The 2016 Preqin Private Equity Compensation and Employment Review

1. Executive Summary

The 2016 Preqin Private Equity Compensation and Employment Review

In order to analyze the latest trends in compensation within the private equity and private debt industry, Preqin (in conjunction with FPL Associates) conducted a survey of just under 200 leading firms in this space to collect data on their compensation practices and remuneration levels. This has allowed us to compile meaningful statistics covering a wide range of different types of positions at these firms, from senior executives through to junior-level professionals. The book encompasses all of the major private equity fund strategies (buyout, distressed private equity, private equity fund of funds, growth, mezzanine, natural resources and venture capital) as well as closed-end private real estate and infrastructure. New for this edition, the 2016 Preqin Private Equity Compensation and Employment Review also considers compensation and employment at firms employing private debt strategies.

Another key feature of this publication is the information on employment within the private equity and private debt industries worldwide. Preqin's databases cover a wide range of asset classes and allow us to provide meaningful estimates on levels of employment, and to break this down by primary firm strategy and firm size across direct funds and funds of funds.

Private Equity Fundraising Gains Momentum

There has been a notable uptick in aggregate capital raised within the private equity (including private real estate) industry in recent years, with funds closed in 2013 and 2014 raising total amounts of $541bn and $552bn respectively (as shown in Fig. 1.1). Such levels of fundraising have not been seen since around the time of the Global Financial Crisis (GFC) in 2008, when $688bn was raised by 1,489 funds. In the immediate aftermath of the GFC, private equity firms and their employees struggled with a slowdown in the fundraising environment, and in 2009, just $320bn was raised by 966 funds. Nevertheless, with more funds expected to close by the end of 2015, and given that capital raised so far this year has already surpassed the capital raised in 2011 ($350bn raised by 1,146 funds), 2015 looks set to be another strong year for private equity fundraising.

Fig. 1.1: Annual Private Equity Fundraising, 2000 - 2015 YTD (As at September 2015)

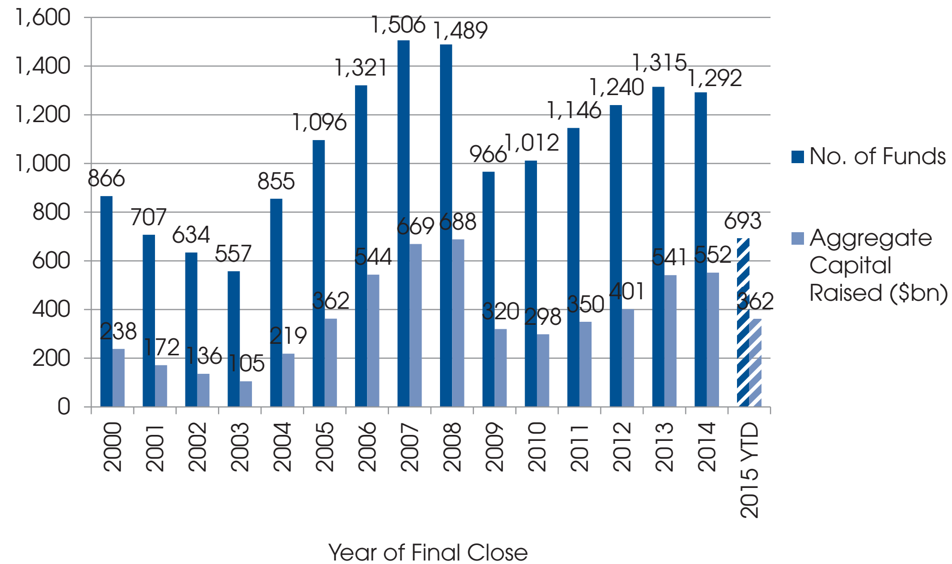
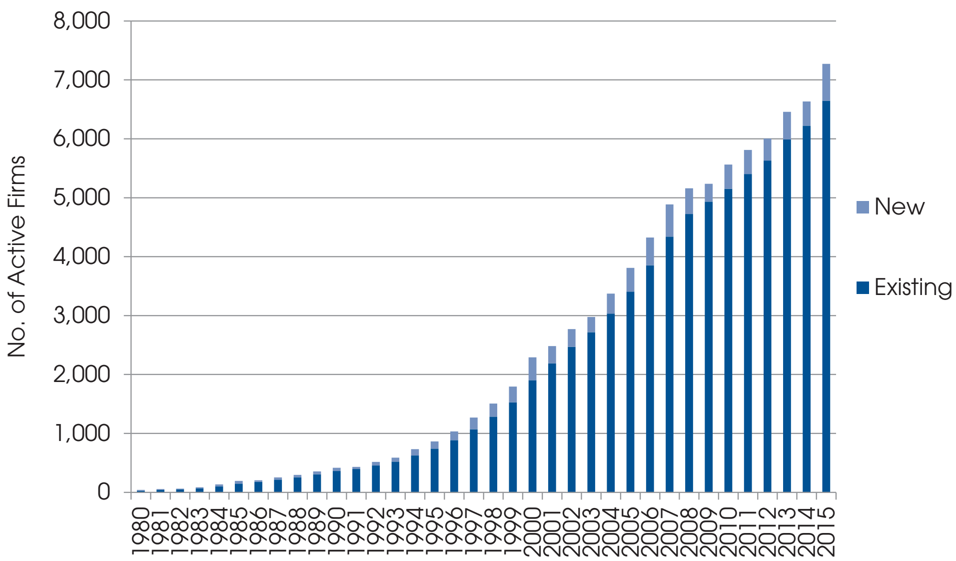


Fig. 1.2: Number of Active Private Equity Firms over Time (By Vintage of First Fund Raised)



Significant Numbers of Private Equity Firms Enter the Market in 2015

While there has been a continuous increase in the number of private equity firms active over time, the GFC had a significant impact on the pace of this growth, as illustrated in Fig. 1.2. The number of active firms in the industry grew by as little as 1% in 2009 from the year before, compared with 14% in 2006 for the same one-year timeframe. However, over the course of 2015 so far, 625 new firms have entered the market, representing the highest number of new firms entering the market on record. The 2015 data includes only firms that have reached a final close or at least one interim close on their debut funds in order to begin making investments. Continued LP appetite for the private equity asset class may be a reason behind the sudden growth of active firms entering the industry as new firms look to meet the demand shown by investors and take their share of the marketplace. The robustness of the private equity industry as a whole and the stabilization of the asset class are indicative of the continuous increase in the number of active firms worldwide.

For more information about the evolution of the industry and the number of active firms by geographic location and primary firm strategy over the years, please see Chapter 3: Evolution of the Industry.

Employment Levels at Private Equity and Private Debt Firms

There are currently over 7,400 firms actively managing private equity and private debt funds worldwide (i.e. currently raising funds or that have raised a fund in the past 10 years). In the case of private equity, when private equity firms that do not raise or have not yet raised distinct private equity funds (i.e. those that manage corporate of personal capital and those that manage third-party capital without pooling into commingled private investment vehicles) are included, the total number of active firms under consideration increases to approximately 10,000.

New for this edition, the 2016 Preqin Private Equity Compensation and Employment Review takes a look at the private debt industry and compensation and employment practices observed at private debt firms worldwide. There are currently over 600 firms worldwide that actively manage private debt funds (defined in this book as utilizing any of the following as a primary strategy: direct lending, distressed debt, mezzanine, private debt fund of funds, special situations and venture debt).

In total, private equity and private debt firms employ an estimated 145,000 people worldwide. Buyout, real estate and venture capital firms represent an estimated 68% of the total employment of the industry.

Preqin's analysis of employment in the industry, discussed in Chapter 4, shows the positive correlation between the number of staff employed by a firm and its assets under management (AUM). Fig. 1.3 shows that firms with the largest AUM ($10bn or more) have an average of 160 staff; this equates to an average of 10 employees per

Fig. 1.3 Average Number of Employees by Firm Assets under Management

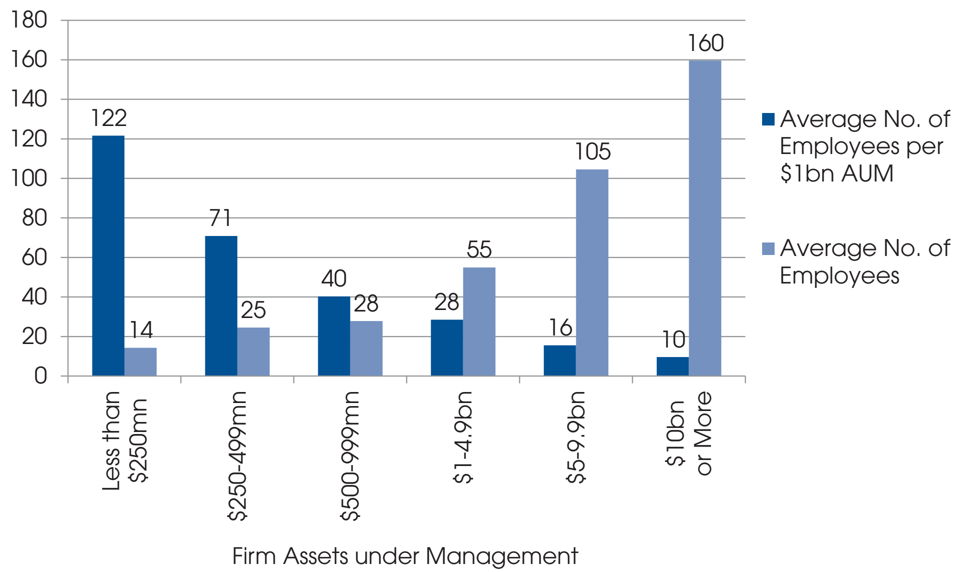
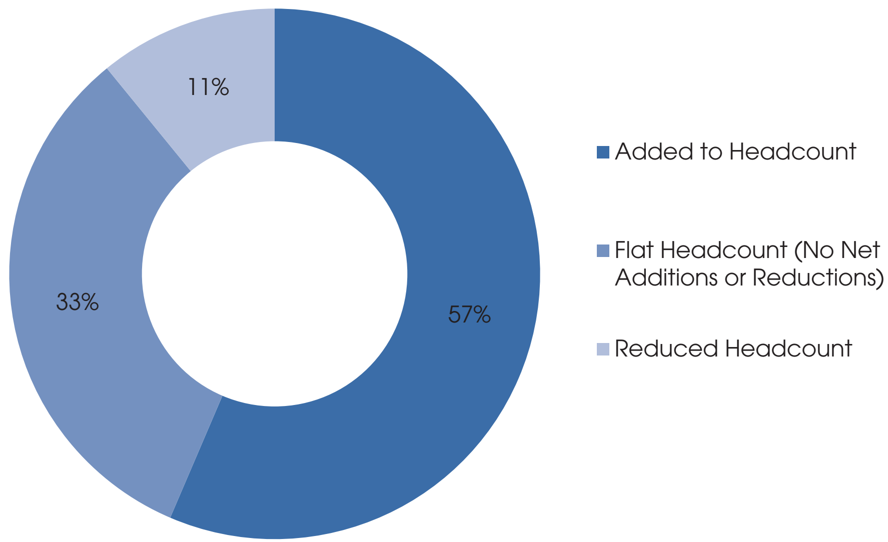


Fig. 1.4: Changes to Company Staff Numbers in 2014 by Headcount



$1bn of AUM. The staff costs are covered by the income received from charging management fees to their investors, which are usually based on a percentage of investor commitments.

As in previous years, funds with smaller AUM have a significantly higher average number of staff per $1bn in AUM, despite having lower average numbers of staff overall. Preqin's latest data shows that firms with AUM of less than $250mn have 14 employees on average, but an average of 122 staff members per $1bn in AUM, which is a much higher figure than the average for the largest funds (those with $10bn or more in AUM). Smaller firms may have fewer employees, but with management fees charged on smaller amounts of investor commitments (compared with the larger private equity firms), the operating economics of the largest funds, with higher income from management fees, are often more favourable for their managers.

Compensation on an Individual Level

The operating economics, which vary according to a firm's AUM or location, also impact the remuneration available to individuals at each firm. For example, a chief executive officer at firms participating in the survey could have a median base salary at a large firm (with AUM of $1bn or more) that is more than twice as much the median base salary of an individual in the same position at a smaller firm (with AUM of less than $150mn). Similarly, a chief executive officer in a firm headquartered in the US makes on average approximately $86,000 more a year (base salary) than the same position in Europe.

Chapter 7 of the Review lists detailed benchmark compensation figures for different positions at participating firms. The tables in this chapter include figures for base salary, total annual cash compensation, long-term incentive/carried interest awarded and total remuneration data for 71 different positions, including all levels of seniority for deal-making positions, as well as senior executive, administrative/corporate positions and positions specific to real estate management, including asset and portfolio management and transactions. Where possible, in addition to the aggregate figures, the information is broken out by AUM, geographic market and the strategy employed (buyout, venture capital, infrastructure etc.). Figures are provided for the 25th percentile, median, average and 75th percentile benchmarks in each case.

Compensation on a Firm Level

In addition to compensation data on an individual level, the 2016 Preqin Private Equity Compensation and Employment Review contains analysis of compensation practices at participating firms on a firm level. For example, Fig. 1.4 shows the proportion of firms that increased, reduced or made no changes to the number of staff they had at their company in 2014. The

Fig. 1.5: Breakdown of Average Firm-Wide Changes in Base Salaries of Participating Firms between 2014 and 2015

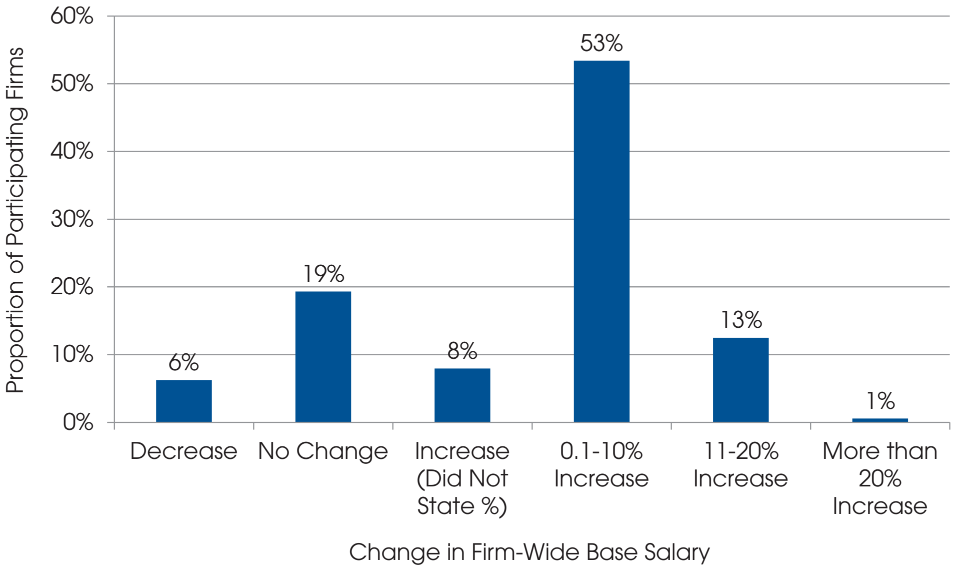
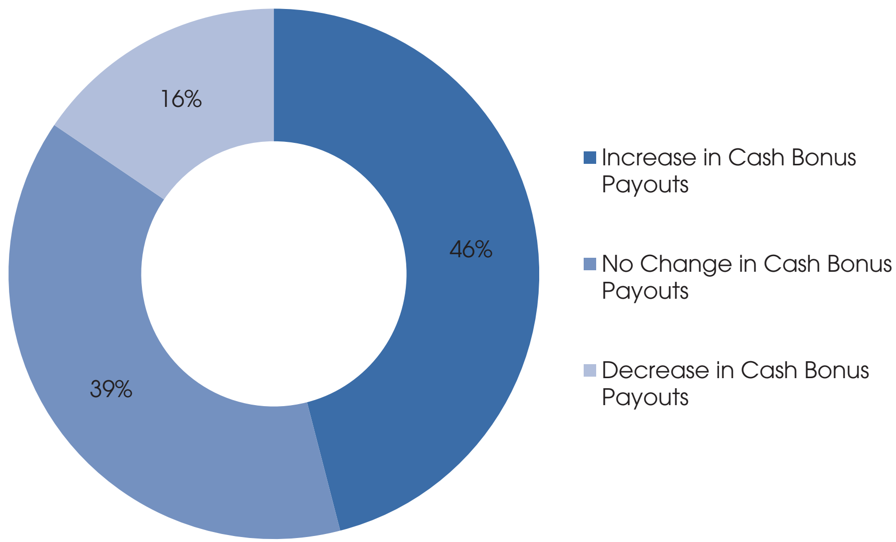


Fig. 1.6: Proportion of Participating Firms Reporting an Increase, Decrease or No Change in Cash Bonus Payouts for Performance in Calendar/Fiscal Year 2014 Compared to Previous Year



majority (57%) of participating firms reported that they added to the staff headcount within their company, while the smallest proportion (11%) made reductions during the year.

Furthermore, Fig. 1.5 shows the breakdown of average firm-wide changes in base salaries at participating firms between 2014 and 2015. The majority (53%) of firms made small increases in the firm-wide base salary of 0.1-10%, and overall, three-quarters of participating firms made increases in the firm-wide base salary during this time. This is encouraging and indicative of the relatively resilient health of the industry, with most companies looking to incentivize their staff and provide better compensation packages at their respective firms. However, this is not the case across the entire universe, with 19% and 6% of firms reporting no change or a decrease in the firm-wide base salary respectively between 2014 and 2015.

Bonus payouts make up an important part of the compensation package of employees at private equity and private debt firms; they are based not only on individual performance, but also on fund or firm-wide performance. Fig. 1.6 shows the proportion of participating firms that saw an increase, decrease or no change in cash bonus payouts for performance in 2014 compared with 2013. The largest proportion of firms (46%) saw an increase in cash bonus payouts in the defined time period, which perhaps illustrates such firms' success during that year which, consequently, saw an increase in the bonus pool to compensate the best performers. Meanwhile, 39% of participating firms saw no change in the bonus pool, and 16% reported a decrease in cash bonus payouts for performance in 2014 compared with the year before.

Feedback

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.

The 2016 Preqin Private Equity Compensation and Employment Review

A comprehensive guide to industry compensation practices

Contents

3. Evolution of the Industry

Private Equity Fundraising

Fig. 3.1 shows annual private equity fundraising statistics for 2000-2015 YTD. Both the number of funds closed and aggregate capital raised were on the decline in the first few years of the 2000s. However, the fundraising environment began a rapid recovery in 2004, peaking in 2008 with the most capital raised that year ($688bn) by 1,489 private equity funds. Following the fundraising highs of 2007 and 2008, there was a steep decrease in capital raised in 2010 (1,012 funds raised $298bn). However, figures are slowly increasing again in recent years, with 1,292 private equity vehicles closed in 2014, which raised a combined $552bn.

Number of Active Firms over Time

The number of active private equity firms over time (broken down by the number of new firms launched each year versus active existing firms) is displayed in Fig. 3.2. These figures were calculated using the vintage year of their first fund to represent the year a firm was established, and firms that have not raised a fund within the past 10 years were considered inactive.

The overall picture for the number of active firms over time (Fig. 3.2.) shows a clear growth trend, indicative of the positive developments in the private equity industry as a whole. However, the rate of this growth has not been constant over the years, and indeed has shown a slowdown from 2008 onwards, with gradual year-on-year increases compared to the accelerated growth of the number of firms seen in previous years.

Fig. 3.2 shows that the rate of growth of private equity firms has varied, with a peak of 547 newly formed private equity firms in 2007, after which the yearly rate slowed down by as little as 1% in 2009 as a result of the difficult fundraising environment. The number of firms in the industry has started to pick up again in the past few years with a substantial 469 new firms added in 2013, representing an 8% growth from the previous year. More recently, 625 new active firms were identified between January and September 2015, representing the highest number of new firms entering the market on record.

Number of Active Firms over Time by Firm Type

Figs. 3.3 to 3.11 look at the number of active private equity firms over the years and the varying trends emerging across differing firm types and private equity strategies. Fig. 3.12 analyzes the number of active private debt firms over time.

Fig. 3.1: Annual Private Equity Fundraising, 2000 - 2015 YTD (As at September 2015)

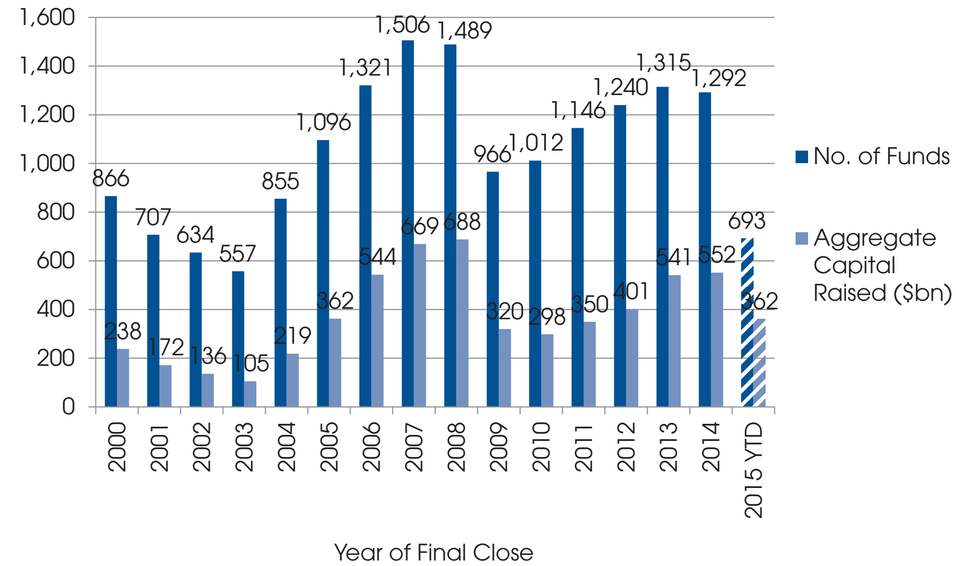
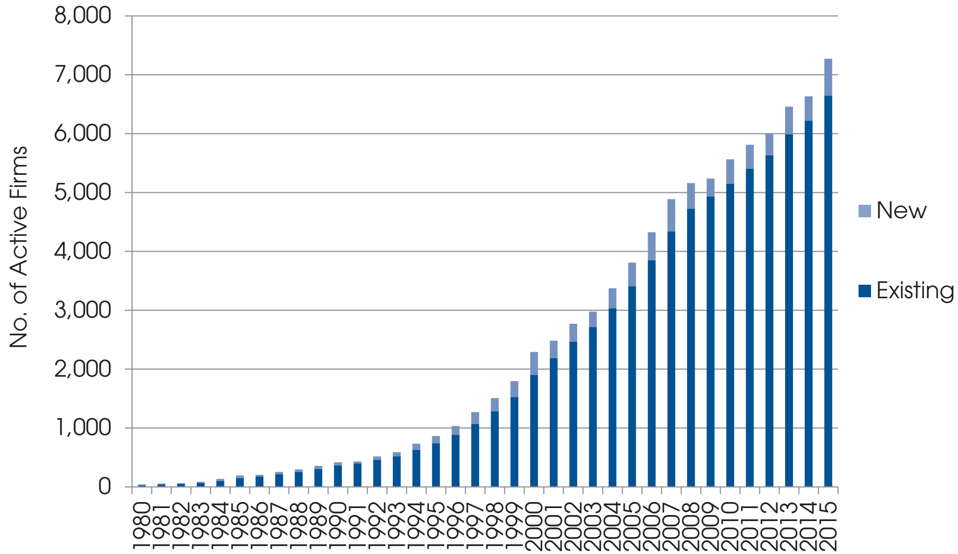


Fig. 3.2: Number of Active Private Equity Firms over Time (By Vintage of First Fund Raised)



4. Current Employment in the Industry

Total Number of Employees at Private Equity and Private Debt Firms

Preqin estimates that private equity and private debt firms worldwide employ an estimated 145,000 people. There are currently over 7,400 firms actively managing such funds globally.

In the case of private equity, when private equity firms that do not raise or have not 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, the total number of active private equity firms under consideration increases to approximately 10,000.

It is important to note that our estimate here constitutes the 'core' of the industry, taking into account firms managing capital committed by institutional and other large investors. 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 at Private Equity and Private Debt Firms by Firm Type

Fig. 4.1 shows the estimated total number of employees for each of the main private equity and private debt strategies (based on the main strategy of each firm). Private equity real estate and venture capital firms employ the largest number of people, with an estimated 36,500 and 32,100 employees worldwide working primarily at these firm types respectively. Primarily buyout-focused firms meanwhile employ an estimated 31,000 people worldwide and firms focusing on growth strategies employ approximately 12,600 people. New for this edition, the 2016 Preqin Private Equity Compensation and Employment Review takes an in-depth look at compensation and employment at private debt and natural resources firms. Data shows that private debt firms employ an estimated 4,900 people worldwide. Within this strategy, firms focusing on mezzanine strategies employ approximately 3,200 people, while the remainder of employees are spread across direct lending, distressed debt, special situations, venture debt and private debt fund of funds firms. Moreover, firms that focus on natural resources strategies employ approximately 2,900 people.

Average Number of Employees at Firms by Firm Assets under Management

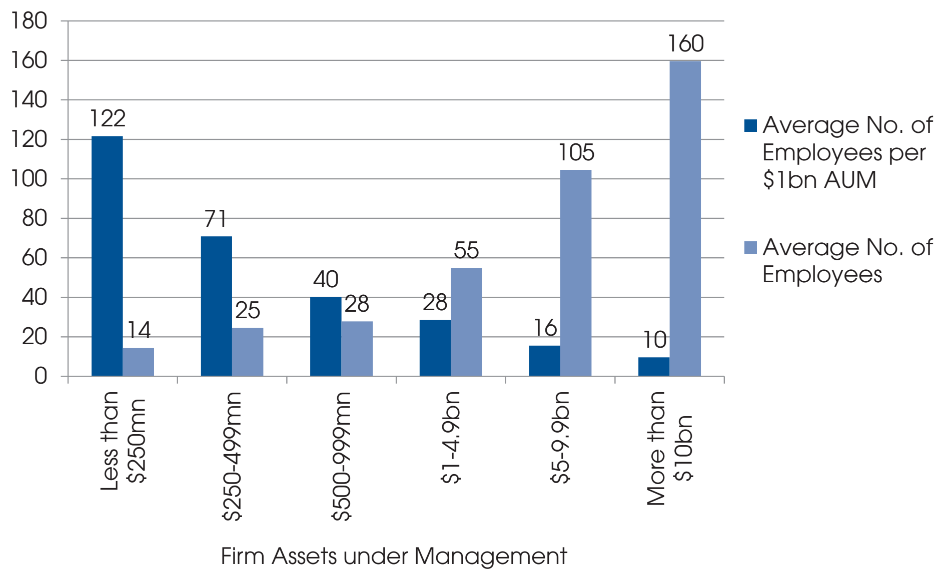
The number of employees at private equity and private debt firms naturally varies significantly with the assets under management (AUM) of the firms in question, as Fig. 4.2 shows. The smallest firms (with

Fig. 4.1: Estimated Employment by Most Prominent Firm Types

Firm Type	Estimated Employment
Real Estate	36,500
Venture Capital	32,100
Buyout	31,000
Growth	12,600
Infrastructure	6,700
Private Debt (total)*	4,900
- Mezzanine	3,200
- Direct Lending	800
- Distressed Debt	400
Private Equity Fund of Funds	3,700
Natural Resources	2,900

**Includes the following strategies: Direct Lending, Distressed Debt, Mezzanine, Special Situations, Venture Debt and Private Debt Fund of Funds.*

Fig. 4.2: Average Number of Employees by Firm Assets under Management



6. Compensation Practices at Participating Firms

This chapter analyzes the latest trends in base salaries and incentives in the industry, as well as detailing how companies structure elements of their remunerations.

Base Salaries

Fig. 6.1 shows that the majority of firms (53%) that participated in the most recent compensation and employment survey saw an increase of between 0.1-10% in the firm-wide base salary over the past year. Meanwhile, 14% of firms saw a rise of more than 11% of the firm-wide base salary, and illustrates that, collectively, three-quarters of firms in the survey have increased compensation packages for their staff firm-wide (including those firms that reported an increase in the firm-wide base salary but did not state a percentage amount). This is indicative of the wider health of the industry; fundraising continues to gain momentum, more firms are entering the marketplace and in the case of employees, the demand for better packages and more incentives to stay at their firms is increasing.

Looking at the year ahead shows more good news for staff at such firms (Fig. 6.2). Seventy-six percent of participants in the survey have indicated that their projections between 2015 and 2016 have included a rise in firm-wide base salary. While 0.1-10% is the most prevalent interval of this percentage increase (with 59% of participants reporting this), in the next 12 months, no firm that participated in the survey will look to increase their firm-wide base salary by more than 20%. This suggests that firms are more inclined to increase base salaries in small increments than in huge raises (mechanisms for bonuses and promotions are covered further on).

Nineteen percent of respondents reported that between 2014 and 2015, there was no change in the base salary of their employees firm-wide, while 6% of firms stated that they actually decreased the firm-wide base salary over the same period (Fig. 6.1). In the projected timeframe (defined in Fig. 6.2), only 2% of firms reported that they were to decrease the firm-wide base salary, while 22% have projected that there will be no change here. While many companies are able to increase the base salaries of their employees, this is certainly not the case across the entire industry.

Promotional Increases

Naturally, the size of promotional increases will vary depending on a number of micro and macro factors. Weak performance or volatility in the market will generally lead to low promotional increases, if any at all. Results show that 42% of participants did not promote any employees in 2014

Fig. 6.1: Breakdown of Average Firm-Wide Changes in Base Salaries of Participating Firms between 2014 and 2015

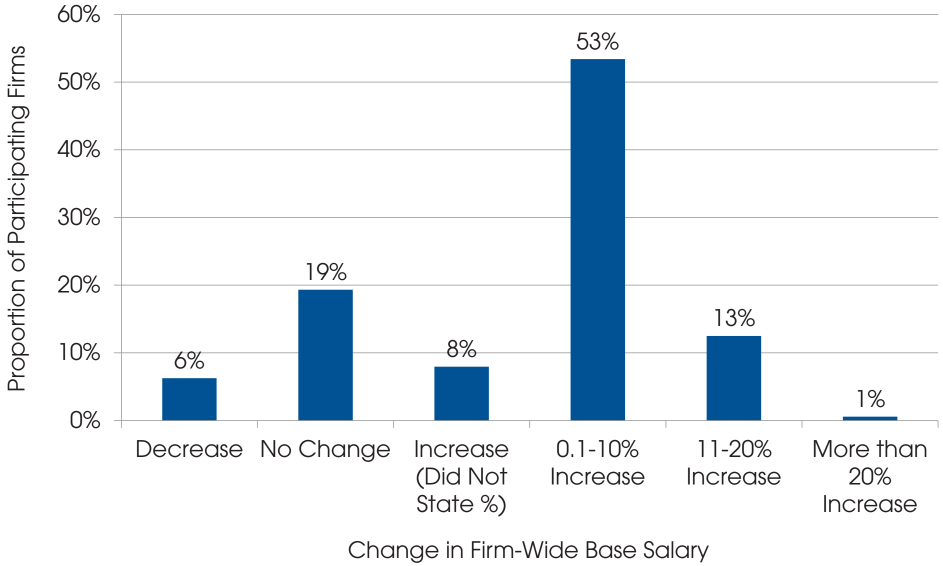
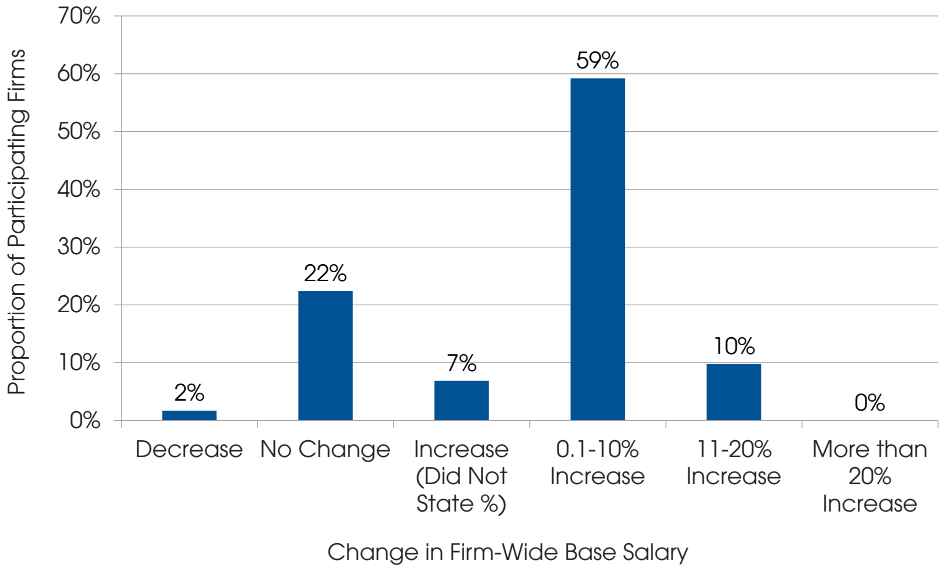


Fig. 6.2: Breakdown of Projected Average Firm-Wide Changes in Base Salaries at Participating Firms between 2015 and 2016



Global Positions - Deal-Making

Chief Executive Officer	Typical Years of Experience	Typically Reports to	Alternate Title(s)	Typical Education
	20+	Board(s)	Chairman, Managing General Partner	Advanced

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 organizational 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]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Assets under Management	Under $150 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	$150 Million - $399.9 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	$400 Million - $1 Billion	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Over $1 Billion	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Geographic Market	Asia/Pacific	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Africa/Middle East	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Central/South America	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Europe	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	United States	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Other	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Type of Fund	Distressed & Special Situations	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Fund of Funds	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Growth Capital/Equity	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Leveraged Buyout (LBO)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Mezzanine	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Real Estate	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Venture Capital	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Job Description Degree of Match	Average	Target Annual Incentive (% of Base Salary) - Calendar/Fiscal Year 2015	25th Percentile	Median	Average	75th Percentile
	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]

Investments (Deal Team)

Director/Principal	Typical Years of Experience	Typically Reports to	Alternate Title(s)	Typical Education
	8-12+	Managing Director/Partner	SVP	Advanced

Participates in all aspects of strategic planning and execution related to deal sourcing and negotiating transactions. Focuses on managing investment process, including due diligence oversight, and may have some investment sourcing responsibilities/expectations.

		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 $150 Million								
	$150 Million - $399.9 Million								
	$400 Million - $1 Billion								
	Over $1 Billion								
Geographic Market	Asia/Pacific								
	Africa/Middle East								
	Central/South America								
	Europe								
	United States								
	Other								
Type of Fund	Fund of Funds								
	Growth Capital/Equity								
	Infrastructure								
	Leveraged Buyout (LBO)								
	Mezzanine								
	Private Debt								
	Real Estate								
	Venture Capital								

Number of Direct Reports	Average	Gender	Average Male	Average Female	No. of Funds Currently Participating in	Average	Average Promote Allocation - Most Recent Fund(s)	% of GP's Share

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The **2016 Preqin Private Equity Compensation and Employment Review** is the industry's leading guide to compensation practice, featuring detailed benchmark remuneration data for **over 70 different positions**, including 16 real estate-specific positions.

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Produced in collaboration with leading compensation specialists FPL Associates, the 2016 Preqin Private Equity Compensation and Employment Review is the industry's most comprehensive guide to compensation practices.

The Review analyzes data on thousands of employees actively employed by **almost 200 leading private equity firms worldwide** that have contributed data. It also includes the results of our detailed survey on all aspects of compensation practices.

New for this year's edition, the analysis covers firms with a primary focus on private debt and natural resources alongside our existing range of firm types, including buyout, venture capital, real estate, infrastructure, mezzanine and more.

Key content includes:

- Compensation data by position, including base salary, bonus, carry and quartile splits
- Compensation data split by firm type, region and size where possible
- Survey of compensation practices at private equity firms
- Current employment within the private equity industry
- Growth of the industry

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