2011 Private Equity Compensation Report

PRESS VERSION

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Also, as you read this summary, you will see that we have highlighted (for quick reference) topics that your readers may find interesting.

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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 how private equity and VC compensation works.

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.

This year's report includes actual data from 2009 plus projected compensation numbers for 2010. As we collected the data in October and November of 2010 and did not see significant market events since that time, we feel comfortable presenting the 2010 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.

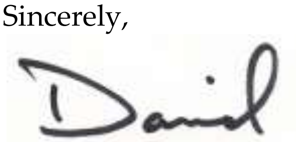
Although the discussion includes insights from industry analysts, understand that the data in this report is based solely on data collected directly from private equity and VC professionals.

Some of the big questions answered in this analysis include:

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

We're confident this report will give you what you need whether you are negotiating your own compensation package or setting benchmarks for your firm's compensation policies.

Sincerely,



David Kochanek, Publisher
www.PrivateEquityCompensation.com

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Executive Summary

The impact of the global economic downturn on private equity is evident in the big numbers: funds raised and the number of deals done. The peak of 2007, with more than $600 billion invested, now seems like a very distant past. In terms of the number of deals done, 2010 is likely to end up at a level roughly equal to pre-2004 levels.

With the level of funds raised and the capital being invested at a fraction of the rate from 5 years ago, and with fewer active private equity and venture capital firms remaining, continued negative pressures on compensation would be expected… but it didn't happen in 2010.

In 2010, a solid number of deal closings and many more exits than last year have led to improved compensation for just about every partner and employee at the firm. This is especially true at the bigger firms where economies to scale result in a higher level of earnings across nearly all positions.

The industry mindset has changed. Gone are the boom days when firms concentrated their efforts on financial engineering to the exclusion of operational improvements. Now it's about getting more from the portfolio companies. Operational management is back in favor and is requiring both job candidates and the firms to rethink the required skill sets for success.

Increase revenues and decrease costs - it's an old formula that is in style once again and it's driving up the value of portfolio companies and the firms that hold these investments. Welcome to the new normal.

Another industry trend to watch is the demand for internal fundraising team members. Fund managers are looking to broaden their investor base and need individuals with proven capital raising experience and close Limited Partner relationships. The challenge with these roles is setting up a compensation structure that works for the firm, the employee and the SEC.

This year's compensation report is primarily made up of U.S. responses, with about a quarter of the respondents representing executive management and half representing mid-level positions.

Not surprisingly, in a year where the big players are complaining they've been priced out of the market for buyout deals, private equity professionals reported an increase in total earnings over the previous year. With plenty of dry powder and the clock ticking on the time frame to make investments, funds are looking to put that money to work. This means more deals and greater demand for talent from both the investment and operational sides of the business.

As 2010 wraps up, a big percentage 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 13 percent - a welcome return to double digit increase levels. In fact, an impressive 45 percent expected double-digit increases over last year.

Is this a sign that better times in the private equity and VC markets are already here? We believe it is. We expect continued demand for junior level investment professionals, operational improvement players at the senior levels, and fundraisers. Add to this that firms are now positioning to keep talented professionals from leaving for greener pastures, and an upward compensation trend will likely continue in 2011.

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

- The annual average compensation for private equity and VC professionals was over $230,000 USD with an average 3.4 weeks of vacation earned.
- For the second year in a row, an increase in dissatisfaction with pay that signals a stronger market.
- Although usually an advantage, an MBA doesn’t guarantee better compensation, especially for those with 5 years or more of work experience.
- Primarily a function of fund size, venture capital firms tend to pay less for comparable positions in "pure play" private equity firms.
- Executive firm management saw little to no change in base compensation, however, expected bonus increases were reported in the 20 to 30 percent level.

The 2011 Private Equity Compensation Report should help job seekers better manage their pay expectations and fund managers establish compensation package benchmarks.

Methodology

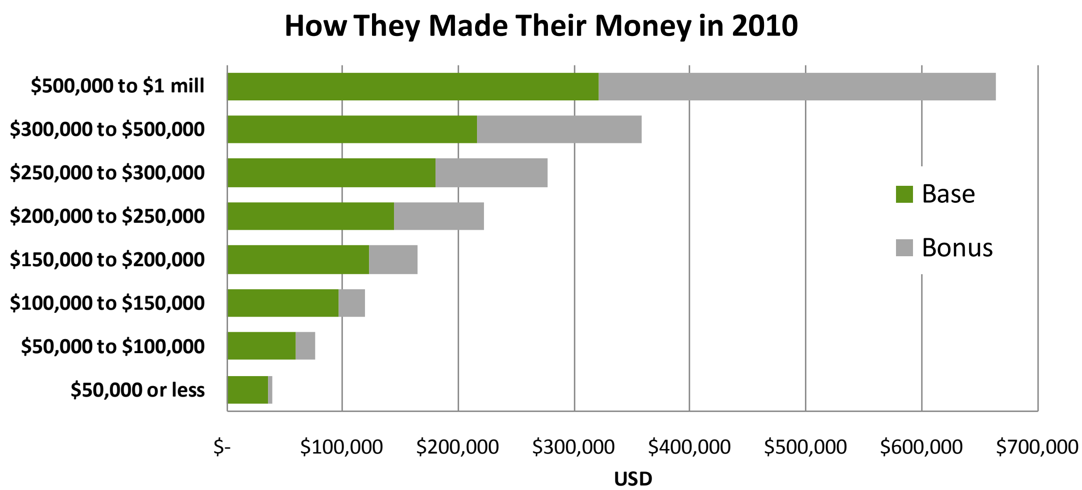
We surveyed hundreds of partners, principals and employees during October and November 2010 to benchmark compensation practices. Respondents represented firms from around the globe, with a strong concentration in North America. Included are some of the largest and most recognized private equity and venture capital firms and those that make up most of the industry, the small shops.

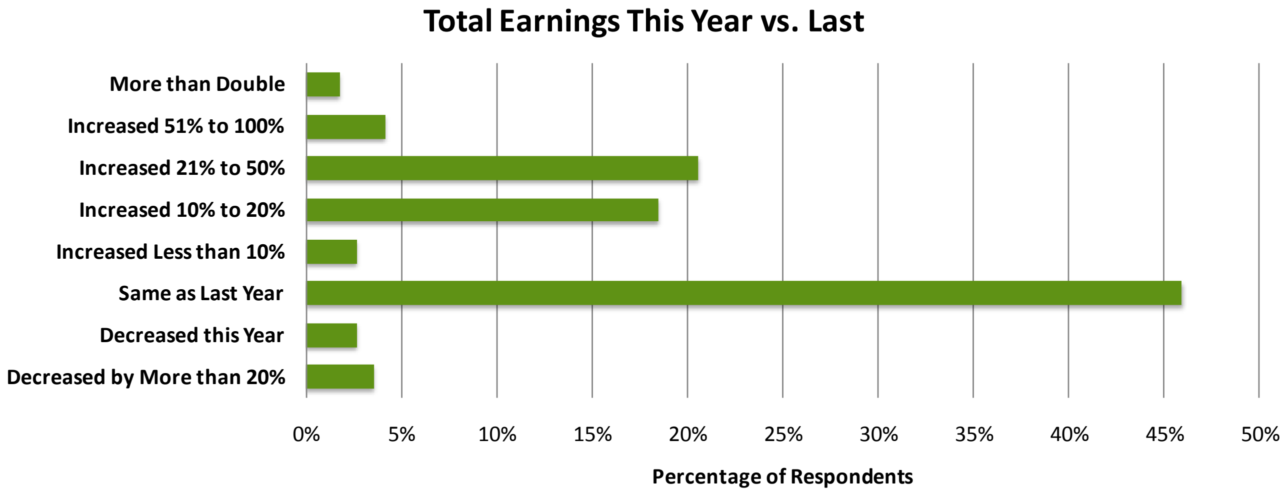
Some of the participating firms include (listed with permission):

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 bonus plays a part in determining compensation.

On average, bonus is reported at 36 percent of total compensation but for those making more than $300,000 the bonus accounts for 46 percent or more of total cash compensation.





The percentage of respondents reporting a decrease in compensation dropped from 16 percent last year to only 6 percent this year, a sign of stabilization in the private equity market.

On the other side of the coin, we saw very little change in the percentage of people reporting increases in their overall compensation; 52 percent to 48 percent.

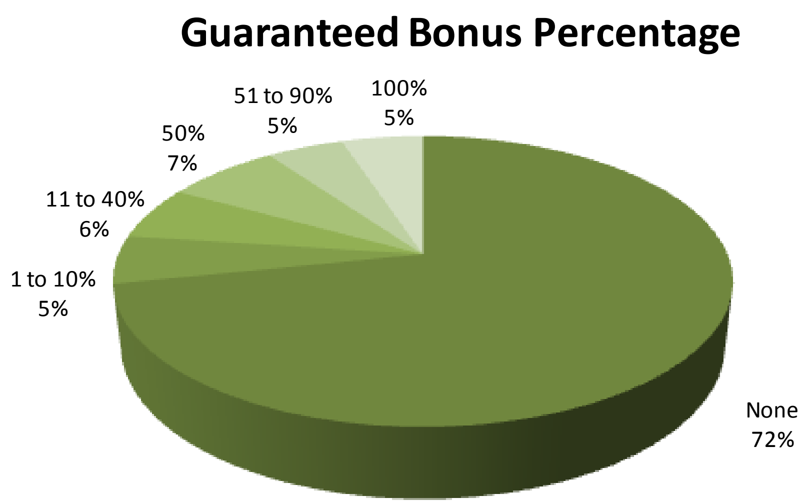
The biggest change came from those expecting double-digit increases over last year, an impressive 45 percent of respondents. Is this a sign that better times have already arrived in the private equity and VC job markets? We believe that it is. With the greater market demand for junior level investment professionals, firms are now positioning to keep talented professionals from moving and this trend will likely continue in 2011.

New regulations on reporting and need for courting new investors also expanded the desire build in-house teams for investor relations. When hiring these individuals, there is less focus on direct investment experience. Firms look for people with strong project management, communication skills, and marketing program development experience to fill these roles.

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 counter-parts. In total, 88 percent of this year's respondents stated they have some level of investment responsibility in their firm.

Bonuses for 2010 overall are expected to increase by more than 10 percent.

This year we saw that 28 percent had some level of bonus guarantees, although the levels were all across the board from 5 percent to 100 percent. Of those who did receive bonuses, only 12 percent were required to invest some amount of their bonus back into the fund.

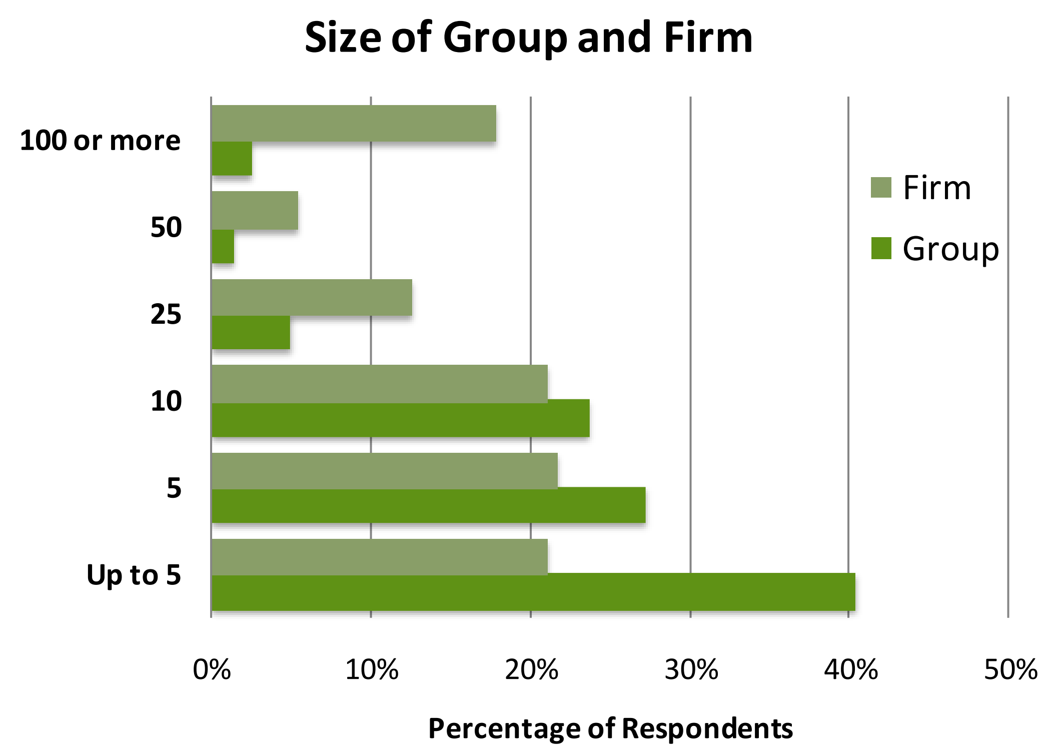


Senior management saw little to no change in base compensation, however, expected bonus increases were reported in the 20 to 30 percent level for CFO's, Directors, Investment Managers, and Principals. The highest expected bonus increases came from Managing Directors who expected a 33 percent bigger bonus this year.

Differences Between Firm Types and Fund Size

68 percent of respondents are part of *groups* with less than 10 team members and 91 percent have less than 25 team members.

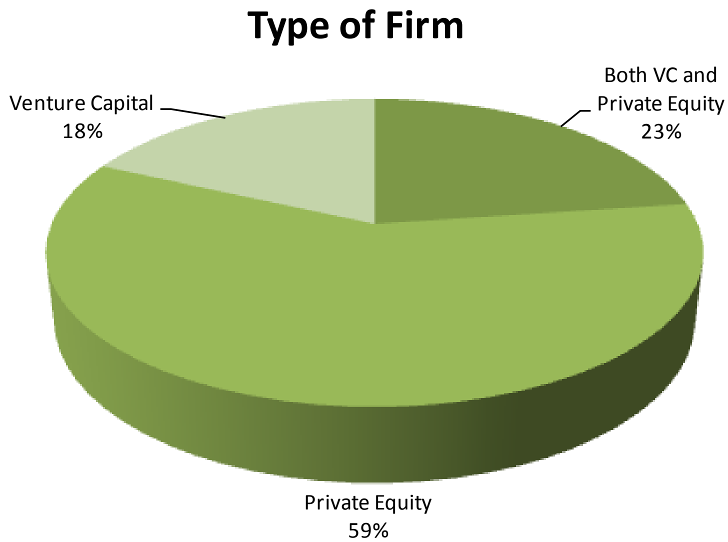
When looking at the *firm* size, 43 percent reported being part of a firm with less than 10 team members and 64 percent with less than 25.

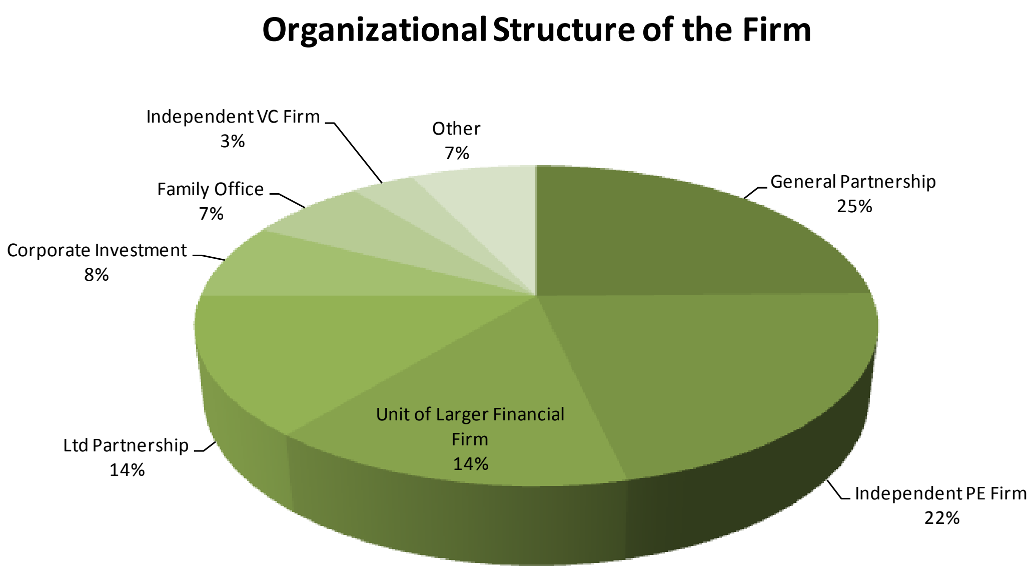


When looking at compensation averages by number of individuals in the firm, once again this year, mid-sized firms provide a compensation advantage over very large firms, especially when it comes to base salary.

Why? As we've reported in previous years, responsibilities and compensation vary significantly depending on the size and type of firm. Small to mid-sized firms have need for more experienced team members who can take on many responsibilities, and are willing to pay a small premium to get these players. We saw a greater proportion of firms identified as private equity or a combination of venture capital and private equity.

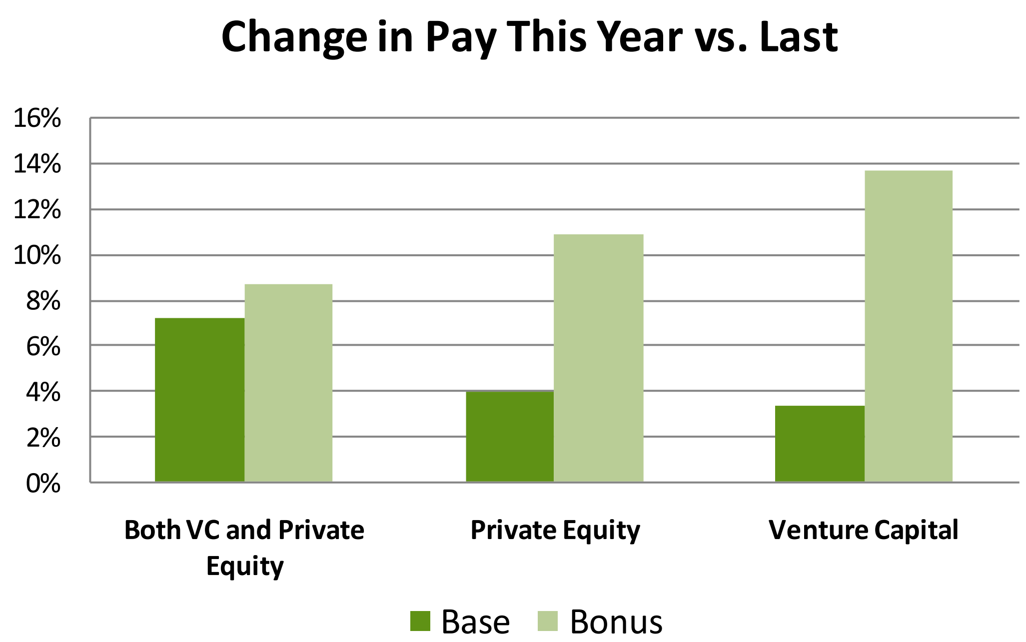
"A shakeout is taking place in the private equity sector..."





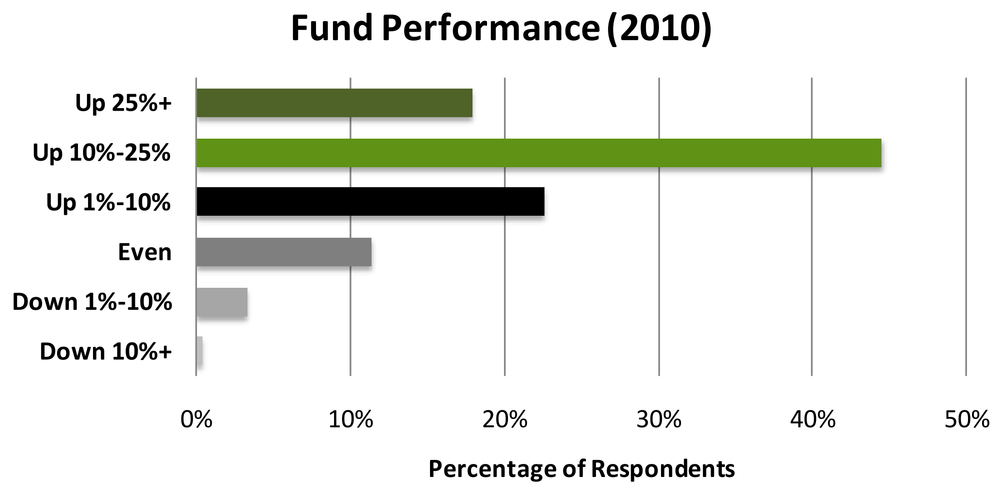
Common titles such as Associate, Director, Managing Director and Principal show different levels of compensation based on the type of firm. There are significant differences in total compensation across firm types, especially at the higher levels.

Continuing the trend, for most positions, the VC firms don't keep up with pure play private equity funds when it comes to compensation. One break out area for 2010 is the expected level of bonuses at the VC firms.

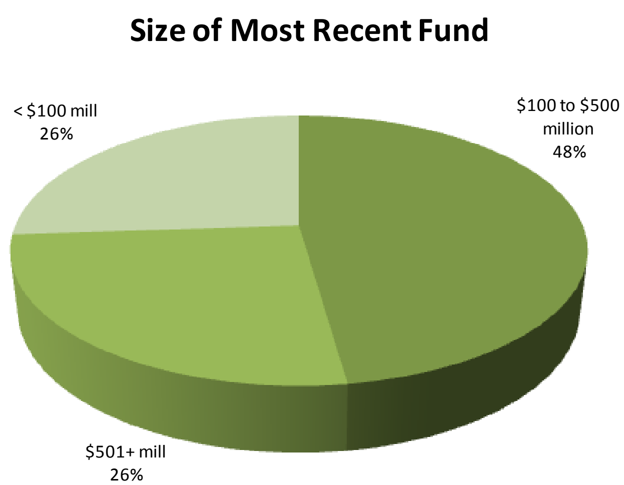


Last year, when it came to fund performance, about half of the firms reported positive fund performance. This year a whopping 85 percent of those reporting said their fund's performance was in the black.

Equally impressive is that this year only 4 percent reported negative returns for their fund.



The data represents a solid cross section of fund sizes and investment strategies, which provides a good perspective when base and bonus changes are compared year over year.

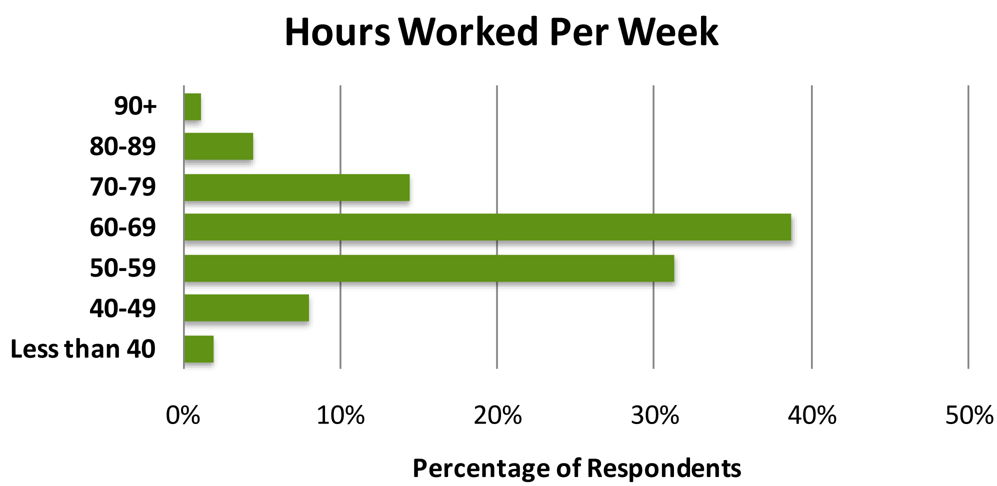


	Size of Most Recent Fund		
Average Base Salary	**< $100 mill**	**$100 to $500 million**	**$501+ mill**
Accountant/Controller	Buy the Report to Access the Results		
Analyst			
Associate			
Business Dev			
CFO			
Director			
Investment Manager			
Managing Director			
Managing Partner			
Partner			
Principal			
Senior Analyst			
Senior Associate			
Vice President			
Average Bonus			
Accountant/Controller	Buy the Report to Access the Results		
Analyst			
Associate			
Business Dev			
CFO			
Director			
Investment Manager			
Managing Director			
Managing Partner			
Partner			
Principal			
Senior Analyst			
Senior Associate			
Vice President			

Note: 2010 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.

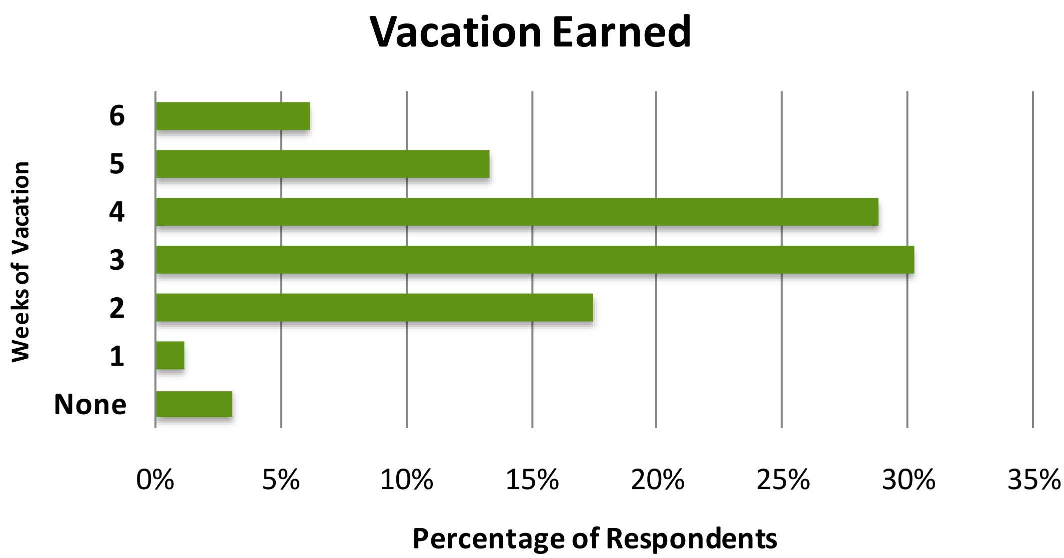
Hours Worked and Compensation

What does the typical private equity work week look like? 70 percent reported working between 50-70 hours per week, 20 percent work more than 70 hours per week and 8 percent work between 40 and 50 hours per week.

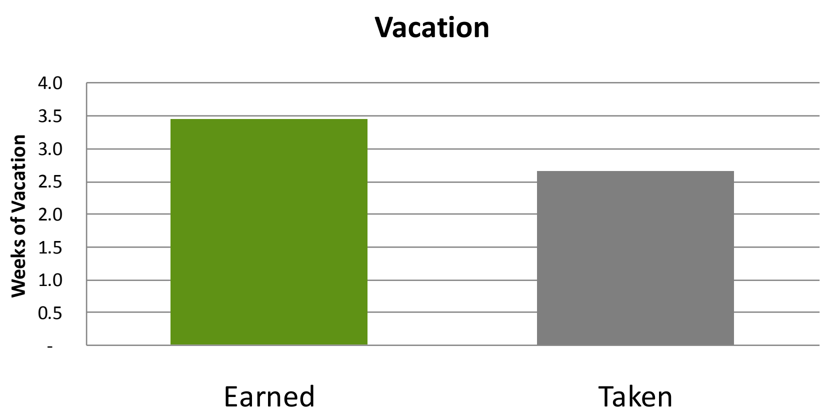


Hard work is en vogue again and it shows in the pay levels. The number of hours worked closely correlated to overall compensation levels (with the exception of a small number of people who worked more than 90 hours per week).

Money isn't the only form of compensation. Vacation in the industry is generous, with over 78 percent earning three weeks or more and almost have of respondents received 4 weeks or more. By U.S. standards, an average of more than three weeks of vacation earned is fairly generous, especially given short tenure with a firm.



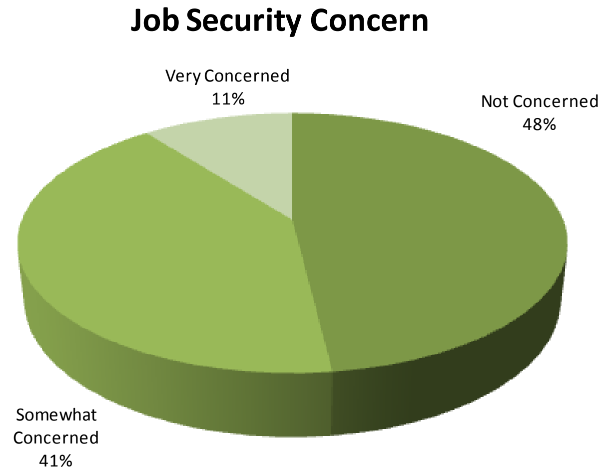
Of course, the average vacation earned is higher in Europe. In most cases, less vacation was taken than earned. The average vacation taken is 2.7 weeks (all countries included) versus 3.4 earned vacation weeks.

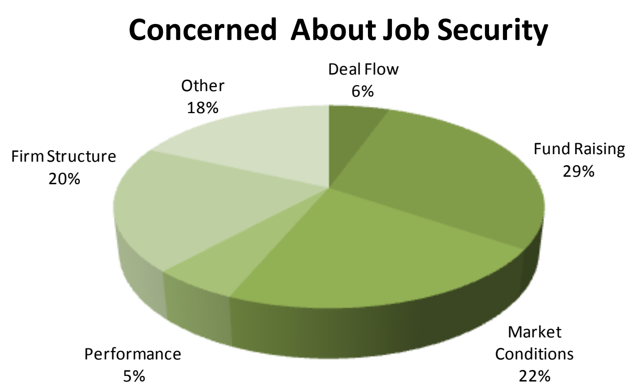


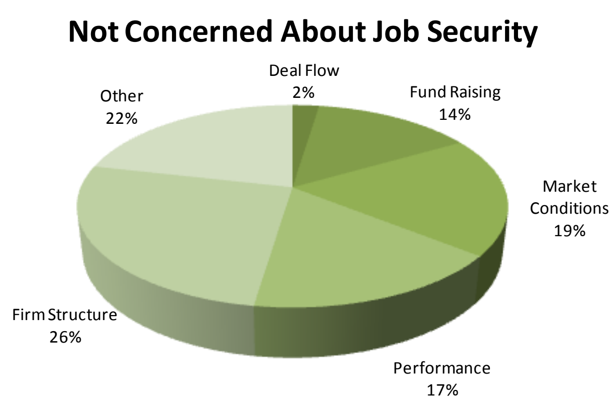
Job Security and Balance

Those concerned about job security primarily commented on fund raising ability and market conditions. Interestingly, market conditions played a big part in why many are not concerned about job security as well.

> *"Our firm has a reverse correlation to markets - more troubles, more demand."*

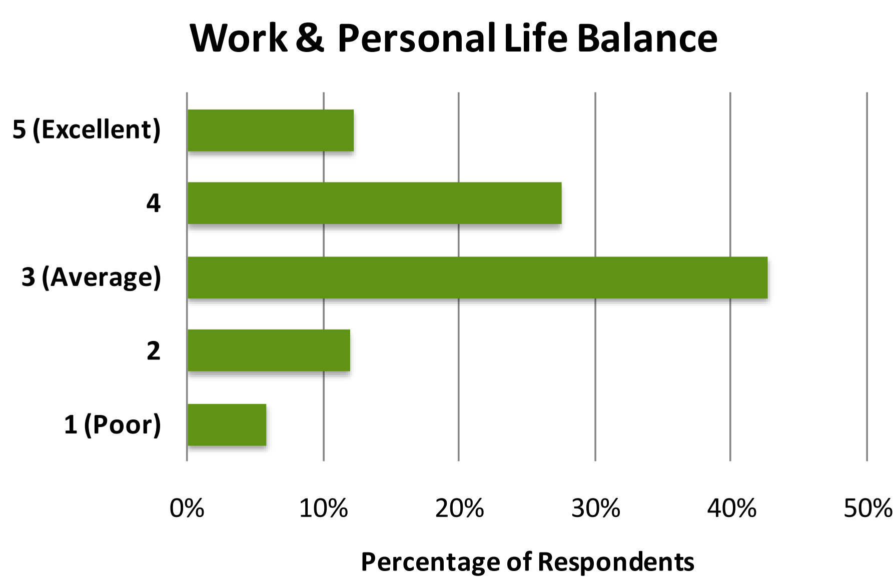






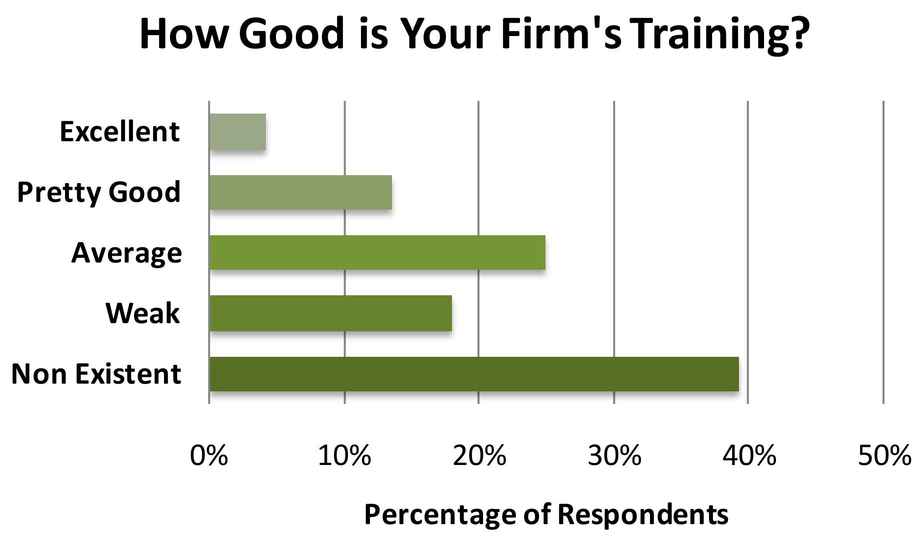
It is worth noting, the proportion of those worried about the firm's ability to raise the next fund and the lack of deal flow is down significantly from last year; another sign that the market is better than last year. Of course, raising capital is also key to hiring plans for next year.

When it comes to the balance between work and personal life, 40 percent report striking an above average balance.



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.

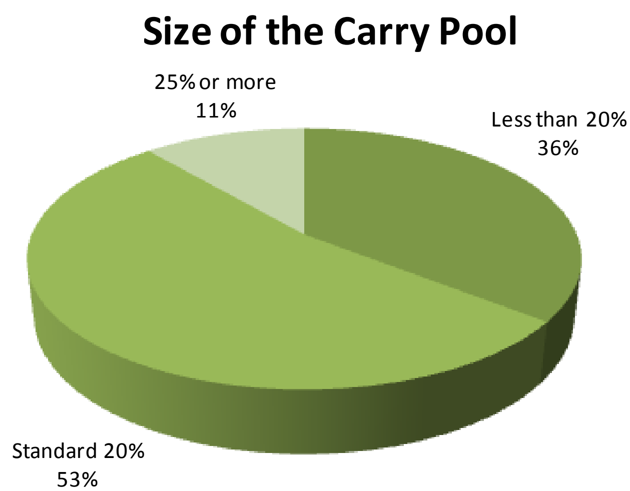
Whether we see an all out talent war or a slower demand increase, this will become more important in the next couple of years, as the demand for investment talent increases.



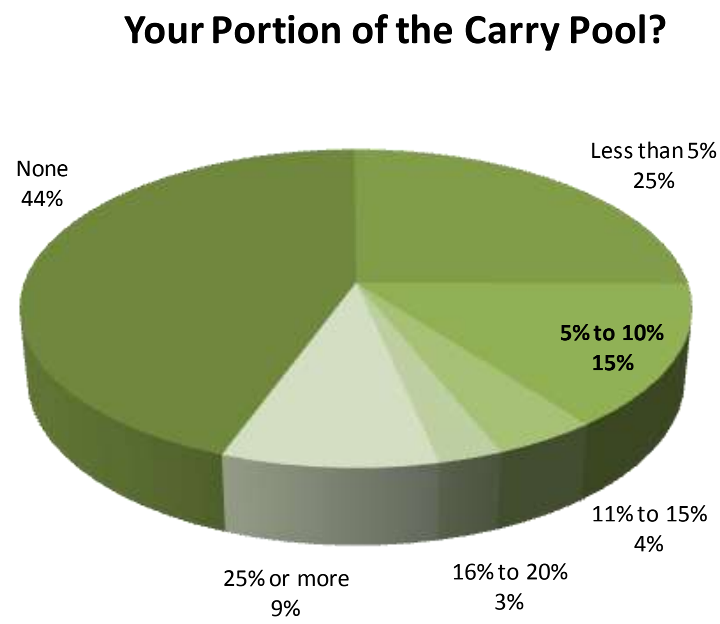
Training is clearly an area for improvement. In order to win the long term war for talent, the smartest private equity and VC firms will do a better job of providing their professionals with timely and relevant training.

Carried Interest

The carried interest allocation is typically around 20 percent of the fund's profit but can be much higher, although recently there is 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.



Unlike the hedge fund industry, where 70 percent say they receive no upside, more than half of private equity professionals reported receiving some level of carry.

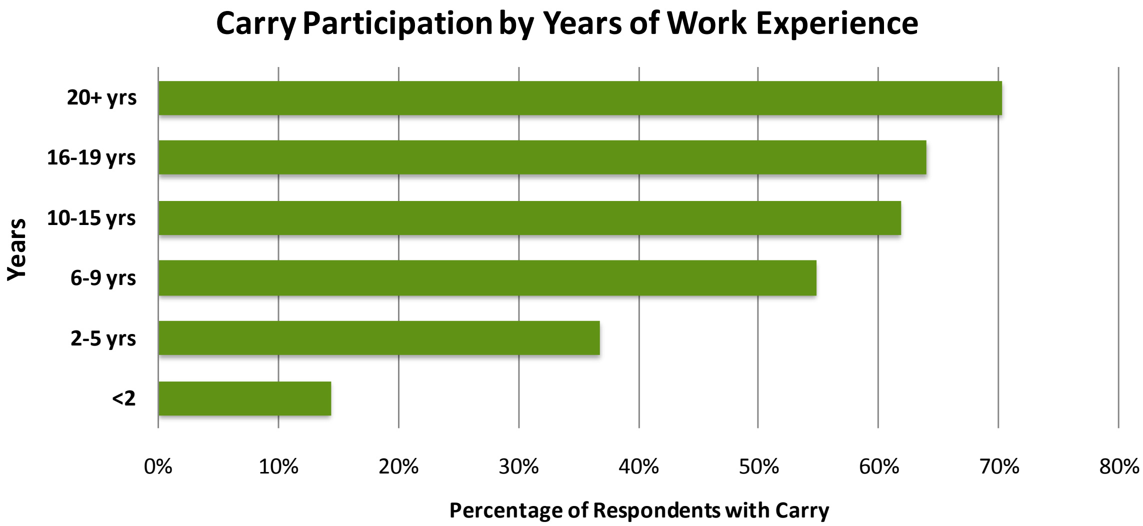


Given that profits are required in order to realize upside, levels of carry payout have not returned to 2007 levels.

For those with carry, they report having a holding period of just shy of 3.3 years to be fully vested in their carried interest.

> *"…we have synthetic carry that takes 4 years to vest…."*

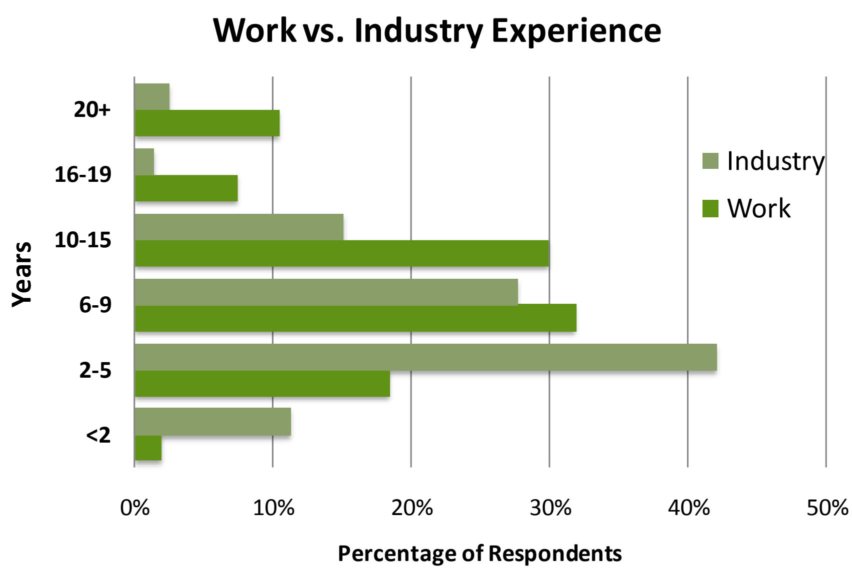
Perhaps the greatest indicator of whether one receives carry is the length of work experience; as more work experience usually translates into a higher level position. The majority of professionals with at least 6 years work experience have some level of carry as part of their compensation package.



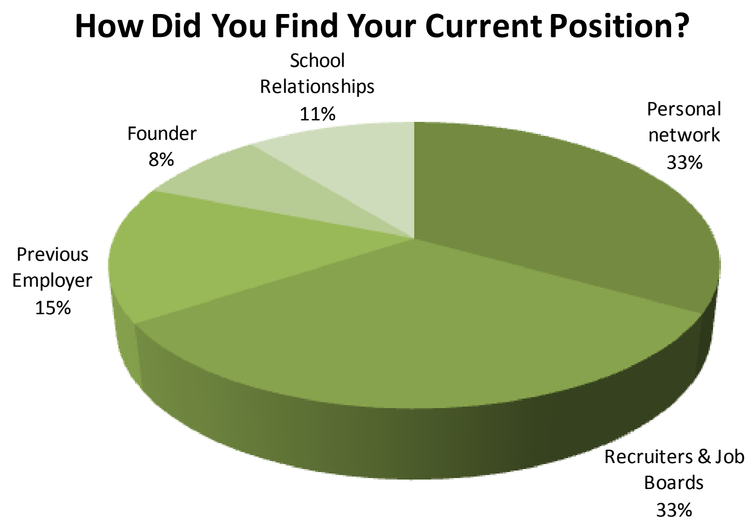
Education and Experience

This year, we saw a smaller difference between those with an MBA and those without (less than 50 percent of respondents have an MBA). If the firm is doing well, the size of one's bonus will often more than make up the difference for not having an MBA. The lesson here is to be sure to fully understand the firm's bonus program and payouts before signing on.

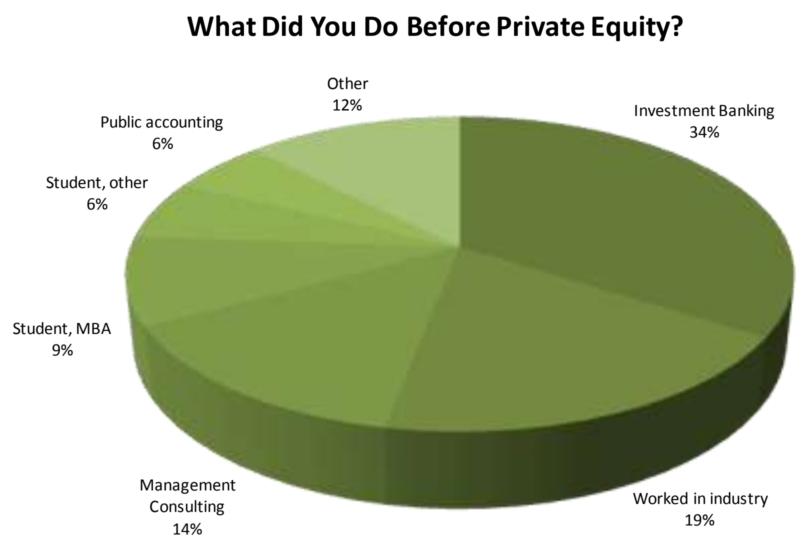
Overall, MBA's reported earning 10 percent more. However, if you have more than 5 years of work experience (not just investment experience), the differences almost disappear.



Again this year, respondents strongly represent the mid-career stage. On average, respondents are close to evenly split above and below the 10 year mark in terms of work experience. When it comes to private equity and venture capital experience, that split is closer to 5 years.



How people find private equity jobs varies, however, there are two sources primarily driving hiring: personal network and recruiters & job boards. Previous employer relationships and school relationships (both career center and alumni) also play a role in getting people hired.



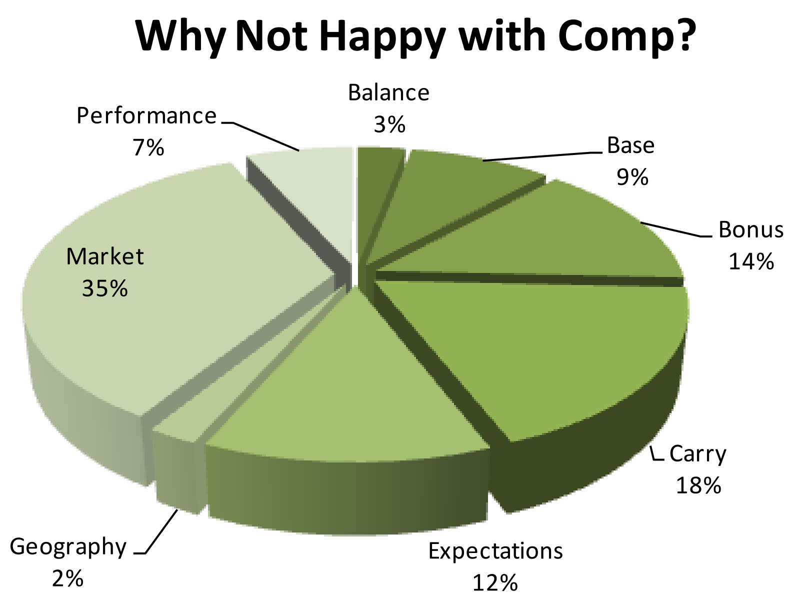
Although an investment banking background is common, there is no standard entry path into private equity. Both management consulting and working in industry are also significant sources of private equity talent.

Pay Satisfaction

"I'm not a complainer. If I wasn't satisfied, I would leave."

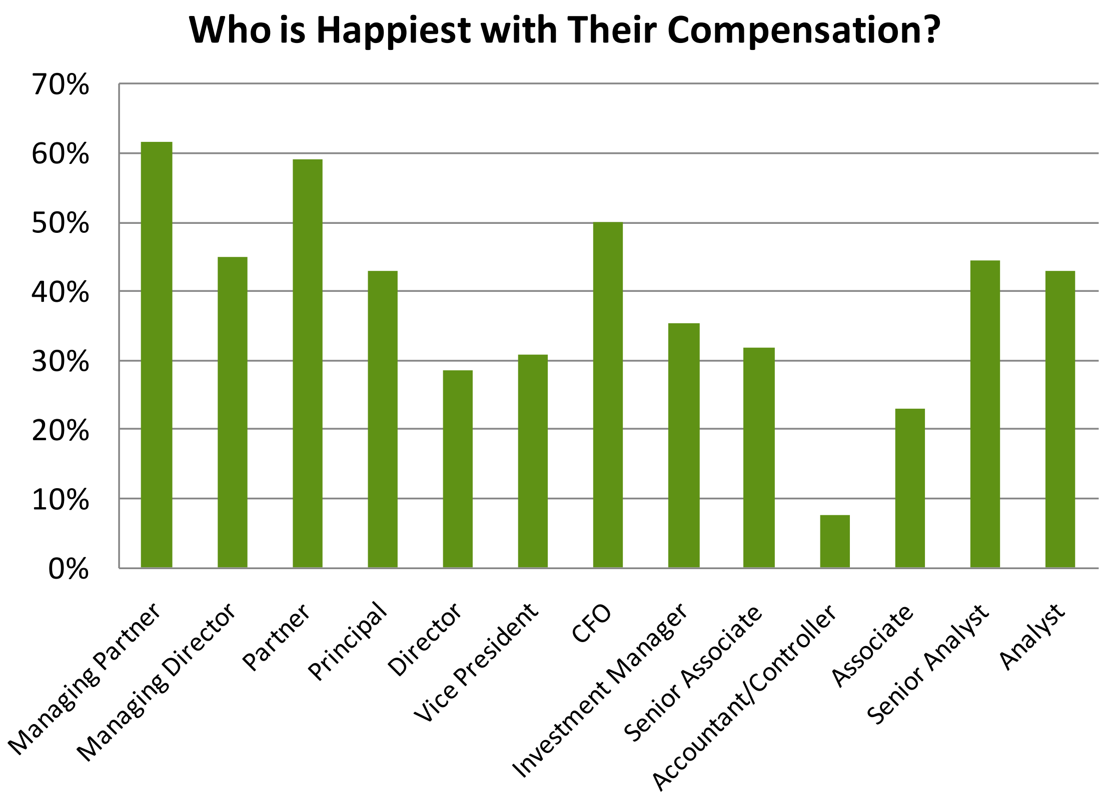
Most private equity firms do not survey their own team members for job satisfaction rating in a meaningful way. The risk, of course, is the surprise loss of a top performing investment professional.

As we've seen in past years, satisfaction with compensation is inversely related to market conditions. When the market improves, the desire for higher earnings trumps job security. Partners take note: those who are dissatisfied with their compensation are often not concerned with job security, which could mean a near-term employee exit is likely.



This year 36 percent reported being happy with their compensation. Last year that number was 40 percent. This is two years in a row that compensation satisfaction has decreased; a sure sign that the private equity job market is heating up again.

History is likely to repeat itself here. Back in 2007, when only 26 percent stated they were happy with their compensation, the industry was realizing big profits and professionals were hearing "whisper numbers" about greener pastures from their industry contacts. Happiness is a relative state and a down-turned market can produce contentment via dampened expectations; the opposite is also true.



Where we saw the greatest increase in pay satisfaction this year was at the Analyst and Senior Analyst level. Managing Partners and Partners both reported satisfaction increases while Managing Directors reported a decrease in satisfaction.

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Private Equity Careers Guide

Private

Changes Needed for Venture Capital Compensation

No less than the president and the CEO of the noted Kaufman Foundation, the $1.8 billion endowment fund that promotes entrepreneurship, are saying that the current VC model is broken.

In an article in Business Week, Carl Schramm and Harold Bradley say the prominence of American venture capital has taken a tumble from its heyday in 2000. The industry that spawned such successes as Apple, Cisco, Google and Microsoft, only invested $4.8 billion into 637 companies in 2009 (and that's down 33 percent from 2008).

Schramm and Bradley believe the "2 and 20" formula (2 percent of annual management fees and 20 percent of profits on exit) is to blame. The formula worked well two decades ago, when most VC investors were wealthy individuals with "patient capital," who were willing to wait 10 years for a start-up to blossom. But in the past decade, more and more institutional money has flooded into the VC industry. These big corporate and public pension fund investors are willing to commit huge chunks of money on the same 2 and 20 terms. But the higher capital volumes generate sizeable management fees for VC funds, which encourages VCs to focus more on raising funds than on nurturing start-ups along the long road to success.

And since institutional investors are under pressure to show short-term returns, VC funds started "flipping" their start-ups after just a few years, to create quick payoffs.