

# 2010 Alternative Asset Management Compensation Survey



## Private Equity - North America Report

Current Trends in Design and Levels Of Compensation in the Private Equity Industry

Price: \$2,400 USD

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## Survey Background

From 2002 through 2009, Holt Private Equity Consultants conducted a joint venture private equity compensation survey with the Private Equity Analyst publishing company (The latter was acquired by Dow Jones in 2005). This survey generally has been known as the “Holt Survey.”

This year, the Holt firm joined forces with MM&K Limited, a consulting firm in London, which does surveys of both private equity and hedge fund organizations. These two firms also are partnering with Grahall Partners, a New York based firm that consults and surveys with Hedge Funds as well as other financial institutions. The “new” survey is labeled the “Alternative Asset Management Compensation Survey” in order to differentiate it from the prior surveys and to include other than private equity firms.

This report, issued by the Holt and Grahall firms covers employees of Private Equity firms in the U.S. (see participant list on page 10). Our survey partner MM&K provides a separate report covering employees of Private Equity firms in the U.K and the rest of Europe. Both reports will provide similar data on employees in Asia.

# About The Authors



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Holt Private Equity Consultants specializes in assisting clients with private equity organizational and human resources issues, including 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 he conducted private equity 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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MM & K is a leading independent consultancy specializing in the planning, design and implementation of pay and reward strategies.

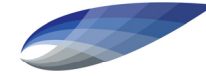
Founded in 1973, MM & K focuses on directors and senior executive remuneration, but we have added other services to support our clients' needs through the acquisitions of Independent Remuneration Solutions and The Share Option Centre and the launch of higher talent our specialist recruiter of HR professionals.

We put into place strategies that ensure client remuneration programmers are integrated with business goals. Experience shows us that when a company achieves this integration, the overall competitiveness and value of the business increases substantially.

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

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GRAHALL

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Grahall is a diversified human resources firm founded on a deep appreciation of the impact of human capital on organizational success. With a heritage total reward strategy including executive and employee compensation, benefits, recruiting and change management, our mission is to help make our clients successful.

Grahall has a long history of working with the unique challenges associated with the management of these unique asset management organizations. We provide knowledge, solutions, and resources to make you and your organization more effective.

We assist alternative asset management firms in the following major areas:

- Recruiting new staff (both investment and non-investment staff)
- Evaluating and structuring executive compensation offers and contracts
- Recommending appropriate compensation for partners and staff subordinates
- Designing reward programs to reach the goals of the founders, owners and organization
- Coaching fund employees on their own and their staff's development

# Scope and Methodology

## Data Collection – Part I (“How”)

We used an on-line survey tool to collect data concerning financial and operations information; staffing data; and the design of compensation plans to include salary, bonus/incentive plans; carried interest plans; co-investment plans; and employee benefits.

Tables and exhibits for part I of the survey were created based on actual responses. In cases where participants left blanks the responses were not included in the calculations.

The table below is a example of the exhibits we provide to summarize data collected on Part I of the survey

**Sample Table: Committed Capital by Firm Type**

Fund Type	Committed Capital									
	Most Recent Fund					All Active Funds				
	# Firms	Avg.	25th	50th	75th	# Firms	Avg.	25th	50th	75th
LBO/Growth Equity	23	\$516	\$226	\$403	\$761	27	\$1,485	\$394	\$1,000	\$2,400
Venture Capital	31	\$643	\$118	\$300	\$600	33	\$1,244	\$250	\$650	\$1,200
Mezzanine	8	\$329	\$176	\$265	\$500	9	\$893	\$412	\$700	\$1,250
Institutional	26	\$247	\$105	\$199	\$267	26	\$875	\$222	\$369	\$1,103
Fund of Fund	6	\$1,324	\$340	\$567	\$1,267	10	\$2,089	\$765	\$1,265	\$2,470
Corporate Venturing	5	\$195	\$150	\$200	\$250	5	\$270	\$150	\$250	\$325
All Firms	73	\$594	\$175	\$300	\$630	84	\$1,326	\$316	\$753	\$1,575

# Scope and Methodology

## Data Collection - Part II (“How Much”)

We used an excel spread sheet to collect 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.”

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

**Sample Table: PE02 Senior Partner / Senior Managing Director (s) – All LBO, Mezzanine and VC combined**

Base Salary (\$000)					Salary + Bonus (\$000)					Salary + Bonus + Carry Distribution (\$000)				
Count	Avg.	25th	50th	75th	Count	Avg.	25th	50th	75th	Count	Avg.	25th	50th	75th
53	482.2	250.0	375.0	490.0	53	809.0	437.0	700.0	1,027.4	53	1,023.0	514.0	996.0	1,416.6

CI % of Most Recent Fund					Dollars At Work Most Recent Fund (Millions)					Dollars At Work All Active Funds (Millions)				
Count	Avg.	25th	50th	75th	Count	Avg.	25th	50th	75th	Count	Avg.	25th	50th	75th
52	2.83%	1.62%	2.71%	3.69%	52	9.98	3.79	8.25	14.94	52	21.92	6.92	14.81	30.03

### Studied Positions

- PE01 - Managing General Partner(s) / CEO
- PE02 - Senior Partner / Senior Managing Director(s)
- PE03 - Partner / Managing Director(s) / Portfolio Manager
- PE04 - Principal / Vice President / Director(s)
- PE05 - Senior Associate(s)
- PE06 - Associate(s)
- PE07 - Senior Analyst(s)
- PE08 - Analyst(s)
- AS01 - Chief Operating Officer (COO)
- AS02 - Administrative/ Office Manager
- AS03 - Executive Assistant
- AS04 - Secretary/ Administrator
- AS05 - Receptionist
- FN01 - Chief Financial Officer (CFO)
- FN02 – Controller
- FN03 - Assistant Controller
- FN04 - Senior Accountant
- MK01 - Chief Marketing Officer/ Head of Marketing
- MK02 - Marketing Manager
- IR01 - Investor Relations Director/ Head of Investor Relations
- IR02 - Investor Relations Manager
- LG01 - Chief Legal Counsel
- IT01 - Chief Technology Officer
- IT02 - Information Technology Manager

# Scope and Methodology

## Data Collection - Part II (“How Much”)

### Compensation Tables

**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, if we average the 10 incumbents and treat them as one, we eliminate this issue.

**Mix of Compensation Types:** The mix of pay also can vary among firms. Some firms pay high salaries and low bonuses (the historic venture capital model). Others pay low salaries and large bonuses (the historic LBO model). Many firms believe that carried interest is the key compensation component – at least for higher level employees - as it rewards for actual long-term positive performance. These firms may pay low salaries and 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 carried interest distributions.

**Carried Interest Plan Allocation:** For higher level positions, we show three carried interest allocations. The first is the percent of the most recent fund. Firms once used percent of the carry but this cannot adequately be used for comparison purposes because not all firms use 20% for overall carried interest. We normalize the data by using percent of the fund.

Next we show the carried interest “dollars at work.” This is more meaningful than any percent because it is the dollars at work that can result in realized investment gains. We review the dollars 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 (Note that in addition to type and size of firm we show data for California, The North East (United States), as well as for Asia Pacific.

### Regressions Analysis

Simple regression analysis was conducted for some of the position within the survey to define the relationship between compensation (base salary and base plus bonus) and organization committed capital (all active funds). The regression analysis results are provided for those 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). Only LBO, Mezzanine, and Venture Capital firms were used in the calculations as other firm types employ a different compensation structure.

# Scope & Methodology

## Participant List

- 3i
- ABS Capital Partners
- Accuitive Medical Ventures
- American Infrastructure MLP
- Ampersand Ventures
- Arcano Capital
- Ascension Health Ventures
- Atlas Venture
- Bank of America Merrill Lynch
- Black River Asset Management
- Blue Point Capital Partners
- Brazos Private Equity Partners, LLC
- CapStreet Group
- Cargill Ventures
- Central Valley Fund
- Clairvest Group Inc.
- ClearLight Partners
- CMEA Capital
- Code, Hennessy, & Simmons, LLC
- Collier Capital Limited
- DCM
- DeNovo Ventures
- Edgewater Funds
- EnerTech Capital LLC
- Frazier Management
- Gov't of Singapore Investment Corp.
- Great Hill Partners, LLC
- Greenbriar Equity Group, LLC
- Grotech Ventures
- Gryphon Investors
- Hartford Ventures
- Hilco Consumer Capital InnoCal
- Institutional Venture Partners
- Intermediate Capital Group
- Internet Capital Group
- Intersouth Advisors, Inc.
- Investcorp
- JAFCO Ventures
- JMI EQUITY
- Key Principal Partners Corp
- Longworth Venture Partners
- Lovell Minnick Partners LLC
- Madrona Venture Group
- Marlin Equity Partners
- Montagu Newhall Associates, Inc.
- National City Equity Partners
- New Enterprise Associates
- New York Life
- Nexit Ventures
- Northern Light Venture Capital
- Northstar Capital, LLC
- Norwest Equity Partners
- Norwest Mezzanine Partners
- Norwest Venture Partners
- Palladium Equity Partners
- Panorama Capital, LLC
- Pappas Ventures
- Park Street Capital, LLC
- Penta Investment Limited
- Peterson Partners
- PNC (LBO)
- PNC (Mezz)
- Prospect Capital
- Prudential Financial
- QuestMark Partners
- RCP Advisors LLC
- Red Diamond Capital, Inc.
- Riverlake Partners
- Riverside Partners, LLC (RCAF)
- Riverside Partners, LLC (REF)
- Riverside Partners, LLC (RMCF)
- SAP Ventures
- Scale Venture Partners
- SSM Partners
- Steamboat Ventures
- Sterling Group, L.P.
- SV Life Sciences Advisers
- SVB Capital
- Third Rock Ventures, LLC
- Thoma Bravo LLC
- Twin Bridge Capital Partners
- Valhalla Partners
- VantagePoint Venture Partners
- Voyager Capital LLC
- Wind Point Partners

# Scope and Methodology

## Number Of Firms By Type and Size

### Part I: “How”

- LBO/Growth Equity (27 firms)
- Venture Capital (33 Firms)
- Mezzanine (9 Firms)
- Institutional (26 Firms)
- Fund of Fund (10 firms)
- Corporate Venturing (5 Firms)

### Part II: “How Much”

- LBO/VC/Mezz
  - All (66 Firms)
  - Large:\$1.5 billion plus (21 Firms)
  - Mid-size: \$500 million – \$1.499 billion (23 Firms)
  - Small: up to \$499 million (22 Firms)
- LBO
  - All (33 Firms)
  - Large: \$1.5 billion plus (11 Firms)
  - Mid-size:\$500 million - \$1.499 billion (13 firms)
  - Small: up to \$499 million (9 Firms)
- VC
  - All (23 Firms)
  - Large: \$1.5 billion plus (7 Firms)
  - Mid-size: \$500 million - \$1.499 billion (7 firms)
  - Small: up to \$499 million (9 Firms)
- Mezzanine
  - All (10 Firms)
  - Larger : \$ 1 billion plus (5 Firms)
  - Small to Mid-size: under \$1 billion (5 Firms)
- Fund of Fund
  - All (10 Firms)
  - Large: \$1.2 billion plus (5 Firms)
  - Small to Mid-size: under \$1.2 billion (5 Firms)
- All Corporate Venturing (2 Firms)
- Institutional
  - All (18 Firms)
  - Large: \$1.2 billion plus (8 Firms)
  - Small to Mid-size: under \$1.2 billion (10 Firms)
- North East (22 Firms)
- California (25 Firms)
- Asia Pacific (9 Firms)