

PE/VC Employee Compensation Trends 2011-2012

Speakers:

David M. Toll, editor-in-charge, Thomson Reuters

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James Watts, consultant, MM&K

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Webinar Agenda

- A look at broad recruiting trends
- Highlights from global survey of PE/VC compensation practices
 - Jointly conducted by Holt PE Consultants, MM&K and Thomson Reuters
 - more than 160 GPs around the world surveyed
 - Statistics based on detailed compensation packages of more than 3,000 employees
- Q&A with delegates

Recruiting Trends

North American buyout shops

- Fundraising has stabilized well below 07-08 peak
- Large overhang of capital remains to be invested, keeping modest upward pressure on compensation
- Exits picking up steam — bodes well for fundraising in the months ahead
- Buyout shops are hiring IR/fundraising executives
- Buyout shops are diversifying their businesses
- Turnaround firms, energy specialists, emerging managers staffing up

Recruiting Trends

North American venture capital shops

- The dot-com bust took a huge toll on the business; the industry is shrinking; compensation pressured
- Fundraising picking up, but from depressed levels
- High-profile IPOs (ie. LinkedIn) benefiting a small number of shops
- More partners leaving the business than coming in; there's a surplus of tech talent in VC business
- The little senior hiring that's going on is in the area of consumer/Internet companies; India and China
- Firms are hiring EIRs, venture partners



Delegate Poll

How does your firm plan to approach headcount levels in 2012:

Add	Keep Steady	Cut
38%	56%	5%

Speaker Contacts

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To purchase a full copy of the **2011/12 Holt-Thomson Reuters PE/VC Compensation Study**, please contact **Greg Winterton** on **+1 (646) 223 6787** and at greg.winterton@thomsonreuters.com

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**2011/12 Holt – Thomson Reuters
Private Equity & Venture Capital
Compensation Study – North America
(With MM&K)**

Survey - Type of Firm

- LBO/Growth Capital
- Venture Capital

- Mezzanine
- Fund of Funds
- Institutional
- Corporate Venturing
- Infrastructure/Distressed/Turnaround
- Secondary/Co-Investment

Survey - Size of Firm (Capital)

- Small: Under \$500 million
- Mid-Size: \$500 million - \$1.5 billion
- Large: \$1.5 billion plus

Trends – LBO & VC (25th – 75th Percentile)

<u>LBO</u>	<u>VC</u>	
\$0.30 – \$1.48	\$0.17 – \$1.23	Capital (\$Billions)
\$0.17 – \$0.79	\$0.08 – \$0.35	Recent Fund
7 – 20	21 – 51	Portfolio Companies
3 – 7	3 – 8	Partners/MD's Inv Mgr
4 – 12	2 – 7	Non-Ptr/MD Inv Mgr
4 – 13	4 – 14	Admin/Support
11 – 32	9 – 29	Total Employees

Trends – LBO & VC (25th – 75th Percentile)

LBO

VC

GP Fees

\$5.7 – \$23.4

\$3.3 – \$19.0

\$ Millions

1.9% – 1.58%

1.94% – 1.54%

% of Capital

3.4% – 2.96%

4.13% – 5.43%

% Recent Fund

Payroll

50% – 72%

66% – 80%

% of Fees

Trends - Per Partner Data

(25th – 75th Percentile)

LBO

VC

• \$100 – 211 \$57 – 154

Capital (\$Millions)

• \$1.9 – 3.34 \$1.1 – \$2.38

GP Fees (\$Millions)

Trends – Current Environment

- Wall Street jobs steady to increases
- Qualified candidates still easier to find
- Less money being raised but improving
- Less investment activity but improving
- Less pressure on wages – Hedge Funds; LBO
- Lack of carry distributions – few exits

Trends - % of Firms With New Hires

Partners – Inv Mgrs

<u>LBO</u>	<u>VC</u>		
• 8%	29%		2009
• 16%	8%	2010	
• 13%	22%		2011 Planned

Non-Partners - Inv Mgrs

<u>LBO</u>	<u>VC</u>		
• 24%	30%		2009
• 41%	21%		2010
• 52%	26%		2011 Planned

Salary Increases - % Employees

All Firms – Inv Mgrs. % Firms (Amount Median)

Partners/MD's

28%	2009
30% (3%)	2010
38% (5%)	2011 Planned

Non-Partner

56%	2009
65% (5%)	2010
73% (5%)	2011 Planned

Bonus Increases - % Employees

All Firms – Inv Mgr. % Firms (Amount – Median)

Partners

28⁰%

2009

31⁰% (14⁰%)

2010

25⁰% (15⁰%)

2011 Plan

Non-Partners

40⁰%

2009

48⁰% (10⁰%)

2010

44⁰% (15⁰%)

2011 Plan

Trends - Bonuses

- 19 % of firms use formulaic performance goals and 52% use combination of discretion and performance goals. 24% purely discretionary. 5% no plan
- Firm-Wide goals and Team Goals
- Individual Goal examples:
 - >Deal Sourcing; Portfolio Co. Performance
 - >Harvesting Exits; Fund Raising; Admin

Trends - Carried Interest Plans

- Hurdle Rate – 61% of firms (42% LBO, 84% VC) required to return capital – whole fund -before any distributions
- Hurdle Rate - 29% of funds 48% LBO, 14% VC) required to return capital – deal by deal – before any distributions
- 51% of LBO firms have hurdle rate of preferred return with catch up (vs. 21% VC firms)

Trends – Carried Interest Plans

- Non-Partners receive 13% of carry (16% in LBO firms and 11% in VC firms)
- Allocation 53% discretionary, 18% discretionary but based on range within grade, 14% based on grade level.
- Vesting tends to be pro rata over five years in Institutional firms; six-seven years in LBO firms; and eight years in VC firms.
- 14% of firms do not have vesting – must be employed to receive distribution

Trends - Carried Interest Plans

- Smaller firms have more “points” (% of fund), less “dollars at work”
- \$ Can be valued (like Black Scholes on stock options)
- Normally have a claw-back provision
- Prefer to management fees (trade-off)
- Rarely applies to Analysts

Trends - Other Plans

- Co-Investment Plan: Only 23% of firms (32% LBO, 11% VC) most voluntary and pro rata on all investments (little “cherry-picking)
- Loans (leverage): 33% if have plan
- 401(k) Plan: 91% VC, 83% LBO
- Pension: 10% cash balance, 12% defined benefit

Yearly Change History – “All In” Pay

Salary + Bonus + Carry Distribution – Inv Mgrs

<u>LBO</u>	<u>VC</u>	
• <22> %	<77>%	- 2001/2
• 8 %	<23>%	- 2002/3
• 45 %	4 %	- 2003/4
• 45 %	11 %	- 2004/5
• 54 %	38 %	- 2005/6
• 0 %	26 %	- 2006/7
• 21 %	35 %	- 2007/8
• <5> %	4 %	- 2008/9
• 6 %	<4>%	- 2009/10
• 7 %	5 %	- 2010/11

Survey - Deal Making Positions

- Managing General Partner
- Senior Partner/Senior Managing Director
- Partner/Managing Director
- Principal/Vice-President
- Senior Associate
- Associate
- Senior Analyst
- Analyst

Survey - Non-Deal Making Positions

- Chief Operating Officer (COO)
- Chief Financial Officer (CFO), Controller, Asst Controller
Sr. Accountant, Jr. Accountant, Fund Accountant
- IT Head, IT Manager
- Investor Relations Head, IR Manager
- Marketing Head, Marketing Manager
- Legal Head, Compliance & Risk Officer
- HR Head, HR Mgr, HR Exec Asst
- Admin/Office Manager, Exec Asst, Secretary, Receptionist

Survey - Compensation Category

- Salaries
- Bonuses
- Carried Interest Distributions

- Carried Interest Points/Allocation
- Carried Interest “dollars at work”

Survey - Data Points By Position

- Median
- Average

- 25th Percentile (Lower Quartile)
- 75th Percentile (Upper Quartile)

Salaries-\$000's (25th -75th Percentile)

LBO

VC

- | | | |
|-----------------|-----------------|---------------------|
| • \$300 - \$788 | \$425 - \$1,133 | Mg. Gen Partner/CEO |
| • XXX | XXX | Sr Partner/Sr MD |
| • XXX | XXX | Partner/MD |
| • \$151 - \$230 | \$160 - \$262 | Principal |
| • \$120 - \$150 | \$123 - \$205 | Sr Associate |
| • \$100 - \$125 | \$100 - \$ 158 | Associate |
| • \$175 - \$280 | \$205 - \$350 | CFO |

Yearly Salary Change

LBO

VC

0%

0%

Partners/MD's (Inv Mgr)

0%

<1>0%

Other Investment Mgrs

4%

2%

Administrative Staff

Salary + Bonus - \$000's (25th – 75th Percentile)

LBO

VC

• \$600 - \$1,849	\$ 500 - \$1,652	Mg Gen Ptr/CEO
• XXX	XXX	Sr Partner/ Sr MD
• XXX	XXX	Partner/MD
• \$266 - \$ 436	\$ 198 - \$ 306	Principal
• \$179 - \$ 271	\$ 131 - \$ 263	Sr Associate
• \$ 151 - \$ 220	\$ 115 - \$ 206	Associate
• \$240 - \$ 500	\$ 250 - \$ 451	CFO

Yearly Salary + Bonus Change

	<u>LBO</u>	<u>VC</u>	
•	14%	7%	Partners/MD's (Inv Mgrs)
•	12%	4%	Other Investment Mgrs
•	7%	4%	Administrative Staff

Salary + Bonus + Carry (000's)

(25th – 75th Percentile)

LBO

VC

- | | | |
|--------------------|-----------------|---------------------|
| • \$ 732 - \$3,521 | \$500 - \$1,732 | Mg Genl Partner/CEO |
| • XXX | XXX | Sr Partner/ Sr MD |
| • XXX | XXX | Partner/MD |
| • \$ 281 - \$ 504 | \$ 198 - \$ 306 | Principal |
| • \$ 179 - \$ 276 | \$ 131 - \$ 263 | Senior Associate |
| • \$ 150 - \$ 230 | \$ 115 - \$ 206 | Associate |
| • \$ 240 - \$ 560 | \$ 250 - \$ 452 | CFO |

Yearly Change

Salary + Bonus + Carry Distribution

LBO

VC

23%

<5%>

- Partners/MD's

11 %

4%

- Other Investment Mgrs

7%

2%

- Administrative Staff

Yearly Change Summary

(All Employees)

<u>LBO</u>	<u>VC</u>	
• <2%>	9%	Salary
• 5%	10%	Salary + Bonus
• 0%	12%	Salary + Bonus + Carry

Carried Interest “Points” (% of Fund)

(25th – 75th Percentile)

LBO

- 3.6 – 8.0

- 2.0 – 5.0

- 1.2 – 2.1

- 0.3 – 0.7

- 0.02 – 0.9

VC

3.1 – 6.6

2.0 – 3.5

0.9 – 2.0

0.3 – 0.5

0.4 – 1.0

Mg Gen Partner/CEO

Sr Partner/ Sr. MD

Partner/MD

Principal

CFO

Carried Interest “\$ At Work”

(25th – 75th Percentile) (\$Millions)

LBO

VC

- | | | |
|-------------------|-----------------|--------------------|
| • \$13.4 - \$70.0 | \$11.6 - \$37.7 | Mg Gen Partner/CEO |
| • \$ 8.7 - \$40.1 | \$6.4 - \$24.9 | Sr Partner/Sr MD |
| • \$ 6.1 - \$17.3 | \$4.0 - \$ 9.6 | Partner/MD |
| • \$ 2.0 - \$ 5.9 | \$ 1.4 - \$ 3.1 | Principal |
| • \$ 1.4 - \$ 5.3 | \$ 2.6 - \$ 5.7 | CFO |

2011 MM&K-Thomson Reuters Private Equity & Venture Capital Compensation Study - Europe

James Watts
Reward Consultant & Survey Manager



In association with
Holt Private Equity Consultants

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2011 MM&K-Thomson Reuters PE & VC Compensation Study – Europe

- 1. European Report Overview**
- 2. Headcount and Salary Increases**
- 3. Pay Comparisons**
- 4. Developments in the Future**

2011 European Report Overview



2011 European Report Overview

The 2011 European report includes data from:

- 40 Participating Firms
- 1,300 incumbents in European Survey
- 16 jurisdictions (incl. UK, France, Germany, Italy, Spain & Sweden)

The report covers 30 positions including:

- 8 investment roles and HR, Legal, IT, IR etc.

Divided into four industry segments

- LBO/Growth Equity/Mezzanine – Large Mid-Market
- LBO/Growth Equity/Mezzanine – Mid-Market
- Venture Capital/Corporate Venturing
- Indirect Investment: Secondary/Fund of Funds

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Headcount and Salary Increases

Firms increasing headcount in the year (as a % of total respondents)

20% of firms increasing partner levels, 42% increasing non-partner levels

Year	Partner Level Investment Professionals		Non-Partner Level Investment Professionals	
	Mid-Market LBO/Growth/Mez	Venture	Mid-Market LBO/Growth/Mez	Venture
2009	29%	30%	29%	30%
2010	40%	22%	40%	22%
2011*	24%	0%	42%	20%

Year	Non-Investment Roles	
	Mid-Market LBO/Growth/Mez	Venture
2009	13%	0%
2010	20%	22%
2011*	28%	20%

- LBO vs. VC: Different cycles LBO gearing up / investing in future
- No change at all for VC partners (100% "No Change")
- VC investing across the board, but LBO focus on Investment

*increases planned



Firms Increasing Salaries

Firms increasing salaries in the year (as a % of total respondents)

56% of firms increasing partner salaries, 63% increasing non-partner salaries

Year	Partner Level Investment Professionals		Non-Partner Level Investment Professionals	
	Mid-Market LBO/Growth/Mezz	Venture	Mid-Market LBO/Growth/Mezz	Venture
2009	25%	40%	25%	80%
2010	33%	60%	33%	90%
2011*	70%	40%	63%	80%

Year	Non-Investment Roles	
	Mid-Market LBO/Growth/Mezz	Venture
2011*	63%	80%

- Evidence of catch up for LBO Partners.
- Again majority of VC firms increasing base.
- A similar percentage of firms also plan to increase non-investment base salaries.

*increases planned

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“Although most incumbents will receive an increase, the real focus for 2011 is on rewarding and incentivising the Investment Team”



Year on Year Market Movements

Base salary

Movement in levels of base salary reported:

- Average increase of 1.2%
- Variance across levels: Managing partner level biggest increase

Average of incumbent base salary increase (by firm):

All Firms	Median Increase
Investment Roles	4.8%
Non-investment Roles	4.7%

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Year on Year Market Movements

Base salary

Average of incumbent base salary increase (by firm):

- The true story is reflected in the firm-type breakdown:

Type of Firm	Median Increase
All Firms	4.8%
Large Mid-Market LBO	11.8%
Mid Market LBO	6.3%
VC	1.6%
Indirect Investing	2.4%

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**“Bonuses are back
in 2011 , but we are
still some way off
the high watermark
levels set in
2007/2008”**



Firms Increasing Bonus

Firms increasing bonus in the year (as a % of total respondents)

- 38% of all firms increasing bonus at partner level
- 42% of all firms increasing bonus at non partner level
- Only 4% and 6% of firms, respectively, decreasing bonus

Year	Partner Level Investment Professionals		Non-Partner Level Investment Professionals	
	Mid-Market LBO/Growth/Mezz	Venture	Mid-Market LBO/Growth/Mezz	Venture
2009	0%	40%	20%	50%
2010	20%	13%	29%	13%
2011*	50%	0%	50%	20%

*increases planned

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Year on Year Market Movements

Total Cash

Movement in levels of total cash reported:

- Average increase of 19.5%
- Increase at all levels; again Managing partner level biggest

Average of incumbent total cash increase (by firm):

All Firms	Median Increase
Investment Roles	10.3%
Non-investment Roles	9.5%

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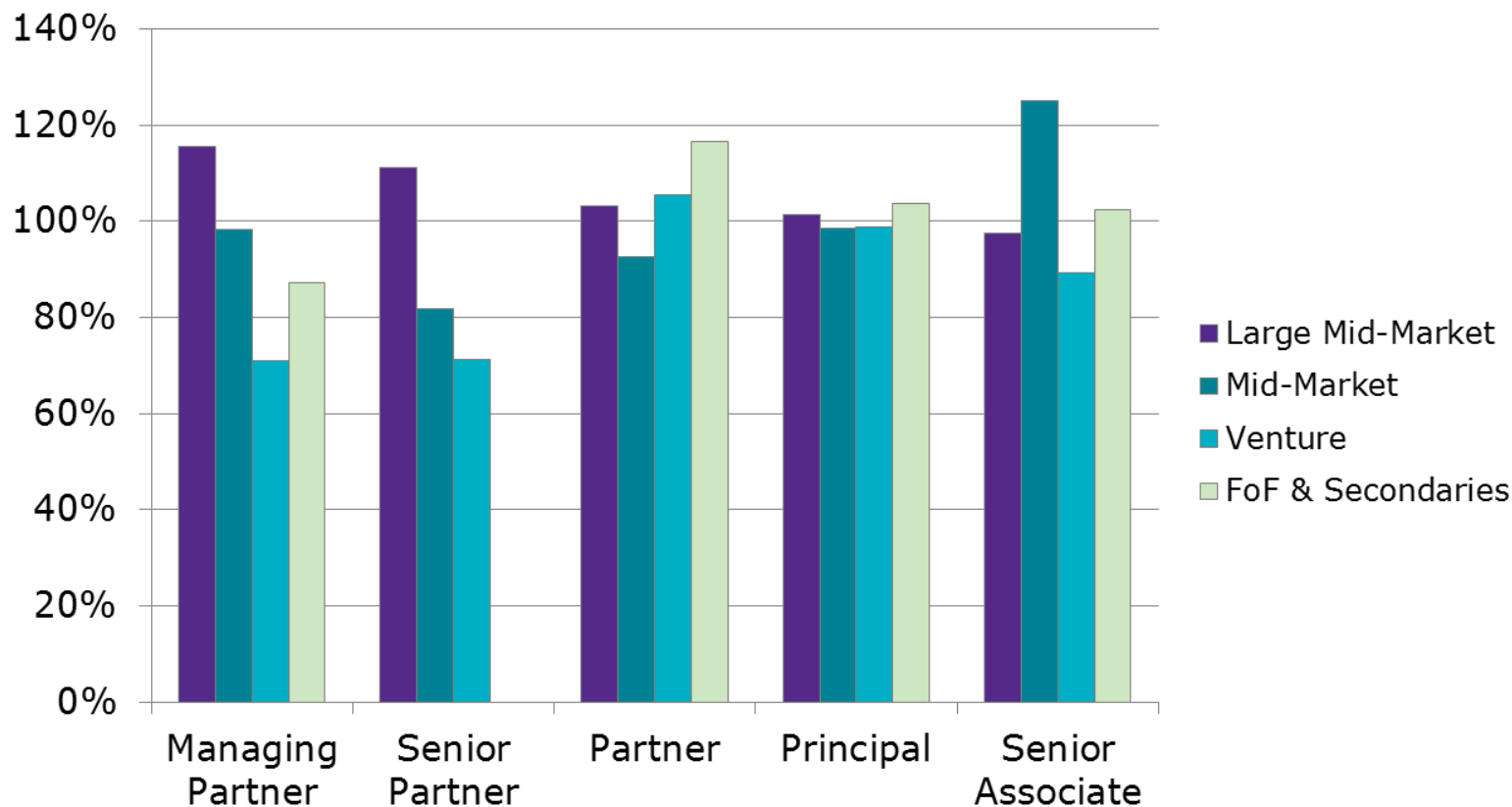
Pay Comparisons



Investment Strategy Comparison

Base Salary

Median Base Salary (as % of all firms median)



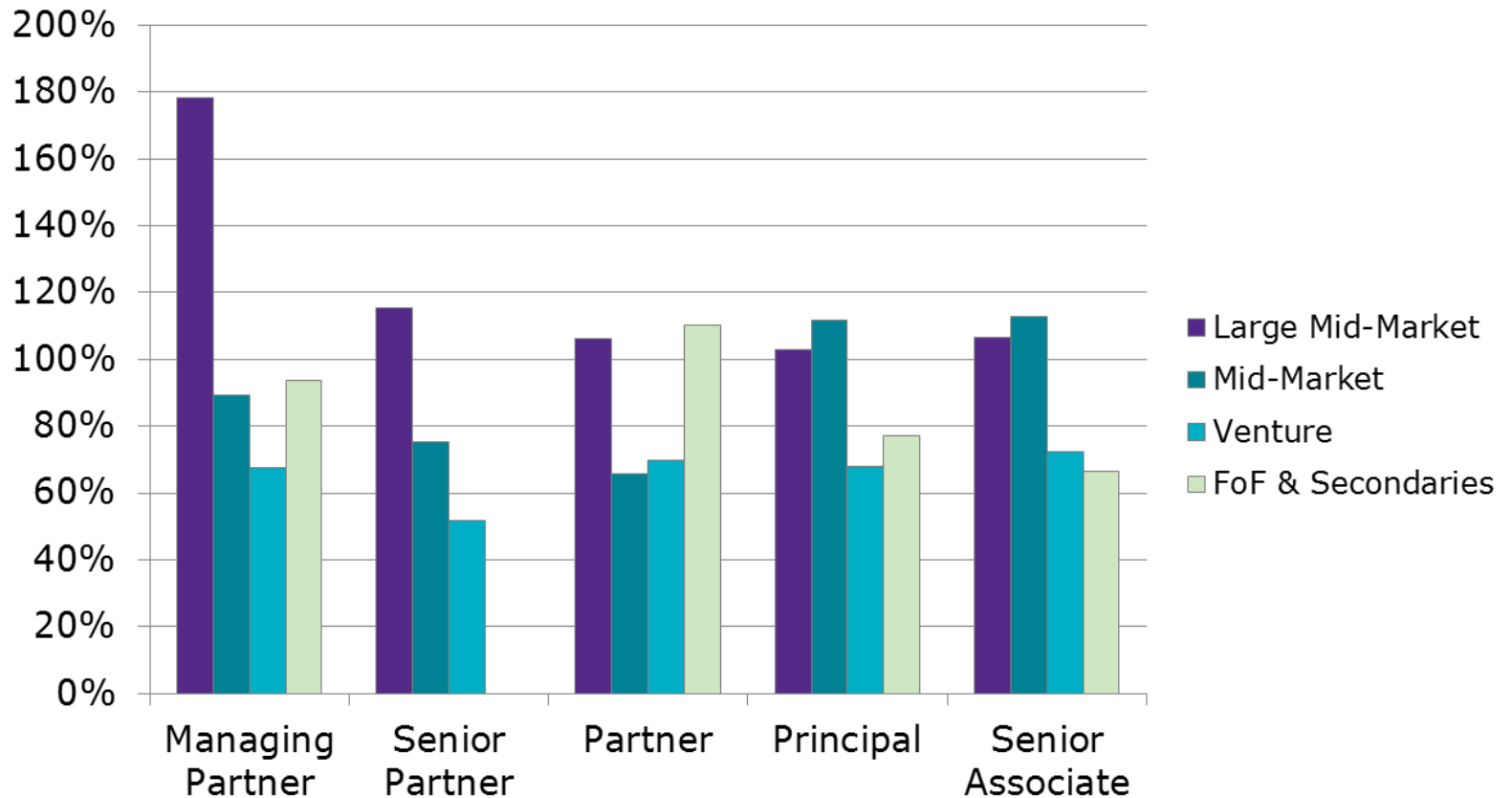
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Investment Strategy Comparison

Total Cash

Median Total Cash (as % of all firms median)



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Europe vs. North America 2011 Reported Survey Results

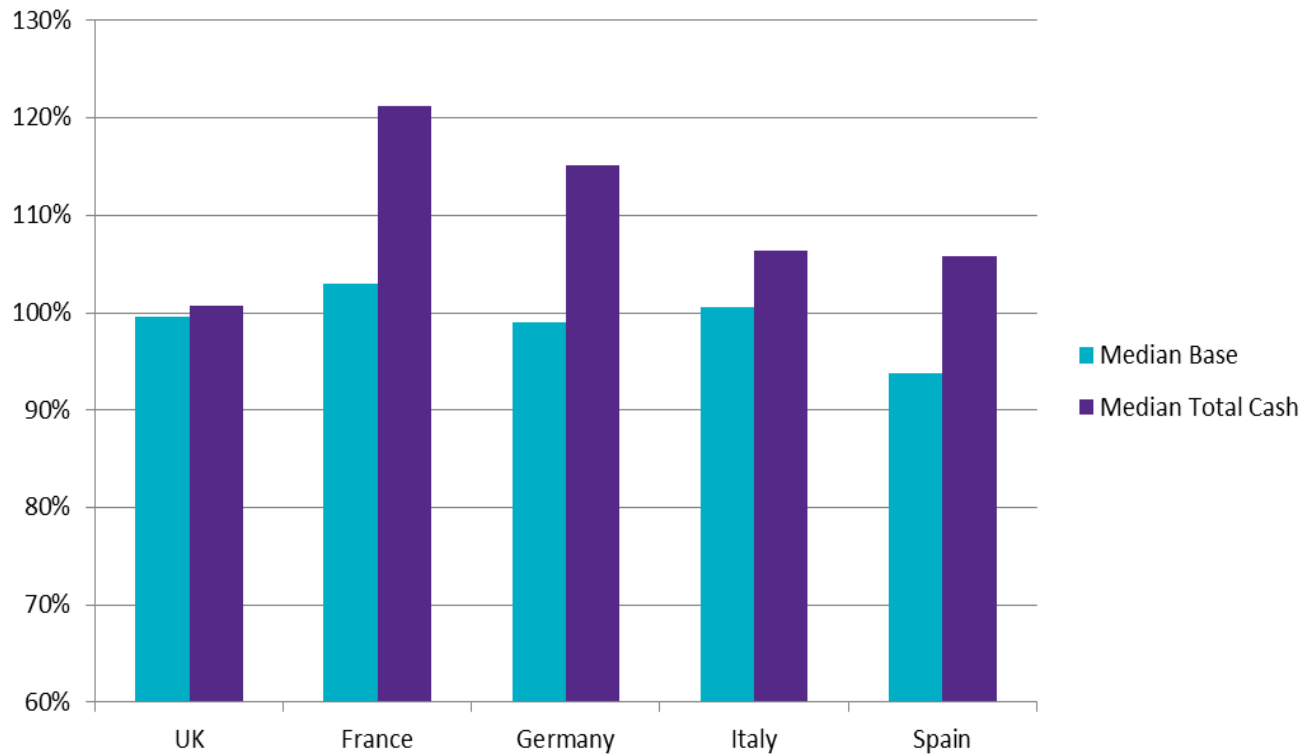
Title	Code	Europe vs North America	
		Base Salary	Total Cash
Managing General Partner	PE01	107.5%	109.5%
Snr Partner / Snr MD	PE02	98.9%	111.1%
Partner / MD	PE03	94.4%	110.9%
Principal / VP/ Director	PE04	102.7%	114.6%
Snr Associate	PE05	111.9%	115.4%

- Europe Higher pay at lower and top levels
- At early partner levels Base Salary in NA is higher, but when bonus is included Europe is higher

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European Jurisdiction Comparison

**PE03 - Partner/MD
Country vs. Whole of Europe**



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Developments in the Near Future

Alternative Investment Fund Managers Directive (AIFMD)

- New EU legislation introducing a pan-European regulatory regime for managers of alternative investment funds
- AIFMD now in force (as of 21st July)
- EU firms must be Authorised by Jan 2013
- Impacts on Fund Managers who:
 - Has its registered office in the EU
 - Manages an EU fund
 - Markets funds within the EU
 - Based in EU but managers non-EU funds
 - Based outside EU but raises money from EU investors

Impact on Remuneration

- Must have remuneration policies and practices for senior management and highly remunerated investment professionals
 - Increased importance of compliance
 - Although most firms (84%, 2011) have a formal Compensation Policy, are they compliant or will they require documentation and amendment?
- Detailed requirements for variable compensation, including carried interest
 - Increased definition around bonus policy
 - Change in balance of fixed / variable remuneration
 - Increased clarity, communication and measurement of Carried Interest Plans
- Will impose restrictions on the structure and form of remuneration that firms can provide to certain categories of its employees.
 - Includes senior management, risk takers and control functions.

MM & K is a leading independent remuneration consultancy specializing in the planning, design and implementation of pay and reward strategies.

Founded in 1973, MM & K is based in the City of London and mainly focuses on executive and employee reward strategies and structures. In recent years we have added other services to support our clients' needs through the acquisitions of Independent Remuneration Solutions and the launch of higher talent, our specialist recruiter of HR and reward professionals.

Over the years MM & K has built up a huge amount of knowledge and experience in the private equity and venture capital arena. This year will be the sixteenth consecutive year that we have conducted a pay survey in the UK / European Private Equity sector. In addition to the knowledge that we have gathered based on our Private Equity Surveys we have also advised more than 40 different PE houses on their own pay and reward strategies over the last ten years.

Our consultants' expertise areas include reward strategies, HR, share schemes, law, accountancy, tax, corporate governance, business management and statistics.



Further Information

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