

# COMPENSATION POLICY AND STRUCTURES 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](http://www.mm-k.com) and [www.gecn.com](http://www.gecn.com)

## Private Equity Experience

**MM&K** is the leading UK and European based 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 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. Whilst the large majority of private equity clients have been based in the UK, we have also advised on compensation structures and remuneration strategies for a number of overseas based VC and PE entities, for example in Continental Europe (France, Switzerland, Germany, Italy and Greece), in the Middle East (Dubai and KSA) and in the Far East (Singapore and Hong Kong).

The focus of attention has typically been on developing suitable remuneration policies and incentive plan structures, which are in line with market practice and as flexible and tax efficient as possible. We aim also 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 providing advice on the detailed design, structure and implementation of appropriate incentive plans as well as on basic remuneration policies and levels. We often advise on the detailed design of carry plans for first time funds as well as on the appropriate levels of carry allocations as between different participant groups. We also provide technical plan documentation including for carried interest plans.

Clients that we have recently advised in this area include IP Group, Imperial Innovations, Mercia Technologies, Eight Roads, Stirling Square Capital, Waypoint Capital, Macquarie, Dubai International Capital, Allianz Capital Partners, LeapFrog Investments, HgCapital, LDC and SVG.

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 2016 MM&K/Holt Private Equity Compensation Report

The 2016 surveys were again successful productions covering venture capital and private equity in Europe and North America. The European report captures responses from a total of 41 private equity and venture fund management entities whilst the North America Report captures responses from 87 houses. The European report provides compensation data for 32 positions (increasing to 37 for 2017 to include asset management roles) covering around 1,000 individual incumbents. Of the participating houses, c66% are independent houses and 33% are captive or semi captive. FUM of the participating entities ranged from over €6 billion to c€500 million in size with an average of €2.5bn and a median of €1bn.

This survey incorporates both short-term and long-term aspects of pay and incentive practice in the European private equity industry, including in the real estate and infrastructure 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 survey is its 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, Jonny Brigginsshaw and Feyi Fadipe. 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](mailto:nigel.mills@mm-k.com) or [stuart.james@mm-k.com](mailto:stuart.james@mm-k.com).