

Kay Müller

Investing in Private Equity Partnerships

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Entrepreneurial and Financial Studies

Herausgegeben von
Professor Dr. Dr. Ann-Kristin Achleitner
und Professor Dr. Christoph Kaserer



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Kay Müller

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The Role of Monitoring and Reporting

With a foreword by Prof. Dr. Dr. Ann-Kristin Achleitner

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Foreword

The private equity industry has experienced rapid growth on a global scale in recent years. Institutional investors nowadays see private equity as a core element of their portfolios and have increased their allocation to this asset class accordingly.

With the private equity industry becoming more mature and institutional investors becoming more experienced with the asset class, the debate on the industry's transparency has intensified. In order to manage their exposure to private equity effectively, institutional investors demand increased levels of transparency and disclosure from private equity fund managers. Are these calls justified? What information do private equity fund investors actually need? Are private equity fund managers providing sufficient reporting?

Kay Müller's distinguished dissertation sheds light on these questions. For the first time, he provides empirical analysis combining the perspective of private equity fund investors and managers. On the basis of a comprehensive set of interviews with leading European private equity fund investors, he presents an in-depth insight into the monitoring activities of institutional investors and explores their information requirements. These results are then contrasted with the actual reporting by fund managers based on a disclosure study of a unique sample of private equity fund reports. The analysis reveals several important information gaps and provides guidance on areas for improvements.

The focus of this book is the relationship between investors and fund managers, which is at the heart of the private equity industry. It comes at the right time as the industry is facing major challenges as a result of the global credit crunch. Declining returns turn the investors' focus to transparency and governance issues. Effective and open communication between the market participants becomes even more important in order to support long-lasting and trusted partnerships.

I strongly believe that this book offers valuable contributions for the private equity industry and helps to further professionalize the asset class. I am very confident that researchers and practitioners alike will find the results thought-provoking and insightful.

Munich, May 2008

Prof. Dr. Dr. Ann-Kristin Achleitner

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Munich, May 2008

Dr. Kay Müller

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Table of Abbreviations

AcSEC	Accounting Standard Executive Committee
AFIC	Association Française des Investisseurs en Capital
AFS	Assets available for sale
AICPA	American Institute of Certified Public Accountants
BVCA	British Venture Capital & Private Equity Association
CalPERS	California Public Employees' Retirement Systems
CEO	Chief Executive Officer
CF	Cash flow
DCF	Discounted cash flow
DPI	Distribution to paid-in
EBIT	Earnings before interests and taxes
EBITDA	Earnings before interests, taxes, depreciation and amortization
EV	Enterprise value
EVCA	European Private Equity & Venture Capital Association
FASB	Financial Accounting Standards Board
FOIA	Freedom of Information Act
FV	Fair value
FVTPL	Assets at fair value through profit and loss
GAAP	General Accepted Accounting Standards
GIPS	Global Investment Performance Standards
GP	General partner
IAS	International Accounting Standard
IASB	International Accounting Standards Board

IFRS	International Financial Reporting Standards
IPO	Initial public offering
IRR	Internal rate of return
LP	Limited partner
LPA	Limited partnership agreement
M	Mean
NASDAQ	National Association of Securities Dealers Automated Quotation System
NAV	Net asset value
NPV	Net present value
NVCA	U.S. National Venture Capital Association
PC	Portfolio company
PE	Private equity
PEIGG	Private Equity Industry Guidelines Group
PME	Public market equivalent
PPM	Public placement memorandum
RVPI	Residual value to paid-in
SD	Standard deviation
SECA	Swiss Private Equity & Corporate Finance Association
SFAS	Statement of Financial Accounting Standard
S&P	Standard & Poor's
TVPI	Total value to paid-in
U.S.	United States of America

Table of Symbols

Chapter 3

t	Time period
T	Lifetime of the fund
CF	Cash flow
IRR	Internal rate of return
NAV	Net asset value
n	Number of remaining time periods
λ	Distribution scaling factor
S_+	Total number of index shares bought over time
S_-	Total number of index shares sold over time
S_N	Final number of index shares
R_{It}	Net return of a public market index in period t
cf_t	Normalized positive cash flow of private equity fund in period t

Chapter 4

I_0	Initial investment
V_0	Post-money valuation including the initial investment
TD	Total disclosure score
d_i	Disclosure item
M	Maximum amount of information items