



CPEP STUDY GUIDE

Sponsored by the Private Equity Investment Group



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THE CERTIFIED PRIVATE EQUITY PROFESSIONAL (CPEP) STUDY GUIDE

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I. PRIVATE EQUITY INVESTMENT GROUP (PEIG) OVERVIEW



The Certified Private Equity Professional (CPEP) Qualification is sponsored by the Private Equity Investment Group (PEIG), the largest international private equity association in the world with over 37,000 members. Members include multi-billion dollar private equity funds, buyout funds, consultants, allocators, family offices, professors, and some of the leading private equity service providers in the industry.

II. CPEP QUALIFICATION DETAILS



The CPEP Qualification Program consists of one level of testing. The Qualification certifies that you have mastered a certain breadth and depth of private equity industry knowledge to help you excel within your current private equity position or enter the private equity industry.

III. CPEP TIMELINE

Once you register for the CPEP program you will be emailed within 1 business day with confirmation of your membership. At this point you will need to choose an examination date from the choices directly below:

Programs are offered through open enrollment, making our programs 100% flexible with your current work or academic schedule. After joining you may select an examination date that works well for you from the following dates we offer annually: January 10th, April 10th, July 10th, and October 10th. BusinessTraining.com exams are administered 100% online.

Please note that your exam date request must be received at least 3 weeks before the exam date. For example, if you would like to sit for the January 10th exam, we would need to receive your request no later than December 20th.

After completing the examination, grades will be sent to all participants within 1 month.

IV. CPEP QUALIFICATION PREPARATION

A. Candidates should purchase all the reading materials and follow the outline provided within this study guide. The keywords provide some additional ideas on what to pay attention to within the readings but they don't cover everything which will be on the qualification. The CPEP qualifications are conceptual in nature and require more of an understanding than a great ability to memorize facts.

Preparation time required for this qualification depends on each candidate's current knowledge, experience, reading speed and comprehension. It is impossible to calculate how much time a specific individual would need to prepare, but we suggest 75-100 hours of reading /study time.



The qualification is offered twice a year, it is a 2 hour qualification administered online. To complete the qualification in the allotted time requires mastery of the core concepts covered in the required readings. Those who have not read the material may have difficulty in completing the qualification within the 2 hour time limit.

CPEP EXAMINATION COMPOSITION

Topic	Number of Questions
Introduction to Private Equity	24 Multiple Choice Questions
Funding Private Equity	9 Multiple Choice Questions
Types of Private Equity	6 Multiple Choice Questions
History o Private Equity	11 Multiple Choice Questions
Investor Side of Private Equity	23 Multiple Choice Questions
Measuring Returns in PE	27 Multiple Choice Questions
Variable	2 Essay Questions

Additional Resources Policy

You will not need a calculator, ruler, or any graphing device for the CPEP qualification. The formula-based questions concentrate on identifying formulas and understanding their meaning, not on actual calculations.

V. CPEP REQUIRED READING

A. REQUIRED READING LIST (These required readings can be purchased at Amazon.com or any leading book retailer)

1. **Private Equity as an Asset Class** by Guy Fraser-Sampson ISBN: 978-0470066454
2. **Private Equity: History, Governance, and Operations** by Harry Cendrowski , ISBN: 978-0470178461
3. **Inside Private Equity: The Professional Investor's Handbook** by James M. Kocis, James C. Bachman IV, Austin M. Long III, & Craig J. Nickels, ISBN: 978-0470421895
4. **The Private Equity Edge** by Arthur B. Laffer ISBN: 978-0-07-159078-5

B. SUPPLEMENTAL RESOURCES:

1. Handbook of Alternative Assets by Mark Anson ISBN: 978-0471980209
2. Private Equity E-Book by Theo O'Brien – <http://privateequityblogger.com/2008/11/private-equity-book.html> (Free PDF E-Book)

VI. SIX MODULES AND THEIR CORRESPONDING KEYWORDS

A. INTRODUCTION TO PRIVATE EQUITY

Keywords

Request for information
General Partners
Limited Partners
Limited partnership agreement
closed-end fund
Illiquid
Buyouts
The J-Curve
Characteristics of an ideal PE investment
Closed-end mutual fund
Correlation
Supply and Demand
Inflection Points
Merger
Acquisition
IPO

B. FUNDING PRIVATE EQUITY

Keywords

committed capital
Drawdown capital
Capital Call
Pledged capital
Investment, harvest, organization/fund raising, & management stages of private equity
Third-party investor

C. TYPES OF PRIVATE EQUITY

Keywords

four stages of venture capitalism
Mezzanine investing
venture capital
four drivers of buyout returns
PIPE
Private Equity universe
Buyout

D. HISTORY OF PRIVATE EQUITY

Keywords

Investment advisors act
Georges Doriot
Kohlberg Kravis Roberts
Blackstone Group
Fortress investment group
Al Dunlap
Lily Tulip Corp.
Scott paper Co.
Small Business investment company program
Bob Nardelli
Cerberus Capital
Sarbanes-Oxley
PE transactions
Pension funds

E. INVESTOR SIDE OF PRIVATE EQUITY

Keywords

Investment power
Offering memorandum
Private Placement Memorandum
Limited partnership agreement
Distribution notice
Stock Repurchases
Dividends
Shareholder value
Options
Grant Date
Accelerate(d) learning processes
Accredited investor
Qualified purchaser
Request for information
Removal of GP clauses
Claw-back provision
Commitment drift
Blind pool
Neutrally weighted portfolio

F. MEASURING RETURNS IN PRIVATE EQUITY

Keywords

Vintage year returns
DPI ratio
EBITDA
Post-money valuation
Time- rated returns

Accounting numbers
EBITDA
GAAP
Alpha
Beta
Leverage
Compound annual growth rate (CAGR)
Lorenz Curve
Yale Model
Reinvestment risk
Weighting effect
Realization multiple
Unrealized multiple
Investment Multiple
Realization Ratio
Paid-In Capital Multiple
IRR

VII. CHAPTER FOCUS TIPS

In addition to providing the above keywords we would like to also direct participants to the most vital chapters of the required readings. For the CPEP exam, the CPEP selected 4 texts which focus on different aspects of private equity crucial to a well rounded overall basic background and understanding about Private Equity. One text will provide an overall history of private equity, some of the major players and funds, and basic terms that the candidate should be familiar with and therefore should be read first (Private Equity; History Governance, and Operations).

Another text will provide candidates an insight into Private Equity from an investor's points of view and the various stages and kinds of Private Equity and should be read second (Private Equity as an Asset Class). One book will provide candidates with many of the technical ratios and measurements used when analyzing private equity and the different attempts on how to model returns of Private Equity funds (Inside Private Equity). The last book is meant to tie all the prior knowledge together due to the many real life examples it provides as well as many key definitions that help a candidate develop a more core understanding of Private Equity (The Private Equity Edge).

It is important to read each chapter of the three books required for CPEP Level 1, but this guide below will let you know which chapters you should read several times and take notes on before the qualification:

Inside Private Equity by James M. Kocis, James C. Bachman IV, Austin M. Long III, Craig J. Nickels

Inside Private Equity was chosen due to the more technical aspects and theories it provides on the analytics of private equity as well as some of the most commonly used measurements in Private Equity. Candidates will want to focus on the many multiples and ratios the books lays out as different measurements when examining a Private Equity fund.

Candidates should also concentrate on the more specific models use to analyze private equity in this book. Key chapters are 3, 4, 5, 6, 7, 8 12, 13, 15, and 17. Chapters 2, 9, 11, 14, and 16 are less relevant to a candidates study. The major topics a candidate should focus on the formulas contained within chapter 6

and the specific ratios which are utilized and how they work. The effect and usefulness of modeling in PE should also be a topic to focus on.

- Chapter 3: Managing the Investment Process
- Chapter 4: Capturing a Portfolio
- Chapter 5: Tracking Portfolio Holdings
- Chapter 6: Standard Measures
- Chapter 7: The IRR
- Chapter 8: Flawed Research Methods
- Chapter 12: Performance Attribution
- Chapter 13: The Concentration of Wealth
- Chapter 15: Cash Management Needs
- Chapter 17: Summary

The Private Equity Edge – by Arthur B. Laffer

The book, The Private Equity Edge, provides the most relevant core understanding and knowledge of Private Equity as well as important historical facts. The book was chosen because it provides the reader with actual events and examples of Private Equity in action by highlighting Private Equity case studies. Although the book can become quite detailed, it is important for the reader to concentrate on how PE concepts actually unfold in the real world. Candidates should also pay attention to different accounting measures and ratios presented throughout this book and take notes on historic Private Equity funds and players.

Candidates are encouraged to read this entire book thoroughly because of the vast knowledge it provides. Chapters 1, 3, 4, 5, 6, 7, 8, 9 and 10 should garner the most attention while reading this book. Chapter 2 and the appendices should occupy less of a candidate's time when reviewing the book. When reading this book, the candidate should read the notes section at the end of each chapter and examine the terms and definitions that are presented there.

- Chapter 1: Value
- Chapter 3: Risk
- Chapter 4: Incentives
- Chapter 5: Scenarios
- Chapter 6: Speed
- Chapter 7: Renewal
- Chapter 8: Inflection Points
- Chapter 9: Experimentation and Innovation
- Chapter 10: Summary and Conclusions

Private Equity as an Asset Class by Guy Fraser-Samson

The book, Private Equity as an Asset Class, focuses on many of the terms and ideas that are crucial to understanding PE from an investor's point-of-view. This text also distinguishes different kinds of private equity and stages with a PE transaction. The funding of PE is also a key concept that this book does an excellent job of outlining.

Chapters that should gather extra attention are 1, 2, 4, 5, 6, and 7. Those which will play a less critical role are 3, 8, 9, and 10. Candidates should focus on the specific elements of how PE is funded and the different stages and terms involved. An overall understanding of the value of PE during its “lifespan” is another crucial idea presented in this book.

- Chapter 1: What is Private Equity
- Chapter 2: Private Equity Returns- The Basics
- Chapter 4: How to Analyze Buyouts
- Chapter 5: Buyout Returns
- Chapter 6: Venture Capital
- Chapter 7: How to Analyze Venture
- Chapter 10: Planning your Investment Program

Private Equity: History, Governance, and Operations by Harry Cendrowski, James P. Martin, Louis W. Petro, Adam A. Wadecki

The book, Private Equity: History, Governance, and Operations, was selected for the background and history it provides on PE. The book does a good job at explaining some of the major events concerning PE funds and giving insight into the direction PE investing may take in the future. The candidate should focus on the major players and funds this book outlines and also some of the more technical regulations that effect Private Equity.

Candidates should focus on chapters 1, 2, 3, 4, and 6. Chapters which will play a less significant role because they are beyond the scope of this exam are chapters 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17. A candidate should focus on the “who’s” and the “what’s” that this book outlines as well as some of the terms that are essential for regulation of Private Equity.

- Chapter 1: The Private Equity Process
- Chapter 2: Characteristics of the Private Equity Arena
- Chapter 3: Trends in Private Equity
- Chapter 4: Harvesting Private Equity Investments through IPO
- Chapter 5: Harvesting Investments through Mergers and Acquisitions
- Chapter 6: The Private Equity Governance Model

VIII. CPEP DESIGNATION: SAMPLE QUESTIONS (answers can be found after Sample Question 5.)

Sample Question #1: How can buyouts being be distinguished from venture capital?

- a) They focus primarily on established companies rather than “young” ones
- b) It only uses equity financing
- c) Buyouts only occur in the larger end of the market
- d) Control is always present in a buyout transaction.

Sample Question #2: Why is EBITDA a useful measure of earnings?

- a) it determines the exact amount of cash-flow
- b) it eliminates the effect of both financial structuring and accounting policy and decisions
- c) It’s a GAAP accepted measure of accounting
- d) None of the above

Sample Question #3: What is the most that an investor in a Private Equity fund can lose?

- a) ½ their total capital contributions
- b) Their total capital contributions and any liability the fund may incur.
- c) The sum of the capital contributions only.
- d) None of the above

Sample Question #4: Private Equity is more competent at _____.

- a) controlling risk
- b) selecting distressed assets

- c) managing a companies' BODs
- d) None of the above

Sample Question #5: What are a Private Equity portfolio manager's two principal responsibilities?

- i) cash management
 - ii) investor relations
 - iii) marketing
 - iv) manager selection
-
- a) ii & iii
 - b) iii & iv
 - c) i & iii
 - d) i & iv

SAMPLE QUESTION ANSWERS:

1. a
2. b
3. c
4. a
5. d

IX. CPEP PROGRAM FREQUENTLY ASKED QUESTIONS (FAQ)

If you find you still have questions about the CPEP program and any of our other programs from BusinessTraining.com, please see the two FAQs we've created for both sites.

For the CPEP, please see: <http://privateequitycertification.com/faq.html> and for BusinessTraining.com, please see: <http://businesstraining.com/FAQ.html>.

Each site's FAQ will give you all the information need, and more.

You can also call us Monday through Friday from 9am-5pm PST at 503-664-0678 or you email us at CPEP@BusinessTraining.com.

Thank you for your interest in the CPEP program and for your registration.

BusinessTraining.com & the G.T.C. Institute

Certified Private Equity Professional (CPEP)

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