Abstract: Because private equity investment is characterized by non-public and non-transparent, it has many risks in its operation. The article focuses on reviewing the investment risk management of private equity funds, pointing out that phased investment and contractual investment can reduce the moral risk in investment to a certain extent. This article categorizes the common risks of private equity fund investment in China, then discusses the main risks, and puts forward corresponding preventive and management measures for these problems, which aims to further promote the benign development of the private investment industry.

Keywords: private equity, investment, risk management

1. Introduction
Private equity has a history of more than 20 years in China, with problems such as slow development and small overall scale at the early stage of development. In the past 10 years, due to the rapid development of China's economy, the scale of private equity investment is also growing rapidly, and has gradually grown into an important part of the domestic capital market. However, due to the late development of domestic private equity funds, its risk control system is not yet sound, and examples of investment mistakes are common, thus risk control for it becomes very necessary.

2. Overview of private equity fund investment
There are obvious differences with public investment, private equity investment in non-listed companies, the investor and investee friendly negotiation, investment program, investment planning, corresponding to the confidentiality of information, and does not need to be disclosed to the public like public investment. Investment institutions involved in the investment, through their own regulatory role and management experience, can bring value enhancement to the target company, which will help the investor to increase the income from the investment stake, and facilitate the subsequent stage of the sale of equity, to obtain income.

3. Risk Management Theory
The idea of risk was first introduced in the 19th century and belongs to the concept of Western classical economics. At that time, risk mainly represented the risk of loss. Research on risk continues to deepen, and contemporary scholars have made a new definition of risk, and today's risk is the coexistence of threats and opportunities. Private equity risk is a combination of threat and opportunity, requiring reasonable interventions to control pure risk and retain opportunity risk, with investment profits compensating for risk losses. Continuous attention needs to be paid to the risk management of private equity investments, which should be implemented in all aspects.

There are many risks associated with private equity investment, such as project selection errors, project evaluation errors, project decision-making errors, etc. In the risk management process, the lack of clarity on the key points of risk management in each link and the lag in risk management work may lead to uncontrolled risks and investment failure. According to the source of risk, private equity investment risk can be divided into project risk, institutional risk and environmental risk. Risk management bodies need to clarify the key points of each part of risk management and adopt more targeted intervention strategies to realize precise management.

4. Major Risks Facing Private Equity Fund Investments

4.1 National policy risk
Changes in macroeconomic objectives and economic policies will have an impact on the industries and enterprises involved. In response to the national policy risk, enterprises can strengthen internal risk control, and if the development of the enterprise is limited due to external risks, then the enterprise can adopt relatively conservative management and operation.
strategies during the difficult period to reduce the loss of the enterprise.

4.2 Legal and regulatory risks

The laws related to the domestic capital market are not perfect enough, and the existing laws cannot protect the rights and interests of both investment and financing parties in the capital market in a comprehensive manner. The regulators have issued favorable regulations one after another, and the investor needs to combine the favorable regulations to realize the innovative development, and the investor has the risk of missing the window period of the regulations for development. The investor needs to strengthen the communication with the regulatory authorities, collect information, predict and analyze the new regulations of the regulatory authorities, and make full preparations.

4.3 Operational risk

Domestic private equity fund related talent reserves are insufficient, especially the lack of high-end talent, unable to fully adapt to the needs of financial institutions for talent. In addition, the management's insufficient knowledge reserves, lack of management experience, and lack of ability to analyze problems in real time, all of these problems have led to the high operational risk of private equity investment.

4.4 Credit risk

Private equity fund investment has a long investment cycle, large investment scale, low stability and other issues, compared with conventional financial institutions, private equity fund investment institutions have not yet been widely recognized in the country, the overall industry access standards are low, the credit quality is uneven, which may result in credit risk.

5. Risk Management Measures for Private Equity Fund Investment

5.1 Improving the macro-regulatory system

Continuously improve the macro-regulatory system, analyze the demands of the capital market, and optimize the macro-regulatory function. The government needs to introduce more private capital into the capital market through macro-control and build a good market order. The establishment and improvement of the macro-regulatory system is conducive to the profitability of private equity fund investment and guides the benign development of private equity fund investment. Take the financial crisis as an example, the outbreak of the financial crisis has brought great impact on the financial markets of various countries, but RMB funds have been less affected, which is due to the fact that China has practiced the parallel mechanism of macro-regulation and market-regulation. It is due to the existence of macro-regulatory mechanism, the domestic capital market by the financial crisis caused by the loss of lower.

5.2 Improving the management system and incentive mechanism

Improve the private equity fund management system, incorporate it into the daily management of the company, and promote the combination of centralized and decentralized management. Setting up regular organizational structures such as board of directors and management for private equity fund management is conducive to enhancing decision-making efficiency. Taking into account the current situation of business development and development demands, establish a project management company to consolidate the power and responsibility of analyzing and supervising the investment of private equity funds. Strengthening the regulatory power of key management departments such as the Investment Decision Committee and other departments under the jurisdiction of risk control and operation, forming a management and working mode that coordinates the whole and the parts, which is conducive to unified management and synergistic operation.

5.3 Optimizing the choice of investment industry

It is necessary to conduct an all-round research on the whole industry and optimize the investment industry. Through the comprehensive research on private equity investment enterprises, can provide reference for private equity funds to make investment decisions, especially to solve the problem of concentration in China's securities market is of great significance. In this paper, we believe that the optimization of investment industry should be carried out from four aspects: firstly, we should make reasonable use of the PEST analysis method to get a comprehensive grasp of the whole enterprise from four levels: political, economic, social and technological; secondly, after analyzing the industrial environment, we should analyze the competitiveness of the target company and its development prospects from the macro level, while the supplier level, the customer level, the potential competition, the substitutes, the existing competition, is the core of the five forces model, so it needs to be comprehensively analyzed from five levels; fourth, the target company should be analyzed from a macro perspective, so as to grasp its operating level, profit margins, profit margins and so on.
5.4 Scientific mastery of investment methods

First of all, in the prior link, the participant must make a comprehensive evaluation of the invested industry, not only to understand the development status of the industry or industry in which it is located, but also to fully recognize the development scale and development prospects of the company. Generally speaking, an industry’s

The larger the scale, the better its development prospects and the more lucrative it is. Secondly, in the middle of the process, when selecting the investment target, comprehensive planning should be carried out, not only to grasp the entire property status and liquidity status of the investee company, but also to be clear about its institutional system, personnel structure and other information. According to the prospect and location of the project, and other factors, then conduct a comprehensive assessment. Through horizontal comparison, the project with the highest score is selected so as to ensure the benefit of the project. On this basis, it is necessary to strengthen the improvement of the company’s supervisory system and constraint system so that it can give full play to its role. The risk of private equity fund investment is inevitable, and it is necessary to establish a perfect system and effective supervision mechanism to conduct a comprehensive investigation of the financial status of the investment object, development prospects, industry competition, etc. If a higher risk is found to exist, it can help the enterprise to recover the funds in a timely manner, and reduce the unnecessary loss of funds.

6. Conclusion

The main risks faced by private equity fund investment include external risks, internal risks, etc. These risks can not be avoided comprehensively, in order to reduce the risks and investment losses, we need to objectively recognize the risks of private equity fund investment, strengthen the management, to ensure the safety of private equity fund investment in the form of scientific risk control, and maintain the stability of the investment market. Specifically, the government and relevant subjects need to focus on the macro-regulatory system, investment choices, system optimization, scientific investment, etc., to make reasonable planning, to achieve the scientific management of private equity fund investment risk, and promote the benign development of the private equity industry.

References