Chapter 1

GETTING STARTED

The private equity market has gone through a major transformation over the past two decades, with many of the most dramatic changes occurring over the past few years. As you are likely aware, you are attempting to enter one of the highest profile sectors of the financial markets—one that is wielding significant influence on the economy while at the same time creating great wealth for its investors. The wealth that has been amassed has played a significant role in increasing the attractiveness of the sector and thereby further fueling the competitive environment to enter. This chapter begins with a brief overview of the current state of the private equity market giving particular attention to how recent changes have affected hiring. It also provides a basic introduction to private equity.

THE MARKET TODAY

Notwithstanding the 2008 credit crunch and general market turbulence, it's safe to say that today's private equity (PE) industry is still a major force in the financial world and that it bears little resemblance to the fledgling market of nearly 30 years ago when there were just a few practitioners. Perhaps nowhere is the magnitude of the industry more apparent than in the size of today's buyout funds. In 1980, Kohlberg Kravis Roberts & Co. (KKR) ran the world's largest buyout fund at $135 million. In today's buyout world, in which firms compete to one-up each other, $1 billion funds are commonplace and the $20 billion barrier has been broken.

The clout of individual PE firms was pointed out in more detail in a November 2004 article in the *Economist* titled "The New Kings of Capitalism." The article pointed out that The Blackstone Group alone had equity stakes in about 40 portfolio companies which, combined, had over 300,000 employees and annual revenue of more than $50 billion. If they were a single unit, the holdings would have made Blackstone one of the top 20 Fortune 500 firms.

In the same article, the *Economist* noted that in 2004, Texas Pacific Group's portfolio companies had over 255,000 employees and revenue of $41 billion, while The Carlyle Group's portfolio companies had 150,000 employees and revenue of $31 billion. With their recent deals, the portfolios of Blackstone, Texas Pacific Group (TPG), and Carlyle are even bigger and, along with Apollo Advisors LP, Bain Capital, Kohlberg Kravis Roberts & Co. (KKR), Warburg Pincus LLC, and others, are part of an elite group of funds that oversee billions of dollars of capital. Table 1.1 lists the largest PE-backed leveraged buyouts (LBOs) ever, in which many of these firms were participants. These funds are pioneers of the industry, and anyone looking to break into private equity must

Table 1.1 Ten Largest Closed PE-Backed LBOs

Rank	Firm Name	Target	Value ($ Billion)	Sector	Closing Date
1	Kohlberg Kravis Roberts & Co/TPG/Goldman Sachs	TXU Corp.	$44.30	Utilities	Oct-07
2	The Blackstone Group	Equity Office Properties Trust	$37.70	Real estate	Feb-07
3	Bain Capital/Kohlberg Kravis Roberts & Co./Merrill Lynch Global Private Equity	HCA Inc.	$32.10	Hospitals	Nov-06
4	Kohlberg Kravis Roberts & Co.	RJR Nabisco Inc.	$30.20	Consumer products	Apr-89
5	Goldman Sachs/Carlyle Group/Riverstone/AIG Management	Kinder Morgan Inc.	$27.50	Energy	May-07
6	Kohlberg Kravis Roberts & Co.	First Data Corp.	$27.00	Data processing	Sep-07
7	TPG/Goldman Sachs	Alltel Corp.	$26.90	Telecom	Nov-07
8	The Blackstone Group	Hilton Hotels Corp.	$26.70	Hotels	Oct-07
9	Kohlberg Kravis Roberts & Co./Management	Alliance Boots PLC	$19.40	Drug stores	Jun-07
10	The Blackstone Group/Carlyle Group/Permira/Texas Pacific Group	Freescale Semiconductor Inc.	$17.50	Semiconductors	Dec-06

Source: Thomson Financial's *Buyouts* magazine. Data accurate as of December 31, 2007 be familiar with them and the impact they have on the market. Many of these large funds have also diversified their activities. In addition to its LBO funds, Blackstone manages mezzanine, real estate, hedge funds, and private equity fund of funds. Carlyle runs leveraged finance, buyout, venture and growth capital, and real estate funds.

Private equity's higher profile has also put the industry under an additional spotlight—that of government regulators which have been scrutinizing tax issues, governance, and reporting, among other things. Although the large funds get a lot of attention, there are still many smaller PE funds impacting the market, and it is not uncommon to find one run by just a handful of investment professionals that are successful in their own right.

Despite the slowdown of 2008, the private equity market remains stronger by many measures than it has ever been. Indeed, up until 2008, the industry was enjoying one of its most dynamic periods, with unprecedented growth in assets and a surge in overall prominence; 2007 was a banner year, with U.S. buyout funds raising a record $228 billion, 29 percent more than the previous mark of $177.1 billion set in 2006, according to *Private Equity Analyst* data. Venture capital and fund of funds have also been attracting new money. In 2007 firms in those two asset classes brought in $32.2 billion and $26.3 billion, respectively, representing increases of 19 percent and 20 percent over 2006. Figure 1.1 presents a breakdown of annual fund-raising by buyout, venture capital (VC) and fund of funds.

Another indication of the prominence of the private equity industry is the well-known business leaders, celebrities, and former politicians who have joined its ranks, including Jack Welch (Clayton, Dubilier & Rice), Lou Gerstner and Arthur Levitt (Carlyle), the U2 rocker Bono (Elevation Partners), former senator Bill Frist (Cressey & Company), and former U.S. Treasury Secretary Paul O'Neill (Blackstone). Al Gore is also a partner at venture capital firm Kleiner Perkins Caufield & Byers. Table 1.2 lists the most active VC investors of 2007.

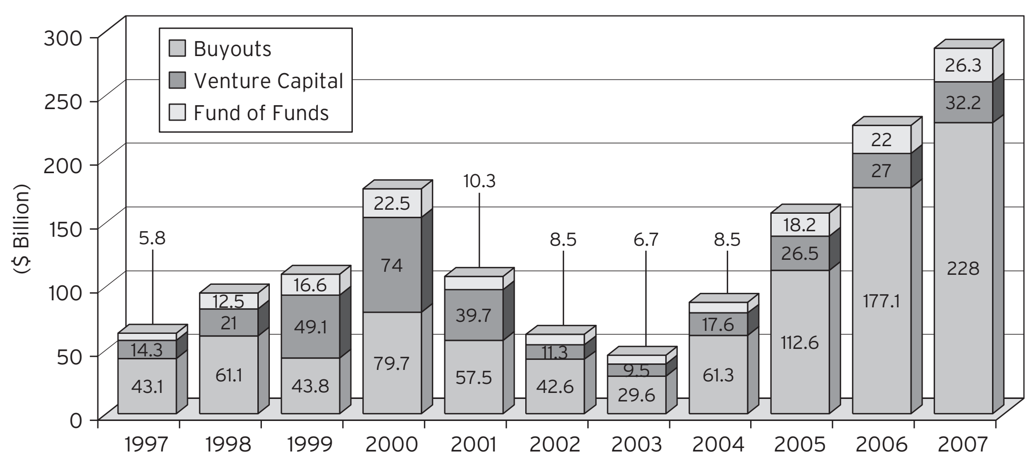

Figure 1.1 Private Equity Fund-Raising, 1997–2007

Source: *Private Equity Analyst*

Table 1.2 Top 25 Most Active Venture Capital Investors of 2007

2007 Rank	Firm Name	Number of Deals 2007	Number of Deals 2006
1	Draper Fisher Jurvetson (Draper Associates)	129	99
2	Intel Capital	112	108
3	New Enterprise Associates	105	93
4	Atlas Venture, Ltd.	103	81
5	Warburg Pincus LLC	89	80
6	Polaris Venture Partners	74	69
7	Accel Partners	71	55
8	Sequoia Capital	71	82
9	Kleiner Perkins Caufield & Byers	70	80
10	Menlo Ventures	67	41
11	U.S. Venture Partners	67	76
12	The Carlyle Group	66	99
13	Highland Capital Partners, LLC	65	48
14	Oak Investment Partners	62	86
15	Foundation Capital	60	46
16	Alta Partners	58	42
17	Bessemer Venture Partners	58	44
18	Canaan Partners	58	46
19	Austin Ventures, L.P.	57	61
20	InterWest Partners	57	50
21	Benchmark Capital	56	54
22	Venrock Associates	56	57
23	3i Group PLC	53	75
24	Trident Capital	53	39
25	Domain Associates, LLC	52	35

Source: Thomson Financial's *Venture Capital Journal*

A Global Market

Over the past several years the private equity market has continued to grow into a global industry, both in terms of where funds are investing and in the profile of the Limited Partners (LPs). Pools of capital have also become more sophisticated, with PE firms adding new asset classes to their stable of investment vehicles (some added fixed-income, hedge fund, and other products). Underscoring the maturation of the industry, one firm (Blackstone) led a groundbreaking initial public offering and others are expected to follow suit.

There are large global firms that oversee investments in many different countries, and major firms such as Advent International, Apax Partners, Bain Capital, Blackstone, Carlyle, KKR, TPG, and Warburg have offices outside of the United States to monitor those investments and to source new ones. While companies in China and India continue to attract significant interest, funds are also investing in companies in other emerging regions including Eastern Europe (specifically Russia), other areas of Asia (Vietnam has seen strong growth), the Middle East and Latin America (Brazil, in particular). Many well-known firms have launched new funds specifically to invest in many of these countries.

Sovereign investment funds, which invest the capital of non-U.S. governments, are expected to continue to invest in U.S.-based private equity funds as they look for higher rates of return than can typically be made by investing directly in stocks and bonds. One noteworthy example is GIC Special Investments, which manages private equity investments for the government of Singapore and has been a longtime investor in KKR. In fact, a report by McKinsey & Co. estimated that through 2012, sovereign funds in oil-exporting countries alone would invest about $300 billion in alternative assets, a figure that is about equal to the amount raised by all U.S. PE firms in 2007, according to *PE Analyst*. The same McKinsey report notes that the Abu Dhabi Investment Authority earmarks 10 percent of its $875 billion for private equity. In addition to being investors, some sovereign funds have become owners of PE funds. Most notably, the China Investment Corp. paid $3 billion for a 10 percent stake in Blackstone, the Mubadala Development Corp. (Abu Dhabi) paid $1.35 billion for a 7.5 percent piece of the Carlyle Group, and the Abu Dhabi Investment Authority bought 9 percent of Apollo Management LP.

Not to be outdone by their foreign counterparts, U.S. institutions are still major players, with the California Public Employees' Retirement System (CalPERs) and the California State Teacher's Retirement System (CalSTRS) being two of the largest. As of February 29, 2008, CalPERs had $241.7 billion in assets, of which $22.8 billion was in private equity, while CalSTRS had committed $12.7 billion of its $171.9 billion to PE. Other major investors include the Canada Pension Plan Investment Board, the New Mexico Public Employees' Retirement Fund, the New York State Teachers' Retirement System, the Oregon Investment Council, the Pennsylvania State Employees' Retirement System, Teachers' Retirement System of Illinois, the Teacher Retirement System of Texas, and the Washington State Investment Board. University endowments, including those run by Harvard and Yale, have been consistent investors in PE funds. Newcomers such as the Kentucky Retirement Systems and the New Jersey State Investment Council made recent investments.

Employment Scene

It's not surprising that as the size and scope of private equity funds have expanded over the years, so, too, have their hiring habits. Although we've seen some effects from recent market turbulence, the pace of hiring and the corresponding demand for highly capable professionals remains strong. In any given year, we continue to see many firms bringing on multiple new hires.

As recruiters, we analyze the hiring market in terms of supply and demand—the supply of candidates looking for jobs versus the demand from firms looking to hire. Although in private equity the demand never *technically* exceeds the supply (meaning there are always more qualified candidates seeking positions), on an absolute basis there are more positions available in the past few years than ever before. And even on a relative basis, the competitive environment has shown improvement, particularly for pre-MBAs finishing their investment banking and consulting programs and for graduating MBAs. A lot of the improvement is due to the spectacular fund-raising in 2006 and 2007, which, has led to the need for more investment professionals to help put the money to work.

Looking at how the private equity market has evolved over the past decade gives further evidence that the overall hiring has not matched one-for-one the capital that has been raised. Table 1.3 shows that over the past 13 years the amount of capital under management has increased by more than six times, the number of professionals working in the industry has nearly tripled, and thus the amount of capital per professional has increased over time (it would be incorrect to conclude that the industry is severely understaffed, but it probably means there is some room for growth). In terms of geography, New York City is far and away home to the largest private equity workforce, according to the *2008 Global Private Equity Review* published by Private Equity Intelligence. Following New York are London and the San Francisco Bay area. The top 10 cities for private equity employment account for nearly half of the global total, with Boston, Chicago, Los Angeles, Dallas, Paris, Stockholm, and Tokyo rounding out the list.

Some of the most notable changes to the private equity hiring market are being driven by the tactics of the mega-funds (those funds with several billion dollars in

Table 1.3 Evolution of the Buyout Market

	1994	2006	2007
Number of LBO firms in existence	347	593	614
Number of LBO funds in existence	512	1,040	1,095
Number of professionals	3,706	9,057	1,0398
Number of first-time LBO funds raised	27	38	44
Number of LBO funds raising money	110	179	206
LBO capital under management ($B)	113.6	636.5	729.7
Average LBO capital under management per firm ($M)	327.4	1,073.3	1,188.4
Average LBO fund size to date ($M)	199.7	442.7	473.9
Average LBO fund size raised ($M)	247.7	1,114.8	1,434.2

Source: Thomson Financial's *Buyouts* magazine assets under management). Over the past few years the number of mega-funds has increased significantly, which means that as a group they have an even greater impact on the hiring behavior and compensation structures of most other funds, regardless of their size, geographic location, and/or the stage of a company in which they invest. By virtue of their size the mega-funds need more junior investment professionals. Each year they set the tone for hiring by beginning their annual recruiting earlier than most other funds and offering higher compensation packages. Over the past few years, hedge funds have also emerged as a force to be reckoned with. In spite of the recent market turbulence, hedge funds have grown into an asset class that increasingly competes with private equity funds for top talent (we go into more detail about the effect hedge funds have on the hiring market in Chapters III and IV).

PRIVATE EQUITY 101

Before initiating your job search, there are a few things about private equity with which you should be thoroughly familiar. Even if you think you know the nuts and bolts, this section could serve as a helpful brush-up on PE basics, including how various funds and roles differ. We also explain some basic hiring terms used throughout this book.

While we want to avoid sounding like a textbook, we still think it is important to discuss the basics of what private equity funds are and how they are structured. The term *private equity fund* may sound like it would be a stand-alone entity, but it usually is not. Even though someone may say they are an associate, senior associate, or vice president working at Fund ABC, they really work for a management company that has a fee agreement with Fund ABC. For example, Chicago-based Madison Dearborn Partners, LLC is the management company for five funds: the Madison Dearborn Capital Partners, L.P. (a $550 million fund raised in 1992); the Madison Dearborn Capital Partners II, L.P. (a $925 million fund raised in 1996), the Madison Dearborn Capital Partners III, L.P. (a $2.2 billion fund raised in 1999); the Madison Dearborn Capital Partners IV, L.P. (a $4 billion fund raised in 2000); and the Madison Dearborn Capital Partners V, L.P. (a $6.5 billion investment fund raised in 2006).

Most private equity funds are set up as limited partnerships. As such, they have a general partner (GP) in charge of making decisions for the partnership, and limited partners (LPs) who are the investors in the fund. Typical LPs are institutional investors including public and private pension funds, endowments, other large financial institutions, wealthy individuals, and the partners of the fund themselves.

The GPs make money two different ways: through an annual management fee paid by LPs and a carried interest (called *carry*)—a percent of profit. The annual management fee is usually 1.5 to 2.5 percent of total capital commitments to the fund, while the carry has historically been 20 percent of profits. You will often hear the term *2 and*

20 to describe this fee structure. Under such a structure, a $1 billion fund would have a 2 percent management fee and a 20 percent incentive fee. The management fee alone will provide the fund with $20 million in fees each year to pay salaries and overhead. If the fund doubles over the course of its lifetime to $2 billion (a 100 percent profit), the management company will reap $200 million based on an incentive fee of 20 percent, with that sum split among the partners and anyone else with a piece of the carry at the fund. A very select group of venture capital or leveraged buyout firms can even take home 25 to 30 percent of profits.

Don't get ahead of yourself here: If you join in a junior role you will not likely get a large percentage of the carry, but some of the fund's carry can filter down to you. If, however, you stay on for several years, you can be in a position to build real wealth as your percentage of the carry pool grows significantly (see Chapter XII for a more detailed discussion on compensation).

Characteristics of Private Equity Investments

In its simplest form, a private equity investment is a privately negotiated transaction involving an equity ownership stake. By their nature, private equity investments are less correlated to the public equity markets and are thus less subject to stock market cycles. Private equity funds offer the possibility of greater returns than investing in public equities; however, the trade-off is that they are relatively less illiquid. So if an investment in a fund is underperforming, it's not easy to exit. Although many of the large LBOs that have made headlines over the past several years were buyouts of public companies (if a public company is taken over entirely it is said to be *going private*), PE funds most often invest in private companies whose stock is not listed on a public exchange.

What the Funds Do

Throughout your interview process you will be asked numerous times why you want to work in private equity. The basis for your answer lies in understanding exactly what funds do. A PE fund earns its money based on the appreciation of its equity ownership stake in the operating companies in which it invests. Of course, not all investments lead to profits. A typical $1 billion fund will make multiple investments, and while some may only produce modest profits, a few big successes could be enough to provide significant returns for the entire fund.

The vast majority of investment professionals' time and effort at PE funds is spent working on actual transactions, which includes finding, reviewing, evaluating, negotiating, and structuring deals. Once investments are made, many funds dedicate a significant amount of time to monitoring and adding value to portfolio companies before exiting the investment. Generally, PE funds buy controlling or highly influential interests in companies. This element of control/influence is an essential ingredient in firms' ability to add value to their investments. Private equity firms add value in multiple ways:

- Provide capital and guidance in the form of financing strategies to grow the company.
- Actively guide operational and business strategy.
- Help make add-on acquisitions to grow the company.
- Sell various (sometimes nonessential) parts of a business.
- Replace management and/or restructure operations if necessary.

The typical cycle for a PE fund is:

- Raise money from investors (LPs).
- Invest that money in companies that fit their strategy.
- Use a predetermined strategy to add value to those companies.
- Exit (sell) the investment.
- Split the profit with investors (LPs).

The Different Types of Funds

Knowing the various funds or investment types will help you understand the industry and determine where you want to work and, just as relevant, the best fit for your skills. There are several types of private equity funds; the main characteristic that distinguishes them is the stage of a company's life at which a fund invests. As stated earlier, this guide will focus primarily on mid- to later-stage PE, which includes leveraged buyout (LBO) and growth equity funds. We also include a chapter on early-stage venture capital (VC) and private equity funds of funds. Some firms may have multiple fund types. For example, Bain Capital has both venture capital and LBO funds.

Buyout Funds

Leveraged buyout or simply *buyout* funds invest in more mature, later-stage companies that are almost always cash flow positive. As their name suggests, LBO funds purchase, or buy out, an entire company or a controlling interest in a corporation's equity. Leveraged buyouts are structured using a combination of debt and equity. The word *leverage* indicates that debt is used (as a lever) to enhance the fund's equity investment, allowing for a larger total purchase (and related larger financial return on the initial equity). In a similar fashion, a mortgage allows for the purchase of a larger home than would straight equity (a down payment). Table 1.4 lists the largest buyout funds ever raised.

The universe of LBO funds is divided into multiple groupings mainly based on the size of their funds (and thus the size of the deals in which they invest). We group

Table 1.4 Largest Global Buyout Funds Ever Raised

Rank	Fund Name	Firm Name	Location	Year	Amount ($Billion)
1	Blackstone Capital Partners V LP	Blackstone Group	New York	2007	$21.70
2	GS Capital Partners VI LP	GS Capital Partners	New York	2007	$20.30
3	KKR 2006 Fund LP*	Kohlberg Kravis Roberts & Co.	New York	2006	$16.6
4	TPG Partners V LP	Texas Pacific Group Inc.	Fort Worth, Texas	2006	$15.0
5	Permira IV	Permira Advisers LLP	London	2006	$13.95**
6	Apax Europe VII LP	Apax Partners Worldwide LLP	London	2007	13.82
7	Providence Equity Partners VI LP	Providence Equity Partners Inc.	Providence, R.I.	2006	$12.1
8	Carlyle Partners V LP*	Carlyle Group LP	Washington	2007	$12.0
9	Thomas H. Lee Equity Partners VI LP + Parallel Fund	Thomas H. Lee Partners LP	Boston	2007	$10.1
10	Apollo Investment Fund VI LP	Apollo Advisors LP	New York	2005	$10.0
11	Bain Capital IX LP + Co-Investment Fund	Bain Capital Inc.	Boston	2006	$10.0
12	Bain Capital X LP*	Bain Capital Inc.	Boston	2007	$10.0
13	Silver Lake Partners III LP	Silver Lake Partners LLC	Menlo Park, Calif.	2007	$9.0
14	Warburg Pincus Private Equity X LP*	Warburg Pincus LLC	New York	2007	$9.0
15	GS Capital Partners V LP	GS Capital Partners Inc.	New York	2005	$8.5

Source: *Private Equity Analyst*

*Fund still open as of early 2008.
**Converted from euros using 2006 currency averages.

funds into five categories—small, small-mid, mid-sized, large and mega-funds. The large and mega-funds (those with upwards of $2 billion or more in assets) typically invest in multi-billion dollar transactions often through an auction process (run by investment banks) and may do so in partnership with other large funds if the deal size warrants it. Middle-market funds (those with $2 billion or less) invest in smaller deals and frequently look to source those through more proprietary means.

- Beyond the firms listed in Table 1.4, some other noteworthy firms that have mega buyout funds are Cerberus Capital Management, Fortress Investment Group, Hellman & Friedman, JC Flowers & Co., Leonard Green & Partners, Madison Dearborn Partners, Thomas H. Lee Partners, and Sun Capital Partners.
- Examples of firms that have funds that are more mid-market focused are Aurora Capital Group, Brazos Private Equity Partners, Brentwood Associates, Bruckmann Rosser Sherrill, Catterton Partners, Centre Partners, Charlesbank Capital Partners, Gryphon Investors, Genstar Capital, H.I.G. Capital, KRG Capital Partners, and Wind Point Partners.

Venture Capital Funds

Venture capital funds are very different from LBO funds, not only in how they invest, but also how they hire, pay, and promote their investment professionals (we discuss venture capital in more detail in Chapter VII). In brief, traditional early-stage venture capital funds invest in companies that are not yet profitable and, in fact, are often cash flow negative, or "burning cash." The companies often don't have revenue and may not even have a product yet.

Venture funds are looking for the next great product or company that will revolutionize a specific industry. They usually target industries within information technology (including semiconductors, Internet, communications, and software), health care (biotech, medical devices, and health care services), and increasingly clean technology, with some funds targeting all three areas. For example, Kleiner Perkins, one of the original backers of Google, invests in technology components, systems and software, and health care. Kleiner Perkins also has a Greentech team that invests in clean technologies.

- Some well-known firms with VC funds include Accel Partners, Battery Ventures, Benchmark Capital, Bessemer Venture Partners, Charles River Ventures, Draper Fisher Jurvetson, Greylock Partners, Kleiner Perkins, Mayfield Fund, Menlo Ventures, New Enterprise Associates, Sequoia Capital, and Sutter Hill Ventures.

Growth Equity Funds

Whereas venture capital funds target early-stage companies and LBO funds seek out more mature, profitable, and cash-producing businesses, growth equity funds invest in companies that lie somewhere in between. Specifically, these companies are more mature than those in which venture funds invest. Growth equity funds target companies that are usually profitable (and cash flow positive) or close to it. They generally have proven business models but may need capital to continue to grow.

Transactions done by growth equity funds less frequently involve leverage, as many of these growing businesses have yet to amass the assets and/or are not producing enough cash against which to borrow. The transactions usually involve purchasing significant ownership (but not necessarily full control) in portfolio companies.

- Some larger, well-known examples of firms with growth equity funds are General Atlantic Partners, Spectrum Equity Investors, Summit Partners, and TA Associates.

Fund of Funds/Hybrid Funds

Private equity fund of funds invest primarily in a selection of PE funds rather than directly into operating companies (although many larger hybrid funds will frequently co-invest in companies alongside private equity funds with which they have a relationship). Fund of funds are a way for some investors, particularly smaller institutions, high-net-worth individuals, or family offices, to diversify their PE investment risk. By investing in dozens of PE funds, a fund of funds could have indirect exposure to hundreds of companies.

Because the skills involved can differ in many aspects, working at a fund of funds is usually not considered a stepping-stone to working at an LBO fund. (See Chapter VIII for a more detailed discussion of fund of funds and a list of top fund of funds managers.)

- Well-known managers of private equity fund of funds include Adams Street Partners, AlpInvest Partners, HarbourVest Partners, and Horsley Bridge Partners.

Secondary Funds

Secondary funds do not invest directly in businesses and/or do not involve traditional equity investment. Rather, secondary funds primarily purchase part or all of an LP's interest in an existing fund. For example, pension fund A may have invested, or committed to invest, $50 million in LBO fund I two years ago and now decides that it doesn't want to be an investor in LBO fund I. Secondary fund X comes in and offers pension fund A $35 million for its $50 million interest in LBO fund I. Pension fund A sells its interest in LBO fund I with the consent of the PE fund.

The valuation that takes place in secondary funds is of portfolios of investments and not so much individual companies. Therefore, as with fund of funds, it is also less common for someone to move from a secondary to a traditional PE fund (see Chapter VIII for a more detailed discussion of secondary funds).

- Firms that manage secondary funds include Lexington Partners, Landmark Partners, Coller Capital, Pomona Capital, and Paul Capital.

Mezzanine Funds

Mezzanine funds invest in private debt (i.e., mezzanine debt) frequently as part of LBO deals. The capital can come from private and/or public sources and can be used to invest in public or private companies. Mezzanine debt is the middle layer of debt used in leveraged buyouts—subordinated to the senior debt layer but above the equity layer. This type of hybrid structure often incorporates equity-based options, such as warrants, with a lower-priority debt. Mezzanine debt is often used to finance buyouts where it can give new owners priority over existing ones in the event of a bankruptcy.

Mezzanine level financing can take the form of preferred stock or convertible bonds. It can also provide late (bridge) financing for venture-backed companies immediately prior to a company's IPO. In some cases people who have worked at mezzanine funds have moved into traditional PE funds, but it doesn't happen that often. In addition, some well-known firms—Audax Group and TA Associates in Boston, for instance—have both mezzanine and PE funds, so some of the roles can involve both types of investing.

A few stand-alone firms with mezzanine funds are Golub Capital; Northstar Capital Partners, and Peninsula Capital Partners.

WHO IS WHO AT THE FUNDS

In addition to knowing the differences between fund types, it's important that you become fluent in the different roles at PE and VC funds. As well as knowing the appropriate level at which you are attempting to enter a fund, you should be able to distinguish between the different levels of professionals you are meeting. To sound informed you need to know what each of these roles is and how it fits into the investment process. Following are some definitions we give for different titles. We believe these are the most commonly accepted titles, but they can refer to different professional levels depending on the fund. For example, some funds use the title associate, senior associate, VP, or even principal for the same role immediately out of business school. So it's always worth paying attention to specific funds' individual classifications. Table 1.5 lists the top 50 fund managers in the world.

Analyst

Based on how we define analysts (see the following list), hiring at this level is not common in the industry. However, there are cases where hiring occurs more consistently, including at more institutional/mature funds (this can include the private equity groups within some investment banks). At these firms analysts can be brought on for two- to three-year programs. Some hiring also happens at later-stage venture capital and growth equity funds that are hiring analysts for deal-sourcing roles. In each case, after completing these programs, analysts may transition to another fund as an associate before possibly going to business school.

- Analysts are the most junior professionals at funds.
- They are typically hired directly out of undergrad, though some may have initial work experience.

- Those that are hired with more experience are still always pre-MBA and typically have three years or less of total work experience. That experience may be from an investment banking/consulting program but could also include finance roles in accounting or industry, etc.
- Analysts generally work on basic deal support, including research, analysis, financial modeling, and valuation. At smaller funds a significant portion of the role can also include providing operational support. Some analysts may also have the title *deal analyst* and focus more on research and support and less on deal execution.

Associate

Although we have seen the associate title used at both the pre- and post-MBA levels, the majority of firms use it to designate pre-MBA professionals, and that is the classification we adhere to.

- Associates generally have five or less years of total work experience, most frequently from a traditional two- to three-year investment banking or consulting program.
- Associate is the most common initial entry point into the various types of private equity funds.
- Associates are usually the most junior professionals (or second most junior at funds with analysts) and are typically hired out of the two- to three-year investment banking or consulting programs, many times for another two- to three-year commitment.
- They have more interaction with senior professionals than do analysts and, in some funds, may even oversee analysts.

Senior Associate

The title of senior associate is the most common designation for recent MBA graduates.

- Senior associates can be current MBAs or professionals with up to two years of post-MBA or equivalent experience (very commonly hired directly out of business school) and usually between four and seven years of total work experience.
- They go beyond supporting deals to overseeing some aspects of execution and increased involvement in deal negotiations and managing portfolio companies.
- They are typically not the most junior person at a fund. In fact, they could be the number two person on some deal teams.
- Compensation usually includes a portion of carried interest.

Vice President

- Vice presidents typically have three to six years of post-MBA or equivalent work experience and usually six to nine years of total work experience.

- They are typically the number two person on deal teams.
- They begin to lead more senior execution tasks and some initial deal negotiations.
- Compensation almost always includes a portion of the carried interest.

Principal

- Principals have four to nine years of post-MBA or equivalent work experience and usually eight to thirteen years of total work experience.
- They typically run the day-to-day deal process and manage a team of investment professionals.
- They earn more significant carried interest.

Partner

Partners can have the title of partner, general partner, or managing partner, and are among the most senior professionals at the firm.

- Partners generally have at least seven years experience post-MBA and often much more.
- A partner may be one of the founders or original partners in the fund.
- Partners are responsible for managing their own deals.
- They are usually involved in fund management and operational issues, including fund-raising, hiring decisions, and overall fund strategy.
- Partners earn a substantial portion of the carried interest.

Table 1.5 Top 50 Fund Managers

Rank	Firm	Location	Assets under management ($ Billion)	Firm Type
1	GS Capital Partners Inc.	New York	$58.70	Diversified PE
2	Carlyle Group LP	Washington, DC	$46.00	Diversified PE
3	Blackstone Group	New York	$41.70	Diversified PE
4	Kohlberg Kravis Roberts & Co.	New York	$38.10	Diversified PE
5	Bain Capital	Boston	$37.00	Diversified PE
6	TPG Inc	Fort Worth, TX	$32.50	Diversified PE
7	Permira Advisers LLP	London	$32.00	Diversified PE
8	CVC Capital Partners	London	$26.29	Diversified PE
9	Cerberus Capital Management LLC	New York	$25.00	Primarily distressed
10	Warburg Pincus LLC	New York	$24.00	Diversified PE
11	Providence Equity Partners Inc.	Providence, RI	$21.06	Diversified PE

(*continued*)

Table 1.5 (*continued*)

Rank	Firm	Location	Assets under management ($ Billion)	Firm Type
12	Apax Partners Worldwide LLP	London	$22.00	Diversified PE
13	Apollo Advisors LP	New York	$19.25	Diversified PE
14	Hellman & Friedman LLC	San Francisco	$16.90	Diversified PE
15	Welsh Carson Anderson & Stowe	New York	$16.00	Diversified PE
16	3i Group PLC	London	$15.12	Diversified PE
17	General Atlantic LLC	Greenwich, CT	$15.00	Diversified PE
18	Angelo Gordon & Co.	New York	$14.75	Diversified PE
19	AXA Private Equity	Paris	$14.40	Diversified PE
20	EQT Partners AB	Stockholm	$13.82	Diversified PE
21	Candover Partners Ltd.	London	$13.61	Primarily buyouts
22	Silver Lake Partners	Menlo Park, CA	$13.40	Technology-focused PE
23	First Reserve Corp.	Greenwich, CT	$12.70	Energy
24	Terra Firma Capital Partners	London	$12.69	Primarily buyouts
25	Partners Group	Baar-Zug, Switzerland	$12.61	Diversified PE
26	Cinven Ltd.	London	$12.20	Primarily buyouts
27	Lexington Partners Inc.	New York	$12.00	Secondaries
28	Fortress Investment Group LLC	New York	$11.20	Diversified PE
29	Avenue Capital Group	New York	$11.15	Primarily distressed
30	BC Partners	London	$11.00	Primarily buyouts
31	Madison Dearborn Partners LLC	Chicago	$10.50	Primarily buyouts
32	CCMP Capital Advisors	New York	$10.00	Primarily buyouts
33	TA Associates	Boston	$10.00	Growth equity
34	Sun Capital Partners	Boca Raton, FL	$9.60	Buyouts and distressed
35	Leonard Green & Partners	Los Angeles	$9.00	Primarily buyouts
36	PAI Partners	Paris	$9.00	Primarily buyouts
37	Summit Partners	Boston	$9.00	Diversified PE
38	Thomas H. Lee Partners	Boston	$9.00	Primarily buyouts
39	New Enterprise Associates	Baltimore	$8.50	Primarily venture

Table 1.5 (*continued*)

Rank	Firm	Location	Assets under management ($ Billion)	Firm Type
40	Oak Investment Partners	Westport, CT	$8.40	Growth equity and venture
41	Coller Capital	London	$8.30	Secondaries
42	Credit Suisse Private Equity	New York	$8.30	Diversified PE
43	Oaktree Capital Management LLC	Los Angeles	$8.28	Primarily distressed
44	Horsley Bridge Partners Inc.	San Francisco	$8.15	Diversified PE
45	GTCR Golder Rauner LLC	Chicago	$8.00	Primarily buyouts
46	JC Flowers & Co.	New York	$7.90	Distressed and buyouts
47	Intermediate Capital Group PLC	London	$7.88	Debt and mezzanine
48	Technology Crossover Ventures	Palo Alto, CA	$7.70	Growth equity and venture
49	Berkshire Partners LLC	Boston	$7.60	Primarily buyouts
50	Eurazeo	Paris	$7.54	Primarily buyouts

Source: Galante's *Venture Capital and Private Equity Directory,* 2007 edition, as reported by the firms

HIRING TERMS YOU SHOULD KNOW

Throughout this guide you will see references to the *traditional path*, *pre-MBA*, and *post-MBA* positions and the *on-cycle* and *off-cycle*. These are terms that we use to describe various aspects of the hiring process.

The Traditional Path

As mentioned in the Preface, we call the traditional path for someone looking to become a long-term player in private equity *2-2-2*—two years in an investment banking or consulting program after undergrad, two years in a private equity/LBO firm, and then two years in business school. If all goes well, the next step after business school would be a full-time partner track position at a PE firm. Once again, this guide addresses those people who have followed or are currently immersed in that traditional path, but it also takes an in-depth look at those people who were able to get into private equity without following the 2-2-2 path.

Pre-MBA versus Post-MBA

Pre- and *post-MBA* are terms we use to categorize different positions and are not meant to imply that a candidate has to (or did) attend business school; thus, they should not be taken literally. We separate jobs into pre-MBA and post-MBA to distinguish between the experience needed to get the jobs and the type of work that will be done. We define pre-MBAs as those people who have generally been out of undergraduate school for five years or less, regardless of whether they plan to go to business school. It may be easier to think of this simply as a more junior role at a private equity fund. Post-MBAs are those candidates with anywhere from 5 to 15 years of total work experience and could include individuals who never went to graduate school but are still on a promotional track.

The Hiring Cycle

On-cycle and *off-cycle* are the terms most often used to describe the timing of pre-MBA and current MBA hiring cycles. As we explain in Chapters III and IV, private equity firms have been making offers to analysts in investment banking and consulting programs and to business school students as early as the end of their first year. If a pre-MBA analyst is interviewing anytime from late spring to late summer after his first year for a position that begins the following summer, he/she is considered on-cycle. A candidate who is interviewing for a position that starts before the natural end of their current commitment (usually July for analyst programs) is said to be interviewing for an off-cycle start date. *Off-cycle* can also refer to the timing of a firm that interviews for immediate hires (they are looking to pull someone out of their program early).