

# CPEP Study Guide



*Sponsored by the Private Equity Investment Group*



## Certified Private Equity Professional (CPEP) Study Guide

This study guide has been created for those individuals who are studying for the CPEP Qualification. The content of the CPEP Study Guide includes:

- I. Private Equity Investment Group (PEIG) Overview
- II. CPEP Qualification Details
- III. CPEP Qualification Timeline
- IV. CPEP Qualification Preparation
- V. Required Reading
- VI. Six Modules and Corresponding Keywords
- VII. Chapter Focus Tips
- VIII. Sample Qualification Questions
- IX. Frequently Asked Questions (FAQ)

### 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

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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:

The CPEP Program offers online examination dates four times a year on:

- January 15th
- April 15th
- July 15th
- October 15th

Registration for the program is limited to just 25 professionals each session. The CPEP program is rigorous and continually improved to ensure that it is practical, current, and valuable to both participants and employers.

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. They 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 Qualification 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.

For more information about the CPEP Qualification and program please visit <http://PrivateEquityCertification.com>

## 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 the 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

**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

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 Companies' BODs.
- d) None of the above

**Sample Question #5:** What are Private Equity portfolio managers 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**

## IX. CPEP Program Frequently Asked Questions (FAQ)



Below are some of the frequently asked questions regarding the Certified Private Equity Professional (CPEP) designation and Qualifications.

**Question:** What are the prerequisites for the CPEP Program?

**Answer:** You must have at least one year of professional experience to enroll in the CPEP Designation Program. The other main limitation imposed on this program is that we only allow 25 participants to register every quarter for a total of 100 participants each year.

**Question:** I know that I want to earn the CPEP Designation, how do I register for the exam?

**Answer:** Our program is restricted to just 25 professionals every quarter and tuition for the program is \$675. To enroll please visit complete our Registration Form.

**Question:** What makes the CPEP program reputable? Who supports it? How well is the CPEP known in the industry?

**Answer:** The CPEP program is the only professional training and certification program made exclusively for private equity professionals that may be completed 100% online. Our training institute has trained and certified over 800 professionals in the last two years and we have taken our knowledge on how to build a globally accepted professional certification program and applied it to the private equity industry with the in-house private equity professionals on our team. Our mission is to ensure that the CPEP is the most practical and challenging certification program in the industry.

**Question:** How much will I have to study or prepare for the CPEP before sitting for the exam?

**Answer:** This will depend on your previous exposure and work within the private equity industry but the typical amount of time expected is 75-100 hours.

**Question:** What are the benefits of earning the Certified Private Equity Professional (CPEP) Designation?

**Answer:** For a list of the top benefits associated with the program please see our list of benefits here.

**Question:** I live outside of the United States, can I still earn the CPEP designation?

**Answer:** Yes, we have crafted the CPEP designation program so that you may take the test online from anywhere in the world. By using a dual layered IP tracking and password system, and by making the exam timed we allow participants to complete the examination from their place of work or home anywhere in the world. In the past 18 months alone we have had participants complete our program from the UK, Switzerland, China, India, Australia, South Africa, Canada, Mexico, Brazil, Japan, and over 30 additional countries.

**Question:** How much does the Certified Private Equity Professional (CPEP) program cost?

**Answer:** The program costs a little bit less than one single University course with our tuition being just \$675 per participant. There are no testing center fees, membership dues, technology fees or further dues in addition to this tuition and acquisition of the required readings.

**Question:** What score do I need to pass the exam?

**Answer:** To pass you must earn a grade of 80% or higher. While the exam is designed to be rigorous and thorough most individuals who have read the required readings and invested a significant amount of time studying for the test should do well. The exam is offered 100% online so you may complete it from your place of work or from home if you wish. The exam uses a dual layered IP tracking and password system to prevent abuse and it has successfully been used with hundreds of program participants in the past.

**Question:** Do I need to pass each module of the test to pass the whole exam?

**Answer:** No, an overall grade of 80% is all that is required to pass.

**Question:** How do I receive the actual certificate upon program completion?

**Answer:** Everyone who completes the program is emailed their certificate upon passing the exam. If you would like a hard copy of your certificate we can make arrangements to have this mailed to you at no additional cost.

**Question:** When is the exam open for registration and when does testing occur?

**Answer:** The CPEP Designation Program only accepts 25 participants per quarter, a total of 100 participants a year. Once you join you choose an examination date which works well for you, the options include January 15th, April 15th, July 15th, and October 15th. While you can choose any date you wish, [changes](#) to your examination date do cost \$25 as we have had issues in the past with participants changing their examination date 4 and 5 times. On the day of

your examination you may complete the online test at any time during that 24 hour period from your work, school, or home.

**Question:** Is the CPEP Designation Program available in Chinese?

**Answer:** Currently the CPEP Program is only available in English. We currently have no plans on expanding the program to additional languages but please do email us if you would like the program translated into a different language so we can collect this feedback.

**Question:** As an employer, why should I hire someone who has earned the CPEP Designation?

**Answer:** The CPEP Designation Program is designed to do two things. First it ensures that participants master a certain level of private equity knowledge across 6 learning modules throughout the CPEP Designation Program. This certification provides them with the necessary knowledge and skills to give the professional a good chance of becoming or remaining an efficient and effective member in the private equity industry.

**Question:** I am currently a student. What are the benefits of earning the CPEP Designation for me?

**Answer:** The CPEP Designation has been designed for experienced professionals and students alike. As a student you will gain critical knowledge needed to identify the area of the private equity industry in which you prefer to work in. This program can also help you obtain internships because our team provides networking, resume construction, resume template, and internship video advice resources. Starting your career with this knowledge base can save you years of job experimentation within various roles. As a CPEP Designation charter holder you have an advantage over others with the same degree, employers seek those who have taken the initiative to gain additional knowledge relevant to their career.

**Question:** What methods of payment are accepted for the CPEP fees?

**Answer:** We accept web or fax-based credit card and debit card orders, payment by check, Western Union, or Paypal.

**Question:** Is there a time requirement on completing this designation?

**Answer:** No, there is no time requirement. This program was built for private equity executives, professionals, and students who typically are all very busy. You may complete this program on your own schedule, we only ask that you choose an examination date. Exam date options include January 15th, April 15th, July 15th, and October 15th each year. Once you have chosen your examination

date switching your date will cost \$25 per change. If you need to change the date of your exam please access our form [here](#).

**Question:** What if I register for the exam and then change my mind. Can I get a full refund for the cost of the program?

**Answer:** Yes, you may receive a full refund if you decide not to complete the CPEP Program. We provide a 100% no questions asked refund within the first 3 weeks regardless of the reason, this allows you to evaluate our study guide, required readings, and the industry tools and educational video content provided to you as part of your membership within the CPEP Program. To cancel your registration please send us your request in writing to this address within 3 weeks of registering to the following address: G.T.C. Institute, LLC RE:Certified Private Equity Professional Program (CPEP) 3300 NW 185th Avenue Suite #108 Portland, OR 97229. To change your registration date from one period to another costs \$25 and this can be completed by completing the form found [here](#). If you do not change your exam date within 48 hours before your scheduled examination and you miss your exam you will have to pay the full \$99 re-take fee and complete the form found [here](#). This is the same fee paid by those who fail the exam.

**Question:** How many tests are required to hold the full designation? Are there three exams and levels within this designation?

**Answer:** There is just one examination to complete, our program may be completed in just 3-6 months depending on your previous private equity knowledge and experience.

**Question:** When should I expect to get my CPEP exam results back?

**Answer:** You will receive your test results back within 4 weeks of taking the exam.

**Question:** I have read that the CPEP is a rigorous and thorough course, what happens if I do not pass the exam? Can I take it again?

**Answer:** Yes, anyone who has failed one of the CPEP exams may take it a second time. If you miss your scheduled exam date or fail the exam there is a \$99 fee to retake the exam. If you need to retake the exam this fee may be paid for [here](#).

Want to learn more about the CPEP Program? Please visit  
<http://PrivateEquityCertification.com>