



**G F M I**  
GLOBAL FINANCIAL MARKETS INSTITUTE

**Course Outline**

**2020**

## Private Equity – Parts 1 and 2

Cayman Islands Institute of Professional Accountants (CIIPA)

Presented By: David Oakes

## Private Equity – Parts 1 and 2

The Private Funds Law enacted by the Cayman Islands government on February 7, 2020 requires Cayman Islands domiciled closed-end investment funds that fall within the definition of a “private fund” to register with and be regulated by the Cayman Islands Monetary Authority (CIMA). The Law was amended on July 7, 2020 to change the definition of a “private fund”, with the effect of increasing the range of closed-end investment vehicles to which it applies.

The Law imposes new operating requirements on private funds that fall within its scope in areas such as asset valuation, custody, cash monitoring, and securities identification. In addition, funds must submit annual financial statements audited by an auditor approved by CIMA.

These requirements create significant challenges for Cayman Islands domiciled private equity funds and their service providers. Private equity structures create complex relationships between the fund and its investors, and private equity strategies involve long-term commitments to investments that can be illiquid and difficult to value. Understanding these structures and strategies is essential to creating a clear picture of a fund’s operations and financial position.

In Part 1 of this course, we describe the legal, administrative and financial structures used by private equity funds to meet their investment objectives and explain private equity investment strategies related to venture capital, buyouts, and growth equity. In Part 2 of the course, we discuss important issues related to asset valuation, performance measurement, risk management and reporting for private equity funds. In each of these areas, we identify possible sources of conflict and misunderstanding and describe best-practice solutions to commonly encountered problems. Additional sessions in Part 2 look more closely at how private equity funds are responding to increased investor concern about environmental, social, and governance (ESG) issues and discuss recent trends and likely future developments in private equity.

Private Equity – Parts 1 and 2 will be offered in two 3.5-hour-long segments (including 10-minute-long breaks in each) through GFMI’s Virtual Learning Classroom Platform (Adobe Connect). Participants will be able to attend the virtual programs from the comfort, convenience, and safety of their homes or offices. During these live segments, participants will be able to interact with the instructor, David Oakes, via web and audio (VOIP) connections.

# **PRIVATE EQUITY PART 1**

## **(18 September 2020, 9:00 a.m. – 12:30 p.m. EST)**

### **Session 1: Private Equity Structures**

#### **Session Overview**

Private equity funds use specific legal, administrative and financial structures to achieve their investment objectives. In this session, we describe and discuss these structures.

#### **Session Objectives**

By the end of the session, participants will be able to:

- Describe the legal structures used by private equity funds
- Describe the roles and responsibilities of Limited Partners and the General Partner in a Limited Partnership closed-end fund
- Define and explain the significance of carried interest
- Define and explain the significance of the distribution waterfall, hurdle rate, catch-up, and clawback in private equity
- Identify key terms in a private equity Limited Partnership Agreement
- Identify key issues for private equity service providers related to valuation, redemption, distribution, and regulatory reporting
- Discuss operational requirements related to custody, cash monitoring, and securities identification under the Private Funds Law

### **Session 2: Private Equity Strategies – Venture Capital**

#### **Session Overview**

Venture capital funds supply equity financing to start-up companies that cannot attract traditional investment capital. This requires skill in selecting, nurturing, and valuing early-stage companies, and close attention to the risks associated with long-term illiquid investments. In this session, we show how successful venture capital funds meet these challenges.

## Session Objectives

By the end of the session, participants will be able to:

- Describe what venture capital funds do and how they do it
- Identify and discuss solutions to key challenges to successful venture capital investment, including deal sourcing, valuation of early-stage companies, and supporting development
- Discuss mechanisms used to define economic and control rights in venture capital funds
- Explain the use of convertible preferred stock and vesting in venture capital

## Session 3: Private Equity Strategies – Buyouts and Growth Equity

### Session Overview

Buyout funds acquire a controlling equity interest in companies in order to restructure their financial, governance, and operating characteristics. Growth equity funds invest in fast-growing companies beyond the start-up stage in exchange for a minority equity stake. In this session, we describe the objectives and methods of these distinct but related strategies.

### Session Objectives

By the end of the session, participants will be able to:

- Explain what buyout funds do and how they do it
- Explain the financial structure of a leveraged buyout (LBO)
- Show how LBOs create value and identify challenges to value creation
- Describe ideal financial and operating characteristics of LBO target companies
- Explain what growth equity funds do and how they do it
- Discuss methods used by growth equity funds to protect their minority shareholder interest

## **PRIVATE EQUITY PART 2**

### **(25 September 2020, 9:00 a.m. – 12:30 p.m. EST)**

## **Session 4: Private Equity Valuation and Performance Measurement**

### **Session Overview**

Private equity funds face particular challenges because investment occurs in stages and the investments held by the fund are typically illiquid. In this session, we describe best practice in the valuation of illiquid assets in private equity and discuss practical problems in private equity performance measurement.

### **Session Objectives**

By the end of the session, participants will be able to:

- Explain the concept of fair value as applied to private equity investments
- Discuss principles of fair value estimation based on enterprise value
- Compare and contrast possible valuation techniques (e.g., multiples and other market approaches, discounted cash flows, and replacement cost)
- Discuss guidelines for best-practice selection of an appropriate valuation technique
- Identify potential issues in valuing fund interests
- Describe the lifecycle of a private equity fund
- Explain the roles of J curves and vintage years in assessing private equity performance
- Define and interpret key private equity performance measures, including money-weighted return (i.e., internal rate of return) and cash multiples (i.e., money-on-money)
- Explain why comparisons based on money-weighted returns can sometimes be misleading
- Show how subscription line financing can distort private equity performance measures
- Discuss potential solutions to the problem of measuring the fair value of illiquid investments
- Discuss the impact of secondary funds on private equity liquidity

## **Session 5: ESG Investing and Private Equity**

### **Session Overview**

Environmental, social, and governance (ESG) issues have become a major factor influencing investor decisions. This creates pressure on private equity funds to monitor, encourage, and report on the ESG performance of the companies in which they have invested. In this session, we describe

quantitative and qualitative standards for ESG reporting, review evidence on the impact of ESG criteria on investment performance, and discuss best-practice responses to the ESG concerns of private equity investors.

## Session Objectives

By the end of the session, participants will be able to:

- Define ESG investing and list key ESG issues
- Describe quantitative and qualitative criteria for ESG performance, including ESG ratings
- Discuss evidence on the impact of ESG criteria on investment performance
- Identify key implications of ESG investing for private equity funds
- Discuss best-practice responses by private equity funds in reporting ESG performance, managing ESG risks, and identifying ESG opportunities

## Session 6: Private Equity Performance and Outlook

### Session Overview

In this session, we review recent evidence on private equity performance, identify current trends in private equity investment, and suggest likely future developments.

### Session Objectives

By the end of the session, participants will be able to:

- Review recent private equity performance
- Identify current trends in the PE investment space
- Discuss future developments in the space

**Prerequisites:** Basic Industry Knowledge

**Method of Delivery:** Group internet based

**Field of Study:** Specialized Knowledge

**Program Level:** Foundational to Intermediate

**Advance Preparation:** None

**Computers and Financial Calculators:** None required

**Recommended CPE Credits:** 4.0 per Part/8.0 for both Parts 1 and 2



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## David Oakes

David Oakes has designed and delivered training programs for financial institutions, securities exchanges, central banks, regulatory agencies and technology companies worldwide, through his own company and in conjunction with other training course providers, including Global Financial Markets Institute, Inc. He is the course author and principal trainer for the International Capital Markets Association (ICMA) Fixed Income Certificate (FIC) program, a leading qualification for finance professionals, and has contributed to many other programs and professional qualifications. Much of his training work focuses on risk management, derivative securities and alternative assets.

### Recent Projects

David's recent projects have included:

- Advanced course on **managing an interest rate swap book** for traders at a major Canadian wealth management group
- Advanced course on **counterparty risk, XVA and collateral management** for risk managers at a major Canadian bank
- Advanced course on **credit risk and investing in corporate bonds** for reserve managers of a middle-eastern central bank
- Advanced course on **integrated risk management** for senior risk managers in a European bank
- Courses on **liquidity risk management** and on **interest rate risk and asset-liability management** for a major bank
- Course author and principal trainer for the **International Capital Markets Association (ICMA) Fixed Income Certificate** program, a leading professional qualification
- Author of fixed income and derivatives modules for the **Certificate in Finance and Technology (CFT)**

### Professional Experience

David has over 25 years' experience in financial markets education. Before moving full-time into training and consulting, David was Director of Academic and Professional Education at the ICMA





Centre at the University of Reading in the United Kingdom, and Lecturer in Finance at Warwick Business School, the University of Reading and the University of Exeter.

## **Education**

University of Alberta (Canada): BA (Honours) in Economics

London School of Economics and Political Science (United Kingdom): MSc (Econ)

## **Professional Licenses and Associations**

Former member of the Bond and Fixed Interest Markets examination panel of the Securities and Investment Institute (United Kingdom)



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