



Private Equity Compensation and Employment Review

Jessica Sutro provides a summary of the findings from Preqin's latest review on the private equity industry's current employment levels and remuneration practices.

Private Equity Fundraising Moves Towards Stabilization

Private equity firms and their employees have certainly been impacted by the recent slowdown in the private equity fundraising market that followed the financial crisis in 2008; the number of funds closed fell from 1,366 in 2008 to 878 in 2009, with the capital raised falling by over half in the same time period (Fig. 1). However, fundraising figures for 2011 showed a small uptick, with 870 funds closing on an aggregate \$306.7bn compared to the 835 funds that closed on \$285.2bn in 2010.

Although this is not a large increase, it demonstrates that the private equity market is no longer experiencing the dramatic year-on-year decreases that occurred immediately following the financial crisis. The figures from 2012 so far are slowly approaching those seen in 2011, with 530 funds having already raised an aggregate \$254.4bn in capital commitments. This suggests that the fundraising figures from 2012 will likely be similar to both 2010 and 2011. Rather than experiencing significant increases or decreases, the private equity fundraising market appears to be moving towards stabilization. However, the fundraising levels in recent years are still significantly lower than those witnessed during the peak years of the private equity fundraising market.

Number of Active Private Equity Firms

With private equity fundraising plateauing in recent years, it is unsurprising that the number of active private equity firms has experienced a similar pattern, with the growth in the number of active firms slowing in recent years. Fig. 2 shows the number of new fund managers joining the private equity sector each year (calculated using the vintage of their first fund to represent their

year of establishment). The consistent growth in the number of active private equity firms in the lead-up to the financial crisis has tapered off, with 2012 seeing a small decrease in the total number of active private equity firms compared to 2011 so far; however, the amount is still similar to 2011, at around a little over 4,800 firms in total. A number of firms are deemed to have become inactive in 2012 (meaning they have not raised a fund in the past 10 years), further contributing to the small decrease in the total number of active private equity firms.

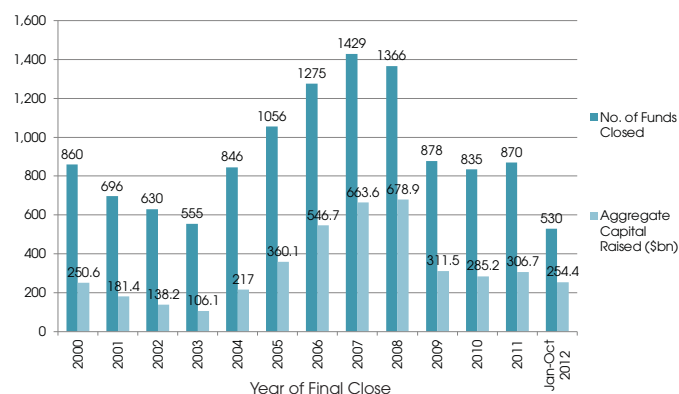
Perhaps more significantly, the number of new private equity firms launching in 2012 to date fell in comparison to 2011, with 146 new firms so far in 2012 compared to 278 in all of 2011. (The 2012 figure only includes firms that have reached one or more interim closes on their debut funds in order to begin making investments.) Uncertain conditions in the private equity fundraising market may be impacting the number of new private equity firms choosing to bring funds to market.

Employment Levels at Private Equity Firms

The pool of over 4,800 active private equity firms grows to over 8,000 when private equity firms that do not raise, or have not yet raised, distinct private equity funds (i.e. those that manage corporate or personal capital and those that manage third-party capital without pooling into commingled private investment vehicles) are included. These 8,000 firms currently employ an estimated 89,000 individuals around the world.

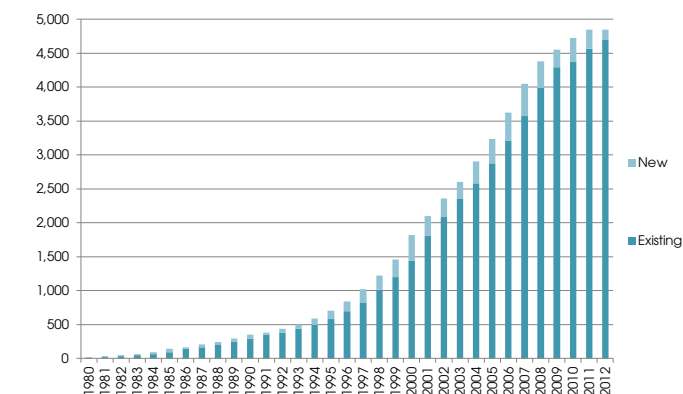
However, the average number of staff at each private equity firm varies significantly based on the assets under management of that firm. Fig. 3 shows that firms with the largest assets under

Fig. 1: Annual Private Equity Fundraising, 2000 - October 2012



Source: 2013 Preqin Private Equity Compensation and Employment Review

Fig. 2: Number of Active Private Equity Firms over Time (by Vintage of First Fund Raised)



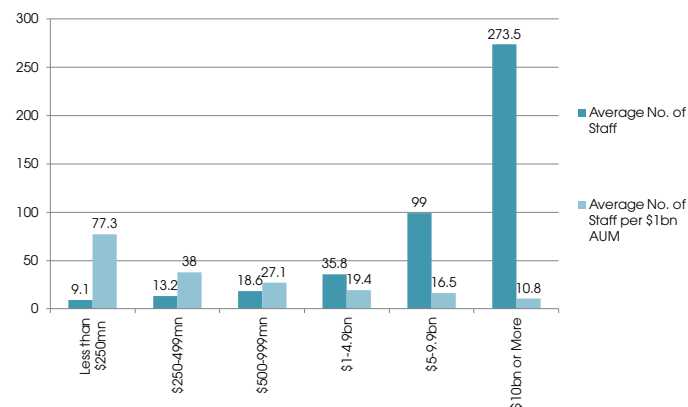
Source: 2013 Preqin Private Equity Compensation and Employment Review



management, of \$10bn or more, have the largest average number of staff, standing just over 270 people. Although these firms' average number of staff is dramatically higher than firms of other sizes, there are only an average of 10.8 employees per \$1bn of the firm's AUM. The staff levels at these larger firms are balanced by the income they receive from charging management fees to their funds' investors, which are usually based on a percentage of investor commitments.

Despite having lower average numbers of staff, funds with smaller assets under management have a much higher average number of staff per each \$1bn of their assets under management. Firms with assets under management of less than \$250mn only have an average number of employees of around nine, but have an average of around 77 staff members per \$1bn of their AUM, a much higher figure than that of funds with assets under management of \$10bn or more. Smaller sized firms may have fewer employees, but their management fees are also charged based on smaller amounts of investor commitments compared to the larger private equity firms; this means that the operating economics of the largest funds, with higher income from management fees, are often more favourable for their managers.

Fig. 3: Average Number of Employees by Firm Assets under Management



Source: 2013 Preqin Private Equity Compensation and Employment Review

Compensation on an Individual Level

The operating economics described above, which vary by a firm's assets under management, also impact the remuneration available to individuals at each private equity firm. For example, a managing general partner at firms participating in the survey conducted for the 2013 Preqin Private Equity Compensation and Employment

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Review could have a median base salary at a firm with assets under management of \$1bn or more that is almost double the median base salary of an individual in the same position at a firm with assets under management of under \$150mn.

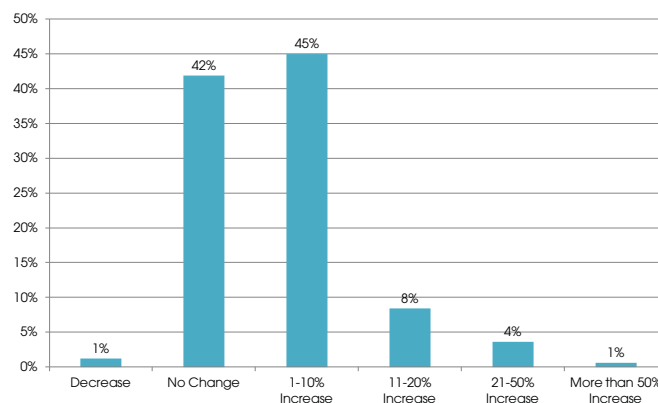
Preqin has undertaken detailed analysis of the compensation practices at participating private equity firms. Fig. 4 shows a breakdown of average firm-wide changes in base salaries at participating firms between 2011 and 2012. In a similar fashion to both the private equity fundraising market and the number of active private equity firms worldwide, base salaries at participating firms are generally maintaining their current level or reporting only small increases. Only a very small proportion (1%) of participating firms reported a decrease in base salaries between 2011 and 2012, and a substantial 42% reported no change. The largest proportion of participating firms, 45%, reported an increase in base salaries that ranged between 1% and 10%.

Fig. 5 shows the projected average firm-wide changes in base salaries for participating firms between 2012 and 2013. Participating firms' projections for changes in base salaries in the coming year mostly parallel changes recorded between 2011 and 2012. Participating firms expecting to see an increase in base salaries of 1-10% between 2012 and 2013 make up 46% of all participating firms, a similar proportion to the 45% of participating firms which saw increases of 1-10% between 2011 and 2012.

Forty-three percent of participating firms expect to see no changes in base salaries between 2012 and 2013, and only 1% expect to see a decrease in the same time period. A small proportion of participating firms anticipate a more substantial increase in base salaries between 2012 and 2013, with 9% expecting an increase of between 11% and 20%, and 2% an increase of 21-50%.

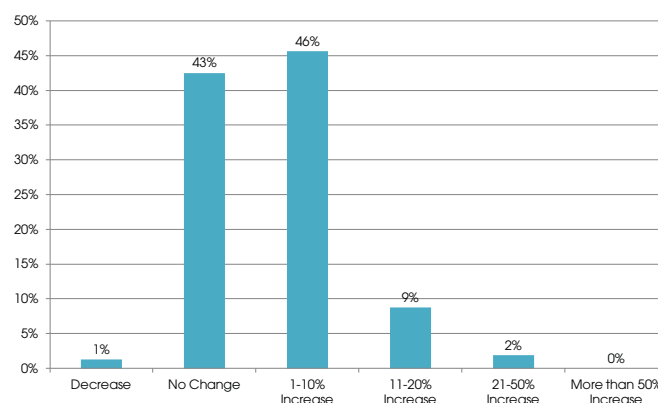
Participating firms also largely reported either an increase or no change in their bonus pool size in the calendar/fiscal year 2011 compared to 2010, as shown in Fig. 6. Thirty-four percent of participating firms reported that bonus pool sizes increased at their firm compared to the previous year, but 19% reported a decrease in their bonus pools in the calendar/fiscal year 2011 compared to 2010. Almost half (47%) of firms reported no change over the same time period.

Fig. 4: Breakdown of Average Firm-Wide Changes in Base Salaries at Participating Firms between 2011 and 2012



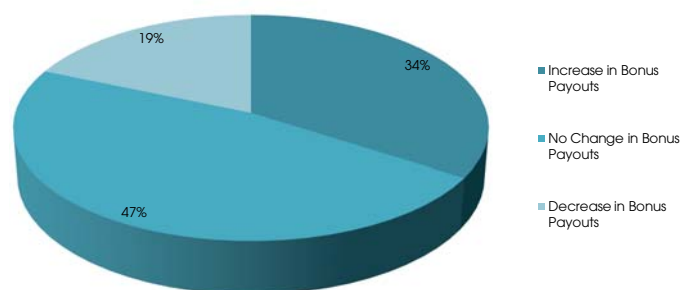
Source: 2013 Preqin Private Equity Compensation and Employment Review

Fig. 5: Breakdown of Projected Average Firm-Wide Changes in Base Salaries at Participating Firms between 2012 and 2013



Source: 2013 Preqin Private Equity Compensation and Employment Review

Fig. 6: Proportion of Participating Firms Reporting an Increase, a Decrease, or No Change in Bonus Payouts for Performance in Calendar/Fiscal Year 2011 Compared to Previous Year



Source: 2013 Preqin Private Equity Compensation and Employment Review

Data Source:

This article features data and analysis taken from Preqin's latest publication, the [2013 Preqin Private Equity Compensation and Employment Review](#).

Compiled in collaboration with FPL Associates, the publication provides an insight into the current compensation practices within the private equity industry and analysis of growth and employment levels for private equity globally.

For more information, please see p.6 or visit:

www.preqin.com/compensation

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