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The 2010 Holt Survey Results Webinar

Current Trends in Design and Levels Of Compensation in the Private Equity Industry

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Agenda

- Welcome & Introduction
- Survey Overview
- Financial and Operational Data
- Human Capital
- Compensation Strategy
- Compensation Levels
- Conclusion

Today's Moderator



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Michael Pate Steele **Grahall Consulting Partners**

Pate Steele is a Consultant with Grahall Partners, LLC. He consults in the area of employee and executive benefits, providing consulting services to a wide array of privately-held and public companies. He is a consultant to boards of directors, their compensation committees, and members of company management.

Pate has over twelve years of experience in the compensation and benefits industry. He began his career with Lyons Compensation & Benefits in the 1990s, and ultimately served most of his tenure with Clark Consulting, an executive benefits firm primarily serving Fortune 1000 companies in the design, review, administration, and financing of nonqualified plans. Pate provided plan administration and business development services for Clark's clients throughout the Northeast.

Pate received his Bachelors of Information Technology from University of Phoenix where he studied computer systems with a concentration in web and database development. He also attended The New England Conservatory of Music and has sung for the Pops with the Tanglewood Festival Chorus and for Trinity Church at Copley Square. He is also an active tennis player who participates in regional and national tournaments.

Introducing the Speakers



R. Michael Holt
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R. Michael Holt **Holt Private Equity Consultants**

Holt Private Equity Consultants specializes in assisting clients with private equity organizational and human resources issues, including compensation and performance management. The Holt firm has designed numerous carried interest and co-investment plans, as well as annual incentive plans. It also has consulted with various real estate and investment/funds management organizations

Prior to founding Holt Private Equity Consultants in 2001, Mike Holt was a consultant with William M. Mercer, KPMG, and Hay Management Consultants, where he conducted private equity compensation surveys. Previously, he was head of compensation and employee benefits at Norwest (now Wells Fargo) and for Pillsbury (consumer products).

Mike received his undergraduate degree at the University of Notre Dame and a Masters Degree in Business Administration from Roosevelt University. He also served as a Lieutenant in the U.S. Army.

2010 Alternative Asset Management Series

History of the Holt Survey

- From 2002 through 2009, Holt Private Equity Consultants conducted a joint venture private equity compensation survey with the Private Equity Analyst publishing company (The latter was acquired by Dow Jones in 2005). This survey generally has been known as the “Holt Survey.”
- This year, the Holt firm joined forces with MM&K Limited, a consulting firm in London, which does surveys of both private equity and hedge fund organizations. These two firms also are partnering with Grahall Partners; a New York based firm that consults and surveys with Hedge Funds as well as other financial institutions.
- The report, now available for purchase, issued by the Holt and Grahall firms covers employees of Private Equity firms in the U.S.
- Our survey partner MM&K provides a separate report covering employees of Private Equity firms in the U.K and the rest of Europe.
- All three reports are now available for purchase:
 - Private Equity Report – North America
 - Private Equity Report – U.K. and Other European Locations
 - Hedge Fund Report – Human Capital and Pay Practices

2010 Holt Private Equity Survey

Survey Overview

- The scope of the survey encompasses over 90 Private Equity funds (inclusive of LBO, Venture Capital, Mezzanine, Fund of Funds, Corporate Venturing and Secondary Funds).
- These include over both stand-alone and institutional organizations.
- This report covers employees of Private Equity firms in the U.S. (see participant list below).
- The survey covers “how” and “how much.”
- For the list of positions, participants, key findings, and more, visit the survey’s landing page.

Survey Demographics

Types of Firms

First Type

LBO
Venture Capital

Second Type

Mezzanine
Institutional
Fund of Funds
Corporate Venturing

Survey Demographics

Size of Firms (By Capital)

| Small | Mid-Size | Large |
|------------------------|-----------------------------------|-----------------------|
| Under \$500 Million | \$500 million to \$1.5 billion | Over \$1.5 billion |

LBO and VC Trends

(25th – 75th Percentile)

| Category | LBO | Venture Capital |
|------------------------------------|-----------------|-----------------|
| Capital (\$ Billions) | \$0.39 – \$2.4 | \$0.25 – \$1.2 |
| Recent Fund | \$0.23 - \$0.76 | \$0.12 – \$0.6 |
| Managing Directors – Partners | 4 – 8 | 5 – 9 |
| Investment Managers – Non Partners | 14 – 25 | 9 – 19 |
| Total Number of Employees | 16 – 34 | 15 – 26 |

LBO and VC Trends

(25th – 75th Percentile)

| GP Fees | LBO | Venture Capital |
|--------------------|----------------|-----------------|
| \$ Millions | \$3.7 – \$19.8 | \$2.2 – \$11.5 |
| Percent of Capital | 1.4% – 0.57% | 1.5% - 0.56% |
| Recent Fund | 2.5% - 1.5% | 4.9% - 2.6% |

| Payroll | LBO | Venture Capital |
|-----------------|-----------|-----------------|
| Percent of Fees | 54% - 76% | 61% - 83% |

Trends - Per Partner Data

(25th – 75th Percentile)

| Description | LBO | Venture Capital |
|-----------------------|---------------|-----------------|
| Capital (\$ Millions) | \$90 – \$200 | \$63 – \$200 |
| GP Fees (\$ Millions) | \$0.9 – \$2.5 | \$0.4 – \$1.3 |

Trends – Current Environment

- 1 Wall Street jobs steady to increases
- 2 Qualified candidates still easier to find
- 3 Less money being raised but improving
- 4 Less investment activity but improving
- 5 Less pressure on wages – Hedge Funds; LBO
- 6 Lack of carry distributions – few exits

Trends – Percent of Firms With New Hires

| Partners | LBO | Venture Capital |
|--------------|-----|-----------------|
| 2009 Actual | 8% | 29% |
| 2010 Planned | 9% | 35% |

| Non Partners | LBO | Venture Capital |
|--------------|-----|-----------------|
| 2009 Actual | 24% | 30% |
| 2010 Planned | 46% | 29% |

Trends – Salary and Bonus Increases

(Percent of Employees)

| Partners | Salary Increases | Bonus Increases |
|--------------|------------------|-----------------|
| 2009 Actual | 28% | 28% |
| 2010 Planned | 30% | 30% |

| Non Partners | Salary Increases | Bonus Increases |
|--------------|------------------|-----------------|
| 2009 Actual | 56% | 40% |
| 2010 Planned | 52% | 38% |

Trends – Bonuses

Types of Goals

- 40 % of firms use formulaic performance goals.
- 59% use combination of discretion and performance goals.
- Only 1% are purely discretionary.

Firm-Wide goals and Team Goals

Individual Goal examples:

- Deal Sourcing; Portfolio Co. Performance
- Harvesting Exits; Fund Raising; Admin

Trends – Carried Interest Plans

Hurdle Rates

- **78% of firms required to return capital before any distributions.**
- **95% of LBO firms have hurdle rate of preferred return with catch up (vs. 50% VC firms)**
- **40% of VC firms have hurdle rate of net asset value test (vs. 5% LBO firms)**

Trends – Carried Interest Plans

Plan Characteristics

- **Partners receive 79% of carry; non partners 11%; and sponsors 5% (rest unallocated or other)**
- **Allocation 69% discretionary, 16% based on formula, 16% on grade level.**
- **Over half of firms fully vest at 100% after either 7 or 10 years.**
- **Some firms never fully vest**

Trends – Carried Interest Plans

Plan Characteristics

(Continued)

- Smaller firms have more “points” (%of fund), fewer “dollars at work”
- \$ Can be valued (like stock options)
- Normally have a claw-back provision
- Prefer to management fees (trade-off)
- Rarely applies to Analysts

Trends – Other Plans

(Percent of Employees)

| Plans | All Firms |
|--------------------|--|
| Co-Investment Plan | Only 18% of firms (most voluntary and pro rata investments) |
| Loans | 42% if have plan |
| 401(k) Plan | 89% VC, 87% LBO |
| Pension | 13% cash balance 10% defined benefit |

Yearly Change History – “All In” Pay

Salary + Bonus + Carry Distribution

| Fiscal Year | LBO | Venture Capital |
|-------------|-------|-----------------|
| 2009 / 10 | 6% | (4%) |
| 2008 / 09 | (5%) | 4% |
| 2007 / 08 | 21% | 35% |
| 2006 / 07 | 0% | 26% |
| 2005 / 06 | 54% | 38% |
| 2004 / 05 | 45% | 11% |
| 2003 / 04 | 45% | 4% |
| 2002 / 03 | 8% | (23%) |
| 2001 / 02 | (22%) | (77%) |

Trends – Value Chain Elements

Deal Making Positions

- **Managing General Partner**
- **Sr Partner/Sr Managing Director**
- **Partner/Managing Director**
- **Principal/Vice-President**
- **Senior Associate**
- **Associate**
- **Senior Analyst**
- **Analyst**

Non-Deal Making Positions

- **Chief Operating Officer (COO)**
- **Chief Financial Officer (CFO), Controller, Asst Controller Sr. Accountant**
- **IT Head, IT Manager**
- **Investor Relations Head, IR Manager**
- **Marketing Head, Marketing Manager**
- **Legal Head**
- **Admin / Office Manager**
- **Executive Assistant**
- **Secretary**
- **Receptionist**

Trends – Compensation Category

Cash Awards

- Salaries
- Bonuses
- Carried Interest Distributions

Plan Design Grants

- Carried Interest Points/Allocation
- Carried Interest “dollars at work”

Trends – Data Points By Position

Data Points By Position

- Median
- Average

- 25th Percentile (Lower Quartile)
- 75th Percentile (Upper Quartile)

- Firm weighted vs. incumbent weighted

Salaries (\$ Millions)

(25th – 75th Percentile)

| Position | LBO | Venture Capital |
|-------------------------|---------------|-----------------|
| Mg. Gen Ptr | \$326 – \$725 | \$463 – \$1,725 |
| Sr Partner/MD | \$250 – \$400 | \$405 – \$1,151 |
| Partner/MD | \$215 – \$325 | \$265 – \$473 |
| Principal | \$150 – \$223 | \$189 – \$310 |
| Sr Associate | \$123 – \$150 | \$125 – \$173 |
| Associate | \$ 87 – \$103 | \$109 – \$129 |
| Senior Analyst | \$ 85 – \$95 | \$ 99 – \$112 |
| Analyst | \$ 85 – \$90 | \$ 95 – \$108 |
| Chief Financial Officer | \$179 – \$274 | \$192 – \$370 |

Annual Salary Change

| Position | LBO | Venture Capital |
|-------------------------------|-----|-----------------|
| Managing Directors – Partners | 5% | 0% |
| Other Investment Managers | 7% | 2% |
| Administrative Staff | 1% | 9% |

Salary Plus Bonus (\$ Millions)

(25th – 75th Percentile)

| Position | LBO | Venture Capital |
|-------------------------|-----------------|-----------------|
| Mg. Gen Ptr | \$801 - \$2,000 | \$753 - \$1,953 |
| Sr Partner/MD | \$448 - \$785 | \$486 - \$1,348 |
| Partner/MD | \$350 - \$595 | \$359 - \$580 |
| Principal | \$241 - \$343 | \$213 - \$359 |
| Sr Associate | \$205 - \$288 | \$149 - \$209 |
| Associate | \$129 - \$183 | \$139 - \$195 |
| Senior Analyst | \$98 - \$148 | \$125 - \$139 |
| Analyst | \$85 - \$92 | \$119 - \$130 |
| Chief Financial Officer | \$241 - \$490 | \$249 - \$460 |

Annual Salary Plus Bonus Change

| Position | LBO | Venture Capital |
|-------------------------------|-----|-----------------|
| Managing Directors – Partners | 3% | (2%) |
| Other Investment Managers | 7% | 10% |
| Administrative Staff | 0% | 9% |

Salary Plus Bonus Plus Carried Interest (\$ Millions)

(25th – 75th Percentile)

| Position | LBO | Venture Capital |
|-------------------------|-------------------|-----------------|
| Mg. Gen Ptr | \$1,021 - \$3,395 | \$853 - \$2,118 |
| Sr Partner/MD | \$535 - \$1,545 | \$521 - \$1,534 |
| Partner/MD | \$390 - \$886 | \$363 - \$580 |
| Principal | \$241 - \$456 | \$213 - \$359 |
| Sr Associate | \$209 - \$288 | \$149 - \$209 |
| Associate | \$129 - \$183 | \$139 - \$195 |
| Senior Analyst | \$98 - \$148 | \$125 - \$139 |
| Analyst | \$85 - \$92 | \$119 - \$130 |
| Chief Financial Officer | \$253 - \$546 | \$290 - \$460 |

Annual Salary Plus Bonus Plus Carried Interest Distribution Change

| Position | LBO | Venture Capital |
|-------------------------------|-------|-----------------|
| Managing Directors – Partners | (10%) | (15%) |
| Other Investment Managers | 6% | 10% |
| Administrative Staff | 3% | 10% |

Annual Change Summary

All Employees

| Position | LBO | Venture Capital |
|---|------|-----------------|
| Salary | (2%) | 9% |
| Salary Plus Bonus | 5% | 10% |
| Salary Plus Bonus Plus Carried Interest | 0% | 12% |

Carried Interest “Points” (% of Fund)

(25th – 75th Percentile)

| Position | LBO | Venture Capital |
|-------------------------|-------------|-----------------|
| Mg. Gen Ptr | 2.35 – 6.85 | 3.06 – 6.50 |
| Sr Partner/MD | 1.50 – 3.41 | 1.88 – 3.64 |
| Partner/MD | 0.77 - 2.00 | 0.45 – 2.21 |
| Principal | 0.19 - 0.50 | 0.08 - 0.51 |
| Chief Financial Officer | 0.04 - 0.64 | 0.18 - 0.65 |

Carried Interest “\$ At Work”

(25th – 75th Percentile)

| Position | LBO | Venture Capital |
|-------------------------|-----------------|-----------------|
| Mg. Gen Ptr | \$11.8 - \$60.6 | \$11.9 - \$86.4 |
| Sr Partner/MD | \$5.5 - \$18.9 | \$11.4 - \$36.0 |
| Partner/MD | \$5.3 - \$13.7 | \$3.2 - \$10.3 |
| Principal | \$0.9 - \$4.3 | \$1.3 - \$4.3 |
| Chief Financial Officer | \$0.0 - \$5.5 | \$1.9 - \$4.0 |

Thank You for Attending!

1. The Holt Report is now available for download on the Grahall website

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