Total Employment within the Private Equity Industry

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. 1 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.

Private Equity Employment by Country and City

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. 2. 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, as shown in Fig. 3. London, Paris, Sydney and Tokyo complete the top 10.

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

*Based upon location of head office for each firm
Private Equity Employment by Firm Type

Venture and buyout focused firms employ the largest number of people (see Fig. 4), 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. 5 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.

Management Fees by Fund 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 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 Fig. 6, which shows that the biggest decreases in management fees for the most recent buyout funds have come from the largest group of funds.

From the results of our recent compensation survey, which can be found in full in the 2010 Preqin Private Equity Compensation and Employment 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.

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. 7.
Preqin’s Private Equity Compensation and Employment Review has been produced in collaboration with leading compensation consultants FPL Associates. It includes information for 13 different positions using data on hundreds of employees actively employed by over 50 leading private equity firms worldwide. It also includes the results of our detailed survey on all different aspects of compensation practices.

In addition, the Review also investigates firm level compensation (management fees, carry etc), employment within the industry over time, centres of activity, economies of scale and a study from leading legal firm Baker & McKenzie on tax structures within private equity compensation.

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

For more information please visit: www.preqin.com/compensation
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