28E35500 - Private Equity Investment
Spring 2019
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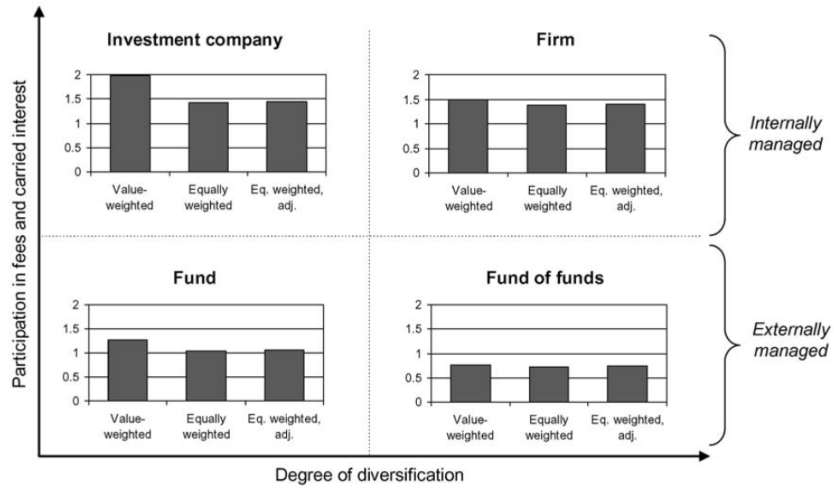
Practise Questions

These questions are intended to give the general flavour of the questions you will get in the exam. The answers are not given, but you can easily look them up from the book.
For essays, be specific and to the point, brevity and clarity characterise good answers. Depending on your writing would not expect the answer to be more than maximum 2-3 pages.
You can expect 4-6 such questions in the exam, depending little bit on their difficulty.
Do not read any implicit weighting on the topics based on the questions.

1. Briefly explain the following terms
   (a) Angel Investor
   (b) GP
   (c) access premium
   (d) blind pool risk
   (e) letter of intent
2. A typical PE fund has a lifetime of roughly 10 years. Describe the different stages of a PE fund through its life-cycle. In each stage, consider the relevant factors like the activities of the GPs, other main actors, cash flows, success criteria and risks.
3. PE funds are typically evaluated by comparing them to a benchmark. Ideally, what type of characteristics should such benchmarks have? There are 2 broad categories of such benchmarks, what are they?
4. A mid-sized finnish pension fund approaches you to consult them whether they should start to invest in PE. Why should they and why shouldn't they? Outline demands for organisation, possible rewards, risks, timelines how they should proceed and other relevant factors.
5. Define what is meant by *listed private equity*. Compare it to both investing in common stocks or (non-listed) private equity.
6. Figure 1 shows the *Exhibit 8.9* from the course book. Explain the graphs. Based on the underlying organisational and other factors, explain why this is so.
7. What are the advantages and disadvantages of an IPO exit?
8. Figure 2 presents the capital structures of managers A and B, who have made similar succesful investments that have grown from 100 to 150 in five years. A and B differ, however, on their capital structure, so that B is much more levered than A. Your tasks:
   (a) Write down equations for IRR and CoC
   (b) Solve IRR and CoC for both managers
   (c) Discuss (briefly) the differences between managers. Can B be considered to be a more skillful PE manager?

EXHIBIT 8.9

ORGANIZATIONAL FORMS AND RISK (MARKET BETA) OF LPE VEHICLES



Source: Adapted from Lahr and Herschke (2009). Coefficient estimates are based on CAPM time series regressions of weekly logarithmic LPE index returns on MSCI world returns and currency risk factors. Equal-weighted indexes are unadjusted (middle column) and corrected for bid–ask spreads (right column).

Figure 1: *Exhibit 8.9* from the course book.

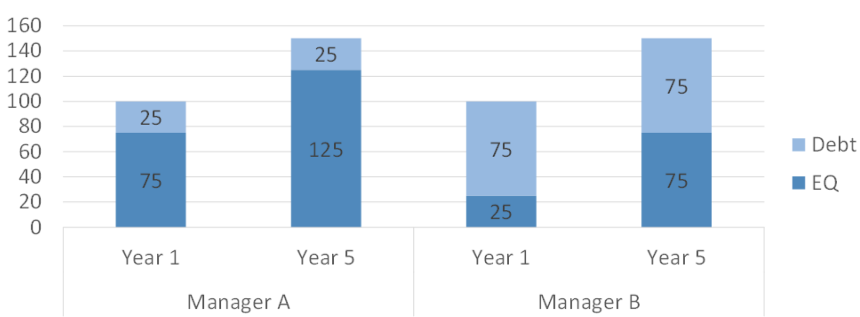


Figure 2: Capital Structures for managers A and B.