2010 Private Equity Compensation Report

SAMPLE DATA

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Introduction

Once again, we are pleased to present our annual Private Equity and Venture Capital Compensation Report. This is our third year producing the report and, given the magnitude of changes during that time, we know that there is an increasing need for a reliable and affordable compensation resource.

This year's report includes actual data from 2008 plus projected compensation numbers for 2009. As we collected the data in October and November of 2009 and did not see significant market events since that time, we feel comfortable presenting the 2009 numbers as final.

The report addresses issues such as compensation earned, fund performance, carried interest, work satisfaction and much more. The survey also aims to understand how these professionals perceive their work and what they expect from their employers. Note that the figures in this report are only based on data collected directly from private equity and VC professionals.

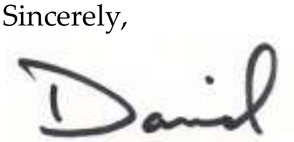
Some of the questions answered in this report include:

- Compensation average and ranges?
- Base vs. bonus payouts?
- Which titles earn the most?
- Who shares in the upside?
- How does fund size affect pay?
- Impact of hours worked on compensation?
- Vacation earned vs. taken?

We hope this report will give you what you need whether you are negotiating your own compensation package or setting benchmarks for your firm's compensation policies.

We appreciate your trust in Job Search Digest.

Sincerely,



David Kochanek, Publisher

p.s. The Compensation Report gets better each year because of the feedback from readers like you. Simply send your comments to pe_compensation@jobsearchdigest.com

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Executive Summary

Despite the market turmoil over the past couple years, the private equity industry continues to make strides forward, with thousands of existing firms and new firms being established each year. The U.S. still leads the way and this is reflected again in this year's report. Although all levels are represented, you will find that mid-career, experienced professionals account for the majority of the respondents.

Again this year, private equity professionals reported an increase in total earnings over the previous year. As 2009 wrapped up, the average expected compensation increase was 2.5 percent over last year - not the double digit increases seen in the past.

Decreased firm performance, increased scrutiny from limited partners of compensation policies and increased competition for jobs are all impacting base compensation levels.

Overall, we saw small but positive movement in 2008 to 2009 earnings and, despite industry rumblings about base salary freezes earlier in the year, the majority of that movement came in the form of increases in base compensation.

Some of the highlights from this year's report include:

- The annual average compensation for private equity and VC professionals was $208,000 USD with an average 3.5 weeks of vacation benefit.
- An increase in dissatisfaction with pay that signals a stronger market.
- Although usually an advantage, an MBA doesn’t guarantee better compensation, especially for those with 5 years or more of work experience.
- Venture capital firms tend to pay less for comparable positions in "pure play" private equity firms.
- The difference between the UK and US in terms of compensation and overall work and personal life balance is negligible.

The report should help job seekers better manage their pay expectations and fund managers establish compensation package benchmarks.

Methodology

Job Search Digest surveyed hundreds of partners, principals and employees during October and November 2009 to benchmark compensation practices. Respondents represented firms from around the globe, with a strong concentration in North America. Included are some of the largest and most recognized private equity and venture capital firms.

Some of the participating firms include (listed with permission):

Pay Levels

As reported in previous years, bonus payouts tend to be a substantial component of total compensation, and the higher overall earnings, the more bonus matters.

On average, bonus is reported at 31 percent of total compensation but for those making more than $300,000 the bonus accounts for 40 percent or more of total cash compensation.

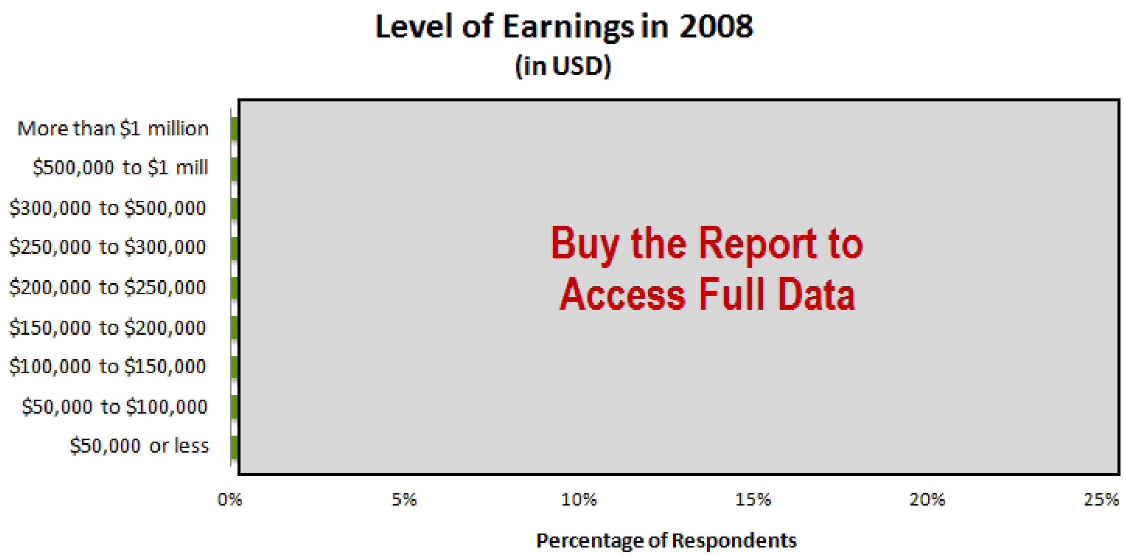

Figure 1: 2008 Level of Earnings

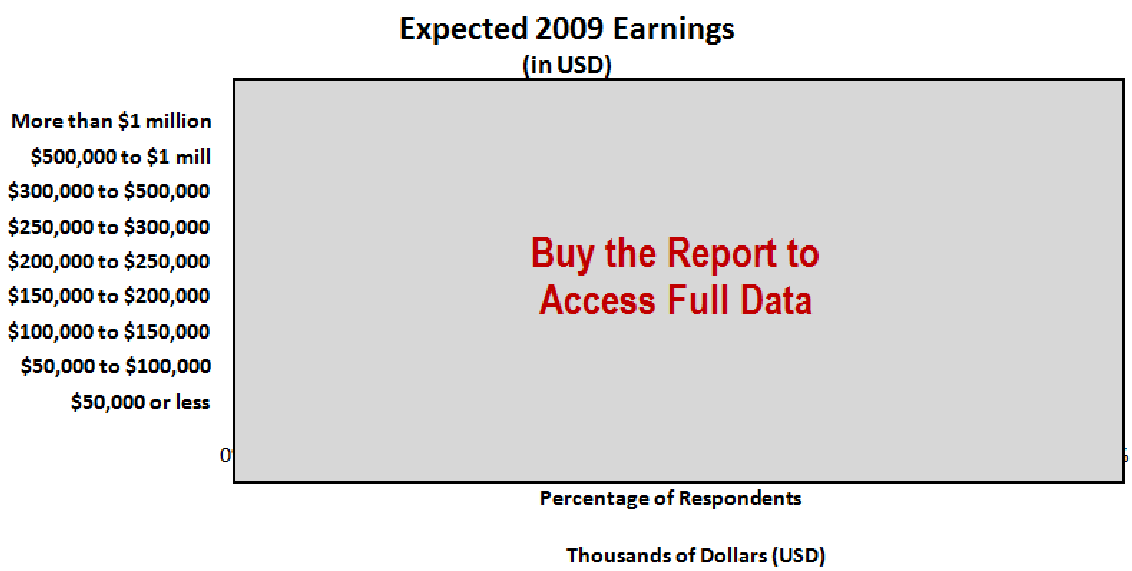

Figure 2: 2009 Expected Earnings

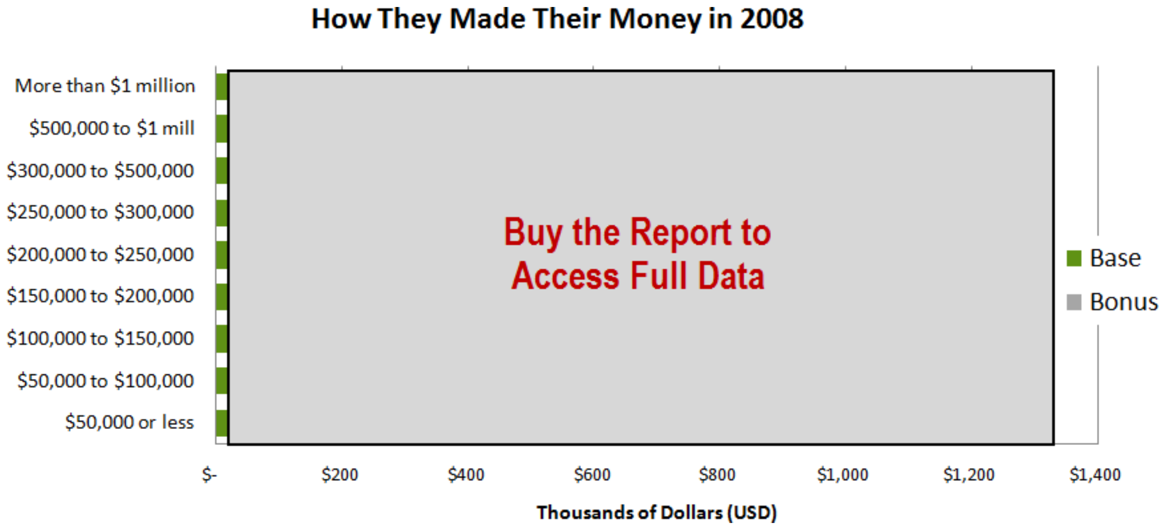

Figure 3: 2008 Base vs. Bonus Pay

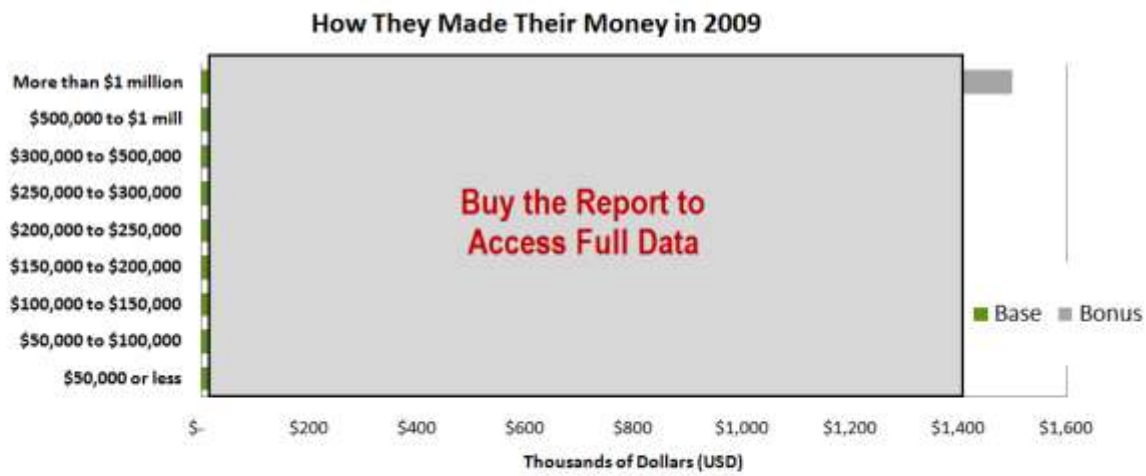

Figure 4: 2009 Base vs. Bonus Pay

Last year we reported that 1 in 4 expected no change in compensation -- this year, that ratio is 1 in 3. As a point of interest, this is about the same level as in the hedge fund industry, where we see higher averages across the board.

The percentage of respondents expecting a decrease in compensation dropped from 19 percent last year to 16 percent this year. Improved market conditions seem to be instilling a slightly higher level of confidence.

Below is a summary chart of 2009 expected compensation averages and ranges by title.

Keep in mind, responsibilities and compensation vary significantly depending on the size and type of firm (private equity, venture capital, or both).

	Mean			Range	
Title	**Base**	**Bonus**	**Total**	**Min**	**Max**
Accountant/Controller					
Analyst					
Associate					
CFO					
Director					
Manager					
Managing Director					
Managing Partner					
Partner					
Principal					
Senior Associate					
Vice President					

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Note: In thousands of USD. Excludes some countries where compensation practices vary significantly from USA, Canada and UK.

Figure 5: 2009 Ranges by Title

Differences Between Firm Types and Fund Size

70 percent of respondents are part of groups with less than 10 team members and 93 percent have less than 25 team members.

When looking at the *firm* size, 46 percent reported being part of a firm with less than 10 team members and 71 percent with less than 25.

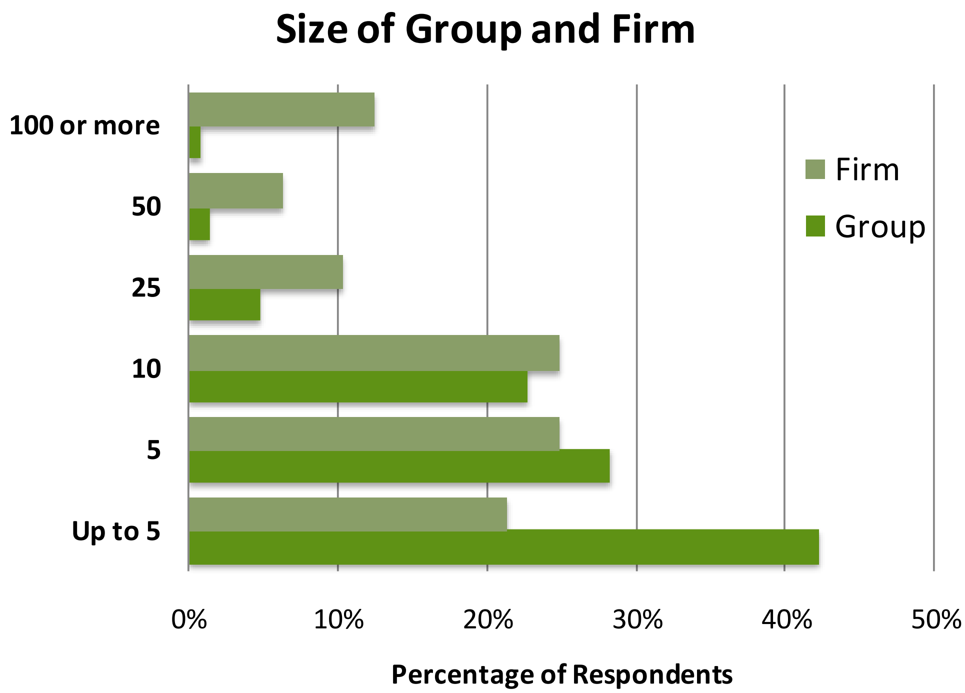

Figure 6: Size of Group and Firm

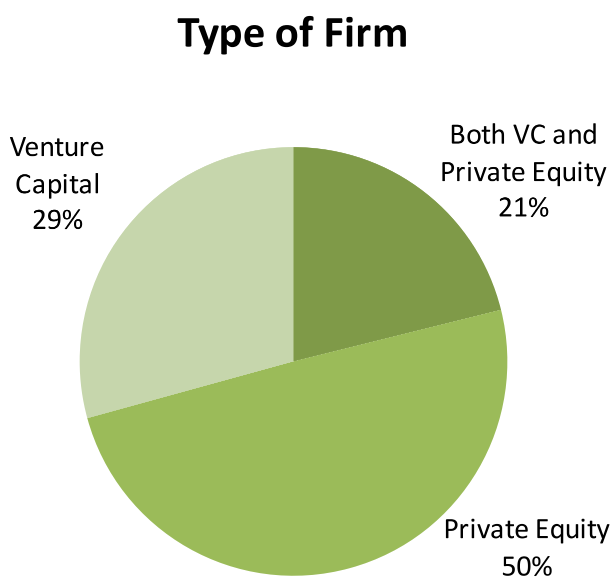

Figure 7: Type of Firm

Common titles such as Associate, Director, Managing Director and Principal show different levels of compensation based on the type of firm. There are significant differences in total compensation, especially at the higher levels.

Economic conditions had less impact on compensation at the larger funds - where typically the top positions enjoy the lion's share of the benefit received via economies of scale.

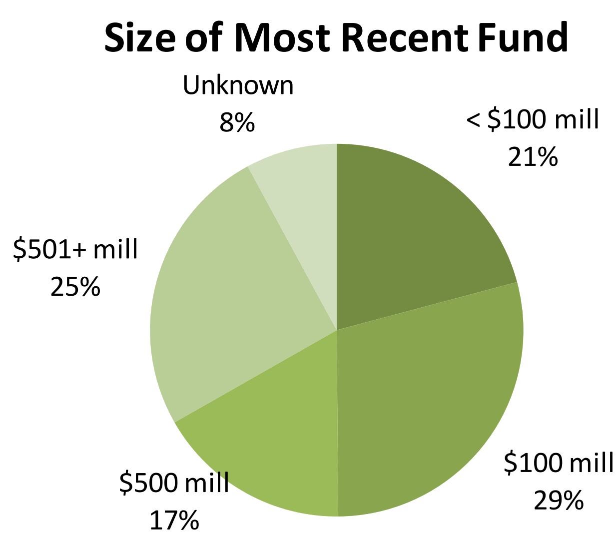

Figure 8: Size of Most Recent Fund

Carried Interest

Carried interest, also known as "incentive allocation" or simply "carry," is the percentage of fund profits charged to the investors as an incentive fee (on top of management fees). It represents the portion of fund profits that are allocated to the fund management team. It is the carrot that keeps the fund's general partner searching for above average investment opportunities.

The carried interest allocation is typically around 20 percent of the fund's profit but can be much higher. Recent events have put downward pressure on this percentage.

Carry is distributed to fund team members based on their personal share of the fee.

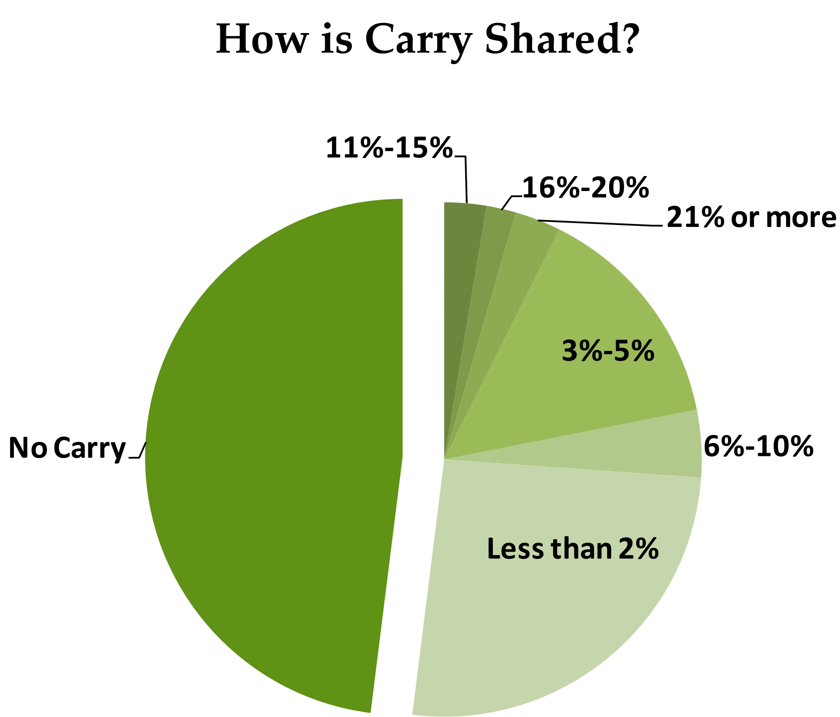

Figure 9: How is Carry Shared?

Are Big Investments Putting Increased Pressure on the Carry Formula?

Some industry watchers believe the “2 and 20” formula (2 percent of annual management fees and 20 percent of profits on exit) is stifling investment activity.

They argue that the formula worked well two decades ago, when most VC investors were patient, wealthy individuals, who were willing to wait 10 years for an exit event. But in the past decade, more and more institutional money has flooded into the venture capital.

These big investors are willing to commit huge chunks of capital on the same 2 and 20 terms. The argument is that this higher capital volume generates sizeable management fees for VC funds, which encourages VC's to focus more on raising funds than on nurturing start-ups and helping them navigate the bumpy road to success.

Given that profits are required in order to realize upside, levels of carry payout have not kept up with years past.

Unlike the hedge fund industry, where 70 percent say they receive no upside, 52 percent of private equity professionals reported receiving some level of carry.

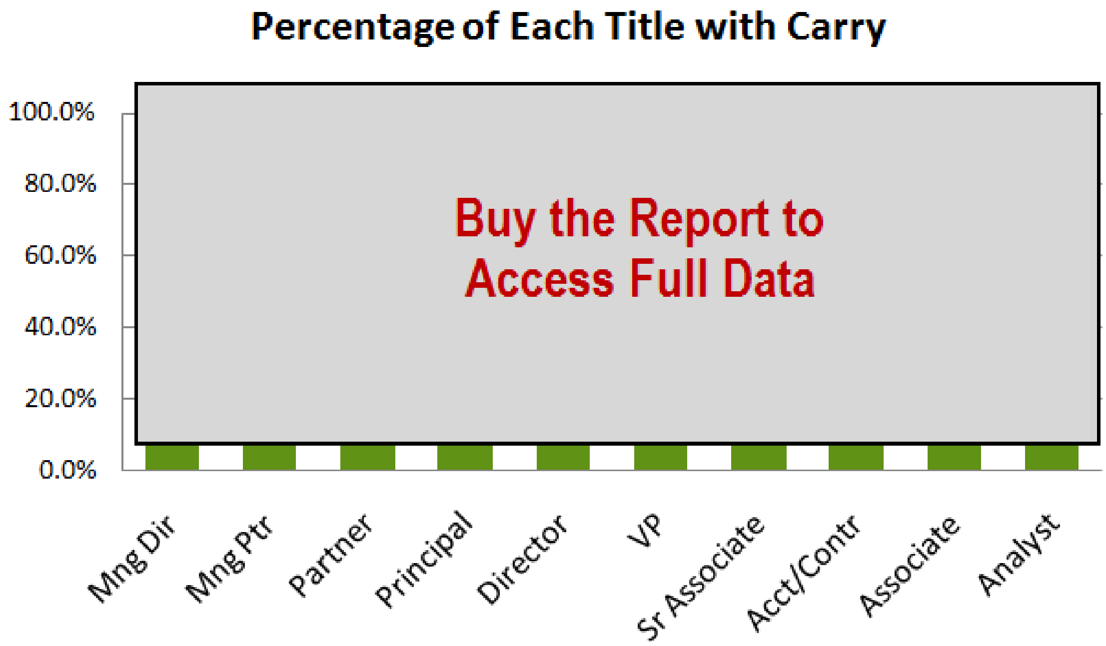

Figure 10: Carry by Title

Showing some movement this year, __ percent of Associates and __ percent of Senior Associates reported receiving carry, although typically at a level of __ percent or smaller.

For those with carry, they report having a holding period of ___ years to be fully vested in their carried interest.