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2011-2012 Holt – Thomson Reuters Private Equity and Venture Capital Compensation Report

North America Report

2011 Trends in Design and Levels Of Compensation for 2012 Planning & Budgeting

Price: \$3,000 USD



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Survey Background

The 2011 Holt-Thomson Reuters Private Equity and Venture Capital Compensation Report is a joint effort of three parties. They are compensation consultants Holt Private Equity Consultants and MM&K; and global financial publisher Thomson Reuters. It is jointly written by Michael Holt and David M. Toll.

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Cover Photo

The sun sets over Manhattan in New York July 8, 2009. REUTERS/Lucas Jackson (UNITED STATES CITYSCAPE ENVIRONMENT IMAGES OF THE DAY)

Key Findings

Introduction

The two-year period from 2010 to 2011 has been a reasonably good one for compensation in the North American private markets.

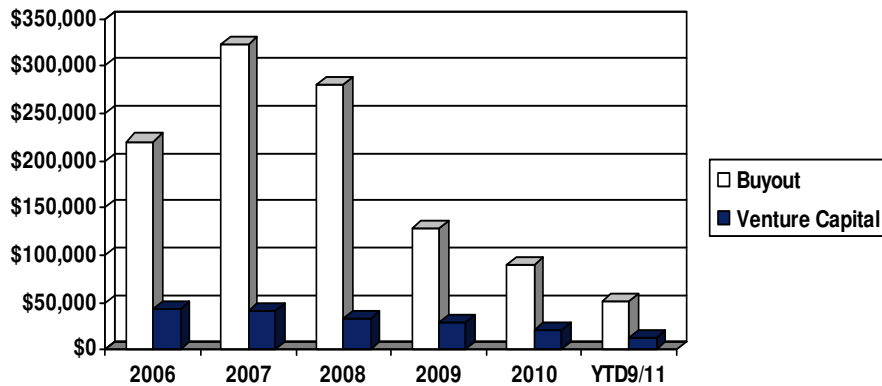
Salaries and bonuses rose modestly for both senior and junior investment professionals during that time, as evident in Table I. Profit distributions also ticked up.

The principal reason: The private markets recovered some of their mojo over the last two years, with deal-making and exits on the rise again, amid a general economic recovery. This led to a rise in compensation, particularly for partners, who had taken the biggest hits in the market downturn of 2008 to 2009.

Table I: Changes in Median Compensation, 2006-2011

	Partner			Non-Partner			All		
	Salary	Salary + Bonus	Salary + Bonus + Carry	Salary	Salary + Bonus	Salary + Bonus + Carry	Salary	Salary + Bonus	Salary + Bonus + Carry
2006/2007	N/A						13%	16%	23%
2007/2008	11%	14%	23%	13%	34%	35%	12%	18%	25%
2008/2009	0%	-6%	-12%	6%	10%	11%	3%	1%	-5%
2009/2010	0%	-5%	-9%	5%	7%	8%	0%	5%	5%
2010/2011	1%	9%	12%	4%	7%	8%	2%	4%	10%

Table II: US Private Equity and Venture Capital Fundraising Dollars on Pace to Eclipse 2010 levels.



Fund-raising, so critical in determining compensation, is also on the upswing, although still a far cry from 2007-2008 peak levels (see Table II). Near term, private-markets firms can take advantage of 10-year capital lock-ups to keep salaries and bonuses rising in the face of fundraising market ups and downs. Over the long term it will be the delivery of public-market-beating returns to investors (or the failure to do so) that will drive long-term growth in employee count and industry compensation.

Indeed, investors are happy to commit fresh capital to private-markets managers and to pay a 1.5% to 2.5% annual management fee for the privilege—fees that support the generous salaries and bonuses of industry employees. Similarly, they're quite content to share 20% of investment profits with fund managers. But only if they deliver those market-beating returns.

The 2011-2012 Holt-Thomson Reuters Private Equity and Venture Capital Compensation Report (North American edition) reflects the combined efforts of two compensation consultancies—Florida-based Holt Private Equity Consultants and London-based MM&K—and New York-based publisher Thomson Reuters. The report is based on an extensive, two-part survey of private-market firms conducted in the spring and early summer of 2011.

All told, 124 firms participated in the survey, providing information on more than 3,000 workers, employed in more than thirty different positions, from analyst to managing general partner on the investment side of firms, from receptionist to chief operating officer on the administrative side. The survey questionnaire consisted of two parts. The first gathered data on firm-wide recruiting and compensation practices, such as the structure of carried interest and co-investment programs; the second gathered data on the 2010 and 2011 compensation packages of individual employees.

The report itself is divided into five parts. The first four cover firm-wide compensation practices for 16 groups of firms organized by investment strategy, assets under management, and whether affiliated with a sponsor company (such as an investment bank). Part V covers employee compensation, by job title, for 22 groups of firms, similarly organized by investment strategy, assets under management, and any sponsor affiliation. For more detailed descriptions of the samples see the Scope and Methodology section of this executive summary.

Scope and Methodology

Sections II - IV: Strategy and Design

Sections II - IV is the qualitative or "How" section of the survey. We collected and analyzed data concerning financial and operations information; human capital practices; and the design of compensation plans including salary, bonus/incentive plans, carried interest plans, co-investment plans, general partner commitment and employee benefits. Although this is 2011 information, we believe it can be helpful in planning for 2012 – thus we call it the 2011-2012 report.

Sections II - IV Firm Classifications:

We classify firms by type and by committed capital to all active funds. Altogether we created 16 sample groups to complement our discussion of firm-wide compensation issues (Sections II-IV of report). The smaller samples (ie. Large VC) correspond to your peer groups; the larger ones (ie. All Firms) showcase broader industry trends.

- * LBO/VC/Mezz: Combines LBO / Growth Equity / Infrastructure/ Distressed / Turnaround, VC, and Mezzanine firms into one “Catch-All” category with a standard 20% carried interest. Excludes Institutional and other types of firms
 - Large: firms with \$1 Billion or more in committed capital (all active funds)
 - Small/Mid-Size: firms with less than \$1 Billion in committed capital (all active funds)
 - All Firms
- LBO / Growth Equity (excludes Institutional firms):
 - Large: firms with \$1 Billion or more in committed capital (all active funds)
 - Small/Mid-Size: firms with less than \$1 Billion in committed capital (all active funds)
 - All Firms
- Venture Capital (excludes Institutional firms):
 - Large: firms with \$1 Billion or more in committed capital (all active funds)
 - Small/Mid-Size: firms with less than \$1 Billion in committed capital (all active funds)
 - All Firms
- Mezzanine (All firms)
- Fund of Funds (All firms)
- Corporate Venturing (All firms)
- Infrastructure/ Distressed/Turnaround (All firms)
- Secondary /Co-Investment (All firms)
- Institutional (All firms)
- All Firms (includes all investment types as described above)

Sample Characteristics

The table below shows you the number of firms populating each of the 16 sample groups used in Sections II-IV of this report covering firm-wide compensation practices. You can also see the make-up of each sample in terms of assets under management (committed capital, all active funds).

Firm Size Statistics:

Firm Classification	Committed Capital - All Active Funds (Millions)				
	# Firms	Avg.	25th	50th	75th
LBO/VC/Mezz (Large)	41	2,553	1,275	1,710	3,494
LBO/VC/Mezz (Small/Mid-Size)	58	344	100	233	546
LBO/VC/Mezz (All)	99	1,259	200	677	1,452
LBO / Growth Equity (Large)	17	2,435	1,300	1,500	3,129
LBO / Growth Equity (Small/Mid-Size)	17	381	160	260	600
LBO / Growth Equity (All)	34	1,408	295	951	1,476
Venture Capital (Large)	13	2,538	1,275	1,779	3,494
Venture Capital (Small/Mid-Size)	25	380	100	325	677
Venture Capital (All)	38	1,118	173	712	1,229
Mezzanine	9	2,078	330	1,100	1,650
Fund of Funds	12	2,896	640	1,300	3,587
Corporate Venturing	5	158	45	100	300
Infrastructure/ Distressed/Turnaround	7	1,049	116	165	647
Secondary/ Co-investment	8	950	144	280	1,082
Institutional	35	1,280	138	325	1,667
All Firms	124	1,353	176	616	1,500

Scope and Methodology

Section V: Compensation Data

Section V is the quantitative or "How Much" section of the survey. We collected and analyzed data for various positions on salaries, bonuses, and carried interest distributions. It also covers carried interest as a percent of the fund and as "dollars at work" from both "most recent fund" and "all active funds." Although this data was collected in 2011, we believe it is useful for 2012 budgeting purposes – thus we call it the 2011-2012 report.

The table below is an example of the exhibits we provide to summarize data collected on Part II of the survey.

Sample Tables: PE 02. Senior Partner / Senior Managing Director (s) – All Private LBO, VC and Mezzanine combined

Firm Classification	Base Salary (\$000)					Salary + Bonus (\$000)				Salary + Bonus + Carry Distribution (\$000)			
	# Firms	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th
LBO/VC/Mezz (Large)	30	868.9	525.0	905.0	1,037.5	1,998.3	1,545.1	1,905.0	2,226.9	2,826.4	1,603.1	2,227.5	3,659.0
LBO/VC/Mezz (Mid-Size)	27	954.0	500.0	700.0	1,115.0	1,685.2	900.0	1,251.0	1,712.5	2,005.8	1,106.1	1,388.0	2,250.0
LBO/VC/Mezz (Small)	41	417.5	206.0	341.0	500.0	555.5	300.0	487.5	650.0	694.0	341.0	487.5	750.0
LBO/VC/Mezz (All)	98	703.5	312.5	550.0	915.3	1,308.4	500.0	1,065.0	1,824.0	1,693.5	500.0	1,266.9	2,131.9

Firm Classification	Carried Interest % of Most Recent Fund					Dollars At Work Most Recent Fund (Millions)				Dollars At Work All Active Funds (Millions)			
	# Firms	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th
LBO/VC/Mezz (Large)	23	3.0%	1.7%	2.5%	3.6%	24.70	11.08	22.25	36.14	61.85	36.54	54.40	78.15
LBO/VC/Mezz (Mid-Size)	25	5.0%	3.2%	4.5%	5.9%	18.49	9.00	14.00	23.00	42.40	26.22	39.11	47.68
LBO/VC/Mezz (Small)	40	6.8%	4.3%	6.6%	9.2%	7.78	3.78	6.40	11.74	12.55	7.58	10.73	14.79
LBO/VC/Mezz (All)	88	5.3%	3.0%	4.7%	6.8%	15.25	4.88	10.74	20.90	33.92	11.21	24.79	42.76

Scope and Methodology

Section V : Compensation Data (Continued)

Levels Of Compensation:

For each sample statistic we typically show average, 25th percentile, median and 75th percentile. Always bear in mind that the average could be influenced by particularly high or low data points in the sample. Most firms that use compensation surveys set compensation targets between the median and the 75th percentile.

Firm-Weighted Data:

Compensation reports based on employee surveys may show data on either an incumbent-weighted or a firm-weighted basis. Incumbent-weighted samples simply include all employees in the sample, even if a significant percentage of them all work for the same firm; the results may therefore be unduly influenced by a firm or two and won't be representative of the overall marketplace. We have corrected for this flaw by calculating the data on a firm-weighted basis. For example, assume there are 10 firms in a survey and nine firms have one incumbent on a position and one firm has 10 incumbents. The firm with 10 incumbents would affect over 50% of the data. However, if we average the 10 incumbents and treat them as one, we eliminate this issue.

Mix of Compensation Types:

In our employee compensation tables we show salaries; salaries plus bonuses; and salaries plus bonuses plus carried interest distributions. However, firms in our samples may view the mix of these compensation components in different ways, and give more emphasis to one or the other. Venture firms tend to pay high salaries and low bonuses, while buyout firms, with their roots in investment banking, tend to pay lower salaries and larger bonuses. Most firms see carried interest as the most important compensation component – at least for higher level employees – as it rewards long-term positive performance on behalf of the firm and its investors. In light of this, well-established firms whose partners already have a high net worth may well pay relatively low salaries and bonuses, although this depends on the amount of management and other fees that are received as revenues.

Carried Interest Plan Allocation:

Where applicable, we show three carried interest allocations. The first is the percent of the most recent fund allocated to each employee as carried interest, also referred to as carried interest points. Employees typically share the 20 points of carry allocated to the GP, although a portion may be allocated to a parent company, or held in reserve for future hires and promotions. We also show the carried interest “dollars at work” for the most recent fund, which is the carried interest points assigned an employee multiplied by the size of the fund. For example, a partner with 1 point of carry on a \$100 million fund has \$1 million at work in that fund—in other words, the dollars at work that can result in realized investment gains. We also show an estimate of dollars at work for all active funds.

Geographic Location:

There are noticeable differences in compensation levels in the same firm at different locations. Therefore, in cases where a firm has offices in more than one location we used averages for all incumbents on each position at each firm and at each location/office. We also conducted regression analysis on our “LBO/VC/Mezz” sample to determine geographic pay differentials for California, the Northeast United States, and the rest of the United States, as well as for Asia Pacific.

Compensation Predicted Based on Firm Size:

We employed simple regression analysis to show how compensation relates to the size of the organization. The regression analysis results are provided for seven positions, including all three partner level positions, for which significant correlation was determined (a correlation of at least 0.5 was required, as well as a minimum of 10 data points). We used the “LBO/VC/Mezz” sample for this analysis as these types of firms typically employ a 20% level of carried interest.

Scope and Methodology

Section V : Compensation Data (Continued)

Section V. Firm Classification:

For our analysis of employee compensation in Section V of this report we created 22 samples, described below. Institutional firms (groups sponsored by banks or other large parents) are included in these samples unless otherwise noted.

Classifications are as follows:

- LBO/VC/Mezz: Combines private LBO / Growth Equity / Infrastructure/ Distressed / Turnaround, Venture Capital, and Mezzanine firms into one “catch-all” category. Excludes Institutional and other types of firms.
 - Large: >1.5 B
 - Mid Size: 500 M – 1,499M
 - Small : <500M
 - All Firms
- LBO / Growth Equity (excludes Institutional firms)
 - Large: >1.5 B
 - Mid Size: 500 M – 1,499M
 - Small : <500M
 - All Firms
- Venture Capital (excludes Institutional firms)
 - Large: >1.5 B
 - Mid Size: 500 M – 1,499M
 - Small : <500M
 - All Firms
- Mezzanine
 - Large: >1.5 B
 - Small/Mid Size: <500M - 1,499M
- Fund of Funds
 - Large: >1.5 B
 - Small/Mid Size: <500M - 1,499M
- All Corporate Venturing
- All Infrastructure/Distressed/Turnaround
- All Secondary / Co-investment
- Institutional
 - Large: >1.5 B
 - Small/Mid Size: <500M - 1,499M
- All Firms

Studied Positions:

Job descriptions for all the position listed below are included in Section V of this report.

Investment Professionals

- Managing General Partner(s) / CEO
- Senior Partner / Senior Managing Director(s)
- Partner / Managing Director(s) / Portfolio Manager
- Principal / Vice President / Director(s)
- Senior Associate(s)
- Associate(s)
- Senior Analyst(s)
- Analyst(s)
- Venture Partner/Operations Partner

Administrative/Support

- Chief Operating Officer (COO)
- Administrative/ Office Manager
- Executive Assistant
- Secretary/ Administrator
- Receptionist

Finance

- Chief Financial Officer (CFO)
- Controller
- Assistant Controller
- Senior Accountant
- Junior Accountant
- Fund Accountant

Marketing and Investor Relations

- Chief Marketing Officer/ Head of Marketing
- Marketing Manager
- Investor Relations Director/ Head of Investor Relations
- Investor Relations Manager

Legal, Human Resources and Information Technology

- Chief Legal Counsel
- Compliance & Risk Officer
- Chief Human Resources/ Talent Officer
- Human Resources Manager
- Human Resources Executive Assistant
- Chief Technology Officer
- Information Technology Manager

Scope & Methodology

Participant List

3i
5AM Ventures
A. M. Pappas & Associates, LLC
Accel-KKR
Adams Street Partners, LLC
Allstate Insurance Company
American Capital, Ltd.
American Infrastructure MLP Funds
Ampersand Ventures
Ascension Health Ventures
Atlas Venture
Battery Ventures
Black River Asset Management
Blue Chip Venture Company Ltd
Blue Point Capital Partners
Blue Wolf Capital Partners
Brazos Private Equity Partners, LLC
Brookstone Partners
Capital Guidance
CapStreet Group (The)
Charles River Ventures, LLC
CIV Ventures
Clairvest Group Inc.
ClearLight Partners LLC
CMEA Capital
Columbia equity partners
Comcast
Coronis Medical Ventures
DCM
DeltaPoint Capital Management
Desco Capital
ePlanet Capital
Eureka Growth Capital Management, LP
F.N.B. Capital Corporation
Focus Ventures
Frazier Management, LLC
Global Infrastructure Partners
Globespan Captial
GMB Mezzanine Capital
Great Hill Partners, LLC
Grotech Ventures
IllinoisVentures, LLC
InnoVentures Capital Management
Insight Equity
Investcorp
JAFCO Ventures
JK&B Capital
JMI EQUITY
Kamylon Capital
KRG Capital Management, LP
Leeds Equity Partners, LLC
Liberty Mutual Insurance Company
Life Sciences Greenhouse of Central PA
LLR Partners
Lone Star Investment Advisors
Longitude Capital
Longworth Venture Partners
Lovell Minnick Partners LLC
Lumira Capital
Madrona Venture Group
Marlin Equity Partners
Merchants Capital Partners
Muller & Monroe Asset Management, LLC
New Leaf Venture Partners
New York Life Capital Partners
Norwest Equity Partners
Norwest Mezzanine Partners
Norwest Venture Partners
O'Reilly AlphaTech Ventures
Palladium Capital Management, LLC
Palomar Ventures
Perseus, LLC
Pomona Capital, LLC
Presidio Investors LLC
Prospect Capital
Prudential Financial
QuestMark Partners
Radius Ventures, LLC
RBC Capital Partners
RCP Advisors LLC
Riverside Partners, LLC (RCAF)
Riverside Partners, LLC (REF)
Riverside Partners, LLC (RMCF)
RiverVest Venture Partners
SAP Ventures
Saybrook Capital
Scale Venture Partners
Second Century
SJF Ventures
Snow Phipps Group, LLC
Steamboat Ventures
Sterling Group (The)
SV Life Sciences Advisers, LLC
SVB Financial Group
TCMI, Inc.
Third Rock Ventures
Thirvent Financial
TL Ventures
Twin Bridge Capital Partners
VantagePoint Capital Partners
Voyager Capital
ZS Fund L.P.

About The Authors



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Holt Private Equity Consultants specializes in assisting clients with private equity/venture capital organizational and human resources issues, which includes compensation and performance management. The Holt firm has designed numerous carried interest and co-investment plans, as well as annual incentive plans. It also has consulted with various real estate and investment/funds management organizations

Prior to founding Holt Private Equity Consultants in 2001, Mike Holt was a consultant with William M. Mercer, KPMG, and Hay Management Consultants, where among other things he conducted private equity/venture capital compensation surveys. Previously, he was head of compensation and employee benefits at Norwest (now Wells Fargo) and for Pillsbury (consumer products).

Mike received his undergraduate degree at the University of Notre Dame and a Masters Degree in Business Administration from Roosevelt University. He also served as a Lieutenant in the U.S. Army.



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