CEFS Newsletter Quarter 2/2014 **01.07.2014**

Dear $$academic title$$ $$first name$$ $$last name$$,

in this issue of our newsletter you will find news, information on a selection of current CEFS projects, publications, conference contributions, CEFS member news as well as a variety of announcements. For additional information, please visit our website at http://www.cefs.de or contact us at contact@cefs.de.

Content

NEWS:

CPEA: Certified Private Equity Analyst - First year successfully completed

The first year of the further education program **"Certified Private Equity Analyst"** has been successfully completed. The 18 participants have passed the final exam. On the final ceremony, Prof. Dr. Christoph Kaserer, Academic Director of the Executive Education Center of the TUM School of Management, presented them their certificates. The highlight of the celebrations was a dinner speech of Prof. Dr. Dr. Ann-Kristin Achleitner, Chair of Entrepreneurial Finance, supported by the KfW banking group.

The second year of the CPEA starts on **October 23, 2014**. The curriculum will be revised under the proposals of the evaluation results of the first year. Participants will get the best know-how in all important steps of a successful investment. Best practice representatives of the private equity sector (e.g. Kurt Müller, Target Partners, Peter Pauli, BayBG) will work on real case studies. Several networking events accompany the programs.

For registration and all further information please contact:

Dr. Wolfgang Köhler
TUM School of Management
Executive Education Center
phone +49.89.289.28479
wolfgang.koehler@wi.tum.de

Paper presented at European Financial Management Association Annual Meeting 2014, Rome

The paper "Regulation, Compensation and Risk Taking in Banks – Evidence from the Credit Crises" by Alexander Hüttenbrink, Christoph Kaserer and Marc Steffen Rapp was presented at the European Financial Management Association (EFMA) 2014 Conference (University of Rome Tor Vergata, Rome, Italy, June 25-28, 2014).

The authors examine the effect of regulation and executive compensation on risk taking in banks. Using a novel hand-collected dataset covering 352 banks from 15 countries they find that on average regulation effectively reduces bank risk. However, executive incentives turn out to be more pronounced in countries with stricter bank regulation. This is consistent with the view that shareholders aim to jeopardize the effect of regulation by providing stronger incentives. Also consistent with that view, the level of incentives is positively correlated to the level of bank risk. However, while short-term incentives such as cash bonuses increase all bank risk measures, stock-based compensation primarily affects tail risks as proxied by the bank's stock market performance during the credit crises. Moreover, the risk-increasing effect of short-term incentives is larger in countries with stricter regulation. Overall, the findings suggest that regulatory initiatives should carefully consider their own impact on incentive structures within a bank.

Paper presented at IFABS 2014 Conference, Lisbon

The paper "The Limited Partnership Model in Private Equity: Deal Returns over a Fund's Life" by Reiner Braun and Maximilian Schmidt was presented at IFABS 2014 Conference (ISCTE Business School, Lisbon, Portugal, June 18-20, 2014).

The International Finance and Banking Society (IFABS) organizes one of the world's leading conferences for the promotion of research and understanding of banking and finance. CEFS is proud to contribute to IFABS.

Using a unique sample of more than 10,000 private equity transactions the results indicate that the limited partnership model as a form of financial intermediation has an impact on decisions about single PE investments. The authors find a robust drop in investment returns once a new limited partnership is established, e.g. fund managers have raised a new fund. This pattern has increasingly emerged since the late-1990s. The authors conclude that the current governance form of limited partnership model is of questionable benefit in a matured PE industry. The paper can be found here.

Paper presented at BCERC 2014, London, Ontario, Canada

The paper "The Sooner, the Better? – Venture Capital Exit Decisions in IPOs" by Carolin Bock and Maximilian Schmidt was presented at the BCERC (Babson College Entrepreneurship Research Conference) 2014 in London, Ontario (Canada) (June 4-8, 2014).

The conference has a very high reputation in the scientific entrepreneurship community and focuses on different areas concerning entrepreneurship. CEFS is proud to contribute to BCERC.

Although venture capital (VC) exits have been studied for over 20 years, major drivers are still in question. The paper examines the determinants of exit timing in initial public offerings (IPOs). The results from a proprietary dataset of 292 U.S. VC-backed IPOs from 1991 to 2008 imply that VC firm characteristics and fund dynamics have a significant influence on the exit extent and may not always be in line with limited partners' interests. In particular, first-time funds keep their shares longer after an IPO, whereas funds satisfied with current fund performance cash out soon after the end of the lockup period. The paper can be found here.

Paper presented at VHB Jahrestagung 2014, Leipzig

The paper " Should I stay or should I go? – Influence of Fund Dynamics on Venture Capital Exit Decisions " by Carolin Bock and Maximilian Schmidt was presented at the VHB Jahrestagung 2014 in Leipzig (June 11-13, 2014).

The conference is renowned in the German community of business scientists. CEFS is proud to contribute to the VHB Jahrestagung 2014.

Paper accepted for Presentation at the 8th Portuguese Finance Network International Conference 2014, Vilamoura, Portugal

The paper "Blockholder Power, Shareholder Conflicts and Legal Protection: Evidence from Tax Preferences and Payout Decisions" by Christoph Kaserer, Marc Steffen Rapp and Oliver Trinchera was accepted for presentation at the 8th Portuguese Finance Network International Conference in Vilamoura, Portugal (June 18-20, 2014).

Tax codes regularly create conflicts of interests between small and large shareholders with respect to the payout decision of firms. The authors use this fact to study (i) whether firm behavior reflects preferences of blockholders and (ii) the effectiveness of minority shareholder protection on blockholders' power to promote corporate behavior at the expense of minority shareholders. Based on an extensive data set covering 3,944 European firms over the 1999 – 2008 period, they find that payout behavior strongly reflects tax preferences of a firm's largest shareholder. However, as minority shareholder protection increases tax preferences of minority shareholders are more likely to be partially reflected in the payout decision. Thus, the paper documents that firm behavior (i) is affected by blockholder preferences and (ii) legal minority shareholder protection effectively restricts the power of blockholders in case of conflicting interest among shareholders.

Results of research project on "Performance Persistence in Private Equity" presented at the PE Findings Symposium, Coller Institute of Private Equity, London Business School, London

Prof. Reiner Braun, Friedrich-Alexander-Universität Erlangen-Nürnberg, and CEFS member Ingo Stoff work on a research project with Tim Jenkinson, Professor at Said Business School (Oxford University) addressing the issue whether some private equity (PE) firms are able to persistently outperform their competitors. On June, 3 2014 the findings from this project were presented at the PE Findings Symposium hosted by the Coller Institute of Private Equity, London Business School.

Using a unique sample of more than 13,000 buyout transactions the results indicate that persistence of previously top-performing funds has disappeared as the private equity sector has grown and matured. The reduction in top-quartile persistence is mainly associated with experienced managers who no longer out-perform. There are also interesting changes in the distribution of returns. In the past, consistent performance across deals increased the likelihood of remaining in the top-quartile, but this is no longer the case.

Joint study by Capital Dynamics and TUM finds that operational improvements were the key value creation drivers in successful exits from the last buyout boom

Results from a joint study on 701 global private equity exits from 1990-2013 show that operational improvements were the key drivers of value in private equity portfolio companies and, along with the multiple effect, accounted for 69% of value created.

Key findings are:
- Value creation in private equity remains operationally-driven, accounting for roughly half of overall value created.
- A noticeable shift occurred in the sources of value creation in 2005-2008 deals: Leverage contribution diminished, while operational factors such as EBITDA growth became the major drivers of successful value creation.
- Market timing is overvalued: The multiple effect accounted for 18% of value created, with public market movements contributing 40% and GP-driven multiple expansion comprising 60% of that.
- Private equity operational alpha increased to 14%, driven by stronger EBITDA growth of private equity-backed companies compared with public benchmark companies.

For more information please contact Benjamin Puche at the Chair in Entrepreneurial Finance.

AWARDS AND SCHOLARSHIPS:

Prof. Achleitner wins EFM 2013 Top Download Award

The paper "Private Equity Acquisitions of Continental European Firms: The Impact of Ownership and Control on the Likelihood of Being Taken Private" published in the European Financial Management (EFM) Journal, (Volume 19, 1, January 2013) has won the Top Download Award for 2013. The winner of the EFM Top Download Award is selected by the number of downloads through the Online Wiley Library. The paper, which studies the motives behind private equity acquisitions of publicly listed firms in continental Europe, is joint work of Ann-Kristin Achleitner (CEFS, Technische Universität München), André Betzer (University of Wuppertal), Marc Goergen (Cardiff University), and Bastian Hinterramskogler (formerly Technische Universität München).

Jochim Lauterbach wins "DAI Hochschulpreis 2013"

Jochim Lauterbach won the "DAI Hochschulpreis 2013" offered by the "Deutsches Aktieninstitut e.V." for his master's thesis "Alternative Indexation for the German Stock Market". The price was awarded by the members of the Scientific Advisory Board of Deutsches Aktieninstitut and was handed over at the annual reception of the DAI on May 22, 2014, where Bundesbank President Jens Weidmann gave a speech about the macroeconomic relevance of stock markets.

The thesis was advised by Maximilian Overkott and focuses on various alternative indexation methods - equal weighted portfolio, various fundamental weighted portfolios, minimum variance portfolio, maximum sharpe ratio portfolio, equally weighted risk contributions portfolio and most diversified portfolio - and compares its performances for the period from 1999 to 2012 to the market portfolio as a benchmark. As universe of stocks, all companies listed in the German CDAX were used. While no significant outperformance of the alternatives could be found over the long run, many of the alternative indices showed a significantly lower volatility and a significantly higher return to risk ratio (Sharpe ratio) compared to the benchmark portfolio. Other objects of investigation were the influence of portfolio size, rebalancing frequencies, bull and bear markets, as well as the drivers of the portfolio returns.

The press release can be found here.

FUTURE EVENTS:

TUM School of Management together with EuroCIO offers professional Program in Business and Enterprise Architecture

Business and enterprise architects, capable in today's critical society of transforming their organisations' functionality, are strongly in demand. The European CIO Association, together with TUM School of Management, Henley and TIAS designed a program for developing business and enterprise architects to the highest standards professionally and personally.

The program "Business and Enterprise Architecture" is intended for professionals aspiring to be, or leading Business Architects, Enterprise Architects, IS Business Partners or similar roles. As participant you will understand and master best practices in Business & Enterprise Architecture. You will develop not only your technical understanding, but broaden your business insight as well, focusing on value to all stakeholders. The program has a format of 9 modules in 18 months and will start on October 7, 2014.

For all further information please contact:

Dr. Wolfgang Köhler
TUM School of Management
Executive Education Center
phone +49.89.289.28479
wolfgang.koehler@wi.tum.de

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Impressum
Center for Entrepreneurial and Financial Studies (CEFS)
TUM School of Management | Technische Universität München (TUM)
Arcisstraße 21 | 80333 Munich | Germany
E-mail: contact@cefs.de | Tel: +49-89-289-25489 | Web: http://www.cefs.de