2012 Private Equity & VC Compensation Report

SAMPLE REPORT

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Introduction

In our many years publishing the annual Private Equity and Venture Capital Compensation Report, both before and after the peak, we've seen significant changes in private equity and VC compensation trends. This year, we see some settling in the market.

This year's report includes actual data from hundreds of partners and employees that represent several hundred private equity and venture capital firms. As we collected the data in October and November of 2011, and did not see significant market events since that time, we feel comfortable presenting the 2011 numbers as final.

The Report addresses issues such as base and bonus compensation earned (both by title and by fund size), fund performance and its impact on bonus levels, the many facets of carried interest, satisfaction with pay and job security concerns. The Report also seeks to understand how private equity professionals perceive their work and what they expect from their employers.

Where we could, we included insights from the industry and our detailed experience in the job market. That said, the data points in this report are based solely on data collected directly from private equity and VC professionals.

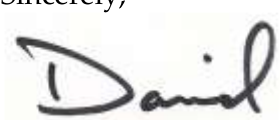
We feel a responsibility to present a compensation benchmark resource that is comprehensive, reliable and affordable. We know that we met that goal again this year and we hope, after reading the Report, that you feel we exceeded it as well.

Some of the big questions answered in this analysis include:

- What are the compensation levels and ranges by title?
- How does fund size and performance affect pay?
- What is the balance between base salaries vs. bonus payouts?
- Which titles earn the most and how has their comp changed?
- Who is sharing in carry and at what levels?

We're confident this report will provide you with valuable information, whether you are negotiating your compensation package, setting goals for your professional development, or establishing benchmarks for your firm's compensation policies.

Sincerely,



David Kochanek, Publisher

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Executive Summary

It seems the U.S. private equity industry has reached a mature stage with the number of new firms launching stabilized, billions of dollars of capital ready to invest (so-called, "dry powder") and ownership of thousands of U.S. companies.

2011 brought with it plenty of fund raising activity and it was clear from the respondents that the success of that activity was all over the board. The smaller funds continue to do most of the fund raising activity, while the larger funds continue to scoop up most the money (and are holding more than they invest).

Yet, the *typical* private equity firm (in terms of numbers) is anything but large and might only be on their first or second fund, with a most recent fund size of less than $500 million.

Even how these firms manage their investments seems more settled and focused on a longer timeline. Private equity firms are no longer keeping their portfolio companies for just a few years and then exiting. A buy, build and hold strategy is now the norm, which translates into the need for a different type of talent than demanded during the peak years.

Gone are the days when firms concentrated their efforts on financial engineering to the exclusion of operational improvements. Now, it's about increasing portfolio company revenues and reducing costs. Operational management is back in favor and is requiring both job candidates and the firms to rethink the required skill sets for success.

Last year we mentioned another industry trend to watch – the demand for internal fundraising team members. Fund managers are looking to broaden their investor base due to many investors directing new fund investments to more established funds. Firms are looking for individuals with proven capital raising experience and close Limited Partner relationships to help in that effort. This year, 9 percent of those with marketing and fund raising responsibilities identified themselves as dedicated solely to that activity.

So, what exactly does this more mature private equity and VC industry mean for those professional who earn their living from it?

2011 brought with it a solid level of earnings for most private equity and VC professionals. Compensation for just about every partner and employee at the firm is up and many are enjoying double digit increases in total compensation.

A segment of respondents stated they did not expect an increase in their overall compensation but for those who did, the average expected increase over last year was a very healthy __ percent. Again this year, more than __ percent expected double digit increases over last year.

For firms with 25 employees or less, we saw an overall higher average total compensation than in 2010. We believe that this was driven by the increased demand for private equity talent in the larger firms and the need for the smaller firms to keep pace in order not to lose their most talented players.

We believe this upward compensation trend will continue in 2012.

This year's compensation report is primarily made up of responses from North America and the U.K., with about a 30 percent representing senior level positions and 40 percent representing mid-level positions.

Some of the highlights from this year's report include:

- The annual average compensation for private equity and VC professionals increased by…
- Bonuses comprised ___ percent of this year’s compensation.
- ___ percent of professionals expected no change in their year over year compensation, while __ percent expect a double digit increase or more.
- MBA‘s earned a __ percent higher base salary on average, but….
- ________________are in the greatest demand with 1 in 3 firms currently hiring for that talent.
- The majority of professionals with at least ___ years work experience have some level of carry as part of their compensation package.

Methodology

We surveyed hundreds of partners, principals and employees during October and November 2011 to benchmark compensation practices. Respondents represented firms from around the globe, with a strong concentration in North America. Included are some of the largest and most recognized private equity and venture capital firms and those that make up most of the industry, the small shops.

A sample of some of the participating firms includes (listed with permission):

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Pay Levels

In the private equity and venture capital industries, bonus payouts tend to be a substantial component of total compensation. The higher overall earnings, the more bonuses play a part in determining total compensation.

On average, this year bonus is reported at ___ percent of total compensation (up from ___ percent last year). For those making more than $xxx,000 the bonus accounts for __ percent or more of total cash compensation, which is in line with last year's findings for this upper range.

Figure 1: 2010 Level of Earnings

Figure 2: 2011 Level of Earnings

Figure 3: 2010 Base vs. Bonus Pay

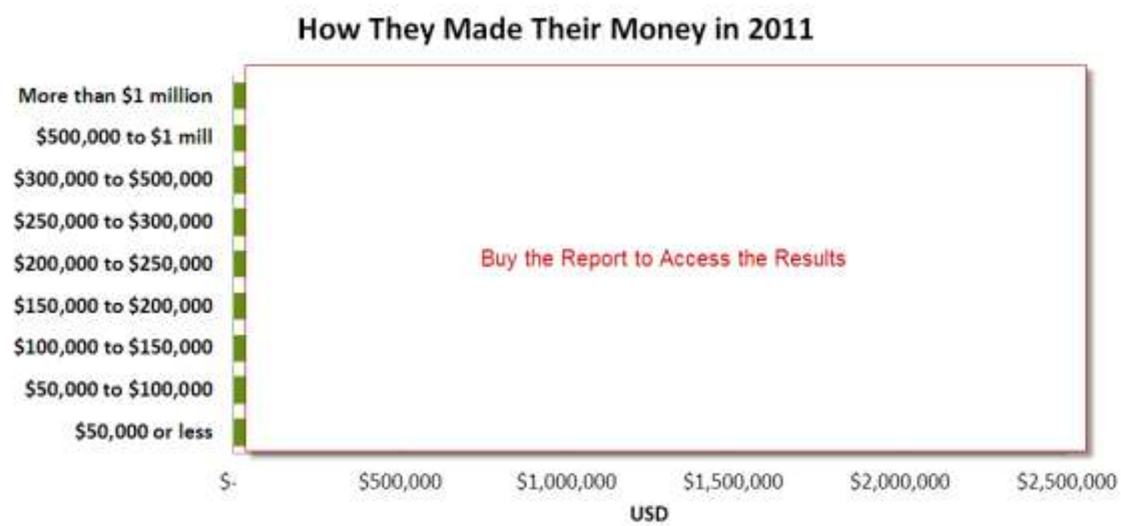

Figure 4: 2011 Base vs. Bonus Pay

Similar to last year, this year almost ___ reported no change in their compensation. The percentage of people predicting a decrease in total compensation this year, however, increased from __ percent to __ percent. Although this isn't the pessimism we saw two years ago (___ percent), it is an indicator that 2011 ….

Cash Earning This Year vs. Last

Figure 5: Year over Year Changes

> *"…I add more value to the firm than is reflected in my comp."*

Again this year, many were expecting double digit increases over last year. Last year ___ percent of respondents expected double digit increases, this year that number dropped only slightly to __ percent. Despite continued pressure on earnings achieved in the financial sector, there is still plenty of earning opportunity for those in VC and private equity. It is about being with the right firm in the right markets.

With an increased demand for ______________ (____ firms are hiring in this area) and an overall positive outlook regarding compensation, we expect that in 2012 firms will continue to …..

It is worth noting that last year's report revealed big increases in total cash compensation for Analysts, the entry point in this industry. In 2011, those starting positions only saw a ___ percent increase in total compensation.

One industry trend we discussed last year was the hiring of internal fundraising team members. Fund managers are looking to broaden their investor base due to a movement of dollars to the larger, more established firms. Firms are looking for individuals with proven capital raising experience and close Limited Partner relationships.

This year, ___ percent of those with marketing and fund raising responsibilities identified themselves as dedicated solely to that activity. Their base vs bonus compensation ratio…..

One thing to keep in mind, common titles such as Manager and Analyst (or Senior Analyst) can (and do) mean very different things to different firms. This is especially true at smaller firms, where each person tends to wear more hats than at their larger firm counterparts. In total, ___ percent of this year's respondents stated they have some level of investment responsibility in their firm – very consistent with ….

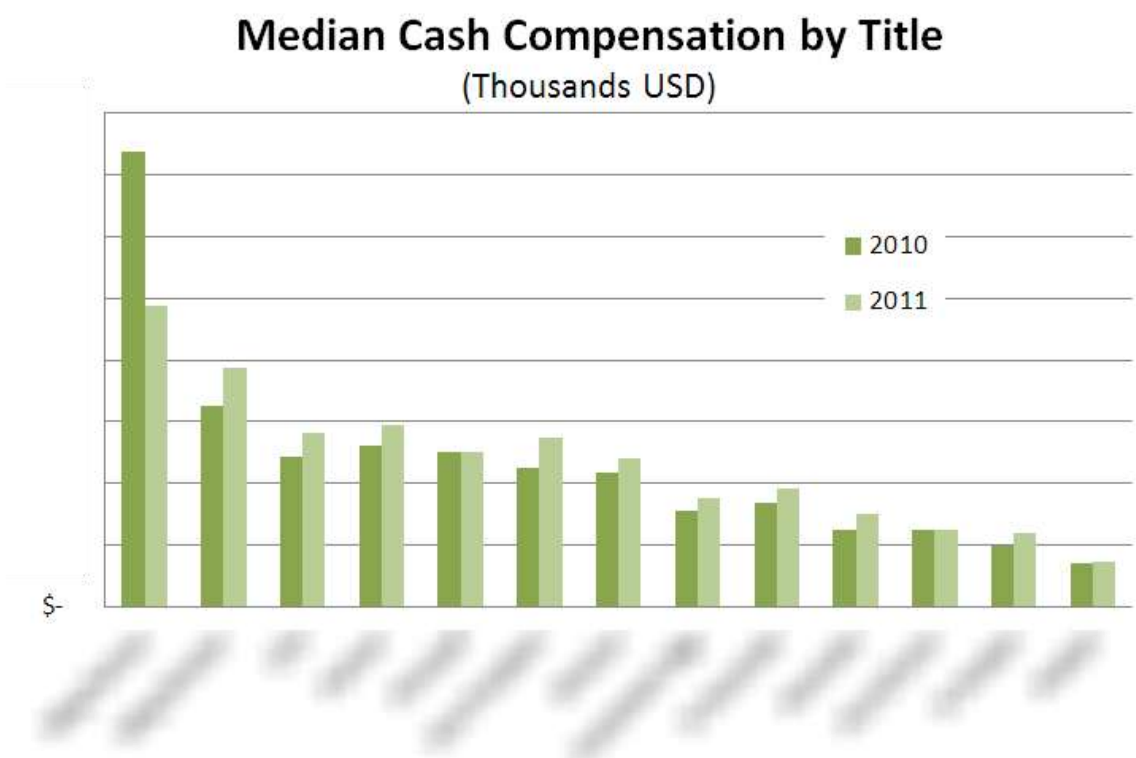

Figure 6: Compensation by Title – This Year vs. Last

This year we saw that ___ percent had some level of bonus guarantees, although the levels were all across the board from ___ percent to ____ percent. Of those who did receive bonuses, only ___ percent were required to….

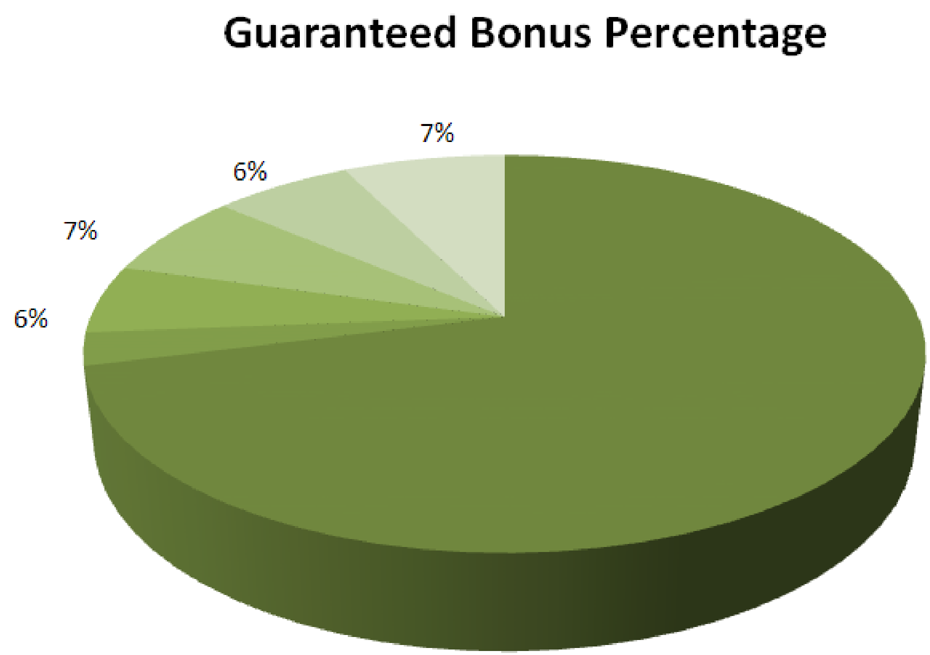

Figure 7: Guaranteed Bonus Percentage

Below is a summary chart of reported median compensation by title.

	Median			Percentile	
Title	Base	Bonus	Total	25%	75%

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Note: In thousands of USD. Excludes countries where compensation practices vary significantly from USA, Canada and UK.

Figure 8: Median Compensation and Ranges by Title

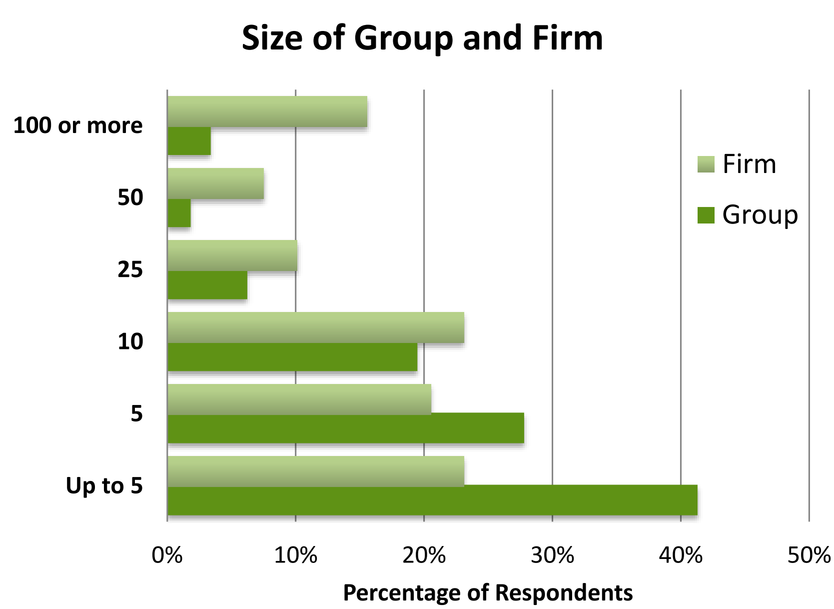

Figure 9: Size of Group and Firm

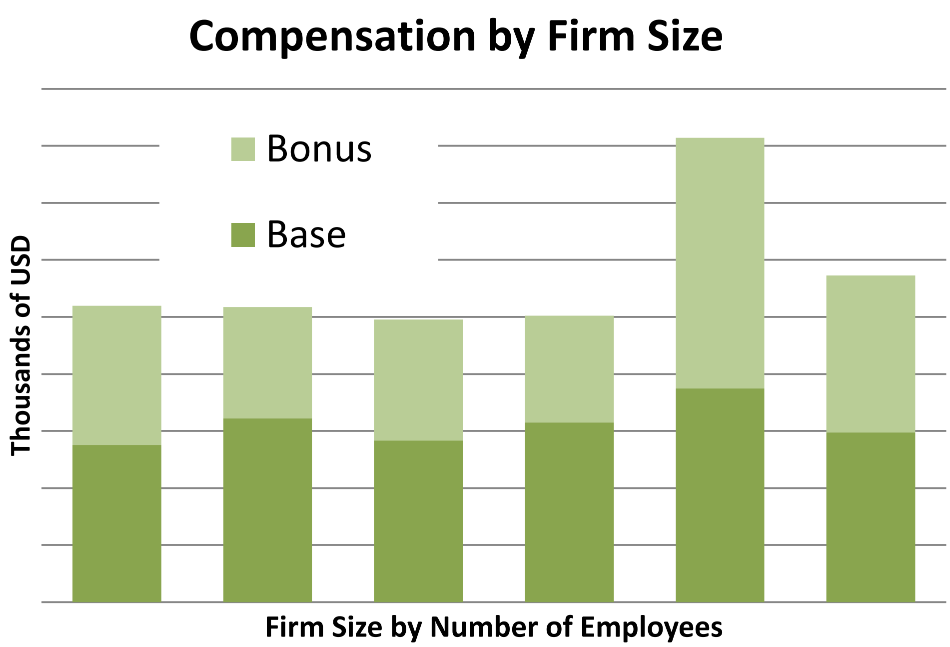

Figure 10: Compensation by Firm Size (Employees)

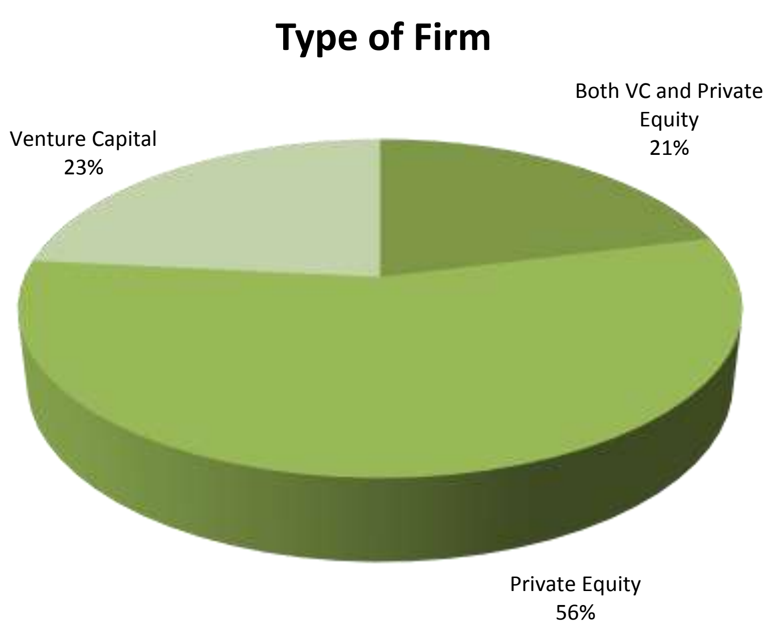

Figure 11: Type of Firm

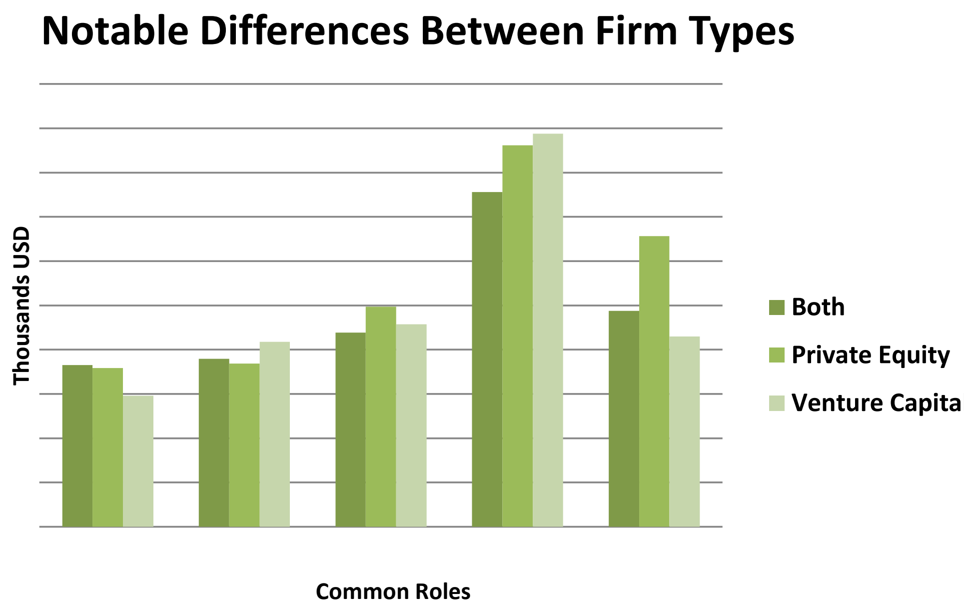

Figure 12: Notable Compensation Differences Between Firm Types

Different from what we've seen in the past, the VC firms …. The downside this year was that their average bonus….

That's not totally unexpected as …..

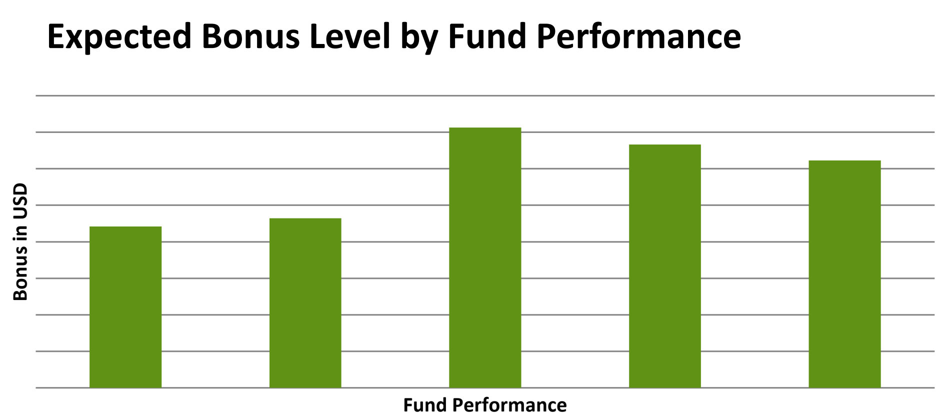

Figure 13: Bonus Level by Fund Performance

We were a bit surprised to see basically two levels of bonuses across the fund performance spectrum….

In order to understand the most common investment strategies, we asked participants to select one or more strategies. Again this year, the most popular strategies include: small to mid-cap private equity, LBO, and all stages of venture capital.

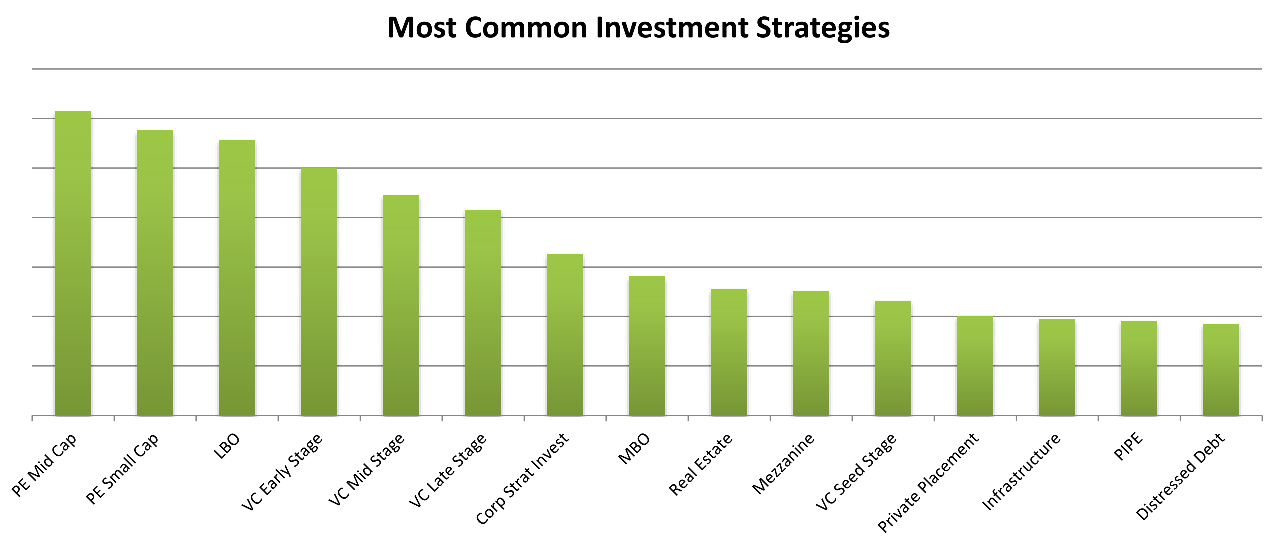

Figure 14: Most Common Investment Strategies

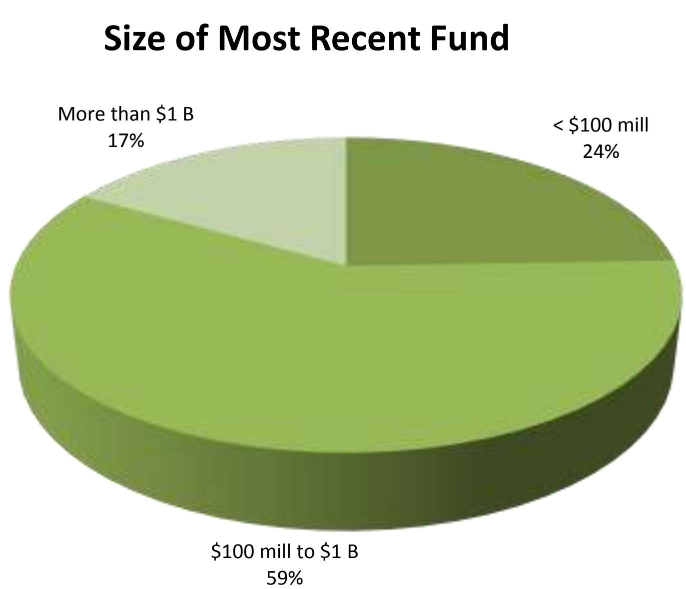

Figure 15: Size of Most Recent Fund

Below is a summary chart showing base and bonus levels for 2011 by both firm size (based on AUM) and title.

	Assets Under Management		
Average Base Salary	**< $200 mill**	**$200 mill to $1 billion**	**More than $1 billion**
Accountant/Controller			
Analyst			
Associate			
Business Development			
CFO			
Director			
Investment Manager			
Managing Director			
Managing Partner			
Partner			
Principal			
Senior Analyst			
Senior Associate			
Vice President			
Average Bonus			
Accountant/Controller			
Analyst			
Associate			
Business Development			
CFO			
Director			
Investment Manager			
Managing Director			
Managing Partner			
Partner			
Principal			
Senior Analyst			
Senior Associate			
Vice President			

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Note: 2011 average compensation in thousands of USD. Excludes countries where compensation practices vary significantly from USA, Canada and UK. Also excludes positions where enough data was not available to create a significant average.

Figure 16: Base and Bonus by Firm Size (AUM) and Title

Job Security and Balance

We find that concern over job security is a pretty good indicator of the private equity job market. This year, there wasn't much change in that indicator over last year.

"Potential investors have a wait-n-see approach."

Again this year, those concerned about job security primarily commented on fund raising ability and market conditions.

For those not concerned about job security, they noted many different reasons (thus the large slice marked as "other") but identified their firm structure, performance and the ability to raise funds as key pieces to their comfort.

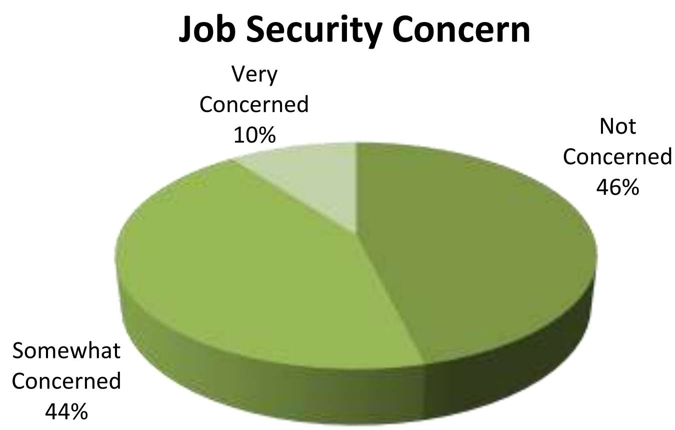
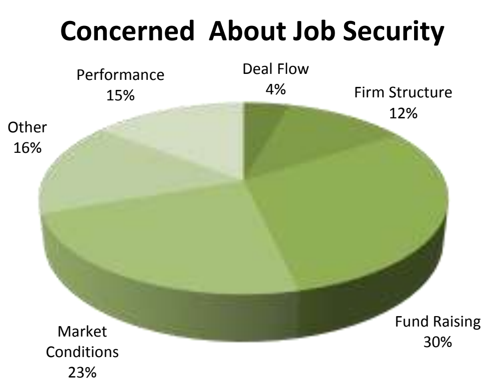


Figure 17: Job Security Concerns



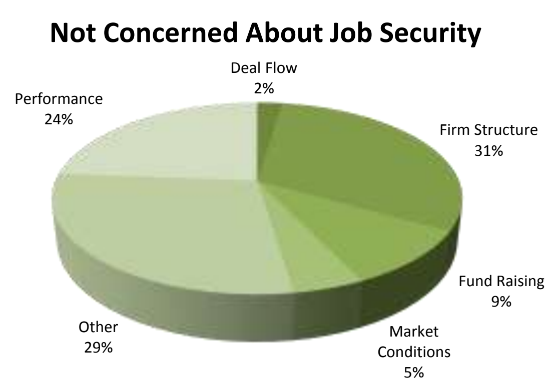


Figure 18: Why Concerned About Job Security

Firm's concerned about attracting the best talent should note that it is not all about cash compensation. In the hiring process, highlighting the firm's culture, structure, and benefits policies can give a leg up in the talent acquisition process.

As we discussed earlier, we've seen…. Especially at the early-career level, there are opportunities to attract and keep talented professional using more than just cash compensation.

Figure 19: Quality of Firm's Training Program

With 58 percent saying that their firm's training is either weak or altogether *non-existent*, education is clearly an area for improvement. In order to win the long term war for talent, the smartest private equity and VC firms will do a better job of providing their professionals with timely and relevant training.

These programs can be are developed in-house or outsourced to firm such as Breaking Into Wall Street, which provides online programs for learning basic and advanced financial modeling.

Carried Interest

The carried interest allocation is typically around 20 percent of the fund's profit but can be much higher. This year we see the results of increasing downward pressure on this percentage. The total carried interest is distributed to fund team members based on their personal share of the fee, their personal carry.

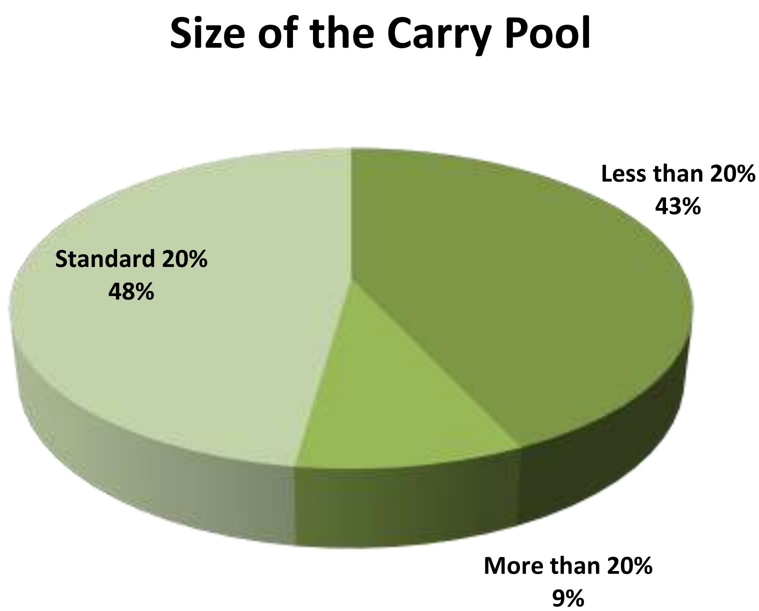


Figure 20: Size of Carried Interest Pool

This year only 48 percent reported the size of the carry pool was the "standard" 20 percent (that number was 53 percent last year). Additionally, 43 percent said that pool was less than 20 percent (only 36 percent last year).

The two greatest factors in determining whether a private equity professional will get carried interest as part of their compensation are….

We discuss both in more detail below.

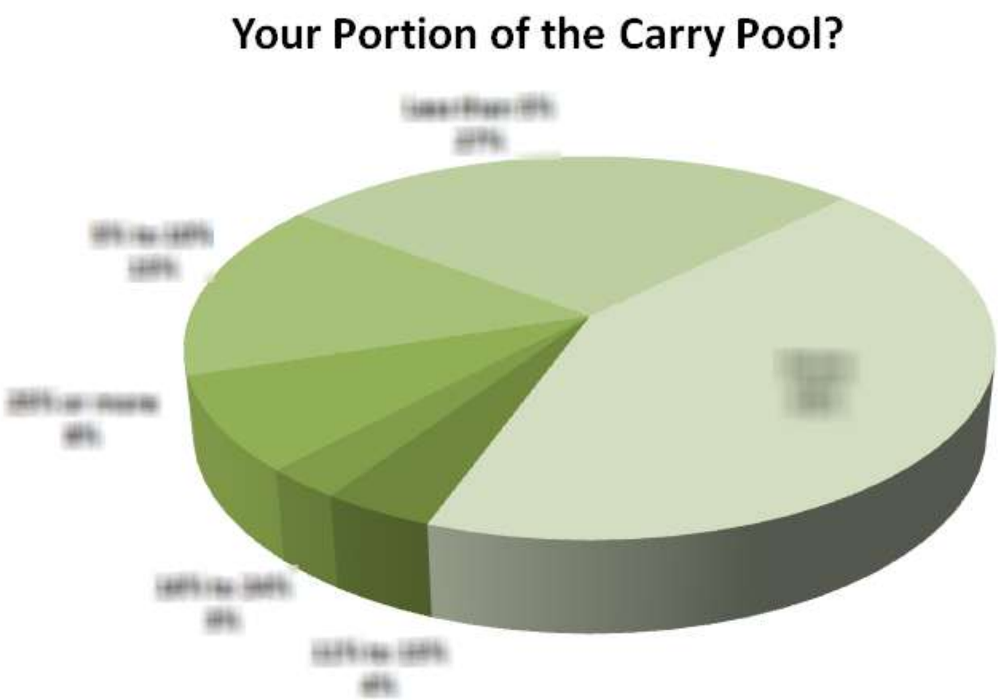


Figure 21: How Carry is Shared

Given that profits are required in order to realize upside, levels of carry payout still have not returned to pre-market crash levels. For those with carry, they report having an average holding period of …..

Showing a decrease this year, less than ____ of Associates and less than ____ of Senior Associates reported receiving carry. For these roles we typically see personal carry at a level of _______.

Again this year we drilled down even deeper into the allocation of the carried interest pool…

Below you will see three separate graphs, each representing a break out of how carry is allocated. The data is grouped by level within the firm: executive level, mid-level and lower level.

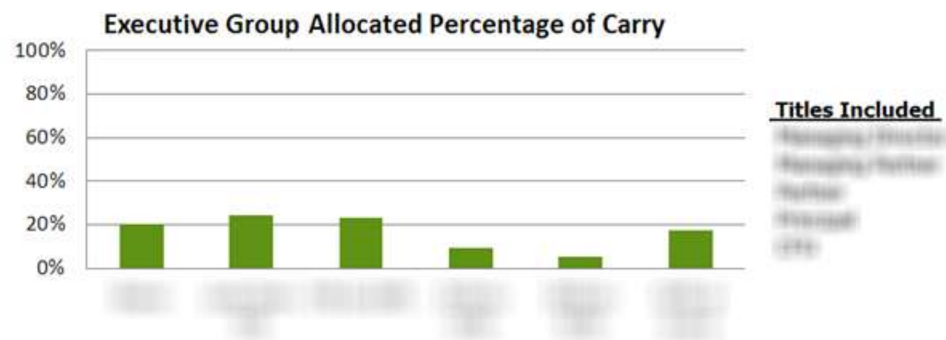


Figure 38: Executive Level Allocated Carry Percentages

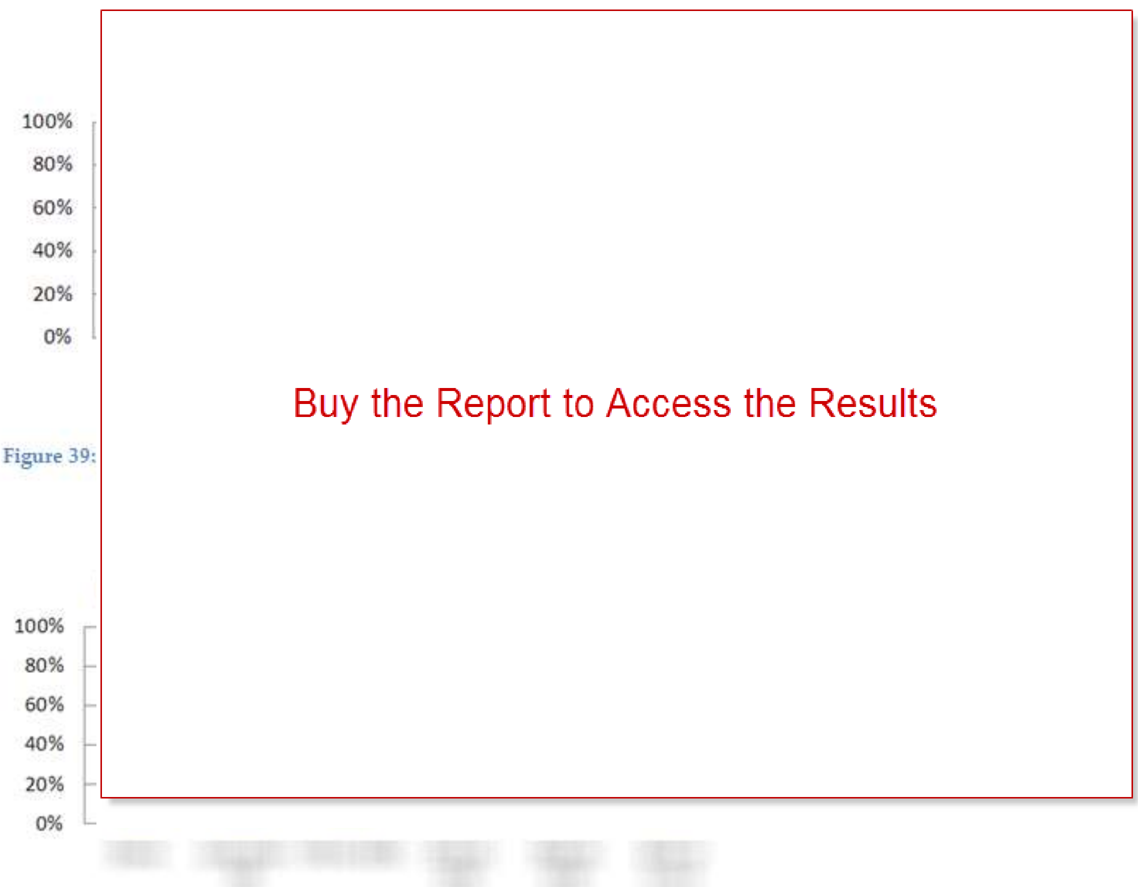


Figure 39:

Figure 40: Lower Level Allocated Carry Percentages