



CERTIFIED PRIVATE EQUITY PROFESSIONAL

## CPEP STUDY GUIDE

*Sponsored by the Private Equity Investment Group*



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**Finance Training Society**

Trusted, Industry Recognized Finance Training

**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 100,000 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 program consists of one level of testing. The CPEP certifies that you have a mastered 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.

**MASTER'S CERTIFICATE:** The Finance Training Society is proud to offer several advanced Master's Certificates that require the completion of five programs from the Finance Training Society platform.

To learn more about these Master's Certificates and how to earn one, please see our website: [FinanceTraining.com/Masters-Certificate-Online](http://FinanceTraining.com/Masters-Certificate-Online)

## III. CPEP TIMELINE

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

### **TIMELINE & EXAMINATION DATES:**

Programs are offered through open enrollment, making our programs 100% flexible to accommodate your current work or academic schedule. After joining, you can select an examination date that works best for you. We hold examinations on the 1<sup>st</sup> Wednesday of the new month, providing you with 12 different options each year.

The Finance Training Society exams are administered 100% online. When you have completed the strategic project (outlined later in this study guide), please follow the project submission

instructions. Once you have submitted your completed project and sent it in for grading, you are welcome to schedule your exam date.

#### **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.

Examinations for the CPEP are offered four times a year. Participants are given two hours to complete the examination through the online testing software. 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.

There are a total of 80 multiple-choice and true-false questions, each worth 1 point. There are two essay questions, each worth 10 points for a total of 100 points.

### 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 of Private Equity	11 Multiple Choice Questions
Investor Side of Private Equity	23 Multiple Choice Questions
Measuring Returns in Private Equity	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. You will need the internet and an internet browser to take the examination. Your test results will be sent to you 2 weeks after your examination.

#### 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://financetraining.com/wp-content/uploads/2017/02/Private-Equity-E-Book.pdf> (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 book lays out as different measurements when examining a Private Equity fund.

Candidates should also concentrate on the more specific models used 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 candidate's 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 buy outs 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 Finance Training Society, please see the two FAQs we've created for both sites.

Please feel free to call us to 305-503-9050 Monday-Friday 9:00 am-5:00 pm EST or email [Team@FinanceTraining.com](mailto:Team@FinanceTraining.com).

For the CPEP, please see: <http://PrivateEquityCertification.com/FAQ.html> and for Finance Training Society, please see: <http://FinanceTraining.com/FAQ/>.

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

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