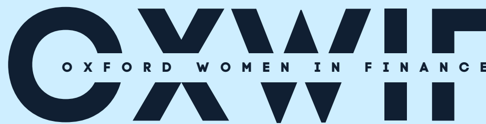
AREAS OF FINANCE GUIDE



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Investment Banking Division (IBD)

What it is:

The Investment Banking Division (IBD) is a specialised and critical function within the bank and the broader finance industry.

It primarily serves to assist clients, which include corporations, governments, and high net worth individuals, in raising capital to fund their operations or expansion plans. This is achieved through various methods such as underwriting new debt and equity securities, facilitating mergers and acquisitions (M&As), and aiding in the sale of securities.

Investment banks act as intermediaries between investors who possess surplus capital and entities that require capital. They play a critical role in the process of initial public offerings (IPOs), where a previously privately held company offers its shares to the general public for the first time, thereby transitioning to a publicly traded entity.

Corporate finance teams in investment banks usually focus on one type of deal; this is called a product group. The main types of product group are:

- **Mergers and Acquisitions** (M&A) - advising companies on transactions involving joining with other companies (merger), or taking over other companies (acquisition).
- **Equity Capital Markets** (ECM) - advising companies that want to raise equity capital by selling a percentage of its stocks and giving up ownership of those stocks.
- **Debt Capital Markets** (DCM) - advising organisations that want to raise capital through debt, such as corporate or sovereign bonds.
- **Leveraged Finance** (LevFin) - advising organisations that want to raise capital through debt. Leveraged finance differs from DCM as it focuses on riskier products, such as below-investment-grade bonds.
- **Restructuring** (RX) - advising companies on how to change their capital structure (the distribution of equity and debt), often to combat issues with capital structure.

The largest deals tend to move through Bulge Brackets (e.g. Morgan Stanley) or Elite Boutiques (e.g. Evercore), whereas the small-medium size deals tend to move through mid-market specialists (e.g. William Blair). Bulge brackets offer the widest range of services detailed above, offering services in all product groups. Boutique investment banks typically focus on M&A, and middle-market firms tend to offer the same range of services as bulge brackets on a smaller scale.

What you do:

The tasks involved in the investment banking division are multifaceted, demanding a high level of expertise and a broad range of skills.

One of the primary tasks of an investment banker is the creation of pitch books – these are comprehensive sales presentations made to potential investors, meticulously outlining the benefits, risks, and potential returns of a particular investment opportunity.

Investment bankers also conduct detailed financial modelling, which involves using mathematical models to forecast a company's financial performance and determine its valuation – this helps in assessing the viability of potential investments or M&As.

Rigorous due diligence is another critical task, which involves a thorough review of all financial, legal, and operational aspects of a potential investment to evaluate its profitability and risk factors.

Investment bankers also play a pivotal role in deal structuring and negotiation, ensuring the best possible terms for their clients.

What skillset you need:

The role demands both technical and interpersonal skills.

- **Excellent numerical skills** are crucial as investment bankers deal with complex financial data and models on a daily basis.
- **Strong grasp of current financial markets and economic theories**; investment bankers need this to make informed decisions about investments and market trends and to advise clients effectively.
- **Analytical skills** are paramount for interpreting financial statements, assessing investment opportunities, and solving financial problems.
- **Interpersonal skills** are also vital, as investment bankers often work in teams and need to maintain good relationships with clients. They need to be effective communicators, capable of explaining complex financial information in simple terms.
- **Resilience and stress tolerance** are necessary, as the job often involves long hours, high-pressure situations, and managing multiple projects simultaneously.

Pay:

For analysts the starting salary usually ranges between £60-70k per year, usually increasing £5-15k per year, with additional bonuses starting at ~50% of the salary initially, but have the potential to reach over 100% as you progress through the company.

Working Lifestyle:

Working in the IBD division demands a large time commitment. Analysts usually spend 60-100 hrs working, and this can often involve work during the weekends too, especially if there are imminent deadlines to meet for clients. Though hours are long, work is comparatively more predictable, helping to reduce a portion of the stress.

Private Equity (PE)

What it is:

Private equity represents a substantial and vital component of the financial sector, usually involving medium to long-term investment in companies that are not publicly listed on a stock exchange.

These firms accumulate funds from both institutional and non-institutional investors, which they subsequently invest directly into privately-held companies or use to conduct buyouts of public companies, resulting in the delisting of public equity.

The end goal of private equity investment is to improve and grow the companies in which they invest, with a view to eventually selling them at a profit, either to another company or through an initial public offering (IPO).

What you do:

The tasks involved in private equity are diverse and require an understanding of finance, business strategy, and industry dynamics.

One of the key tasks is deal sourcing, which involves identifying and evaluating potential investment opportunities – this requires a deep understanding of specific industries and markets, as well as the ability to assess a company's potential for growth and profitability.

Once a potential investment has been identified, private equity professionals conduct rigorous due diligence, scrutinising the company's financials, business model, management team, and market position.

After an investment has been made, private equity professionals often work closely with the company's management team to implement operational improvements, develop growth strategies, and oversee financial management.

What skillset you need:

- **Strong analytical skills** to evaluate potential investments and make informed decisions.
- **Be adept at financial modelling** to assess a company's value and predict its future performance.

- **Strong negotiation skills** are crucial during the deal-making process to secure the best terms for the private equity firm and its investors.
- **Deep understanding of business strategy and operational management** is important as private equity firms often play a hands-on role in guiding the companies they invest in.
- **Interpersonal skills** are also vital, as you need to build strong relationships with company management teams, investors, and other stakeholders.
- **Resilience and adaptability** is important as the private equity industry is fast-paced and highly competitive.

Pay:

The starting annual salary for a PE analyst ranges from £48-60k, with a £15k bonus being standard for 1st year analysts. Pay increases however are much higher than across other industries, with 2nd and 3rd year analysts/associates earning £100k+ per year.

Working Lifestyle:

For private equity, hours for an associate usually range between 60-75 and weekend hours are not uncommon. PE analysts may be required to travel, nationally and internationally, to meet with potential investment targets, portfolio companies, and investors. The majority of the working day involves looking at new investment opportunities, meeting with management teams, and doing diligence on companies.

Venture Capital (VC)

What it is:

Venture capital primarily focuses on providing financing to start-ups and small businesses that exhibit promising long-term growth potential.

Venture capitalists, often part of a venture capital firm, willingly take on a high degree of risk by investing in these nascent companies – however, the potential for substantial returns if these companies successfully scale and become profitable is an enticing reward.

Venture capitalists not only provide much-needed capital, but also often contribute valuable industry knowledge, strategic guidance, and networking opportunities to the start-ups they invest in.

The ultimate goal is to nurture these start-ups into profitable and scalable companies, with an exit strategy typically involving a sale to a larger company or an initial public offering (IPO).

What you do:

The venture capital process encompasses a range of complex tasks, demanding an understanding of finance, technology, market trends, and entrepreneurship.

A key component is deal sourcing, which entails identifying, researching, and evaluating potential investment opportunities, primarily in high-growth and innovative sectors.

Once potential investments are earmarked, venture capitalists undertake rigorous due diligence, analysing the start-up's business model, financial projections, management team, and market potential.

Following the investment, venture capitalists often collaborate closely with the start-up's team, offering strategic guidance, assisting in refining business models, and creating networking opportunities to accelerate the start-up's growth.

What skillset you need:

- **Robust analytical skills** are required to assess potential investments, decipher complex financial data, and make informed investment decisions.

- **Proficiency in financial modelling** is also crucial to estimate a start-up's worth and predict its future performance.
- **Strong negotiation skills** are vital during the deal-making process to ensure the best possible terms for the venture capital firm and its investors.
- **Deep understanding of technology trends and market dynamics** - venture capitalists frequently invest in high-tech, high-growth sectors.
- **Interpersonal and communication skills** are essential for fostering strong relationships with entrepreneurs, co-investors, and other stakeholders.
- **Resilience, adaptability, and proactivity** are required given the fast-paced, competitive, and ever-evolving nature of the venture capital industry.

Pay:

Venture capitalists usually benefit from high remuneration, beginning at £70k in the first year, as well as bonuses of between 25-75% of the salary.

Working Lifestyle:

The life of a venture capitalist is largely similar to that of a PE analyst, except that in VC, the firm will focus on start-up and new companies as potential investment opportunities. Tasks such as meeting with potential investment targets and meeting with management teams (see PE section) will remain constant.

Hedge Funds

What is a Hedge Fund?

A Hedge Fund is a type of investment fund that uses complex and risky strategies such as short selling, leverage, or derivatives to try to earn higher returns than the market average. Hedge fund usually require a large minimum investment or high net worth from their investors. They are often unregulated or lightly regulated, which means they have more freedom and flexibility than other types of funds, but also more risk and uncertainty.

To summarise it into a few key points to remember:

1. Hedge funds are like special investments that are actively managed. They often use risky strategies.
2. To invest in hedge funds, you need to have a lot of money or be a wealthy investor.
3. Hedge funds usually have higher fees compared to regular investment funds.
4. The specific strategies hedge funds use can vary, like investing in stocks, bonds, or special events. It depends on the fund manager.

What is a Quantitative Hedge Fund?

A quantitative hedge fund is a type of investment fund that uses advanced mathematical and statistical techniques, as well as computer algorithms, to make investment decisions. It relies heavily on data analysis and models to identify trading opportunities and manage risk.

To summarise it into a few key points to remember:

1. Quantitative hedge funds rely on data analysis and mathematical models to guide their investment decisions, often using computer algorithms for trading.
2. These funds place a strong emphasis on risk management, using mathematical models to assess and mitigate potential risks associated with their strategies.
3. Quantitative hedge funds employ various strategies, including market-neutral, trend-following, and statistical arbitrage, often leveraging high-speed technology for execution.
4. Successful quantitative hedge funds are typically staffed with quantitative analysts (quants) who possess expertise in mathematics, statistics, and computer science, making it a highly specialised field within finance.

Pay and Working Hours:

The national average for a hedge fund analyst salary in the UK is £81k, though this can significantly increase as you progress through the company. Working hours are similar to that of a PE analyst or venture capitalist.

Trading Funds

Trading funds refer to funds that engage in active trading of various financial instruments, such as stocks, bonds, currencies, commodities, or derivatives. There are many types of trading funds, including High Frequency Trading (HFT), Algorithmic Trading, and Proprietary Trading funds:

High-Frequency Trading (HFT):

HFT is characterised by extremely rapid trading where computer algorithms execute thousands of trades per second. It often involves short-term positions with holding times measured in milliseconds or even microseconds.

The objective of HFT is to profit from small price movements and market inefficiencies, often through strategies like market-making, arbitrage, and statistical arbitrage. (arbitrage is like buying something in one place where it's cheap and selling it in another place where it's more expensive. And you make profit because of the price difference)

Quick snap-view:

What: Super-fast trading using computer programs, making thousands of quick trades each second.

Why: To make money from tiny price changes or market imbalances.

How: Uses high-speed data and powerful computers.

Debate: Some think it causes market problems and favours big players.

Algorithmic Trading:

Algorithmic trading uses computer algorithms to execute predefined trading strategies automatically. These strategies can vary widely, including trend following, mean reversion, and execution algorithms.

The primary objective of algorithmic trading is to optimise trade execution, minimise market impact, and potentially capture short-to-medium-term market trends.

Quick snap-view:

What: Computers automatically follow specific trading plans

Why: To get the best trade prices and maybe catch short-term market trends.

How: Complex computer algorithms do the work.

Common: Used by big investors like hedge funds.

Proprietary Trading (Prop Trading) Funds:

Proprietary trading funds are operated by financial institutions, such as banks and brokerage firms, to trade their own capital rather than client funds. They employ various trading strategies, including arbitrage , directional trading , and market-making.

The primary objective of prop trading is to generate profits for the institution. These funds can take both long and short positions and have more flexibility in their trading strategies.

Quick snap-view:

What: Banks and firms trade with their own money

Why: To make profits for themselves, using various strategies.

Rules: Regulated, especially after the financial crisis.

Quantitative Funds (Quant Funds):

Quantitative funds use mathematical models, statistical analysis, and data-driven approaches to make investment decisions. These funds can encompass a wide range of strategies, including statistical arbitrage, factor-based investing, and machine learning-driven trading.

The primary objective is to exploit market inefficiencies and generate alpha (excess returns) by systematically applying quantitative techniques.

Quick snap-view:

What: Use maths and data for investment choices.

Why: To find market opportunities with numbers, often with computer models.

Experts: Need people who are great at maths and computers.

Statistical Arbitrage Funds:

Statistical arbitrage funds seek to profit from short-term deviations from statistical relationships between financial instruments. They identify pairs of securities that historically move together and trade them when the relationship temporarily breaks down.

The primary goal is to capture short-term price disparities between correlated assets.

Quick snap-view:

What: Trade when statistics show that two things should move together but don't.

Why: To profit from temporary price differences.

Pairs: Find pairs of assets that should behave similarly.

Asset Management

What is Asset Management?

Asset management is like taking care of your money to help it grow. In the financial industry, professionals are called asset managers to make decisions about where to invest your money, like in stocks or bonds, so that it can earn more. They choose investments based on your goals and how much risk you're okay with. Asset managers use their knowledge of the financial world to make these choices and help you reach your financial dreams.

Asset management means looking after investments for people in short. To get into this field as a student, start by joining university's finance-related society such as Oxford Finance Society. They often organise events and workshops to help you learn about finance.

You can also visit finance websites like Investopedia to read articles and watch videos to build your knowledge. Books like "The Intelligent Investor" by Benjamin Graham are great for understanding investment basics.

Improve your maths and data analysis skills as they're important. Consider taking online courses in finance and learn how to use financial software.

Lastly, try to get an internship (such as a Spring Week Programme) or part-time job at a financial institution to gain practical experience and build connections in the industry.

Pay and Work Lifestyle

The average pay for an asset manager in their first year is ~£63k per year, with 10-15% bonus. Asset managers have a much more manageable lifestyle compared to analysts at PE firms or the IBD division, with the typical analyst spending 50 hours at the office.