

ADVICE ON COMPENSATION POLICY IN THE PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

Background

MM&K is one of the leading UK based independent advisers on executive remuneration and employee share plans. The company is owned by its directors and employees. It is a partner member of the **GECN Group**, (the Global Governance and Executive Compensation Group). Further information about MM&K and the GECN Group can be found at: www.mm-k.com and www.gecn.com

Private Equity Experience

MM&K is the leading UK and European adviser in the field of European private equity and venture capital fund management firms' compensation structures and levels. Over the years we have advised a significant number of PE and VC and other alternative fund management businesses, both captive and independent, on the design and structure of their remuneration policies, covering base pay levels, partner drawings and profit shares, annual bonus plans, carried interest and co-investment structures as well as other long-term incentive arrangements. We have also advised on succession planning at a number of our PE clients.

The focus of attention has typically been on developing remuneration policies and incentive plan structures for our alternative fund management clients, which are in line with market practice and as flexible and tax efficient as possible. We aim to be innovative in the design and creation of new ideas, sometimes resulting in the setting of new market precedents in the VC/PE incentive compensation arena.

MM&K's services include pay benchmarking both for investment professionals and back office staff as well as providing advice on the design, structure and implementation of both short term and long term incentive plans. We frequently advise on the detailed design of carried interest plans for first time funds as well as on the appropriate levels of carry allocations as between different participant groups. We can also provide technical plan documentation including for carried interest plans.

Clients that we have recently advised in this area include IP Group, Touchstone Innovations, NTR, Mercia Technologies, Eight Roads, Stirling Square Capital, Ares Lifesciences, LeapFrog Investments, HgCapital and LDC.

We have also worked on many occasions with private equity houses in helping to structure incentive remuneration structures and HR policies within their investee companies. We see this as being an increasingly important added value component that we can help private equity firms bring to their investment and portfolio management process.

Private Equity Remuneration Surveys

In 1996, at the behest of some of our private equity and venture capital clients, we produced the first ever survey dedicated to carried interest plans and co-investment plans within the UK private equity/venture capital industry. Since 1999, the survey, which is now produced annually, has covered the whole ambit of compensation and benefits data whilst maintaining the detailed analysis and commentary on incentive plan practice and design. In 2011 we partnered with the US firm Holt Private Equity Consultants and now jointly produce a North American PE Survey as well as the European Survey. Through these surveys we also gather data from other territories, including Asia, where we publish an Asian Focus report.

The 2017 MM&K/Holt Private Equity Compensation Report

The 2017 surveys were again successful productions covering venture capital and private equity in Europe and North America. The reports capture responses from over 100 private equity and venture capital fund management entities covering a mixture of independent and captive firms. The reports provide compensation data for 32 positions covering around 1,000 individual incumbents.

This surveys incorporate both short-term and long-term aspects of pay and incentive practice in the private equity industry, including in the fund of funds and secondaries space. The short-term compensation concentrates on cash compensation, covering base salary levels, the design of annual bonus plans and levels of annual bonus. A specific feature of the surveys is their recognition of the make-up of the operating revenues of the participating houses, in particular focusing on the levels of management fees and transaction fees and their method of calculation.

The long-term aspect concentrates on the design and structure of the carried interest and co-investment plans, the GP Commitment requirements and equity participation in the fund management entity and/or the parent company. Particular emphasis is placed on the levels of carry available to the house and the management team and how this is split between executive levels.

The MM&K Team

Nigel Mills leads **MM&K's** PE and VC practice. Other members of the team include JD Ghosh, Stuart James, Damien Knight, Margarita Skripina and Harry McCreddie. Between them they have an unprecedented level of experience of advising in this space. Further details on Nigel, Stuart, JD and Damien can be found on MM&K's website.

If you would like to talk to us about how we can help, please telephone one of us on the number below or email nigel.mills@mm-k.com or stuart.james@mm-k.com.