

PRIVATE EQUITY

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Meet the trustees

Are pension funds equipped for private equity?

Features

Privately Speaking: David Gregson,
Hugh Lenon and the future of Phoenix

Switzerland: Swiss investors
rediscover the asset class

Fundraising: European GPs go large in America

Business schools: the private equity
MBA bandwagon

Asset class: the benchmarking conundrum

Russia: ready for private equity?

Big on campus

Despite the market downturn, private equity remains an A-list subject among MBA students. A growing number of international business schools are keen to capture the mood and offer courses designed to prepare students for a career in the industry. *Alex J. Stockham reports.*

Over the course of the 1990s, few things managed to keep up with the size of mushrooming private equity funds. One that did was their public profile. Private equity and venture capital were hot industries. Inevitably, in the field of career-oriented academia, this meant that many aspirational professionals who decided to go to business school to pursue a Masters of Business Administration (MBA) degree did so very much with a private equity career in mind. This in turn prompted the world's business schools to increase their private equity offerings in order to compete for students.

Prior to the private equity boom, a relatively small number of business schools offered classes specifically aimed at private equity and venture capital executives. At Harvard Business School for example, Jacob H. Schiff Professor of Investment Banking Josh Lerner began teaching a private equity finance course in the 1993 to 1994 school year. More programmes at other schools have since been established.

In the past, private equity classes often approached the subject from the viewpoint of a business owner looking to raise private equity financing. This has also changed: today the leading business schools in the US and Europe teach private equity modules to financial professionals in the same way they teach accounting or financial analysis.

It's not hard to understand why MBA candidates are attracted to private equity. Despite the fact that jobs are tough to get, in part because of the recent downturn in the industry, private equity offers attractive salaries (as well as very appealing performance-related compensation) and relatively reasonable hours, at least when compared to positions within mainstream investment banking.

Demand

But are students gravitating toward private equity simply because they have dollar signs in their eyes? One business school student with private equity experience who asked

not to be named suspects that some indeed are. He has mixed feelings about what fellow students actually understand about private equity. "One camp of students, who tend to come from investment banking or consulting, have a herd mentality where they think private equity is just a good job," the student says. "They don't know what it is but they know they want to do it."

But there are also other reasons why MBA students will consider a private equity related syllabus. For example, private equity may appeal to a student's sense of adventure and risk-taking. "There's the excitement of being a principal of a deal and not an agent of a deal," says Ryan Shelswell, a second-year MBA candidate at London Business School (LBS). "You're staking a claim."

Shelswell is part of a growing group of MBA students in the US and Europe who spend a significant part of their time on campus as members of their schools' so-called 'private equity clubs'. Such clubs have now been established at many of the leading institutions. The club at LBS, which until last year had just two members, is now looking after some 300 members on a campus of about 1,500 students. The club has a five-member executive committee (Shelswell is the treasurer), and a total of 20 members are involved in planning the club's activities.

Club membership is considered a helpful item to have on a CV when it comes to demonstrating commitment to private equity when seeking employment in the industry.

The clubs also look to provide students with access to private equity professionals through networking sessions, speeches and other ways of reaching out to the com- >>



Metrick:
natural
interest in
private equity



Blaydon: students see opportunities

first or second years that teach the basics, such as partnership structuring, deal modelling, valuation and exits.

"Venture Capital and Private Equity" at Wharton for example, taught by Assistant Professor of Finance Andrew Metrick, focuses on valuation methods relevant to buyout transactions, and combines a lecture series with six market case studies and a LBO modeling exercise.

LBS has two courses devoted to private equity and venture capital respectively, and more than eight courses which aim to build primary skills for private equity practitioners in areas such as LBOs, corporate turnarounds, venture capital transactions and so on. According to Shelswell, "Financing the Entrepreneurial Business" is the most popular elective at the school's entire MBA programme, and usually three to four times subscribed each year.

According to professors, classes have remained consistently popular over the past three or four years after the number of interested students suddenly jumped at the height of the boom in the late 1990s.

Stuart Klein, a teaching assistant for professor Jack McDonald at Stanford Business School, which has been offering private equity courses since 1993 and venture capital courses since 1978, says the private investment-related courses offered at his school have remained in demand despite the market downturn.

"I suppose that these courses have become more popular because alternative investments including venture capital and private equity have emerged as a distinct asset class over the past few years," Klein says. "As capital has flowed into this area, the firms have raised bigger funds, have closed more transactions and have increased their hiring. All of these factors might have made students more interested in learning about venture capital and private equity."

munity. The club at The Wharton School at the University of Pennsylvania for instance is known in the US for its annual conference that attracts some of the top private equity professionals in the country. LBS held its first industry conference in London earlier this year.

The clubs obviously require their student's energy to thrive, but the business schools themselves are also bulking up on the private equity courses they offer. There are often electives available in the

Gearing up

Business schools are catering to this growing student appetite for the private equity business in more overt fashion. Schools with a private equity research and study centres include the University of Texas at Austin's McCombs School of Business, which opened the Hicks, Muse, Tate & Furst Center for Private Equity Finance in 2000 after a \$6m gift from the Dallas-based private equity house.

The University of Michigan Business School also has a designated institute that focuses on private equity and venture capital studies, as does Dartmouth's Tuck School of Business. Tuck's Foster Center for Private Equity and Entrepreneurship was established five years ago and, according to the Center's director, Dean Emeritus and Professor of Management Colin Blaydon, became an active research centre two and a half years ago.

Blaydon originally taught an entrepreneurship course at Tuck but noticed that quite a few students were interested in the investing side of the entrepreneurial world. As a result of that student-originated interest, he designed a course called Private Equity Finance in 1996 and published a private equity glossary that defines terms that tend to be unique to private equity or venture capital, such as "spin out" and "seed stage." Later, a Tuck alumnus named John Foster offered seed money to start the centre.

"The enrolments are as high as they've ever been," Blaydon says. "There may still be a few years of consolidation in the industry but students still see very solid opportunities."

The Yale University School of Management sponsors a venture capital fund named Sachem Ventures. The student-run fund, which has \$1.5m under management, invests in New Haven, Connecticut, businesses in their early stages. Yale's endowment and New Haven Savings Bank are two of the fund's investors.

Getting jobs is tough

Not everyone who shows an academic interest in the industry gets to actually try their hand at private equity investing any time soon after leaving business school. Though student interest in the industry remains high – at LBS no less than 25 per cent of the MBA class 2004 said in their first year that they wanted to enter private equity or venture capital – it is important to note that it is still a small minority of MBA graduates who will be working in the industry after graduation.

Few schools list private equity and venture capital as categories in their surveys of the industry that their students



Chan: jobs are difficult to get

totals for 2001 and 2000 of 13 and 14 per cent respectively. (Both schools found the median base compensation for their most recent graduates was in excess of \$100,000 (£84,000; £59,000).

"It's a very difficult job to get," Andy Chan, the director of the Stanford Graduate School of Business Career Management

moved into upon graduation. Exceptions include Harvard, which says that approximately 7 per cent of 2002 graduates took a job in private equity (2001: 7 per cent; 2000: 6 per cent) while 3 per cent moved into venture capital (4 per cent; 8 per cent).

At Stanford, recent recruitment activity into the industry has been markedly subdued: just 5 per cent of the class of 2003 took a job in private equity while 2 per cent moved into venture capital, a sharp decline from the combined

Center, says. "Students really have to work hard on their job searches to get jobs in the private equity area."

Students, in fact, must actively seek out opportunities at firms because firms will never set up at a campus recruiting fair simply because they don't have to. There are so few openings at most firms and they are in such demand that the onus really falls on the MBA candidate to seek out even entry-level positions.

Despite the job crunch in the private equity and venture capital industry, largely a result of the economic downturn of the past few years, Chan believes it will remain an attractive industry for MBA students to work in.

"At Stanford, we're training people to be great business people," Chan says. "Private equity ends up being a natural interest area because they can utilise the strategic and investment skills they learned at school."

Business schools will do well to continue to cater to students and their interest in this area of the investment world in order to attract the most highly regarded students to their rosters.

Which school?

Here is a selection of some of the most prestigious international business schools that have also established themselves as popular destinations for MBA candidates who have set their eyes on a future in private equity

Amos Tuck School of Business Administration
Dartmouth College
Hanover, New Hampshire



Private Equity Classes:
"Private Equity Finance"
Private Equity Club:
Private Equity Club (100 members)
Alumni at:
GTCR Golder Rauner, TH Lee Putnam Ventures, Summit Partners, Merrill Lynch PEP

Tuck, the oldest business school in the US, is known for its extensive alumni association, called the Green Network. The school's Foster Center for Private Equity and Entrepreneurship was established in 1998 and, led by Professor Colin Blaydon, aims to advance the understanding of private equity. The school is fast becoming the destination of choice for students who want to tap into a vast network of private equity professionals.

Graduate School of Business
University of Chicago
Chicago, Illinois



Private Equity Classes:
"Private Equity/Venture Capital Lab";
"Entrepreneurial Finance and Private Equity"
Private Equity Club:
Entrepreneurship and Venture Capital Group (300 members)
Alumni at:
Willis Stein, Castle Harlan, The Riverside Company

The University of Chicago is known for producing professionals with a solid understanding of the quantitative side of the business world. The school also holds an annual entrepreneurship conference named after Willis Stein, a Chicago-based private equity firm.

Harvard Business School
Harvard University
Cambridge, Massachusetts



Private Equity Classes:
"Venture Capital and Private Equity"

Private Equity Club:
Venture Capital and Private Equity Club, 560 members

Alumni at:
The Carlyle Group, Castle Harlan

Harvard Business School is perhaps the most highly regarded institution of business study in the world. The school has one of the most developed networks of alumni. Its faculty, including Professors Josh Lerner and Paul Gompers, have carried out in-depth research into a wide range of subjects relevant to private equity. In June 2003, HBS opened the Rock Center for Entrepreneurship.

INSEAD
Fontainebleau, France



Private Equity Classes:
"Private Equity & Venture Capital"

Private Equity Club:
INSEAD Private Equity Club (250 members)

Alumni at:
TVM Techno Venture Management, Advent Venture Partners, Graphite Capital

INSEAD is renowned for the many consultants the school has educated over the years. The school's private equity club has more than 250 student members after only two years in existence. One INSEAD academic who is well known in European private equity circles is Philip Anderson, Professor of Entrepreneurship. The school has a relationship with Wharton where students can take classes at the Philadelphia school and vice versa.

London Business School
London, UK



Private Equity Classes:
"New Venture Finance and Private Equity";
"Financing the Entrepreneurial Business"

Private Equity Club:
LBS Private Equity Club (320 members)

Alumni at:
Abingworth Management, Intermediate Capital Group, Pantheon Ventures

At London Business School, private equity minded students can pick relevant classes from with the Finance, Accounting and Entrepreneurship syllabi. LBS Professors Eli Talmor and John Mullins lead the charge. Situated in the de facto capital of European private equity, LBS has attracted the attention of Europe's private equity community. The program has also attracted student interest from around the world – some 85 per cent of its students come from outside of the UK.

McCombs School of Business
University of Texas at Austin
Austin, Texas



**McCOMBS
SCHOOL OF
BUSINESS**
The University
of Texas at Austin

Private Equity Classes:
"Private Equity Finance";
"The Art of Negotiation"

Private Equity Club:
Venture Capital Fellows (40 members),
Private Equity Club (60 members)

Alumni at:
The Riverside Company, Broadband Venture Partners,
Falconhead Capital

McCombs is one of only three US business schools with a centre for private equity study – the Hicks, Muse, Tate & Furst Center for Private Equity Finance. The Center, founded in 2000 with a \$6m donation from the Dallas-based firm, supports the development of a private equity finance curriculum at McCombs. It also hosts conferences for the private equity market.

Sloan School of Management
Massachusetts Institute of Technology
Cambridge, Massachusetts



Private Equity Classes:
"Raising Early Stage Capital"

Private Equity Club:
Venture Capital and Principle Investing Club

Alumni at:
Parthenon Group, Ignition Ventures, Soros Group

Better known for its entrepreneurship courses, Sloan has placed graduates with several venture capital firms. Perhaps the biggest advantage Sloan offers is a chance to get a student's feet wet with technology from an operating perspective, which may help with a private equity career down the line.

**Stanford
Graduate School
of Business**
Stanford
University
Palo Alto, California



STANFORD
GRADUATE SCHOOL OF BUSINESS

Private Equity Classes:
"Private Equity Investing Seminar"

Private Equity Club:
Private Equity and Buyouts Club; Venture Capital Club
Alumni at:
Bain Capital, H.I.G. Capital, The Shansby Group

The Stanford Graduate School of Business is well known in, and a significant supplier of executive talent to, the venture capital circles that surround the school's Palo Alto campus. Classes about VC have been taught by Professor John McDonald, who still teaches the Private Equity Investing Seminar.

Stern School of Business
New York University
New York, New York



Private Equity Classes:
"Venture Capital Financing"

Private Equity Club:
Stern Private Equity Club (150 members)

Alumni at:
Whitney, Pacific Venture Partners, Brown Brothers Harriman

Stern's reputation in private equity is solid and its access to New York-based firms is one of its main draws. The school well known for its finance and accounting departments. The private equity club's main goal is to give its members the knowledge needed to secure positions in the private equity world.

**University of Michigan
Business School**
University of Michigan
Ann Arbor, Michigan



Private Equity Classes:
"Venture Capital and Private Equity I";
"Venture Capital and Private Equity II"

Private Equity Club:
The Entrepreneurial and Venture Capital Club (120 members)

Alumni at:
Lime Rock Partners, Huron Capital Partners, Commonwealth Capital Partners

The university with arguably the best American football team on the list is also becoming more prominent in the private equity world, in part because of its Center for Venture Capital and Private Equity Finance. The Center is led by Professor David Brophy, who has worked for Palo Alto based venture capital firm Compass Technology Partners.

The Wharton School
University of Pennsylvania
Philadelphia, Pennsylvania



Private Equity Classes:
"Venture Capital and Private Equity"

Private Equity Club:
Private Equity Club, 460 members

Alumni at:
Apollo Management, Arlington Capital, HarbourVest,

The Wharton School sponsors one of the most highly attended annual private equity conferences in the industry. Its private equity club also offers alumni-connection services so current students can meet with industry professionals. Wharton has a reputation for turning out well-trained professionals and some consider it to be the elite brand. Even rival schools refer to it as the MBA's MBA.

Yale School of Management
Yale University
New Haven, Connecticut

Private Equity Classes:
"Private Equity Investing"

Private Equity Club:
SOM Private Equity Student Interest Group

Alumni at:
Bluenet Ventures, Next Generation Ventures

Yale is seeking to attract MBA students interested in private equity through Sagem Ventures, a student-run venture capital fund with \$1.5m under management that invests in early stage New Haven businesses. The fund is led by David Cromwell, a professor who was formerly the chief executive officer of JP Morgan Capital Corp. Another attraction to private equity students might be the presence of David Swensen, who oversees Yale University's investment endowment and is widely regarded as one of the most knowledgeable - and successful - investors in the asset class.

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