

COMPENSATION POLICY AND STRUCTURES IN THE PRIVATE EQUITY INDUSTRY

Background

MM & K specialises in advising on executive remuneration and equity participation plans. The company is based in the City of London and over the last 20 years has built up extensive experience advising on remuneration structures and incentive arrangements within the private equity industry.

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 structures, carried interest and co-investment plans, and other long-term incentive arrangements. Whilst the majority of private equity clients have been based in the UK, we have also advised on incentive arrangements in a number of overseas operations, for example in Europe (France, Switzerland, Germany, Italy and Greece), in the Middle East (Dubai and Saudi) and in the Far East (Singapore and Hong Kong).

The focus of attention has often been on developing suitable incentive plans and policies, 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, Spain, Greece and the Far East, have enabled MM & K to provide up to date compensation and fiscal advice in the European and Asian 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 produced two surveys - one focusing exclusively on the very large buy-out houses and one covering the rest of the sector, including large to mid-market buy-out, mezzanine, growth / development, venture and technology as well as fund of funds and secondaries.

The main survey is the most comprehensive yet, covering a total of 35 private equity and venture capital houses and providing data on around 70 funds. In total job profile reports were published on 30 positions in the UK covering more than 1,100 individual incumbents. Of the 35 participating houses, 23 were independent houses and 12 were captive or semi captive. The quantum of funds under management ranged from £136 million to over £13 billion with an average of £1.4 billion and a median of c. £600 million. Of the 36 UK-based participating houses, 9 also have mainland European offices.

The 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 particular 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, as well as 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 other survey focused exclusively on the very large buy-out community of which there are probably no more than 12 - 15 such houses operating in the UK. This survey covered 7 such entities and covered investment positions in the UK, France & Germany. The report provided 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 these surveys are available only to participating houses.

Culture

MM & K's culture stems from our focus on excellence and client relations. Building a close relationship with each client based on trust, respect and doing what we say we will do and doing it well is the cornerstone of the business.

MM & K's consultancy exists to assist our clients to achieve their business goals by ensuring that they are able to attract, motivate and retain key people. A key strength of MM & K is our ability to ensure that business and executive compensation strategies coincide. Executive and employee equity participation is frequently a key tenet in our advice.

MM & K's Fees

MM & K's fees reflect the amount of time we are required to devote to the project.

It is our practice to agree in advance with each client the programme of work to be carried out and to prepare a time and responsibility schedule, including an estimate of fees, before work begins. We will occasionally take an equity interest in our clients as part of our fee arrangements.

For more information about Private Equity and Venture Capital compensation issues please contact:

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MM & K is authorised and regulated by the Financial Services Authority