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# 2011 MM&K – Thomson Reuters Private Equity and Venture Capital Compensation Report

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## European Report – Preview

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

Price: £2,500

# 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).

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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.

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.

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# Table of Contents

<b>I. Executive Summary</b>	
Key Findings	4
Scope and Methodology	6
<b>II. Financial and Operational Data</b>	
Committed Capital and Cost of Investments	11
Number of Funds Managed and Number of Portfolio Companies	12
Ownership Structure	13
Fees / Fees Ratios	14
Direct vs. Indirect Investments	15
<b>III. Human Capital</b>	
Number of Employees Per Employee Group and Investment Manager Ratios	17
Staffing Changes 2010/2011	19
Human Capital Policies, Experience to Partner, and MBA Hiring/Compensation Practices	20
Payroll Cost As % of General Partner Fees/Revenues	21
<b>IV. Compensation Strategy</b>	
Types of Compensation	23
Base Salary and Bonus Level Changes	25
Annual Bonus Plans	27
Carried Interest Plans (CIP)	29
General Partner Commitment (GPC)	36
Co-Investment Plans	37
Employee Benefits and Perquisites	40
<b>V. Compensation Levels</b>	
Comparison by Country	44
Compensation Movements (Median)	46
Investment Managers	49
Non-Investment Positions	55

## Survey Background

The 2011 MM&K-Thomson Reuters European Private Equity and Venture Capital Compensation Report is a joint effort of three parties. They are compensation consultants MM & K in London and Holt Private Equity Consultants in the US; and global financial publisher Thomson Reuters. It is jointly written by James Watts and Nigel Mills.

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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)

**EXECUTIVE SUMMARY**

FINANCIAL AND  
OPERATIONAL DATA

HUMAN CAPITAL

COMPENSATION  
STRATEGY

COMPENSATION  
LEVELS

# I. Executive Summary

- Key Findings
- Scope and Methodology

# Key Findings

## Introduction

The results of our survey show that once again it has been a varied year with regards to remuneration trends across the private equity industry. Overall the figures suggest there has been a measured growth in remuneration across the industry, but these overall figures disguise two divergent sets of data below.

In 2010 firms continued to look to control their fixed remuneration costs and so base salary increases remained relatively low. In 2011 increases in base salary have remained modest with the focus remaining on the more junior levels – particularly those who do not have any carry working for them. Overall base salary increases have not exceeded the 5%-7% mark, however, at a business line level, increases at VC firms have been more like half of this figure, where as increases in the Large Mid-Market firms sit more comfortably within a range of double these figures.

However, modest changes to base salaries have been accompanied by more meaningful changes in bonus levels. Overall the 2011 survey results indicate an increase in the level of annual bonus payments compared with 2009 and 2010. ....

# Scope and Methodology

## Parts II to IV : Strategy and Design

Parts II to IV are the qualitative or "How" sections of the survey. We collected and analyzed data concerning financial and operations information; human capital practices; and the design of compensation plans to include salary, bonus/incentive plans, carried interest plans, co-investment plans, general partner commitment and employee benefits.

### Firm Classifications:

Where appropriate, firms were classified in two ways: by type and by size (committed capital all active funds).

Type and Size classifications include:

- All Firms
- Venture Capital / Corporate Venturing
- LBO / Growth Equity/ Mezzanine Mid-Market
- LBO / Growth Equity/ Mezzanine Large Mid-Market
- Fund of Funds / Secondaries

### Firm Size Statistics:

Firm Classification	Committed Capital - All Active Funds (€Millions)				
	Firms	Avg.	25th	50th	75th
All Firms	40	4,726	853	1,738	3,949
Venture Capital / Corporate Venturing	6	545	309	510	528
LBO / Growth Equity/ Mezzanine Mid-Market	13	1,183	740	1,000	1,500
LBO / Growth Equity/ Mezzanine Large Mid-Market	15	9,754	3,037	4,200	7,871
Fund of Funds / Secondaries	6	4,012	1,749	2,749	3,766

### General Observations

Tables and exhibits for Parts II to IV of the survey were created based on actual responses. In cases where participants left blanks/zeros the responses were not included in the calculations.

### Currency

Unless specified otherwise all monetary values in Parts II to IV are in Euros (€) as this is the most common currency denomination of the funds managed by participating firms.

# Scope and Methodology

## Part V: Compensation Data

Part 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 "Monies at work" from both "most recent fund" and "all active funds."

The tables below provide an example of the exhibits we produce in the full report to summarize data collected in Part V of the survey. The tables below show the data for "All Firms" only for one example Investment Professional role. In the Full report we provide data for the same classifications used elsewhere in this report (as described on the previous page) for each of the Investment Professional roles as well as for the CFO Role. For the other Admin roles we show the data for each role across all firms.

### Sample Tables: Senior Partner / Senior Managing Director (s) – All Firms

Firm Classification	Base Salary (£000)					Salary + Bonus (£000)				Salary + Bonus + Benefits + LTI (£000)			
	# of Firms	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th
All Firms	28	265.2	206.5	<b>251.1</b>	302.0	x	x	<b>x</b>	x	x	x	<b>x</b>	x

Firm Classification	Carried Interest % of Most Recent Fund					Monies At Work - Most Recent Fund (£Millions)				Monies At Work - All Active Funds (£Millions)			
	# of Firms	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th
All Firms	21	1.8%	0.9%	<b>1.5%</b>	2.0%	7.9	4.0	<b>7.3</b>	12.4	14.4	7.7	<b>13.3</b>	18.8

### Studied Positions:

The detailed pay data for each of the job descriptions listed below are included in Part V of this report.

- 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)
- Chief Operating Officer (COO)
- Administrative/ Office Manager
- Executive Assistant
- Secretary/ Administrator
- Receptionist
- Chief Financial Officer (CFO)
- Controller
- Assistant Controller
- Senior Accountant
- Junior Accountant
- Fund Accountant
- Jnr Fund Accountant / Fund Administrator
- Human Resources / Talent Director
- Human Resources Manager
- Human Resources Officer
- Investor Relations Director/ Head of IR
- Investor Relations Manager
- Chief Technology Officer
- Information Technology Manager
- Chief Marketing Officer/ Head of Marketing
- Marketing Manager
- Chief Legal Counsel
- Compliance & Risk Officer

# Scope and Methodology

## Part V : Compensation Data (Continued)

**Levels Of Compensation:** Firms have different approaches to compensation. Most firms that review compensation surveys set compensation targets between the median and the 75th percentile. (Averages are not typically used because a small number of firms pay very high or very low compensation distorting the average amount). However, we show both the average and the median along with the 25th (low) and 75th (high) percentiles.

**Incumbent vs. Firm Weighted Data:** Compensation surveys may show data on either an incumbent-weighted or a firm-weighted basis. Where incumbents are used, there will be a bigger sample size but one or two firms may dominate the data and therefore the results may not be representative of the overall marketplace. We have corrected for this in our data analysis 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, we average the 10 incumbents and treat them as one, eliminating this issue.

**Mix of Compensation Types:** The mix of pay can also vary among firms. Some firms pay high salaries and low bonuses, others pay low salaries and large bonuses and some firms provide additional benefits and pension provisions whilst others provide little or no remuneration beyond salaries and bonuses. Many firms believe that carried interest is the key compensation component in the private equity industry – at least for higher level employees - as it rewards for actual long-term underlying investment performance. Some of these firms may pay lower bonuses, although this depends on the amount of management and other fees that are received as revenues. We show salaries; salaries plus bonuses; and salaries plus bonuses plus benefits including long term incentive payments – but not including carry distributions (total remuneration).

**Carried Interest Plan Allocation:** For higher level positions, we show three carried interest allocation measures. The first is the percent of the most recent fund. Firms once used percent of the carry as a key benchmark but this cannot adequately be used for comparison purposes because not all firms have a carried interest plan with an allocation of 20% of the fund. We normalize the data by using percent of the fund.

Next we show the carried interest “carry at work.” This is generally more meaningful than any percent because it is the pounds at work for the relevant individual. As a rule of thumb, if the fund returns twice its capital, this amount will equate to the aggregate value of carry distributions that individual should receive in respect of that fund. We review the pounds at work from both the most recent fund and from 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.

# Scope & Methodology

## Participant List

3i Plc.	Dubai International Capital	LMS Capital plc
Actis	ECI Partners LLP	Maj Invest Equity
Adams Street Partners, LLC	Emerald Technology Ventures	Nova Capital
Advent International plc.	ePlanet Capital	Pomona Capital, LLC
Allstate Insurance Company	Global Infrastructure Partners	Riverside Company, The
Amadeus Capital Partners	Greenpark Capital Limited	Robert Bosch Venture Capital GmbH
AMP Capital	Hutton Collins Partners	SAP Ventures
Argan Capital Advisors LLP	IK Investment Partners	Sun European Partners, LLP
Arle Capital Partners	Indigo Capital LLP	SV Life Sciences Advisers, LLC
Black River Asset Management	Inflexion Private Equity LLP	Universities Superannuation Scheme
Bregal Capital	Intermediate Capital Group	Unnamed Pan-European Mid-market LBO Firm
Bridgepoint	Investcorp	Virgin Management Limited
Business Growth Fund	Legal & General (LGV)	
Carlyle Group, The	Lloyds Banking Group (LDC)	

EXECUTIVE SUMMARY

**FINANCIAL AND  
OPERATIONAL DATA**

HUMAN CAPITAL

COMPENSATION  
STRATEGY

COMPENSATION  
LEVELS

## II. Financial & Operational Data

- Committed Capital and Cost of Investments
- Number of Portfolio Companies and Number of Funds Managed
- Ownership Structure
- Fees / Fee Ratios
- Direct vs. Indirect Investments

# Financial and Operational Data

## Committed Capital and Cost of Investments

### By Firm Type and Size

The average committed capital across all firms for active funds is just under £5bn. This is significantly influenced by the 15 large LBO firms in the survey who average £9.7bn of committed capital.

Firm Classification	Committed Capital (€Millions)										Cost Of Investments (€Millions)				
	All Active Funds					Most Recent Fund									
	# Firms	Avg.	25th	50th	75th	# Firms	Avg.	25th	50th	75th	# Firms	Avg.	25th	50th	75th
All Firms	40	4,726	853	1,738	3,949	31	1,462	390	733	1,854	19	1,521	263	454	1,653
Venture Capital / Corporate Venturing	6	545	309	510	528	5	204	150	180	245	5	342	200	433	454
LBO / Growth Equity/ Mezzanine Mid-Market	13	1,183	740	1,000	1,500	12	764	423	502	728	8	582	247	304	651
LBO / Growth Equity/ Mezzanine Large Mid-Market	15	9,754	3,037	4,200	7,871	10	3,199	1,777	3,103	4,700	2	3,430	2,994	3,430	3,865
Fund of Funds / Secondaries	6	4,012	1,749	2,749	3,766	4	786	631	862	1,017	4	3,916	1,497	1,901	4,321

EXECUTIVE SUMMARY

FINANCIAL AND  
OPERATIONAL DATA

**HUMAN CAPITAL**

COMPENSATION  
STRATEGY

COMPENSATION  
LEVELS

## III. Human Capital

- Number of Employees Per Employee Group and Investment Manager Ratios
- Staffing Changes 2010/2011
- Human Capital Policies, Experience to Partner, and MBA Hiring/Compensation Practices
- Payroll Cost As % of General Partner Fees/Revenues

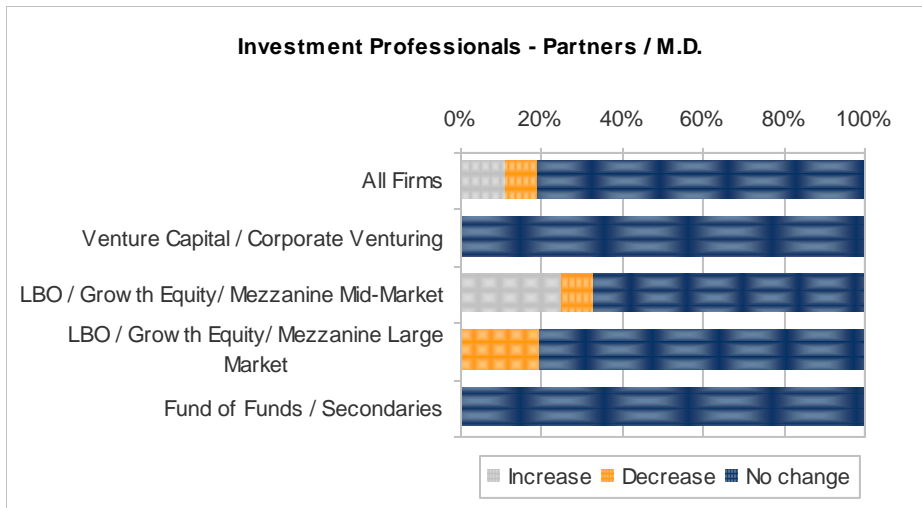
# Human Capital

## Staffing Changes 2010/2011 – Investment Professionals and Administrative / Support Staff

### By Firm Type

At partner level firms experienced very little change in headcount levels, whether investment or support. The picture is rather different for non-partners where there has been substantial activity across investment professionals, particularly within LBO firms. FoFs / Secondaries were by comparison very quiet. Across support staff most of the activity was within large LBO firms.

Across the board the trend has been very much towards increasing headcount.



EXECUTIVE SUMMARY

FINANCIAL AND  
OPERATIONAL DATA

HUMAN CAPITAL

**COMPENSATION  
STRATEGY**

COMPENSATION  
LEVELS

## IV. Compensation Strategy

- Types of Compensation
- Base Salary and Bonus Level Changes
- Annual Bonus Plans
- Carried Interest Plans (CIP)
- Employee Benefits and Perquisites
- General Partner Commitment (GPC)
- Co-Investment Plans

# Compensation Strategy

## Types of Compensation – Investment Professionals

### By Firm Type

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Among participating firms 97% (90% in 2010) offer carried interest plans at the investment partner level and 81% (74%) at investment non-partner level. 52% (39%) of firms offer partners a co-investment opportunity with the same opportunity offered to 42% (35%) of non-partner investment professionals.

A number of firms offer stock or stock options as part of a long term incentive program. All these firms are structured as corporate entities (as opposed to partnerships) and not surprisingly include those of the firms that are listed.

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EXECUTIVE SUMMARY

FINANCIAL AND  
OPERATIONAL DATA

HUMAN CAPITAL

COMPENSATION  
STRATEGY

**COMPENSATION  
LEVELS**

## V. Compensation Levels

- Comparison by Country
- Median Compensation Movements
- Investment Managers
- Non-Investment Positions
  - Operations and Administration
  - Finance
  - Marketing and Investor Relations
  - Legal, Human Resources and Information Technology

# Compensation Levels – Median Compensation Movements

## Median Compensation Movements 2010 – 2011: Investment Professionals

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The table below shows the median changes in base salary and base salary plus annual bonus for those firms which have provided investment team compensation data for both 2010 and 2011.

Overall the figures show that base salary increases have continued to be modest across the private equity industry. For Managing Partners and Senior Partners base salaries have remained fairly static. For non-partner investment professionals base salary increases have been slightly higher but in general have not been above 5% - 7%. However, this trend hides a difference between types of private equity funds as increases in Venture Capital firms have been much lower and increases in Large Mid-Market firms have been considerably higher.....