The 2010 Preqin Private Equity Compensation and Employment Review
- Sample Pages

About Preqin

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests. Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press.

For more information please visit www.preqin.com

About FPL Associates L.P.

For over twenty years, FPL Associates, a member of the FPL Advisory Group family of companies, has provided a range of specialized consulting and finance-related services in the areas of compensation, management consulting, corporate finance and leadership. As part of our compensation services, we assist clients in the assessment, design, and implementation of compensation programs for professionals and Board members in the real estate, financial services, and related industries. We specialize in crafting performance management and reward systems that align management interests with the achievement of strategic business objectives. Additionally, FPL Associates' affiliate, Ferguson Partners, provides expert executive, director, and professional recruitment services to specialized industry sectors. The firm is headquartered in Chicago and maintains offices in London, New York, San Francisco, and Tokyo.

For more information please visit www.fplassociates.com

Baker & McKenzie

About Baker & McKenzie LLP

Since 1949, Baker & McKenzie has evolved as the world's leading law firm, with over 3,900 locally admitted lawyers in 69 offices across the globe. The firm's commitment to excellence and fluency are reasons why we have more lawyers listed in more countries in Chambers Global Directory of the World's Leading Lawyers than any other global firm. Baker & McKenzie's Private Equity Group provides global advice and representation for private equity firms, fund sponsors and institutional investors on all aspects of private equity transactions - from the establishment and structuring of new funds, to operations, acquisitions and dispositions, to the final exit planning and liquidation.

For more information please visit www.bakernet.com/privateequity

Contents

Executive Summary

The number of active private equity firms has grown steadily year on year since the emergence of the industry. Despite the economic downturn, the number of firms actively managing a private equity fund has continued to grow in 2009, with 412 new firms established worldwide this year as of October, bringing the total to 4,270, as Fig. A shows. When private equity firms that do not raise distinct private equity funds (i.e. those that manage corporate or personal capital and those that manage third-party capital without pooling into a commingled private investment vehicle) are included, the figure is more like 6,000. In addition, it is important to also note that beneath this lies a further tranche of smaller firms that invest lesser sums of capital, raising money from private sources such as friends and family.

The US remains the most developed country for private equity and this is reflected in its share of the number of firms headquartered there. North American firms represent 53% of the total number of private equity fund managers worldwide, and the overwhelming majority of these are based in the US. It therefore comes as no surprise that the US is by far and away the leading country when it comes to the number of people employed within the private equity industry, as shown in Fig. B. Out of the estimated 69,100 employees working in the industry worldwide, US-headquartered private equity firms employ an estimated 38,500, well over half of the global total. Six of the top 10 cities by private equity employment are in the US.

Fig. A: Number of Active Private Equity Firms over Time by Vintage of First Fund Raised

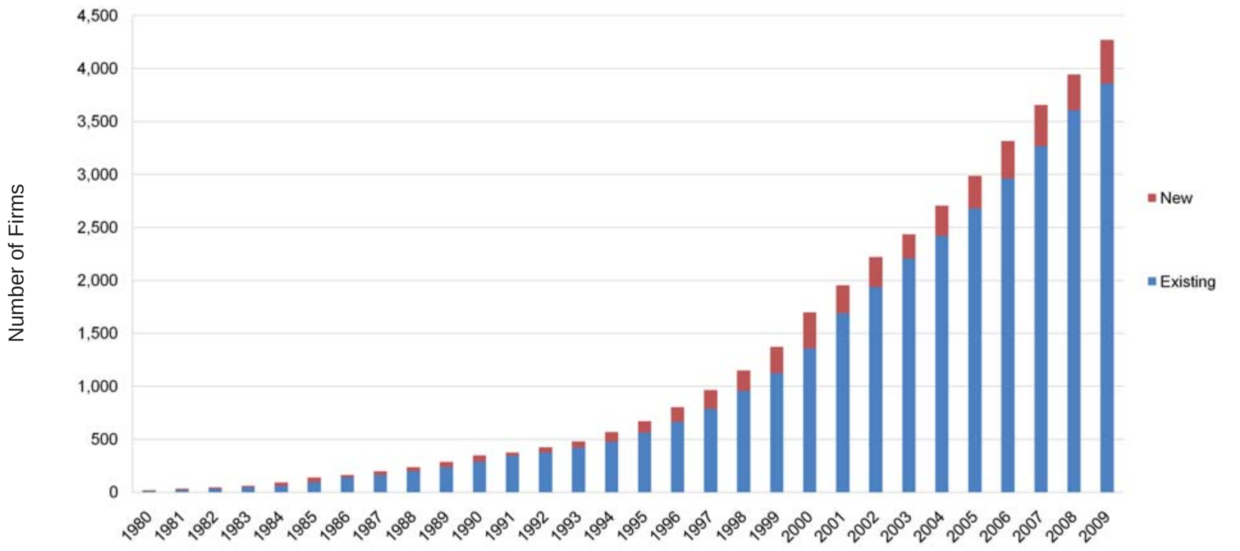


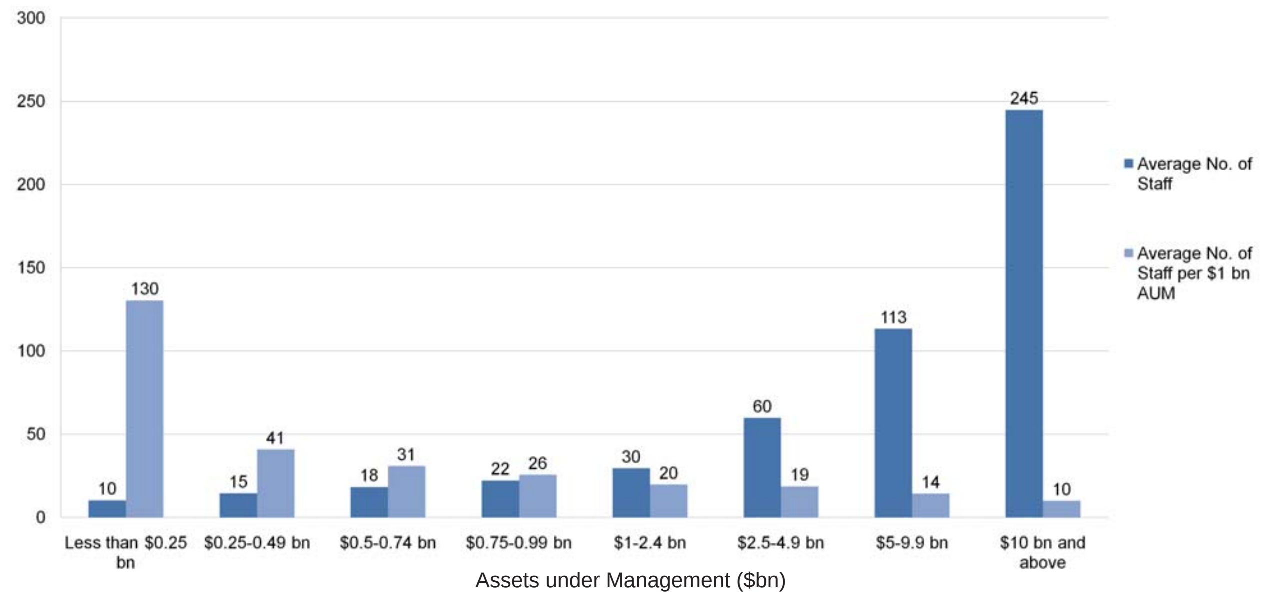
Fig. B: Estimated Private Equity Employment by Country

Country*	Estimated Total Employment
US	38,500
UK	7,700
France	2,300
Germany	1,500
Australia	1,400
Canada	1,400
Japan	1,100
India	1,000
Hong Kong	900
Switzerland	900
China (exc. Hong Kong)	800
Italy	800
Sweden	800
Israel	600
Netherlands	600
Other	8,800
Total	**69,100**

*Based upon location of head office for each firm

Venture and buyout focused firms employ the largest number of people, with each sector accounting for around 30% of the total, despite the fact that buyout firms manage well over twice the amount of assets that venture firms manage, suggesting that large private equity firms can benefit from significant economies of scale. Fig. C shows both the average number of staff and the average number of staff per $1 billion in assets under management at private equity firms of varying degrees of size. Although, as one would expect, the average number of employees rises as the size of the firm increases, the average number of employees per $1 billion in total assets falls progressively with each increase in firm size. The smallest group of firms have, on average, one employee for every $7.7 million in total assets, whilst firms with $10 billion or more in total assets have an average of one employee for every $100 million managed.

Fig. C: Number of Employees in Private Equity by Firm Size



Since the management fees that private equity firms collect are almost universally calculated as a percentage of total investor commitments to a firm's funds, one would expect that the percentage rates charged by the largest firms would be lower than those charged by smaller firms, given the economies of scale that the larger firms enjoy. The analysis in Chapter 5 of this Review shows that the larger funds do indeed generally have lower management fees than the smaller funds; however, these lower fees only partially reflect the economies of scale that the larger firms benefit from. As a result, the operating economics of the largest funds are very favourable and the management fees earned by these vehicles have become a significant source of income for their managers.

Consequently, and particularly in light of the current economic climate and its effects on the GP/LP relationship, there is pressure from LPs on GPs of the larger funds to reduce the management fee rates for new vehicles looking to raise capital. Investors are seeking to bring management fee levels more in line with the actual costs associated with running funds of different size and type. Evidence for this can be seen in Chapter 5 of this Review, which shows that the biggest decreases in management fees for the most recent funds have come from the largest groups of both buyout and venture funds.

From the results of the compensation survey, which can found in Chapter 7 of this Review, it appears that the favourable operating economics of the largest funds are channelling through to remuneration for employees at these firms to some extent. For example, the average total remuneration for a managing general partner of a private equity firm in the smallest size group in our sample earns $1.4 million per year, while this figure increases to $5.1 million for those in the largest size group. This part of the Review contains salary, total cash compensation, carried interest and overall remuneration data for 13 different deal-making and non-deal-making positions at private equity firms.

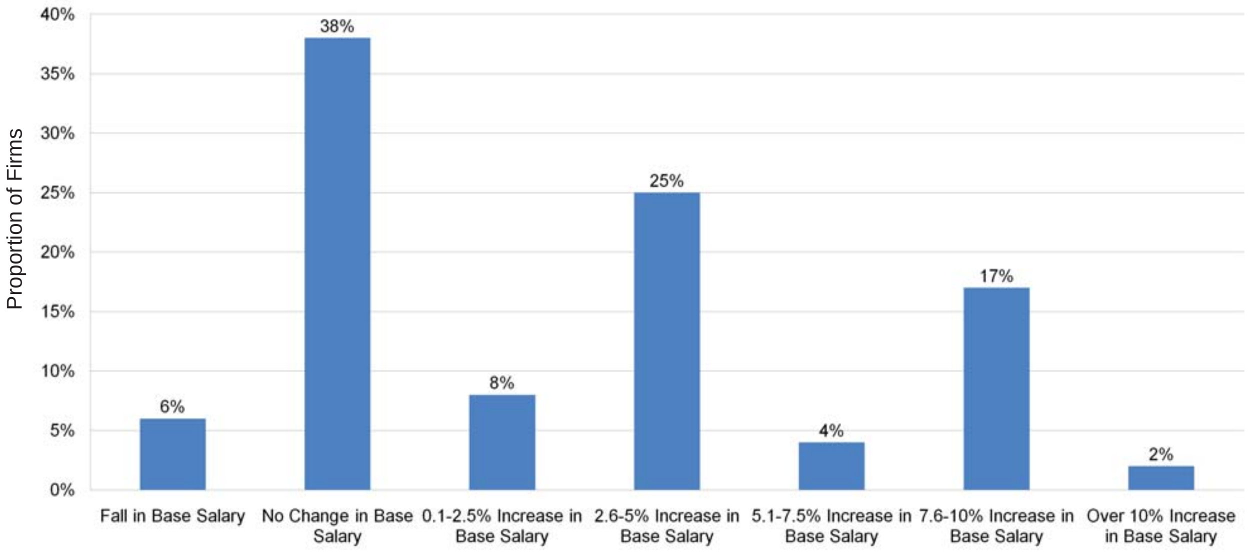
At a company-wide level, the average percentage increase in base salaries for all employees between 2008 and 2009 was approximately 2%. Overall, 56% of private equity firms increased base salaries over the period, while 38% made no changes and 6% decreased base pay, as shown in Fig. D.

The 2010 Preqin Private Equity Compensation and Employment Review

In order to analyse the latest trends in compensation in the private equity industry for the inaugural edition of this Review, Preqin, in conjunction with FPL Associates, conducted a survey of 56 leading private equity firms to collect data on their compensation practices and remuneration levels over the past year, for which we are grateful to the participating firms. This has allowed us to compile meaningful statistics covering all levels of deal-making positions at private equity firms, as well as a wide range of non-deal-making roles at these firms. Another key feature of this publication is the information on employment within the private equity industry worldwide. Our databases allow us to provide meaningful estimates on levels of employment, and to break this down by various criteria including country, city, firm type and firm size. The 2010 Preqin Private Equity Compensation and Employment Review also provides information on the firm-level compensation received by private equity firms from their investors, which is based on data on the terms and conditions of around 1,500 separate private equity funds.

We hope that this publication serves to provide an understanding of the levels of employment and remuneration standards across the industry, and as ever we welcome any feedback you may have.

Fig. D: Overall Company's Percentage Change in Base Salaries between Calendar/Fiscal Year 2008 and Calendar/Fiscal Year 2009



Evolution of the Private Equity Industry

Overview of the History of Private Equity Fundraising

As can be seen in Fig. 3.1, private equity fundraising has grown significantly over the past 20 years, both in terms of the number of funds raised and the aggregate capital committed to these funds.

However, the nature of the economy has meant that there have been downturns as well as growth spurts in fundraising for the asset class. The dot-com crash was the first crisis to stunt the growth of private equity when it hit at the turn of the millennium. Despite the three-year dip in fundraising figures which resulted from the crash, the asset class managed to resume its growth in 2004, and in 2007 the annual number of funds closed hit an all-time high, totalling 1,195. This growth looked to be continuing into 2008, until the recession hit, and the year's total aggregate capital raised ended up falling just short of the previous year's total at $629 billion.

As shown in Fig. 3.2, the number of active private equity firms, based on the vintages of their first funds, has grown consistently year on year. 1998 saw the total number of firms in the industry reach over 1,000 and since then this figure has nearly quadrupled, with 4,270 private equity firms currently active. Since 2001

Fig. 3.1: History of Private Equity Fundraising over Time

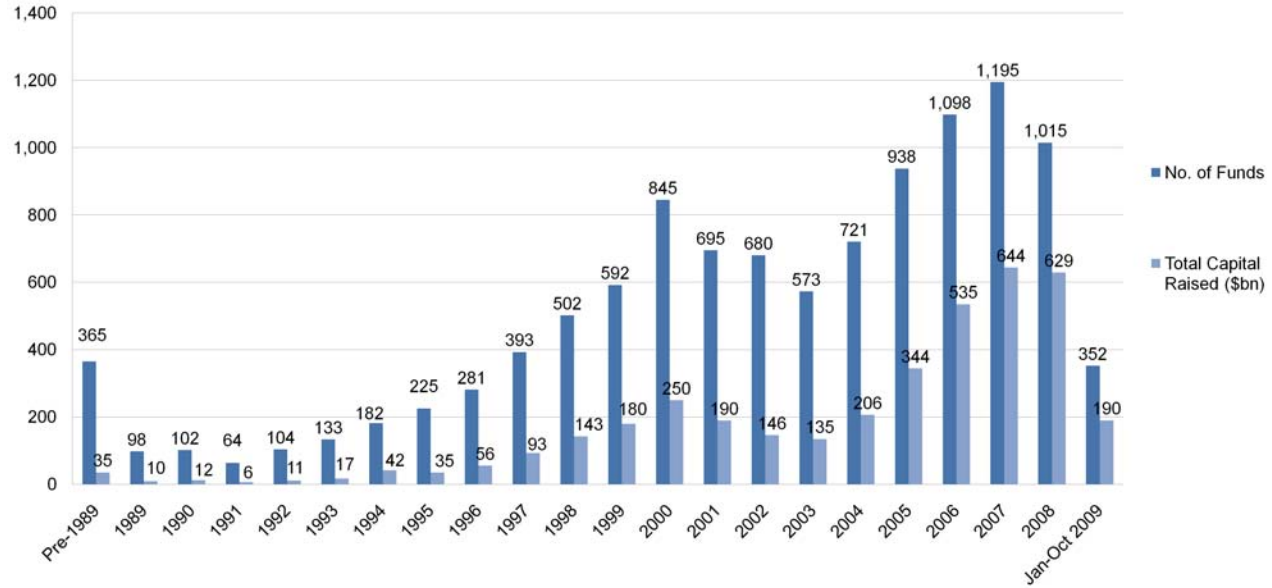
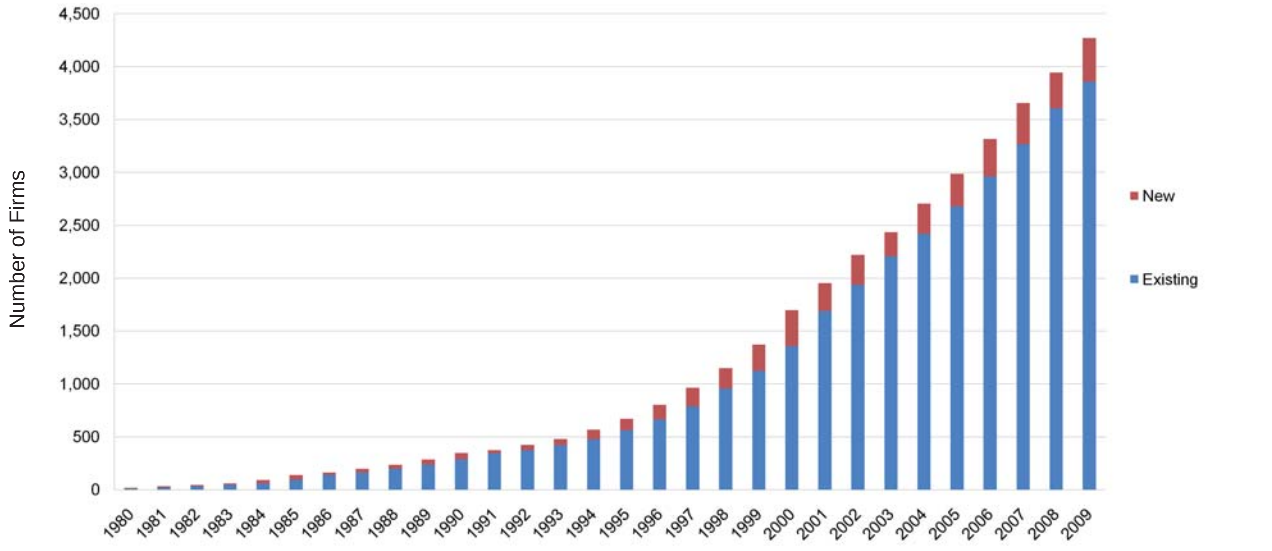


Fig. 3.2: Number of Active Private Equity Firms over Time by Vintage of First Fund Raised



Current Employment within the Private Equity Industry

Total Number of Employees in Private Equity

There are currently approximately 4,270 firms active in managing private equity funds worldwide. When private equity firms that do not raise distinct private equity funds (i.e. those that manage corporate or personal capital and those that manage third-party capital without pooling into a commingled private investment vehicle) are included, the figure is more like 6,000. In total, these 6,000 firms employ an estimated 69,000 people. The industry remains fragmented in terms of the share of funds raised by the smallest and largest firms: the largest 10 firms account for 15.9% of the total assets under management in the industry, while the top 100 account for 45.8%. It is important to note that our estimate here constitutes the "core" of the industry, taking into consideration firms managing funds that institutional and other large investors invest in. Beneath this lies a further tranche of smaller firms that invest lesser sums of capital, raising money from private sources such as friends and family.

Number of Employees in Private Equity by Country

When analysing employment in the private equity industry by country, the US is the clear leader in terms of number of employees, with approximately 38,500, as displayed in Fig. 4.1, or 56% of the global total. The UK is second with 7,700 - 11% of the global total.

Fig. 4.1: Estimated Private Equity Employment by Country

Country*	Estimated Total Employment
US	38,500
UK	7,700
France	2,300
Germany	1,500
Australia	1,400
Canada	1,400
Japan	1,100
India	1,000
Hong Kong	900
Switzerland	900
China (exc. Hong Kong)	800
Italy	800
Sweden	800
Israel	600
Netherlands	600
Other	8,800
Total	**69,100**

*Based upon location of head office for each firm

Fig. 4.2: Estimated Private Equity Employment by City

City*	Estimated Total Employment
New York	11,000
London	7,000
San Francisco**	3,900
Boston	2,700
Paris	2,200
Chicago	1,700
Washington	1,300
Los Angeles	1,200
Sydney	1,000
Tokyo	1,000
Hong Kong	900
Dallas	800
Stockholm	750
Toronto	700
Singapore	600

* Based upon location of head office for each firm
** Includes Menlo Park, Palo Alto and San Mateo

firms made approximately the same bonus payments, as shown in Fig. 6.4. However, the average decrease was higher, at 40%, than the average increase, which stood at 21%.

Fig. 6.5 shows the proportions of firms that have recently made or are considering making certain changes to the base salaries of their employees. Very few firms have, or are looking to, reduce base salaries, either on a temporary or longer-term basis. The most popular form of action taken is a salary freeze, something that has been implemented by 38% of firms and is being considered by a further 22%.

Fig. 6.6 shows the proportions of firms that have recently made, or are considering making, certain changes to the bonus incentives that they offer their employees. No firms have reduced participation in long-term programs and very few are considering it. The most popular course of action has been to reduce bonus/incentive opportunity, taken by nearly a quarter of firms in the sample. A further 8% are considering this route in the future.

Fig. 6.7 shows the proportions of firms that have recently made or are considering making certain changes to the benefits and perquisites that are received by employees. Only a very small proportion of firms have made any changes in the area or are considering doing so.

Fig. 6.8 shows the proportions of firms that have recently made, or are considering making, certain changes to staffing within their firms. More than one-quarter of firms have reduced staffing levels or are considering doing so, while 16% have implemented, and a further 12% are considering implementing, a new hire freeze.

Fig. 6.7: Actions Participating Companies Have Recently Taken, Or Are Considering Taking, Regarding Benefits/Perquisites

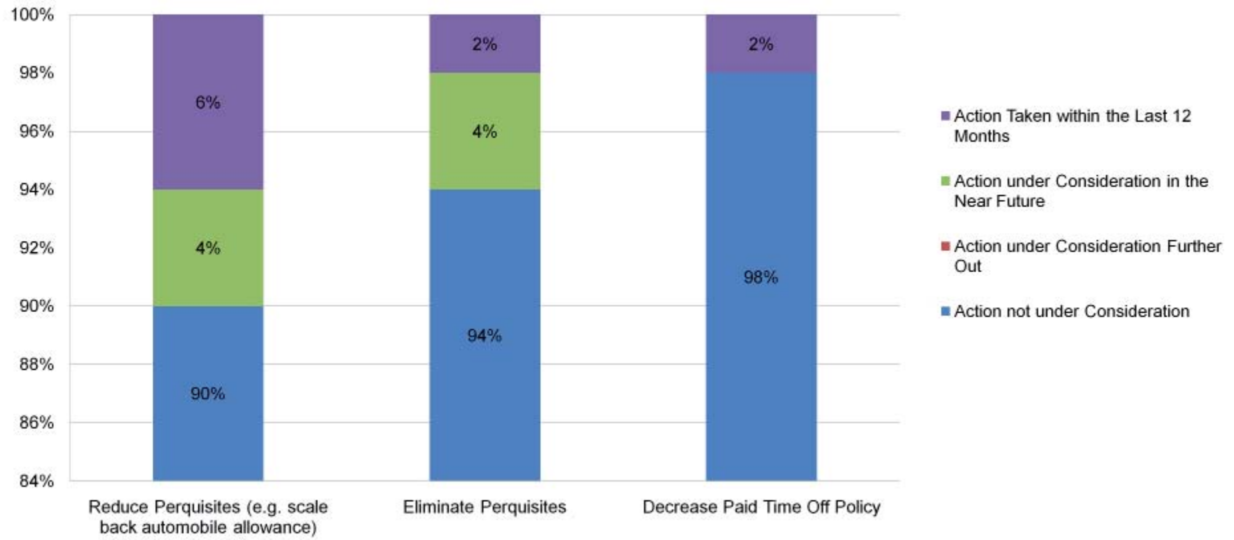
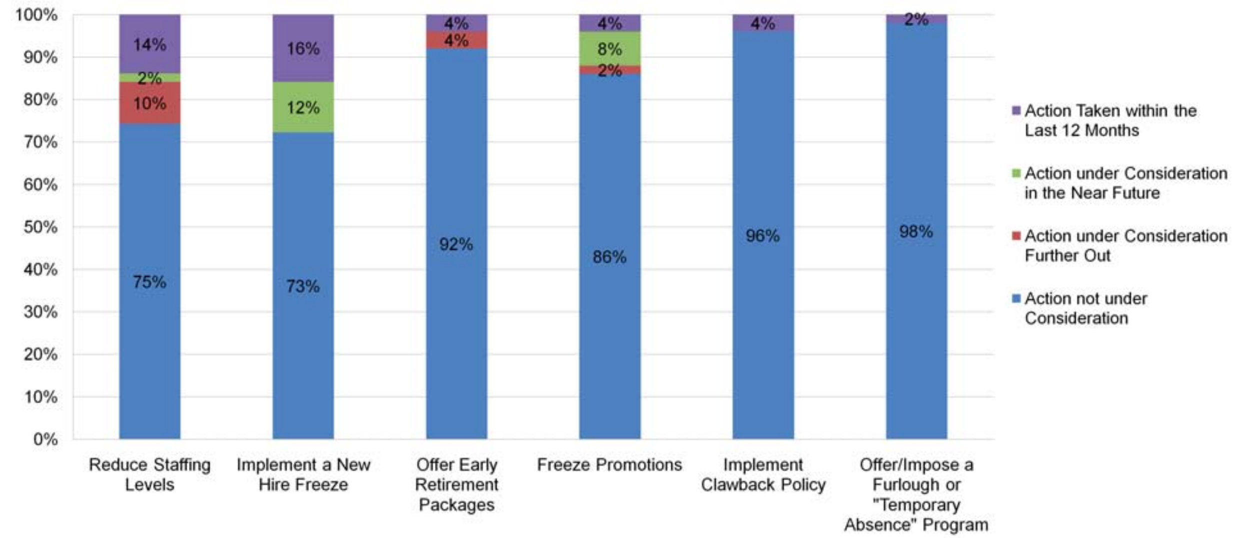


Fig. 6.8: Actions Participating Companies Have Recently Taken, Or Are Considering Taking, Regarding Staffing



Managing General Partner

Deal-Making Positions

Job Description	Typical Years Experience	Typically Reports to	Alternate Title(s)	Typical Education
	15+	N/A	CEO/Chairman	Advanced/MBA

Leads and manages the growth and profitability of the entire firm. Develops strategic direction. Responsible for achieving specified financial results outlined in the annual budget. Defines organisational framework used to operate the business in order to ensure resources are available to execute the business strategy. May also be a founder of the company.

	Base Salary				Total Annual Cash Compensation			
	25th Percentile	**Median**	**Average**	**75th Percentile**	**25th Percentile**	**Median**	**Average**	**75th Percentile**
Aggregate	[redacted]							
Assets Under Management								
Under $200 Million	[redacted]							
$201 Million - $650 Million	[redacted]							
Over $650 Million	[redacted]							
Geographic Location								
Europe	[redacted]							
United States	[redacted]							
Type of Strategy/Activity								
Leverage Buyout (LBO)	[redacted]							
Venture Capital	[redacted]							

Number of Direct Reports	Average	Target Annual Incentive (% of Base Salary) - Calendar/ Fiscal Year 2009	25th Percentile	Median	Average	75th Percentile
	[redacted]		[redacted]			

Managing General Partner

Deal-Making Positions

	Long-Term Incentive Award + Promote/Carried Interest Award				Total Remuneration			
	25th Percentile	**Median**	**Average**	**75th Percentile**	**25th Percentile**	**Median**	**Average**	**75th Percentile**
Aggregate								
Assets Under Management								
Under $200 Million								
$201 Million - $650 Million								
Over $650 Million								
Geographic Location								
Europe								
United States								
Type of Strategy/Activity								
Leverage Buyout (LBO)								
Venture Capital								

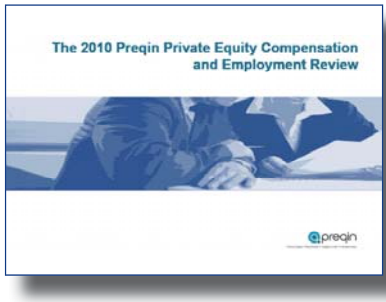
Job Description	Average	Average Number of Funds Currently Participating In	Average	Average Promote Allocation - Most Recent Fund/Account(s)	% of Company/ Sponsor's Share	% of Mgmt's Share
Degree of Match						

2010 Preqin Private Equity Compensation & Employment Review: Order Form

The 2010 Preqin Private Equity Compensation and Employment Review is a source of reliable and accurate information on the latest trends in private equity compensation and employment enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

Full contents include:

- Private equity compensation by position
- Survey of compensation practices at private equity firms
- Overview of firm level compensation
- Tax structures within private equity compensation (Baker & McKenzie)
- Current employment within the private equity industry
- Growth of the PE industry over time
- Centres of employment activity



www.preqin.com/compensation

2010 Preqin Private Equity Compensation & Employment Review Order Form - Please complete and return via fax, email or post

I would like to purchase the Preqin PE Compensation & Employment Review:

☐ £885 + £10 Shipping ☐ $1,495 + $40 Shipping ☐ €950 + €25 Shipping

Additional Copies

☐ £110 + £5 Shipping ☐ $180 + $20 Shipping ☐ €115 + €12 Shipping

(Shipping costs will not exceed a maximum of £15 / $60 / €37 per order when all shipped to same address. If shipped to multiple addresses then full postage rates apply for additional copies)

I would like to purchase the Preqin PE Compensation & Employment Review Graphs & Charts Data Pack in MS Excel Format:

☐ $300 / £175 / €185 *(contains all underlying data for charts and graphs contained in the publication. Only available alongside purchase of the publication).*

Name:

Firm: Job Title:

Address:

City: Post / Zip Code: Country:

Telephone: Email:

Payment Options:

☐ Cheque enclosed (please make cheque payable to 'Preqin')

☐ Credit Card ☐ Visa ☐ Mastercard ☐ Amex

☐ Please invoice me

Card Number:

Expiration Date: Security Code*:

Name on Card:

*Security Code:

Visa / Mastercard: the last 3 digits printed on the back of the card.

American Express: the 4 digit code is printed on the front of the card.

Preqin - Scotia House, 33 Finsbury Square, London, EC2A 1BB
Preqin - 230 Park Avenue, 10th floor, New York, NY 10169
w: www.preqin.com / e: info@preqin.com / t: +44 (0)20 7065 5100 / f: +44 (0)87 0330 5892 or +1 440 445 9595