

# Compensation Takes Healthy Jump This Year

By David Toll

Investment professionals from associates on up to partners saw healthy increases in salary and bonus compensation this year, even as fundraising remained relatively tame.

That's according to the just-published, survey-based 2011-2012 Holt-Thomson Reuters Private Equity and Venture Capital Compensation Report. Partners at North American LBO/growth equity firms earned a median salary and bonus of \$540,000 this year (see table, below). That was up 17 percent from a median of \$450,000 last year. Junior professionals also did well. Senior associates earned a median salary and bonus of \$225,000 this year, up 19 percent from a median of \$183,100 the year before.

Altogether 34 North American LBO/growth equity firms this spring and summer participated in the Holt-Thomson Reuters survey. Along with supplying data about their firm-wide compensation practices (including bonus programs, carried interest programs and co-investment programs), respondents provided detailed information on the compensation packages of more than 1,000 employees working in both investment and non-investment roles. The survey was a joint effort of Thomson Reuters, publisher of *Buyouts*, and two compensation consultants—Holt Private Equity Consultants and MM&K.

Just what drove salaries and bonuses higher isn't exactly clear. But firms may still be feeling flush from the gigantic fundraising years of 2007 and 2008, when U.S. buyout and mezzanine firms raised more than \$550 billion. Since

buyout firms collect full management fees during their fund investment periods (typically five or six years) those vintage-year funds are still throwing off plenty of fees out of which to pay salaries and bonuses. The pick-up in deal pace since 2009 is also translating into transaction and related fees, although over time limited partners have negotiated to keep a bigger and bigger share of those through management fee offsets.

Hiring also appears to be up year over year, a development that can help push compensation higher. **Solveigh Marcks**, a founder of executive recruitment firm Denali Group, which specializes in vice president, principal and partner-level searches for private equity firms, said her seven-executive team has seen search activ-

that are moving into debt investing and other ancillary strategies are hiring people with that expertise; firms are adding to their investor relations and fundraising teams in anticipation of raising money in the next several months; and firms are replacing professionals that have left, sometimes following a shift or narrowing in strategy.

According to the survey, nearly one in seven (13 percent) North American LBO/growth equity firms had planned to hire investment professionals at the partner level this year, down from 16 percent the year before (see table, opposite page). Those that did planned to expand their staff by a median of 15 percent. In addition, more than half (52 percent) of respondents planned to add

investment professionals at the non-partner level this year. That was up from 41 percent the year before. Those that did planned to expand their non-partner investment professional ranks by a median of 20 percent.

## Bigger Firms

Among other findings, the survey did nothing to dispel the notion that the larger firms with more assets under management pay far better than smaller firms. The phenomenon is a source of perennial headaches

for LPs, who worry that firms, in order to pay more, will try to raise more money than they can deploy effectively.

Take partners at large LBO/growth equity firms with more than \$1.5 billion under

## Salary And Bonus On The Rise

All LBO/Growth Equity firms, year over year median compensation

Firm Classification	Base Salary (\$000)			Base Salary Bonus (\$000)		
	2011	2010	% Change	2011	2010	% Change
Managing General Partner(s) / CEO	500.0	500.0	0.0%	1019.0	1019.0	0.0%
Senior Partner / Senior Managing Director(s)	400.0	400.0	0.0%	763.8	600.0	21.4%
Partner / Managing Director(s) / Portfolio Manager	300.0	292.0	2.7%	540.0	450.0	16.7%
Principal / Vice President / Director(s)	183.3	175.0	4.5%	393.3	272.0	30.8%
Senior Associate(s)	135.0	128.8	4.6%	225.0	183.1	18.6%
Associate(s)	103.0	100.0	3.2%	187.2	180.0	3.8%
CFD	200.0	175.0	12.5%	325.0	325.0	0.0%
COO	520.4	540.8	-3.9%	713.9	773.0	-8.3%

Source: 2011-2012 Holt-Thomson Reuters PE and VC Compensation Report

ity rise by about a third over last year. Marcks sees four main trends behind the surge. Mid-market shops that have recently raised money are staffing up at the junior level to handle the additional work; firms

## COVER STORY

## Modest Expansion Plans

Staffing changes 2010-2011, investment pros, partners and non-partners, LBO/Growth Equity

	Increase				Decrease				No Change	
	2010		2011		2010		2011		2010	2011
	% Firms	% Change (Median)	% Firms	% Change (Median)	% Firms	% Change (Median)	% Firms	% Change (Median)		
Partners / M.D.	16%	25%	13%	15%	6%	20%	6%	15%	77%	81%
Non Partners	41%	12%	52%	20%	6%	14%	0%	NA	53%	48%

Source: 2011-2012 Holt-Thomson Reuters PE and VC Compensation Report

## Fee Streams Remain Significant

Firm Classification	Management Fees								Other Fees – All Active Funds							
	Millions (All Active Funds)				% Most Recent Fund				GP Portion (Millions)				LP Portion (Million)			
	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th
LBO / Growth Equity (Large)	30.6	15.0	20.0	35.7	1.9%	1.5%	2.0%	2.0%	9.73	3.74	4.20	9.35	4.12	3.80	4.40	4.58
LBO / Growth Equity (Small/Mid-Size)	5.9	3.0	4.6	8.7	2.1%	2.0%	2.0%	2.1%	1.58	0.75	1.25	1.99	1.63	0.82	1.50	1.99
LBO / Growth Equity (All)	17.8	4.6	12.0	19.3	2.0%	2.0%	2.0%	2.0%	5.07	1.13	2.20	4.11	2.38	1.13	1.99	3.58

Source: 2011-2012 Holt-Thomson Reuters PE and VC Compensation Report

Firm Classification	General Partner Fees Ratios											
	All GP Fees as % Of All Active Funds				All GP Fees as % Of Most Recent Funds				All GP Fees as % Of Invested Capital			
	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th
LBO / Growth Equity (Large)	1.6%	1.4%	1.5%	1.8%	3.6%	2.5%	3.1%	3.5%	3.0%	2.4%	2.7%	3.5%
LBO / Growth Equity (Small/Mid-Size)	1.9%	1.5%	1.8%	2.0%	3.1%	2.2%	3.0%	3.5%	8.0%	3.2%	3.6%	6.7%
LBO / Growth Equity (All)	1.8%	1.4%	1.7%	1.9%	3.4%	2.3%	3.1%	3.5%	5.6%	2.5%	3.2%	4.3%

Source: 2011-2012 Holt-Thomson Reuters PE and VC Compensation Report

Firm Classification	Committed Capital (All Active Funds) Per Investment Manager - Mil.								Fee Per Investment Manager - Millions								Portfolio Companies Per Investment Manager							
	Partner / M.D.				All Investment Professionals				Partner / M.D.				All Investment Professionals				Partner / M.D.				All Investment Professionals			
	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th	Avg.	25th	50th	75th
LBO / Growth Equity (Large)	352.2	173.1	250.0	342.1	121.6	62.9	97.8	125.0	3.73	2.89	3.03	4.82	1.37	1.10	1.33	1.52	3.9	1.8	3.0	4.0	1.3	0.7	0.9	1.2
LBO / Growth Equity (Small/Mid-Size)	105.9	55.0	80.0	165.0	47.0	27.5	44.4	60.0	1.92	1.06	1.33	3.26	0.85	0.69	0.97	1.09	2.8	1.9	2.5	3.3	1.3	0.8	1.2	1.9
LBO / Growth Equity (All)	229.5	83.6	170.4	254.3	84.3	38.0	62.9	97.8	2.80	1.33	2.93	3.48	1.10	0.75	1.10	1.34	3.3	1.8	2.9	3.7	1.3	0.7	1.0	1.7

Source: 2011-2012 Holt-Thomson Reuters PE and VC Compensation Report

management. According our survey they earned an average of \$858,100 in salary and bonus this year. That's more than double the average \$381,400 that partners at small buyout shops with less than \$500 million under management will earn this year. Partners at mid-sized firms, with \$500 million to \$1.5 billion under management, earned an average of \$623,200 this year.

Those numbers also suggest the great incentive that junior professionals have to climb quickly up the ranks. Analysts at large LBO/growth equity firms in our study earned an average of \$155,200 this year in salary and bonus, less than 20 percent the figure for partners. One of the questions asked of firms in the study this year was how many years it takes from earning an MBA degree to reach partner or management director. For LBO/growth equity firms in the study the average is nine years. ♦

## Getting Ahead

The average and median years from an MBA degree to partner/managing director

Firm Classification	Years of Experience to Partner			
	Avg.	25th	50th	75th
LBO / Growth Equity	9	7	10	10
Venture Capital	9	5	10	10
Mezzanine	11	8	11	14
Fund of Funds	11	8	10	12

Source: 2011-2012 Holt-Thomson Reuters PE and VC Compensation Report