

COMPENSATION POLICY AND STRUCTURES IN THE PRIVATE EQUITY INDUSTRY

Background

MM&K is a leading independent adviser on executive remuneration and employee share plans. The company is owned by its directors and employees. Further information about MM&K can be found at: www.mm-k.com.

Private Equity Experience

MM & K has advised a significant number of private equity fund management businesses, both captives and independents, on the design and structure of their remuneration policies including annual bonus plans, carried interest and co-investment structures, as well as other long-term incentive arrangements. Whilst the 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 PE entities, for example in 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 often 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. Business contacts with professional advisers in other jurisdictions, for instance Germany, France, Italy, Greece and the Middle East, have enabled MM & K to provide up to date compensation and fiscal advice in the European and Middle Eastern arenas. 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 private equity incentive compensation arena.

MM & K's services include providing advice on the design, structure and implementation of appropriate incentive plans as well as on basic remuneration policies. We are happy to work alongside other advisers, in particular lawyers, to develop and implement new incentive arrangements and structures that we have initiated.

We have also worked on numerous occasions with private equity houses in helping to structure remuneration and HR policies within their investee companies. We see this as becoming 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 its private equity and venture capital clients, MM & K 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.

Recognising the development of the private equity industry into key business lines, MM & K in 2006 decided to produce two separate remuneration surveys – one focusing exclusively on the very large buy-out houses and one covering the rest of the sector, including large and smaller mid-market buy-out, infrastructure, mezzanine, growth/development, venture and technology as well as fund of funds and secondaries. Both of these surveys are now run on an annual basis.

MM&K – Holt - Thomson Reuters Private Equity Compensation Report

The main 2013 survey was another successful production covering private equity in Europe and North America. The European report captures responses from a total of 38 private equity and venture capital houses and provides compensation data for 32 positions covering more than 1,300 individual incumbents. Of the 38 participating houses, 71% were independent houses and 29% were captive or semi captive. The most recent funds raised by participating entities ranged from £3 billion to £30 million in size (committed capital) with an average of £720 million and a median of around £350 million.

This survey incorporates both short-term and long-term aspects of pay and incentive practice in the European private equity industry. 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.

Large Buy-Out Compensation Survey – Europe & Asia

The other survey focuses exclusively on the very large buy-out community of which there are probably no more than 16 – 17 such houses operating in the UK. In 2013 this survey included 14 of these entities and covers 10 investment positions and 29 non-investment positions in the UK. We have also been able to report on the main investment positions in France, Germany, Italy, Spain and Sweden. The report provides insight in to remuneration based on position within the firm and relevant experience, building on the careful matching exercise which had been conducted previously.

These surveys have provided MM & K with a uniquely comprehensive understanding of the financial dynamics of the private equity industry as well as the market practice of incentive arrangements within the industry. The full results and reports from the very large buy-out survey are available only to participating houses.