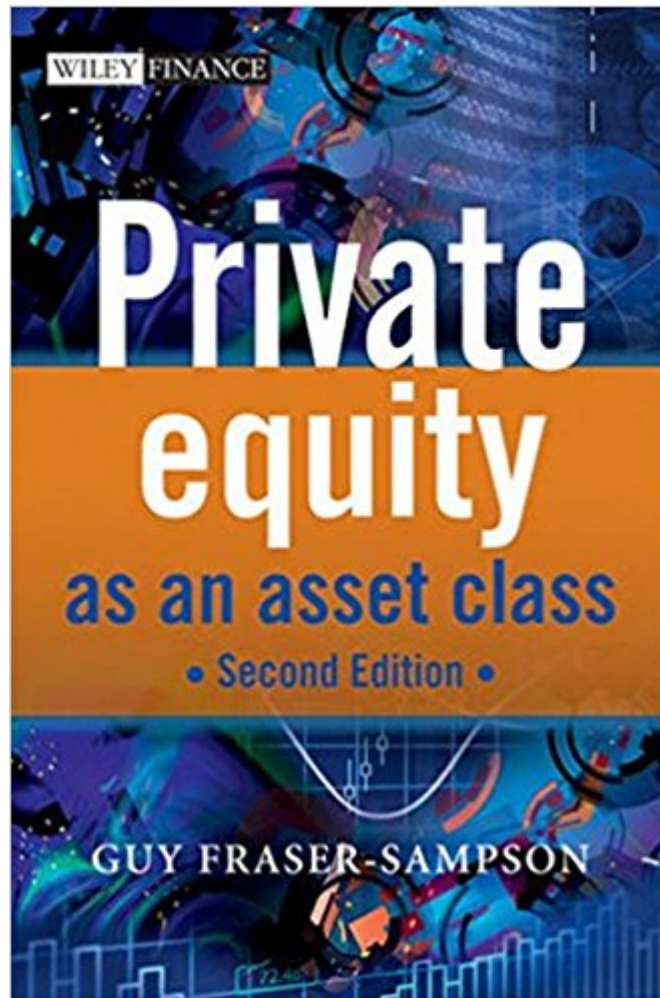




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# Private Equity As An Asset Class



## Synopsis

Unfairly reviled, and much misunderstood, private equity differs from all other asset classes in various important respects, not least the way in which its fund mechanisms operate, and the way in which its returns are recorded and analysed. Sadly, high level asset allocation decisions are frequently made on the basis of prejudice and misinformation, rather than a proper appreciation of the facts. Guy Fraser-Sampson draws upon more than twenty years of experience of the private equity industry to provide a practical guide to mastering the intricacies of this highly specialist asset class. Aimed equally at investors, professionals and business school students, it starts with such fundamental questions as 'what is private equity?' and progresses to detailed consideration of different types of private equity activity such as venture capital and buyout. Rapid and significant changes in the environment during the recent financial crisis have prompted the need for a new edition. Separate chapters have been added on growth and development capital, as well as secondary investing. Newly emergent issues are considered, such as lengthening holding periods and the possible threat of declining returns. Particular problems, such as the need to distinguish between private equity and hedge funds, are addressed. The glossary has also been expanded. In short, readers will find that this new edition takes their understanding of the asset class to new heights. Key points include: A glossary of private equity terms Venture capital Buyout Growth capital Development capital Secondary investing Understanding private equity returns Analysing funds and returns How to plan a fund investment programme Detailed discussion of industry performance figures

## Book Information

Hardcover: 280 pages

Publisher: Wiley; 2 edition (May 17, 2010)

Language: English

ISBN-10: 0470661380

ISBN-13: 978-0470661383

Product Dimensions: 6.6 x 0.9 x 9.7 inches

Shipping Weight: 1.4 pounds (View shipping rates and policies)

Average Customer Review: 4.0 out of 5 stars 17 customer reviews

Best Sellers Rank: #812,729 in Books (See Top 100 in Books) #72 in Books > Business & Money > Finance > Corporate Finance > Private Equity #150 in Books > Business & Money > Finance > Corporate Finance > Venture Capital #5661 in Books > Business & Money >

## Customer Reviews

"...a comprehensive attempt to get to the bottom of private equity returns over the past 15 years or so as well as being a well-written overview of the buyout and venture markets." (The Daily Telegraph, February 2007) "the first ever book that anyone who has even a passing interest in the PE business can pick up and delve into without feeling intimidated" will appeal to even the most jaded investor. (Banker Middle East, April 2007) "the first textbook about private equity for investors" (Management Today, May 2007) "Guy Fraser Sampson conveys the complex specifics of private equity with some ease. His introduction to private equity is stimulating reading for experts and non-experts." (Investment & Pensions Europe, June 2007) --This text refers to an out of print or unavailable edition of this title.

"A comprehensive attempt to get to the bottom of private equity returns over the past 15 years or so as well as a well written overview of the buyout and venture markets." •The Daily Telegraph "... author Guy Fraser-Sampson has some eye-opening comments about the current state of private equity affairs ..." •Institutional Investor "Guy Fraser-Sampson conveys the complex specifics of private equity with some ease. His introduction to private equity is stimulating reading for experts and non-experts." •Investment and Pensions Europe "I can't think of anyone better qualified to write this book." •Roger Wilkins, Morley Fund Management "A masterpiece by the acknowledged expert in the field." •Ross Butler, European Venture Capital Association, former editor Real Deals "Writes with the authority of twenty years' experience gained on both sides of the Atlantic." •David de Weese, Paul Capital Partners "Shines a torch of clarity into some dimly lit areas of private equity theory and practice." •Javier Loizago, Chairman, Mercapital and former Chairman, European Venture Capital Association "A brilliant writer with a real talent for describing a complex subject." •Thomas Meyer, European Investment Fund, author of Beyond the J-Curve and J-Curve Exposure "I have always said that Guy wrote the book on private equity - now he really has!" •Ernie Richardson, MTI

Guy Fraser-Sampson does an outstanding job in introducing the world of private equity in this book. He starts off defining various concepts in this field, explaining the ways to analyze private equity returns and distinguishing between buyouts and venture capital. He follows with a comprehensive discussion of buyouts (including the various types of buyouts, analysis models, and historical buyout

returns) and then an equally thorough investigation of venture capital (with a similar structure to that in the buyouts section). Mr. Fraser-Sampson wraps up with a discussion on due diligence and advice on planning your own investment program in private equity. I greatly enjoyed the book. It is easy to read, and Mr. Fraser-Sampson presents the concepts in a clear and simple manner - suitable for readers completely new to private equity. I like that the author is unafraid to express his own opinions - whether on the state of transparency in the field, on future buyout returns in Europe, or on usefulness of anti-trust legislation. He furthermore makes sure to separate his thoughts from the pure factual data that he provides to support them. Interestingly, the book does not simply focus on private equity in one area of the world - the United States. It also covers Europe and sometimes ventures (no pun intended) into other parts of the globe, which I think is a breath of fresh air from the typical finance books that concentrate on US markets only. I am pleased to see this, as I strongly feel that a world-wide outlook is very important in the business world today. And, as Mr. Fraser-Sampson concludes himself, we can learn good lessons by examining the state of the private equity field in various geographic locations: "However, history is cyclical and I now see exactly the same sorts of issues which plagued continental Europe in the past rearing their heads anew in developing private equity areas such as Asia and Latin America. For those in such places who are willing to listen, the European experience has some valuable lessons" (61). I applaud the author for the amount of historical data present throughout the book - both scattered throughout the text and assembled into tables and diagrams. While most of the data comes from a single source (the VentureXpert system) and the author's own calculations based on that data, it is great to see the general trends in buyout and venture capital returns, fund sizes, etc. I also appreciate that, in a few places, Mr. Fraser-Sampson notes that some of the data may not be very reliable since it is new (which is especially important to the private equity field due to the J-curve phenomenon: fresh data often captures the state of the things on the downward portion of the curve). There is, however, one aspect of history that I would have liked to see represented more. It would have been nice to see several examples of interesting or famous buyouts and venture deals, together with their defining characteristics. While many examples are very briefly touched on, none are really explored in detail. For example, I was pretty surprised that, amidst an extensive description of buyout mechanics, there wasn't any mention of the RJR Nabisco LBO in the late 1980s, to which the author could apply, for instance, his discussion of various levels of debt when dealing with huge transactions. Some neat small features in this work include concise chapter summaries and a glossary at the end of the book. Little things like that make it easier to reinforce concepts and look them up later. I found the chapter summaries especially helpful - each time I read a chapter

summary, I was pleasantly surprised on how concisely and accurately it summed up the important ideas presented earlier. Also useful is the practical advice found in the last two chapters of the book - what a fund or company investor should look for when performing due diligence and how to actually plan your private equity investments program (with an emphasis on the Total Return outlook). Finally, I'd like to mention something about the author himself. I was confused about one of the diagrams in the book (the one on p. 87, featuring the second scenario in analyzing a buyout return), and I e-mailed Mr. Fraser-Sampson with some questions. He replied almost immediately, clarifying the circumstances around the scenario and thanking me for bringing it to his attention, noting that he will make things more explicit in the next edition (strictly speaking, in the diagram on p. 87, the \$20M value under "Yr2" is not a cashflow, since no recapitalization took place - debt was simply reduced without an outflow of equity; this hence technically lowers the shown IRR of 124% to 89%). Not only was Mr. Fraser-Sampson helpful, but he was also just very friendly and approachable. That really tops everything for me... I've e-mailed multiple authors before and have received no responses, yet Mr. Fraser-Sampson responded so quickly. I think it's fantastic when readers can ask an author to clarify concepts and receive insightful answers and comments. It brings the book to an entirely new, higher level. The only problems I have with this book stem from the fact that I want to see more. Specifically, I would have liked to see the math behind the calculations in some of the numbers that the author presents. I also found myself looking up a lot of extra information outside the book about the IRR - how it is calculated and used. A more in-depth, separate section on IRR would have been great (the author does mention how the money multiple drives the IRR and not vice versa throughout various sections of the book, but a more consolidated discussion would have, in my opinion, been more helpful). These are very minor cons, and some may argue that they aren't really cons at all, but rather an indication that the author did a splendid job in making me interested in the field of private equity. He wishes to keep his analyses and explanations simple and understandable without burdening the reader with hefty calculations or overly advanced topics. I can certainly respect that. But the absence of this information keeps the reader more at a "birds-eye view" level without allowing him/her to dig deeper into certain concepts. This is just something to keep in mind. In a strict classroom setting for a private equity course, this book would work well as a textbook when complemented by some sort of workbook with detailed analysis models and problems. In conclusion, this book is an excellent introduction to the world of private equity. I knew very little about this field before reading this work, and I feel that it has given me an excellent well-rounded overview. The book is thorough, yet easy to read and understand. When the only cons I can think of are really just me wanting to learn more, there's not much else I

can say about the book other than to highly recommend it to those new to the private equity field. Pros: + clear and comprehensive presentation of the concepts + a more complete world-wide view on private equity, compared to most other books + lots of historical data on various aspects of buyouts and venture capital + great concise summaries at the end of each chapter and a glossary at the end of the book + practical advice in due diligence and planning your private equity investment program + the author himself is very responsive and helpful Cons: - could use more detailed analyses of real-world examples when discussing the structure and characteristics of buyout and venture capital deals - no math shown for calculating many of the values presented - lacks an in-depth discussion of advanced topics like the various uses of IRR and how to calculate it

As a former high level executive that invested millions for large corporations, I highly recommend this book. As a young analyst, it would have put a lot of language and details regarding the analysis of the company and managing the high level owners of companies in perspective. Worth while reading also for the casual interested in understanding shows like Shark Tank for all those educated in the arts who find business to be so cut-throat. Great book! Well written and easy for novice or professional to understand.

This book does a competent job of giving an overview of private equity sufficient for the stated purpose of helping investors understand where it might fit in a portfolio of investments. The book won't prepare you to start your own private equity fund, but it will prepare you to fend-off investment advisors that want to push an unsuitable investment into your portfolio. The writing style is a bit "British" - wordy by American usage standards - but it's their language, isn't it? That being said, the book overall is concise and mercifully short.

This is nice deep dive into the ins and outs of private equity.

very very worth reading

Well made book. Learned a lot from it

A rambling overview. Covers a lot of ground which is helpful. Not written in a crisp fashion however. Needs practical examples

A must read if you want to learn about PE

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