operating businesses. So they have hired someone to watch over just this part of their portfolio from a high-level, to make sure the businesses are sharing resources, being optimized, and helped when needed. Another single family office from Asia I have had speak at my Singapore family office workshop owns 60 operating

businesses and they have multiple dedicated professionals to helping manage those organizations at a very high-level.

The rest of the team is typically made up of analysts, portfolio managers, accountants, or professionals who support the various operating businesses that the family office may own. Many single family offices operate so many direct ongoing business enterprises that the single family office headquarters serve as a backbone for those operations in terms of IT support, access to financing and capital, or introductions to new business partners. Many junior to mid-level professionals inside a single family office are paid \$50,000 to \$125,000 in annual salary. This is consistent with the compensation that skilled financial professionals command from banks, corporations, and other potential employers vying for talent.

Lean family office angle: A growing trend for many family offices is to outsource almost everything so that there are only 2-4 members of the family office who work full-time. By outsourcing the accounting, reporting, administration, IT, and even investment roles, the core in-house members are able to focus on adding value within one or two focused strategic areas, such as direct investments or venture capital investments. This model is becoming more popular, but there are drawbacks. For one, the cost savings comes with less privacy, which is incredibly important for wealthy families. Another consideration is that the outsourcing model may sometimes slow down the ability of the family office to quickly adapt to rapidly changing financial environments.

Globally team make up differs, single family offices in Latin America and Asia for example, on average, tend to be smaller than western counterparts, often with only 1-2 investment professionals working on a team. In Asia particularly, a family member is often the head of the single family office and acts as the CEO and CIO of the organization. A slightly lower percentage of Asian family offices will be managed by family members in the near future, but I don't predict that we will see their typical size increase by much.

It should go without saying that anyone you interview for a family office position should have to go through a background check and have references checked from each previous employer, whether they provide that firm as a reference or not. Many single family offices refuse to hire anyone that they have not had a professional or personal relationship with for several years, even if that means hiring someone more expensive or less experienced than

necessary. The level of trust needed to help operate a \$100M or \$1B+ portfolio is high enough that it often trumps other factors.

Family Office Executive Directors: Here is a short video on family office executive directors that I recently recorded in the Swiss Alps when I was in Zurich:

<http://SingleFamilyOffices.com/Executive-Directors>



Attracting Talent

Many single family offices struggle with finding highly qualified professionals to help run their operations and investments. That is because there are only so many single family offices in the world, many of them are very private, and most single family offices don't actively speak with others in the industry. We have identified seven proven ways to attract talent to your single family office. If you are looking to hire, these tips should directly help you:

LinkedIn: While I write off most of social media as a waste of time for business use, LinkedIn has brought us many key institutional and large single family office relationships. One way to leverage the platform is by searching for "family office" on LinkedIn and select the geographical region corresponding to your city or those nearby, you may find some qualified professionals you could reach out to. You could also try joining the 80,000+ member Family Office Club Association as a base or charter member on FamilyOffices.com.

Conferences & Workshops: Many single family office executives who are unhappy with their positions may be more likely to attend industry events, conferences, and training workshops. By attending these, you will slowly build a network of expert professionals in the field from which you can hire in the future.

Unique Compensation Packages: If you can offer the right type of compensation package, you may be able to steal someone away from a great position somewhere else. This unique package could include a share of the carry or portion of the proceeds on deals that the professional helps close. Another attractive option is to include performance bonuses calculated as a percentage of the gains in a portfolio, or some other means of additional upside for someone who is ambitious and wants a chance to prove what they can do. One company that we have an equity stake in provides 10% gross revenue

shares with new divisions and acquisitions lead by a single senior executive. Not all unique compensation packages need to be strictly about cash however, at this same company we are putting together a new level of senior partner in the firm which provides access to luxury villas and sports cars at the company's expense to keep top talent loyal long-term.

Qualified Family Office Professional (QFOP): Hundreds of global professionals have enrolled in this family office training and certificate program. You can join other family offices in using this self-paced audio and video training program to train new hires or access a specialized talent pool of professionals who hold this designation. This is a great tool for identifying talent with family office industry focuses and it costs next to nothing compared to employing a traditional family office executive search service. Those family offices with 60% or more of their senior staff enrolled or who have completed the program may refer to themselves as a [Qualified Family Office \(QFOP\)](#).

Cherry Picking: One method for acquiring talent with the skills you need is targeting professionals at institutional firms such as multifamily offices, CPA and tax advisory firms, private equity funds, and investment banks. Many single family office executives made the transition after working for years with a single family office and eventually the family asked the professional to join full-time. Top 100 endowment funds are excellent fertile grounds for finding slightly under-paid but bright and well-groomed talent for managing a family office portfolio.

Grow your single family office brand: A few single family offices have discovered the benefits of being highly visible. These offices access greater deal flow, attract better talent applying for jobs, and connect with more families wanting to work together on co-investments or requesting help in managing their assets, compared to those families that shy from the limelight and insist on a high degree of privacy.

Family Office Executive Search: While I have found most family offices are not willing to pay executive search fees using a family office executive search firm is another option for finding talent. Few firms focus just on the family office industry, but many are happy to

jump in and help in this high-end space if you want the professional assistance.

Three Questions to Ask Yourself When Hiring a New Family Office Professional

Single family offices making a new hire should ask themselves three questions. The first question the employer should ask is whether this person is going to return a multiple of his or her salary. Any new employee should produce revenue for the SFO that far exceeds the annual salary investment. The only exception should be made if the hire will significantly ease the family's stress or peace of mind. For example, an in-house financial advisor may not produce exceptional gains beyond the salary the advisor receives, but it could be a worthwhile hire still if it removes the family's concerns over managing money through a private bank or unfamiliar investment house.

The second important question to ask when hiring is if this person will provide real benefit in at least one area of the family office. As stated above, family office employees should have at least one area of real expertise that they bring to the table. A specialization is important, whether the professional is a seasoned investment banker who can help with direct investments and deals, or the hire has a legal background that will limit the family's liabilities and assist in navigating different laws and regulations. Single family offices should think carefully before hiring anyone claiming to be a generalist. In my experience, it is better to hire a specialist and gradually expand that person's role to take on more general responsibilities.

The third question that I suggest asking yourself before you hire a new single family office professional is: how will this individual fit in with my team's objectives? Single family office executives and principals have a number of exceptionally talented friends, connections, and former colleagues. As your network of single family office professionals grows, it can be hard to avoid hiring opportunistically, based solely on a connection's intelligence and experience. But single family offices should be careful to avoid the trap of taking on too much overhead paying talented professionals that do not fill a specific need or may bring a skillset that is redundant with another member of the team. It is tough to turn down talent, but you will be better off in the long-run if the person is not a necessary fit with your team or your objectives.

Compensation Strategies

If you want to hire someone with deep single family office experience or more readily available chief investment officer experience, you will need to think about how to retain those professionals long-term.

Working at a single family office can be somewhat isolating for someone accustomed to working at a 100 or 1,000+ person organization. Also, dealing with the family politics and nepotism that often occurs within single family offices can be a deterrent to quality professionals. Some of the best compensation agreements I have seen have clauses that align the long-term incentives of the CIO with that of the family. One example includes a provision that every year during which the portfolio produces a positive return and outpaces inflation, the executive receives a bonus of let's say \$250,000, but that bonus may be paid out over a five-year period at a rate of \$50,000 per year. If the portfolio loses money within any of those subsequent years, the executive loses the percentage lost in the single family office's portfolio by a factor of seven. So if the investment portfolio is down 10%, the professional loses 70% of the anticipated bonuses for that year. This payout over time allows the executive to earn a sizable bonus, discourages the professional from leaving, and severely cuts back compensation if the portfolio loses value.

Some family offices are more aggressive and willing to share a 5-20% performance fee with the chief investment officer for positive returns in the portfolio, although these families are still the exception. A high-water-mark provision is often adopted in these cases, so that when losses do occur, the portfolio value must be recovered before awarding any additional performance fees.

It can often take 12-18 months to get a new chief investment officer 100% familiar with the family's portfolio and priorities. It is important to get to know the professional, you decide to hire and ensuring that he/she is making a long-term employment commitment. Although not legally enforceable, getting verbal agreement to a five to seven-year commitment expectation at the onset of the hiring can set the tone for what you expect.

Interview with Michael Oliver Weinberg

To provide some advice to those reading this book who are looking to join the team of a single family office, I thought it would be helpful to interview someone who not only acts as



CIO of a single family office, but who also has worked for Soros Fund Management (George Soros) in the past. Michael is an Adjunct Professor of Finance & Economics at Columbia Business School and you can meet him in person at some of our single family office conferences or at us annual Family Office Super Summit in Miami.

Richard C. Wilson: For those looking to move from working for a hedge fund or private equity fund into the single family office industry, what words of direction, caution, or advice could you provide that may help them more easily make that transition?

Michael Oliver Weinberg: Though in our experience it is more common for family office investors to want to move into hedge funds, we have also seen hedge fund and private equity analysts look to move into the SFO industry. We believe the former desired transition is more common than the later desired transition. This is due to the greater perceived excitement, glamour and potential monetary rewards. That said, to quote one of the hedge fund legends, Michael Steinhardt, we have a variant perception on each of these three points that we will delineate.

However, before we do this, we would like to highlight relevant experience that we believe validates our opinion on the subject. Having been very fortunate to have been a portfolio manager at Soros, not only one of the world's best and most successful hedge funds for multiple decades, but also a family office, gives us a unique perspective on the issue. Having also been an allocator at Financial Risk Management, FRM, a world-class fund-of-funds for the past nine years, where my global research team and I did hundreds of meetings per year with hedge funds, ranging from the largest to the smallest, and the best to the worst, also gives us a unique perspective.

Our first variant perception is that the hedge fund world, which we enjoyed and think very highly of for many reasons, is NOT as glamorous as it is perceived. Rather, it is an extraordinarily competitive industry that rewards hard and tedious work. The most successful analysts and portfolio managers we know are hardworking investors who spend their days, and often nights and weekends, poring over company, industry and economic data, research reports, other security-related information and public filings. Though we enjoyed doing that very much, we would hardly say it is glamorous.

Our second variant perception that we have relates to the perceived excitement of hedge funds. Yes, there are some very trading-oriented hedge

funds that hold position for minutes, hours, intraday or for days; however, those are the minority. It is far more likely that the holding period of securities are weeks, months, and in some instances years. Though we are indifferent to holding periods in terms of manager selection, we would hardly say such long-term investing is “exciting” in the commonly perceived way, though often a great way to compound capital at high rates of return, and therefore, something we are a proponent of.

Our third variant perception regards the potential monetary rewards. As far back as the early ‘90’s, we recall a certain industry publication highlighting the most profitable hedge funds, and both then and in today’s dollars, the numbers were and are astronomical. This is still the case for the top earning hedge funds. However, what is underappreciated is that these are 10, 20, 50 or 100 of what is now a universe of roughly 10,000 hedge funds. In percentage terms, that equates to 0.1%, 0.2%, 0.5% and 1% of the industry.

What is also underappreciated is how many sub-\$10, \$25, \$50 or \$100Mn funds there are and how difficult it is to raise capital for smaller managers. Today, with the greater compliance and regulatory requirements post the global financial crisis, as well as institutional investors’ (and some more sophisticated family offices’) greater infrastructure requirements and substantial fee pressure on smaller managers, it is very difficult to run such sub-scale funds at all, let alone at a profit, or to compete with larger, more well-resourced funds.

We believe anyone in a family office looking to move to or launch a hedge fund should be cognizant of these facts before they endeavor upon such a transition. That said, or those disclaimers aside, we are very much believers in the hedge fund model, and have written articles published by Institutional Investor’s Hedge Fund Intelligence that espouse hedge fund investing versus more traditional long-only investing.

Next let us look at the other side of the trade—the move from working for a hedge fund into the single family office industry. One of our most striking observations contrasting the two fields is the average quality of the respective investment staffs.

Nearly a decade ago, when we personally transitioned from hedge fund portfolio management and analysis to fund-of-fund portfolio management and analysis, we observed that the average hedge fund analyst and portfolio manager was far smarter, hungrier, aggressive, and impressive than the

average fund-of-fund analyst or portfolio manager. In fact, the reason we joined Financial Risk Management, FRM, was because they were one of the few of dozens of fund-of-funds that we met with that actually appreciated the value of hiring former “risk-takers,” i.e. hedge fund portfolio managers,

analysts, and similar market professionals, as opposed to hiring former fund of-funds professionals without such relevant and high quality experience, and who often comparatively were “B” players. We can think of countless examples where we met with managers, and our own experiences having done the same thing were integral in achieving superior manager selection in terms of who to invest with and as importantly who to avoid.

Why is this bit of ancient history relevant to the hedge fund to single family office transition question? Because we believe the analog of going from a hedge fund to a single family office is nearly identical. Based on our extensive experience in both spaces, we believe that the average hedge fund analyst and portfolio manager is far smarter, hungrier, more aggressive, and impressive than the average family office analyst or portfolio manager. Considering the large balances of capital at stake, we have often pondered how this is possibly the case.

Our best explanation is the following. A handful of the smartest and most financially sophisticated families, such as the one we worked for, Soros, appreciate how valuable capital allocation is and view it as a profit center. However, sadly most of the rest of the family offices view capital allocation as a cost center. The family often earned the capital in a non-financial business, such as an operating business or real estate, and unlike those that are in the financial services industry or the minority of families that earned their capital in that industry, there is an under-appreciation of the value and returns that “A” talent can achieve. Family offices often view these employees no differently than other employees, who have far less of an ability to have such a meaningful impact on a family’s finances or wellbeing.

Similarly, as these investment professionals are not deemed to be terribly important by families, they are generally not terribly well-compensated either, at least compared to hedge fund portfolio managers and analysts. As we formerly worked at Soros, we are well versed in and enjoy applying George Soros’s theories, such as feedback loops, to our analyses. We believe this subpar compensation in turn attracts mediocre or lower quality investment talent, which in turn results in subpar returns, which reinforces the notion of lower compensation.

Moreover, based on compensation surveys we have seen on the family office, the vast majority of remuneration schemes are not performance based. This further diminishes the incentive to achieve superior performance, or for the best and brightest to be incented to work at family offices. Even worse, it potentially results in a similar phenomenon to that which occurs in the long only active management world. In this world, managers are incented to perform in-line with their benchmarks and not take risk that would result in material deviation above the benchmark, as material deviation below the benchmark would result in redemptions. As we believe Soros would conclude, the confluence of all of these factors results in a fairly typical negative feedback loop.

The bad news for those that are looking to make this transition from hedge funds to single family offices is that sadly, more often than not, their value will be underappreciated and underpriced in all but a handful of the best single family offices. The good news is that if they are able to make the transition into the space, they are then likely in the minority of “A” players competing mostly against “B” players, or worse.

For the few that are successfully able to make this transition, it is very possible that they are able to achieve outsized returns and “pick” alpha up from their inferior competitors. Then of course the question is whether this is adequately appreciated by the family and they are similarly remunerated. If not, the alternative is of course to move on to greener pastures, defined as a family that is appreciative of this alpha and more generous in remuneration. In actuality, that is easier said than done, as those families are more difficult to find.

Family office roles are often less stressful due to a diminished focus on performance. There is also less sophistication, which affords lower quality and quantity of work, which results in less hours and a higher quality lifestyle compared with hedge funds. To quote economics 101, this often results in a “sticky” labor-force, where those in the roles hold on to them for very long periods with little movement. Schumpeter’s creative destruction often bypasses family offices, all of which perpetuates the aforementioned negative feedback loop.

Interview with Richard Ross

Below are a few thoughts from the interview that I conducted with Richard Ross who has worked for Summer Road, LLC, a New York based family office.

Richard C. Wilson: Do you think that \$500M or \$1B families should be employing large 30, 50, or even 100+ person teams, or do you believe the norm of having a small team that wears many hats is actually a healthy, positive thing?

Richard Ross: Richard, as you know, I did startups in California for 25 years, so I believe a small, dedicated team (say three to six people) can solve most problems. A family office, either large or small, might need an operations guy, a "data wrangler," some technology expertise, an understanding of economics, an appreciation of modern finance (including its limitations), and knowledge of financial opportunities (including, but not limited to, various hedge funds, hedge fund strategies, and ETFs). I believe back-office functions (record-keeping or taxes, for example) are not a competitive advantage, and may be outsourced.

One individual can indeed wear many hats, as you propose, so all this expertise could be embodied in, say, four people. As in a startup, I think it's optimal for each person to be an expert in more than one area, so, for example, your "quant" can handle operations if need be.

Richard C. Wilson: What unique challenges and opportunities do large \$1B+ family offices face which you just don't see at a typical \$100M-\$200M family office?

Richard Ross: Larger offices obviously have more opportunities, but I think it's not a categorical difference: whether you make 40 investments averaging \$25M each, or 20 investments of \$10M each, you still have to do your homework. A large office may have the opportunity to be more fee-efficient, by negotiating better terms with a new hedge fund, or setting up a '40 Act fund. Also, a larger office may have access to more investment opportunities, such as PE or VC, but these tend to be riskier assets, so I would suggest that a long-term, conservative investor should be minimizing investments in these entities in any case, independent of investor size.

Conclusion

To wrap up this chapter: single family offices often require one to three senior executives who can wear many hats. The talent marketplace is so small and trust is so important that it can often take years for a single family office to find the right professional to hire. This will slowly change as the industry matures, but it will take a decade or more before a broad pool of talent can be readily identified by employers.

Where to Go from Here

Now that you've read through our free Family Office Report and watched some of the free videos that we've shared here, you're ready to move on other resources, networking opportunities and other ways to stay involved and educated in the family office industry. Here are just a few of the resources we offer:

[Join the Family Office Club 99,000 + Members](#)



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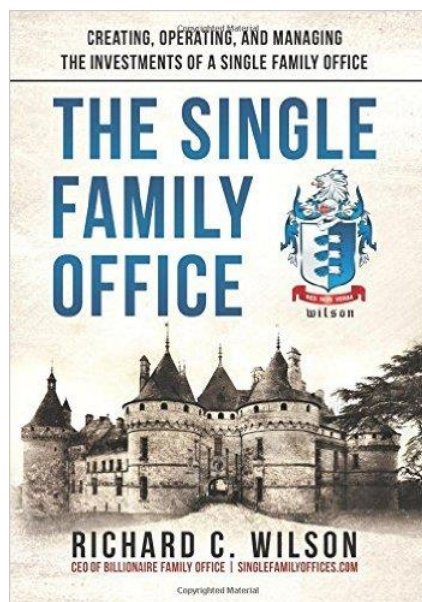
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As of 2015 when this book was published, we believe it transparently quotes and interviews more single family offices than every other book in print today combined. To add another dimension of value to the text, and to make it more interactive at the same time we have included 40+ videos & audio interviews, and over 9 hours' worth of recorded webinar content for you to stream or download for free.

Our hope is that this text will become a central resource and guide for families around the world and for generations to come. In short we are offering a \$1,000 single family office training program in the form of a \$7 paperback book, and we hope you enjoy the read. Richard C. Wilson helps \$100M+ net worth families create and manage their single family offices and currently manages 14 clients including mandates as the

CEO of a \$500M+ single family office and Head of Direct Investments for another with \$200M+ in assets.

Richard is also the founder of the Family Office Club, the largest membership-based family office association (FamilyOffices.com), along with holdings in the training, single family office management (SingleFamilyOffices.com), investment conference, search, data research, physical bullion, private equity (PrivatEquity.com), food, and energy industries. Through operating the Family Office Club Association Richard has created the first platform business focused on the family office industry. He has spoken at over 150 conferences in 17 countries and has the #1 bestselling book in the family office industry.

Richard has his undergraduate degree from Oregon State University, his M.B.A. from University of Portland, and has studied master's level psychology through Harvard's ALM program while previously residing in Boston. The book costs \$32 on Amazon.com when printed, \$27 when purchased for the Kindle, and \$32 when purchased through iTunes. Here is a direct link to the book on Amazon:

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About the Author

Richard C. Wilson has raised over \$250M, advises on well over \$1B of family office capital and he helps \$100M+ net worth families create and manage their single family offices. Richard currently manages 14 clients including mandates as the CEO of a \$500M+ single family office and Head of Direct Investments for another with \$200M+ in assets.



Richard is also the founder of the Family Office Club, the largest membership-based family office association (FamilyOffices.com), along with holdings in the training, [single family office management](#) (SingleFamilyOffices.com), investment conference, search, investor databases (CapitalRaising.com), cosmetics, physical bullion, private equity (PrivatEquity.com), and food industries.

Through operating the Family Office Club Association Richard has created the first platform business focused on the family office industry. He has spoken at over 150 conferences in 17 countries and has the #1 bestselling book in the family office industry. Richard has his undergraduate degree from Oregon State University, his M.B.A. from University of Portland, and has studied master's level psychology through Harvard's ALM program while previously residing in Boston. Richard currently resides 10 minutes from downtown Miami on the island of Key Biscayne, Florida with his wife and two daughters.

Learn more at <http://SingleFamilyoffices.com> or setup a phone call or meeting with Richard by calling (305) 333-1155 or emailing him at Clients@SingleFamilyOffices.com