1. Executive Summary

Post-Boom Fundraising Slowdown

The private equity industry, and in particular fundraising, has continued to suffer as a result of the prolonged global economic uncertainty and volatility. The peak years for private equity fundraising were 2007 and 2008, with more than 1,300 funds reaching a final close in each, having raised aggregate commitments of $665.9 billion and $679.5 billion respectively, as Fig. 1.1 shows. In the three years that have followed, fundraising has declined significantly, with just over $300bn raised in 2009, followed by another fall in 2010. The final figure for 2011 looks likely to be similar.

Number of Active Private Equity Firms

The fall in fundraising over the past three years has affected the number of new firms entering the private equity market to raise a fund for the first time. Fig. 1.2 shows the number of new fund managers joining the sector each year (calculated using the vintage of their first fund to represent their year of establishment). Any firms that have not raised a fund in the past 10 years are considered to have become inactive.

At the height of the fundraising boom in 2007 a large number of firms were establishing private equity funds for the first time. More than 450 new firms joined the sector in that year, the highest number of any year. Since then, however, the number of firms raising a fund for the first time has fallen significantly, with only around 150 new firms in 2011 as of November. (The 2011 figure only includes firms that have reached one or more interim closes on their debut funds in order to begin making investments.) With a number of firms becoming inactive due to last having raised a fund 10 years ago, this means that the total number of active firms in the industry has remained at a similar level to 2010, at around 4,500 managers.

The analysis contained within the body of the 2012 Preqin Private Equity Compensation and Employment Review drills down into the number of firms over time by fund type and geographic location, and reveals that a significant proportion of the firms dropping out of the industry were venture capital firms that last raised funds in the tech bubble and have been unable to raise further capital from investors since.

Employment Levels at Private Equity Firms

When private equity firms that do not raise, or have not yet raised, distinct private equity funds (i.e. those that manage corporate

Fig. 1.1: Annual Private Equity Fundraising, 2000 - 2011

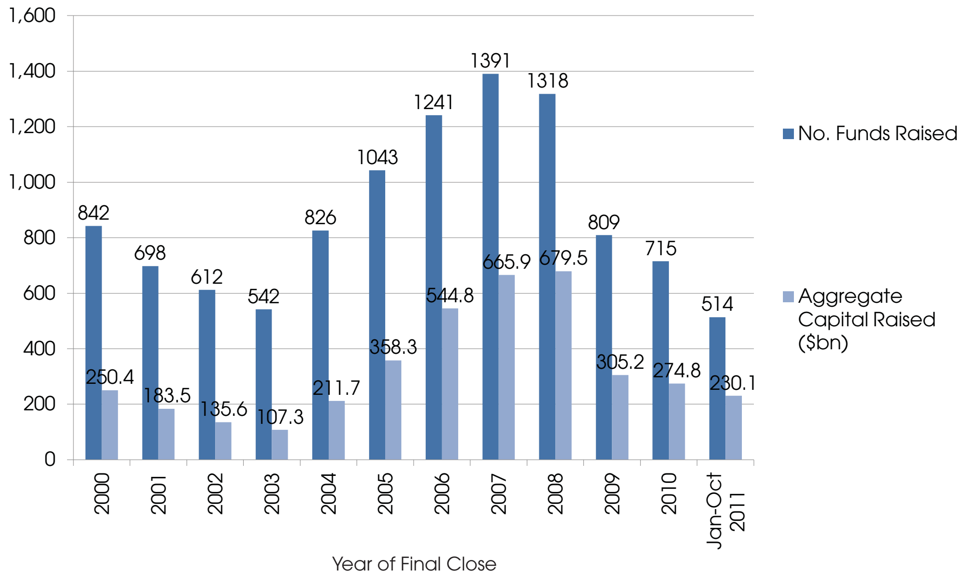
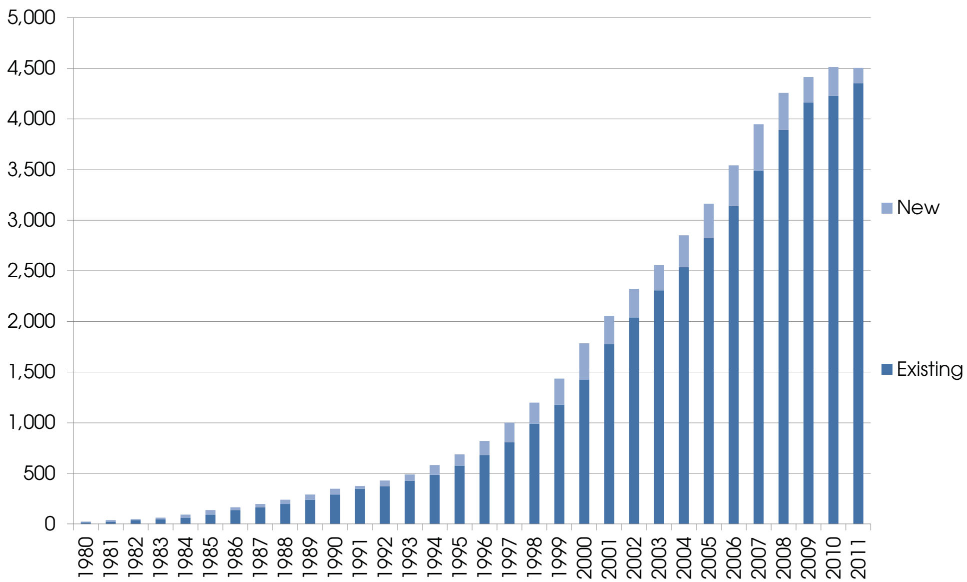


Fig. 1.2: Number of Active Private Equity Firms over Time (by Vintage of First Fund Raised)



or 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 from the 4,500 previously mentioned to more than 7,500. In total, these firms employ an estimated 85,000 people. It is important to note that our estimate here constitutes the “core” of the industry, taking into consideration 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.

Economies of Scale

The number of employees at private equity firms naturally varies significantly with the assets under management of the firms in question, as Fig. 1.3 shows. Firms with less than $250 million in assets under management have an average of 9.2 employees, while firms with more than $10 billion in total assets employ an average of more than 230 people. However, the larger firms tend to have far fewer employees per $1 billion in assets under management than the smaller firms, thus benefiting from economies of scale when it comes to charging asset management fees to their funds’ investors, which are usually based on a percentage of investor commitments.

Firms with assets under management of $10 billion or more have an average of 10.5 members of staff per $1 billion in assets, or approximately $95 million managed per employee. For firms with less than $250 million in total assets, the figure rises to 86.8 employees per $1 billion, or around $11.5 million managed per employee. While larger funds tend to have somewhat lower management fees than smaller funds, 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.

Individual Remuneration

As is demonstrated by the benchmark individual compensation figures featured in Chapter 7 of the 2012 Preqin Private Equity Compensation and Employment Review, a firm’s assets under management also have a significant effect on the remuneration available to individuals at the firm, as one would expect. For example, the average total remuneration for a managing general partner at firms participating in the survey with less than $100 million in assets under management is over $1.5 million, while the equivalent figure at the average firm with more than $800 million in total assets is more than $5 million.

Chapter 7 of the Review contains base salary, total annual cash compensation, long-term incentive/carried interest award, and total remuneration data for 23 different positions, including all levels of seniority for deal-making positions as well as senior executive and administrative/corporate positions. Where possible, in addition to the aggregate figures, the information is broken

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

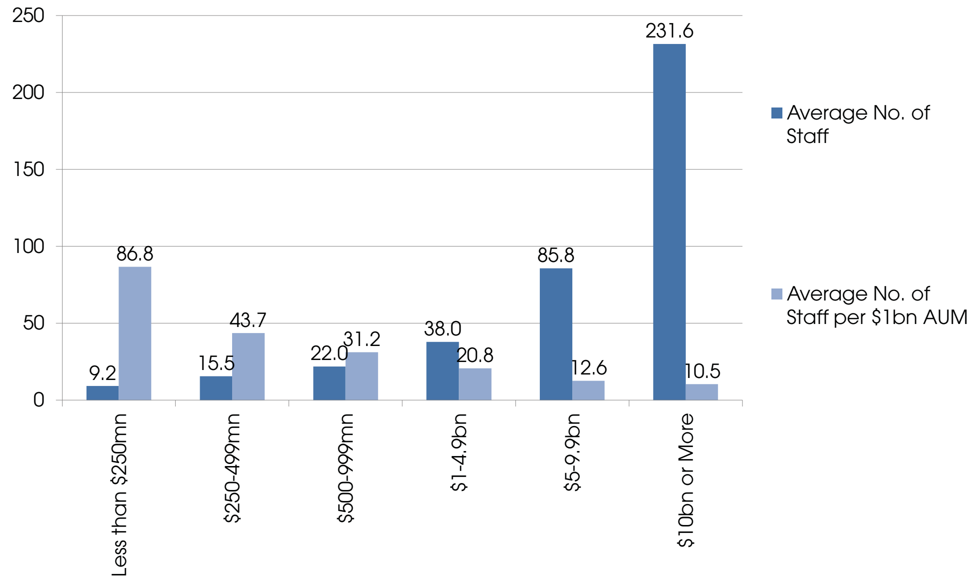
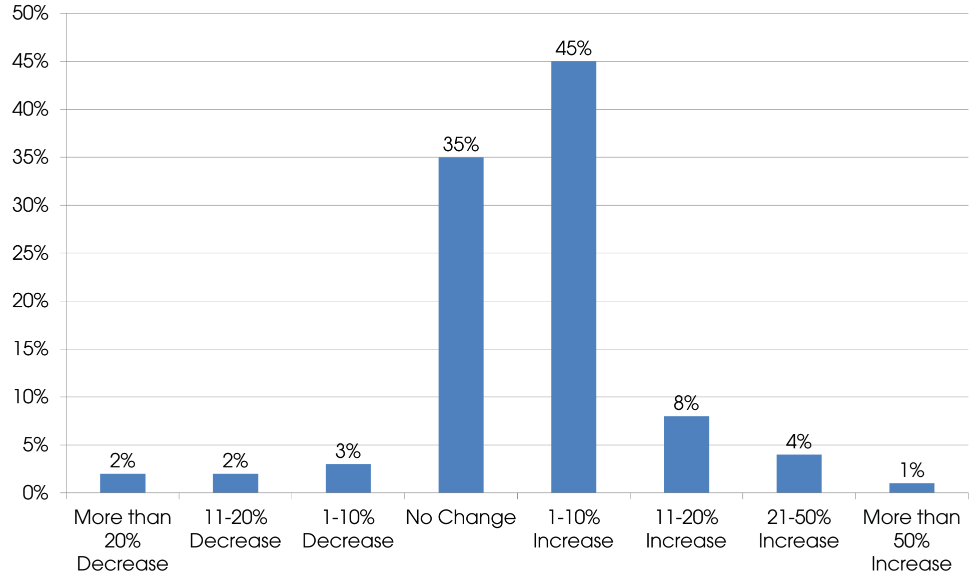


Fig. 1.4: Breakdown of Average Firm-Wide Changes in Base Salaries at Participating Firms between 2010 and 2011



assets under management, geographic market, and the strategy employed (buyout, venture, etc). Figures are provided for the 25th percentile, median, average, and 75th percentile benchmarks in each case.

Fig. 1.4 shows a breakdown of how base salaries have changed at participating firms between 2010 and 2011. Most firms have kept average base salary levels unchanged or given relatively modest increases of up to 10%. In addition, approximately 7% actually decreased base salary levels over the year. Given the uncertain economic outlook and the knock-on effect this has on the private equity industry, the changes in bonus payouts at firms participating in the survey have also been mixed. Payouts in 2011 (based on performance in calendar/ fiscal year 2010) decreased compared to the previous year at 16% of firms. However, the proportion of firms reporting an increase was larger, at 39%.

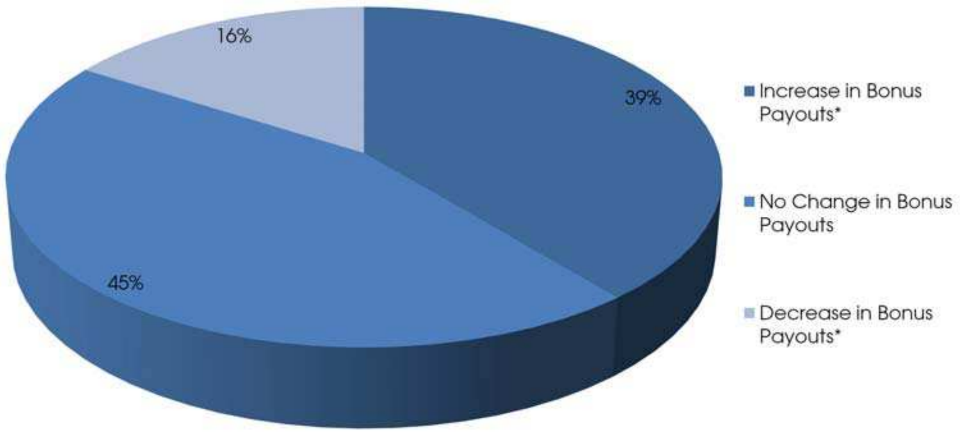
In addition to the individual compensation data, the Review also contains a detailed survey of various compensation practices at private equity firms, including employee eligibility for carried interest awards and how they are granted, carried interest vesting schedules, co-investment programs, additional benefits/perquisites, and more.

The 2012 Preqin Private Equity Compensation and Employment Review

In order to analyze the latest trends in compensation in the private equity industry, Preqin, in conjunction with FPL Associates, conducted a survey of 180 leading private equity firms to collect data on their compensation practices and remuneration levels, for which we are grateful to the participating firms. 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.

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 criteria including main firm strategy and firm size. 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. 1.5: Proportion of Participating Firms Reporting an Increase, a Decrease, or No Change in Bonus Payouts for Performance in Calendar/Fiscal Year 2010 Compared to Previous Year



*Median Increase: 20%; Median Decrease: 20%

The 2012 Preqin Private Equity Compensation and Employment Review

A comprehensive guide to industry compensation practices

Contents

Contributors

Below is a list of participants in this year's survey. The list does not include all 188 participants, as some companies prefer that their names not be listed. The participants listed below gave approval to list their names as participants.

ABS Capital Partners
Alder
Angola Capital Partners, LLC
Aster Capital Partners
Aureos Capital Ltd
Bay City Capital, LLC
Blue Chip Venture Company Ltd
Brook Venture Partners
CarVal Investors
Century Park Capital Partners, LLC
Change Capital Partners LLP
Commerce Street Capital, LLC
Covera Ventures
Cuyahoga Capital Partners LLC
Darby Overseas Investments, Ltd.
Development Partners International LLP
EMSA Capital
Essayons Capital Management LLC
Eureka Growth Capital Management, L.P.
Excalibur Fund Managers Ltd
Focus Ventures
Fondamenta SGR
Francisco Partners
GI Partners, L.P.
GEF Management Corporation (Global Environment Fund)
Global Life Science Ventures
Grotech Ventures
Helmsman Capital
Huron River Ventures
iGlobe Partners Pte Ltd
IGNIA Partners, LLC
i-Hatch Ventures
Incitia Ventures
InnoVentures Capital Partners, LLC
Insight Equity
Inter-Risco, Sociedade de Capital de Risco, S.A.
Investec Asset Management
JMI Equity
JP Morgan
KPS Capital Partners, LP
Lion Manager
Masseran Gestion
Mekong Capital Advisors Co., Ltd.
MicroVest Capital Managment, LLC
New Leaf Venture Partners
Nordwind Capital
Norwest Equity Partners
Nth Power, LLC
Ocroma Alternative Investments
Pencarrow Private Equity
Royalton Partners Limited
RSG Capital Ltd
Sarona Asset Management
Satori Capital, L.L.C.
Saybrook Corporate Opportunity Fund
Second City Capital Partners
Shore Capital Partners
SightLine Partners LLC
Squadron Capital Advisors Ltd
Storm Ventures LLC
SunBridge Partners
SV Life Sciences Advisers, LLC
Target Partners GmbH
The Catalyst Capital Group Inc.
The Riverside Company
Water Street Healthcare Partners, LLC
Wind Point Partners

5. General Company & Financial Information of Participating Firms

This section of the Review provides general company and financial information of the private equity firms that participated in the study. The next section, Chapter 6, looks at the rest of the company survey data, including examination of the trends regarding how firms structure their remuneration, base salaries, incentives and more. Chapter 7 provides more detailed individual compensation analysis by position.

As shown in Fig. 5.1, which provides a breakdown of the private equity fund types that the participating firms are involved in, some participant firms are involved in multiple investment strategies. Of firms that participated in the study, near equal proportions of venture capital and buyout are represented, with 41% and 38% respectively. This is unsurprising given the prevalence of both strategies in the private equity industry. 12% of participant firms manage funds of funds, whereas 10% are involved in mezzanine, 9% in distressed private equity and 6% in infrastructure. Just under one-fifth of firms stated that they are involved in other private equity strategies not represented in the graph – including debt, growth strategies and private real estate. Of the participating firms, 79% stated that they are independent, while the remaining 21% classified themselves as institutional.

The breakdown of geographic markets in which participating funds are active is shown in Fig. 5.2. The majority of firms are active in US markets (64%), with a little over one-third (35%) involved in Europe. Asia/Pacific is the third most represented region in firms taking part in the study, with 28% of such firms having a presence in these markets. Australia and South America are represented by 9% and 8% of firms respectively. Other markets not shown here in which some participating firms are active in are Africa, Central America and the Middle East.

Fig. 5.3 displays the mean and median compensation expenses of participating firms in each region for the calendar/fiscal year 2010; however only companies that have provided a figure for a region have been included, with all zero values being removed from the calculation. The median firm with a presence in the US had a compensation expense of $2.3 million, $0.1 million higher than the median participant firm active in Europe. The median firm with exposure to Asia/Pacific had compensation expenses of $1.6 million, whereas for firms active in South America and Australia median expenses

Fig. 5.1: Private Equity Fund Types in Which Participating Firms Are Involved

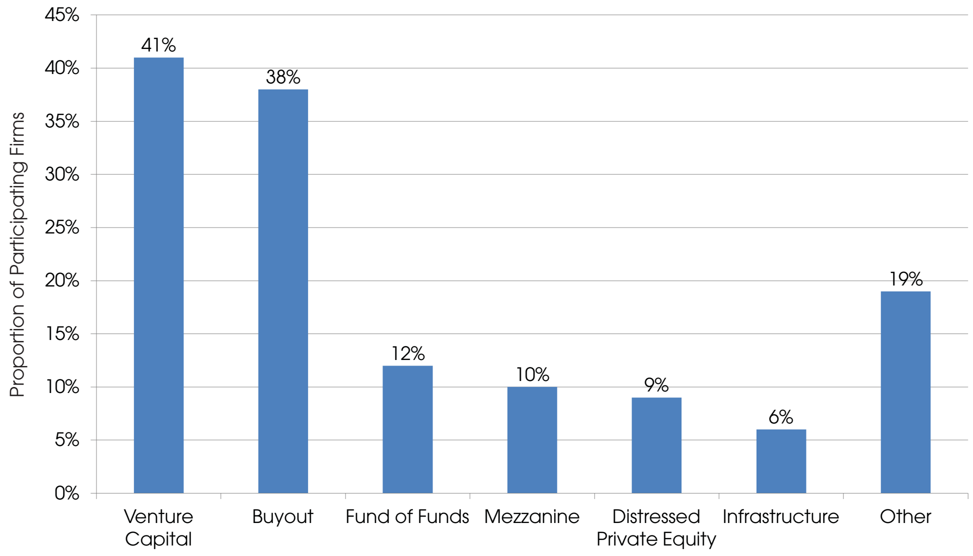
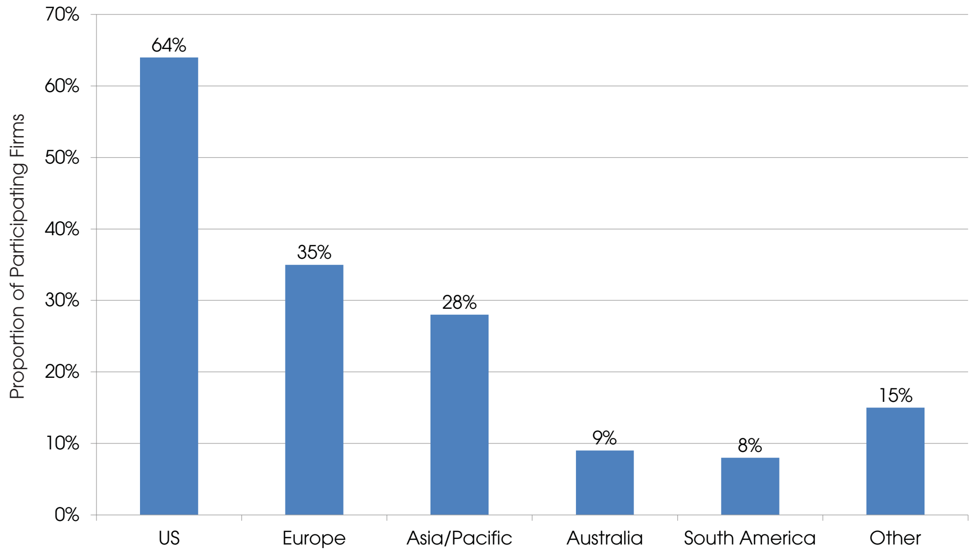


Fig. 5.2: Geographic Markets in Which Participating Firms Are Involved



6. Compensation Practices at Participating Firms

This section of the Review examines the remainder of the company survey data, looking at the latest trends in base salaries and incentives, as well as detailing how companies structure elements of their remuneration.

Base Salaries

Fig. 6.1 provides a breakdown of average firm-wide salary changes at participating firms between 2010 and 2011. The most popular bracket was a 1-10% increase, with 45% of firms reporting such an increase. Just over one-third of firms reported no change in average firm-wide base salaries. Around 7% of participating firms reported an overall decrease in base salaries.

Firms were also asked what proportion of their total number of employees received an increase in base salary between 2010 and 2011; the mean figure was 40% and the median 33%. Firms were also asked what proportion of employees received a promotional increase; the mean figure was 23% and the median 19%. The mean promotional increase with respect to base salary was 18% and the median 15%.

Bonus Payouts

Fig. 6.2 gives a breakdown of how much participating firms paid out in bonuses in 2011 (based on performance in calendar/ fiscal year 2010) as a proportion of their budgeted/targeted bonus pool. The majority of firms paid out 100% of their planned total, while 13% paid out more in bonuses than they had originally targeted to pay.

Bonus payouts remained at the same level overall as the previous year at nearly half of participating firms, as Fig. 6.3 shows. However, nearly 40% of firms reported an increase in bonus payouts from the previous year, and 16% reported a decrease. This represents a shift from last year, when the proportion of firms reporting an increase in bonus payouts for performance in calendar/ fiscal year 2009 was similar to the proportion reporting a decrease.

Fund Fee Structure

Fig. 6.3 shows that nearly half of firms participating in the survey charge a 2% annual management fee to their investors. Sixteen percent of firms have a management fee of 2.5%, and 8% of firms have a 1% management fee. As Fig. 6.4 shows, by far the most common carried interest rate used by participating firms is 20%, with 72% of

Fig. 6.1: Breakdown of Average Firm-Wide Changes in Base Salaries at Participating Firms between 2010 and 2011

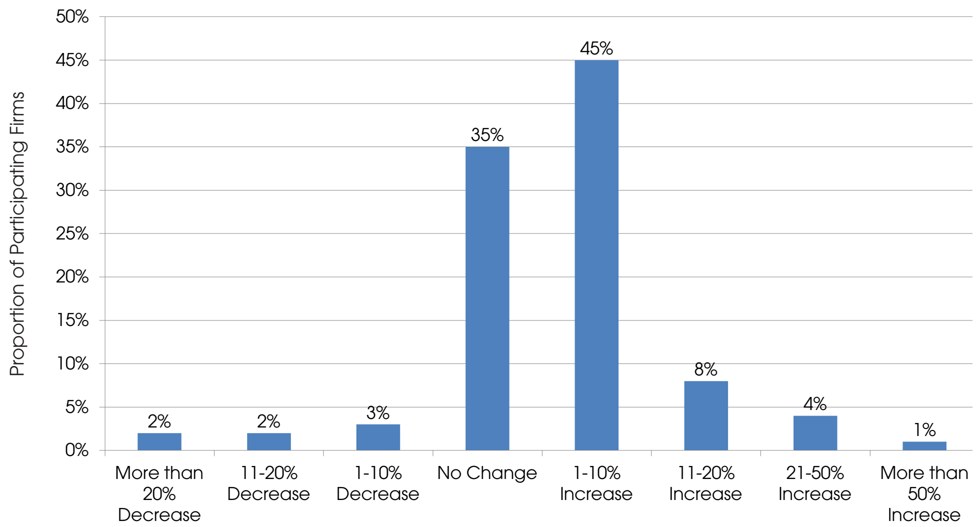
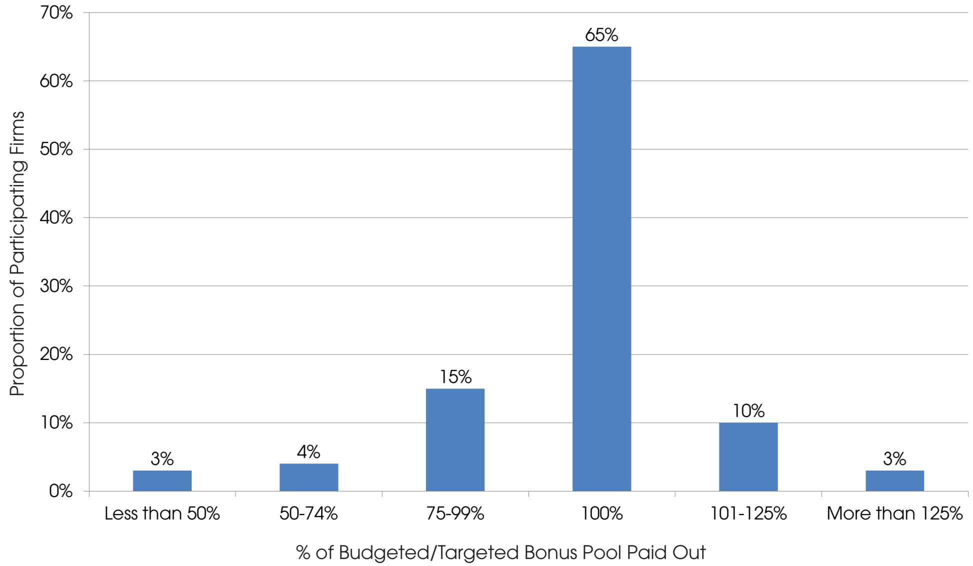


Fig. 6.2: Breakdown of Bonus Payouts for Performance in Calendar/Fiscal Year 2010 as a Proportion of Budgeted/Targeted Bonus Pool



Deal-Making Positions

Managing General Partner	Typical Years of Experience	Typically Reports To	Alternative Title(s)	Typical Education
	15+	Board(s)	CEO, Chairman	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 $100 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	$100 Million - $249.9 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	$250 Million - $800 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Over $800 Million	[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]
Type of Fund	Other	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Fund of Funds	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Leverage Buyout (LBO)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Mezzanine	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Venture Capital	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Distressed & Special Situations	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Job Description Degree of Match	Average	Target Annual Incentive (% of Base Salary) - Calendar/Fiscal Year 2011	25th Percentile	Median	Average	75th Percentile
	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]

		Long-Term Incentive Award + Promote/Carried Interest Award				Total Remuneration			
		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 $100 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	$100 Million - $249.9 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	$250 Million - $800 Million	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Over $800 Million	[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]
Type of Fund	Other	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Fund of Funds	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Leverage Buyout (LBO)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Mezzanine	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Venture Capital	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Distressed & Special Situations	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Number of Direct Reports	Average	No. of Funds Currently Participating In	Average	Average Promote/Carried Interest Allocation - Most Recent Fund(s)	% of GP's Share	% of Management Team's Share
	[redacted]		[redacted]		[redacted]	[redacted]

2012 Preqin Private Equity Compensation and Employment Review

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Produced in collaboration with leading compensation specialists FPL Associates, the 2012 Preqin Private Equity Compensation and Employment Review is the industry's most comprehensive guide to compensation practices, featuring detailed benchmark remuneration data for 23 positions, split where possible by size, type and region using data provided by over 180 leading firms. A source of reliable and accurate information on the latest trends in private equity compensation and employment is a vital tool enabling decision-makers and advisors to examine existing compensation practices against wider industry benchmarks.

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 over time.
- Plus much more...

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