HUMAN CAPITAL SPECIAL

Private equity is a relationship-driven business, and as the industry has grown, so too has the need for talented, switched-on individuals to work across the operations.

Recruiting can be a challenge in itself, and on p. 30 we look at how firms can ensure they attract the right member of staff to fill a vacancy, and what candidates are looking for in addition to a new job. We also explore salary and benefits in more detail on p. 32 – how does your pay packet compare with the industry average?

The investment decisions made by deal teams can make or break a career, and superstar rainmakers are no strangers to the spotlight. But in this human capital special, we open with another set of heroes – those working to promote, defend and drive forward change in the industry. These back-office professionals have earned themselves a place on the *pfm* powerlist. Read more on p. 22.

Finally, we tackle the topical issue of succession at both private equity and private credit firms. With the industry's biggest players including KKR and Carlyle leading the charge in 2017, it's likely more succession planning announcements will follow. One thing's for certain: firms that see a future for themselves in the industry cannot afford not to have a well-considered plan in place. Find out how your firm can plan for the future on p. 34. ■

Back-office heroes

pfm shines a light on the unsung champions who keep investors, regulators and partners happy by working hard behind the scenes

Private fund managers' back offices are under increasing pressure, and chief financial, compliance and operations officers are taking on more and more responsibility with, in many cases, the same resources. Whether it's cybersecurity, recruitment or regulatory compliance, every minute of the average CFO, CCO and COO's time is accounted for. Here at *pfm* we take our hats off to you, the staff working behind the scenes to keep firm operations on track, investors happy and the regulators from the door.

But it is clear that there are some outstanding characters in the business; not only do they work flat out at their day jobs, they spend their spare time on projects, campaigns and causes that are driving the industry forward. Some engage with regulators and policymakers, explaining how the industry operates and how regulations can be modified to apply more effectively to private fund management. Others are pushing for better standards within the industry, drawing up guidelines and advisory documents for use by their peers. And then there are those that are targeting the next generation of talent, lecturing, advising and inspiring college students that may follow in their footsteps.

It is these people that we have included in the *pfm* powerlist. The 10 people listed were chosen through a combination of our own research, peer nominations and conversations with industry bodies in Europe and the US. They are the people driving change in the industry and those that should be included in every back office's little black book of contacts because they are the people to know in private fund management.

On the recommendation of the final 10, we have included a separate list of five people who, despite not being employed in the back office of a private fund firm, have worked tirelessly to promote the industry.

We hope you agree that all are worthy of inclusion in the first *pfm* powerlist. ■

Geoffrey Bailhache

Blackstone

Managing director, legal and compliance

Bailhache is known as an excellent lawyer to his peers. He joined Blackstone in 2010 and has been an active participant in a number of UK and European initiatives. These include being a member of the legal and technical committee of the British Private Equity and Venture Capital Association. The committee aims to shape policy and its implementation to ensure it meets the needs of the UK private equity community, and to raise the industry's profile.

He is also heavily involved with Invest Europe, and sits on its Financial Services Working Group, which supported the industry body's lobbying around the Alternative Investment Fund Managers Directive and the EuVECA legislation that reduces the regulatory burden for venture capital funds marketing in Europe. He is also on the board of the European Private Equity Roundtable – which helps Invest Europe with its agenda on regulatory matters.

Adam Black

Coller Capital

Head of ESG

While Coller Capital sees environmental, social and governance issues as very much a front-office issue, Adam Black was nominated for his efforts in driving change in the industry. He is one of the pioneers of the private equity ESG movement, and has spent the past 10 years leading responsible investment activities. He was the inaugural responsible investment executive at Doughty Hanson, where he worked for eight years, and since 2016 has held the same role at Coller Capital. Over that time, ESG has gone from being of little importance to investors to a key requirement of most.

Black works on the UN Principles for Responsible Investment, which aim to understand the implications of sustainability for investors. He is one of the only representatives on the Global Policy Reference Group from a private equity firm, which guides the PRI's work and helps to implement its programs.

Joshua Cherry-Seto

Blue Wolf Capital

CFO

Actively involved with multiple mid-market private equity groups and initiatives, Joshua has been engaged as a mid-market GP resource on LP initiatives including the Institutional Limited Partners Association's development of its fee-reporting template. He has also motivated mid-market CFOs to back UN-supported Principles for Responsible Investment,, and has served as a speaker for the project.

He is actively involved with the Association of Corporate Growth's Private Equity Regulatory Task Force, both on its steering committee and the task force's committee on fees and expenses, and is a board member for the New York branch, fostering collaboration and engagement of mid-market private equity CFOs. In 2016 he was given the *pfm* Leadership Award, which recognizes individuals that advance key issues and causes important to the private fund CFO and CCO, for his work in the space.

Blinn Cirella

Saw Mill Capital

CFO

Another founder member of ACG PERT, Cirella was recently part of a cohort that met with congressional staff to discuss US tax reform, and specifically the impact limiting interest deductibility will have on the industry. Her involvement with the ACG is extensive, and she also sits on the PERT valuations committee, which surveyed the range of valuations practices used by mid-market firms to establish best practice in this area as part of the PERT principles. She also co-chairs the association's Private Equity CFO Roundtable, which she founded alongside Joshua Cherry-Seto in 2015. The roundtable has quarterly dinner programs and national breakfast calls, providing opportunities to discuss issues facing mid-market private equity CFOs.

Her work for the ACG was recognized in 2016 when she received its Meritorious Service Award, the ACG's highest honor for volunteer service.

The cheerleaders

Scott Gluck
Duane Morris
Corporate partner
Gluck provides guidance to the ACG PERT on matters such as private funds regulation and tax, and he recently published a comprehensive compliance manual for the private equity industry. He has frequent meetings and conversations with the SEC and Congress, championing the private equity cause and promoting ACG PERT initiatives.

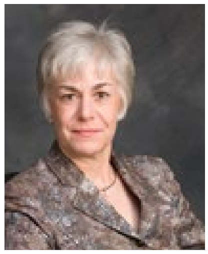
Jonathan Martin
KPMG
Partner
Martin tirelessly supports the industry by working pro bono for the Professional Standards Committee at Invest Europe, which develops and maintains strong guidelines and working practices for the industry. He is also the chairman of its Working Group on Accounting Standards, Valuation and Reporting, which covers member requests about these topics.

Neil Harding
3i
Director, fund investor relations
Harding is a member of the Professional Standards Committee of Invest Europe, and is vice-chairman of the Invest Europe Working Group on Accounting Standards, Valuation and Reporting, which played a key role in the update of Invest Europe's *Reporting Guidelines* in 2015. He is The organization's representative on the International Private Equity & Venture Capital Valuations Guidelines Board.

Simon Witney
Debevoise & Plimpton
Special counsel
Witney is a prominent member of the UK and European private equity communities, and has served in senior positions within the BVCA and Invest Europe. He is currently a member of the BVCA Council, which is responsible for its strategic direction and oversight. In 2017 he completed a PhD on corporate governance issues in private equity backed companies at the London School of Economics.

Gurpreet Manku
BVCA
Assistant director general and director of policy
Manku is responsible for leading the BVCA's response to a wide range of issues and challenges facing the industry from a legal and regulatory perspective. She is also the executive liaison to the Private Equity Reporting Group, the body responsible for monitoring the industry's compliance with the Walker guidelines.

April Evans
Monitor Clipper Partners
CFO and CCO



Evans is a founder member of the ACG PERT, which drew up the Private Equity Regulatory and Compliance Principles and frequently lobbies Washington for the private equity cause. She is also a director of the Financial Executives Alliance, a thought leadership, education and networking organization with chapters across the US and the Women's Association of Venture and Equity, an organization dedicated to the development and advancement of women.

Evans has worked with the Kauffman Fellows Program of the Center for Venture Education, a two-year program of education and mentoring, and an assistant professor of the Simmons College Graduate School of Management, a women's college. She is part of the advisory committee for the Center for Women and Enterprise Venture Center, a non-profit for people starting and growing their businesses. She also mentors and advises new entrepreneurs.

Felix Haldner
Partners Group
Partner, client solutions

Haldner is involved with a number of industry body initiatives, and chairs the Invest Europe Investor Regulation Working Group. Most recently, the group produced a template to help private equity fund managers to report data to insurance investors which is required under Solvency II. He also sits on the Invest Europe Tax, Legal and Regulatory Committee. In 2014 he was appointed to the board of the Swiss Funds and Asset Management Association, having served on the board for two years.

Felix was an advocate of the European Long Term Investment Fund framework, which was introduced by the European Commission to enable private individuals to access alternative asset classes. Invest Europe engaged in lobbying for a more workable ELTIF framework. Haldner then suggested Partners Group could use and test the new framework, and its experience is being fed back to the industry body.

Pam Hendrickson

The Riverside Company

COO

A long-standing cheerleader for her industry, Pamela has been an active advocate for private equity through Congressional testimony, speaking about the potential impact of the Dodd-Frank Act on job creation in the US before it became law, and writing op-eds about the benefits of carried interest being taxed as capital gains. She is heavily involved with trade bodies, and is a past chairman of the Board of the Association for Corporate Growth, and was on the board of directors of the Private Equity Growth Capital council's growth committee (now the American Investment Council) and was a founder member of ACG PERT.

Pamela also sits on the advisory board for the Keenan Institute for Ethics, providing advice, assistance and leadership to the Duke University-based institute engaged in debate and analysis of a range of global ethical issues such as human rights and regulation.

Dörte Höppner

The Riverside Company

COO, Riverside Europe Fund

Described as the driving force behind its successful initiatives, Höppner was chief executive of Invest Europe for five years, where she spearheaded, among others, the creation of the *Professional Standards Handbook*, which outlines the principles of ethical behaviors and trust governing the GP-LP relationship that must be adhered to by all Invest Europe members; and the *Investor Reporting Guidelines*, which are used to facilitate negotiations between the two sides and provide core reporting elements. She is also a former managing director of the German Private Equity Association.

In addition to her role at Riverside, which she took up last year, Höppner now leads the German chapter of Level 20, a European group which aims to increase the proportion of females in senior private equity roles to 20 percent by 2020. She has won a string of awards, including Private Equity Exchange's PE personality of the year.

Denise Marks

SV Life Sciences

CFO

Having received a number of endorsements, Denise Marks is included thanks to her work in the venture capital space. She was appointed to the board of directors of the National Venture Capital Association in May 2017. The association advises industry and policymakers and most recently advocated changes to US tax reform proposals that would have hit start-ups. Denise also serves on the NVCA CFO task force, which convenes once a month to discuss and identify accounting, audit and reporting issues that matter to the industry. She has been instrumental in advising on technical accounting matters and other issues.

Marks is also on the steering committee of Women In Alternative Assets, a non-profit that offers networking opportunities for, and promotes the advancement of, senior executive women in alternative asset classes. She is also on the board of Dress for Success Boston, which provides professional attire for women from impoverished backgrounds attending job interviews.

Jonathan Schwartz

New Spring Capital

President, CCO and COO

Schwartz was promoted from CFO to a newly created president, CCO and COO role in 2017 and now wears three hats at New Spring Capital. He sits on the board of directors of the Private Equity CFO Association's Philadelphia chapter. Schwartz recently led a panel discussion on behalf of the group on the topic of succession planning and how to prepare for a change of leadership. He was previously chairman.

Jonathan has been a member of the ACG PERT, helping to shape compliance best practice and educate professionals and key stakeholders on the regulatory issues that have a direct impact on private funds. Along with three others he was recently added to the taskforce's steering committee, taking on greater responsibility for its work, lobbying efforts and industry outreach.

Picking the best: know what you want to get what you need

The talent wranglers

Private equity firms know first-hand how human capital can drive returns, so many are hiring their first chief talent officer. But staffing the role requires a clear set of priorities, *Rob Kotecki* writes

For an industry that so often touts its ability to improve the businesses it owns, private equity general partners can discount the time and skill it takes to hire the right people.

"Sourcing and assessing talent is a craft," says Jerry McGrath of the recruiting firm DHR International. "And it's astounding how often very smart investment professionals try to do it in their spare time."

Using 'spare time' to hire becomes harder the bigger a firm gets, so chief executives are beginning to turn to chief talent officers. This is not the same as a head of human resources, and the responsibilities vary with the unique needs of a particular manager. Some may be looking for an in-house recruiter, while others want strategic guidance into talent management, which includes assessing current staff and building a network.

The right candidate may not need private equity experience, but his or her skills and experience should be in sync with the firm's priorities for the role. And the success of a CTO is dependent on the right mix of resources and empowerment from the firm's leadership.

If that sounds like a tall order, market participants argue it is worth the time. At their best, CTOs can deliver much more than the right candidate.

"There's so much capital in the market, you need an angle to win the deal," says Pete Deegan, a senior vice-president in Comvest's operating advisory group who serves as their CTO. "So how do you get that angle? You get it from relationships."

And as they search for talent, CTOs build networks of relationships that can lead to not just the right person for a portfolio company role, but an executive who can help broker the right deal.

Knowing when

Most GPs know the value of having close relationships with operational talent, and for their first few funds the founding partners may feel they have to own that task. When Genstar Capital considered hiring its first chief of talent, it was reluctant to give the role to a single individual.

"Relationship development and talent management is so important, they still wanted everyone on the deal team to continue to hone and use that muscle," says Katie Solomon, the firm's first and current CTO.

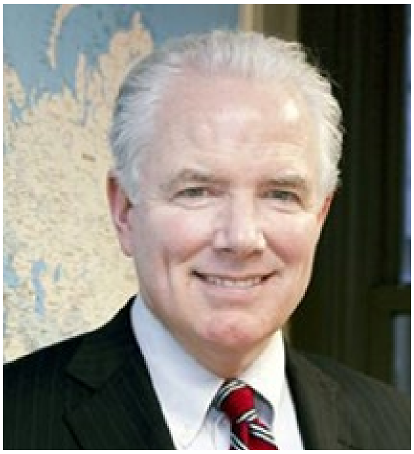
But what Solomon brought the team was a focus only on talent.

"I have the luxury of making talent my first priority," says Solomon. "That allows me to keep an independent perspective, so I have some distance to stay objective and think about talent more holistically on a portfolio-wide basis. As I'm networking with executives, I can be thoughtful about the company/culture which would represent the best fit for their leadership style and skillsets."

Deegan's firm hired him because they felt he would bring talent management closer to the deal team, instead of relying on outside recruiters. "They were at a point of critical mass, having raised their fifth fund, with almost $3 billion in total assets now under management," he says. "They knew human capital matters were going to be critical to the success of the fund."

For many of the market participants *pfm* spoke with, the catalyst for hiring a

Solomon: able to make talent her first priority



McGrath: CTOs need to be able to think across the portfolio

> Sourcing and assessing talent is a craft, and it's astounding how often very smart investment professionals try to do it in their spare time
>
> **Jerry McGrath**

CTO was a milestone fundraise, rather than a specific amount of assets under management. This often left the deal partners without the bandwidth to source talent. But they should ensure the search is a rigorous one.

Tailor-made

"Don't go into this trying to boil the ocean," says Keith Giarman of DHR International. "Think about the firm's key needs for that role, and prioritize accordingly."

Unlike a head of HR, the person will focus on talent sourcing and management, not designing and implementing policies and procedures.

"Years ago, it was really this straightforward recruiting role, where the CTO would do their own recruiting or co-ordinate with outside firms," says Giarman. "Now it's shifted to be more strategic, a tendency to address talent issues across the whole portfolio."

CTOs address three key areas for GPs. The first is sourcing talent at portfolio companies, which usually involves collaborating with recruiters and giving any search process rigor and urgency.

The second is assessing current staff, which can also involve collaborating with outside experts to conduct reviews. Some firms prefer that a CTO devote his or her time to assessing talent at portfolio companies; he or she can troubleshoot problems with an individual or team chemistry.

The third issue is perhaps the most nebulous, but also where CTOs can deliver the most value to the firm. This involves the building and maintaining a network of senior leaders to not just serve at portfolio companies, but to participate during diligence on new investments or offer a unique angle on a given deal, which can lead to proprietary dealflow.

"As I interview candidates or visit portfolio companies, I can take the time to meet with people of interest," says Deegan. "So even if I don't have an opportunity for them at the moment, we're building a relationship where we exchange ideas that might prove worthwhile down the line."

Having a CTO in-house can also improve the firm's internal investment and operational talent.

"I'm involved in recruiting VPs and associates and in continuing to expand our network of strategic advisory board members," says Solomon. "We are attuned to career development and committed to continuing to improve as an organization. We even solicit feedback from portfolio chief executives as we make new investments to understand what we did well through the process and where we could improve."

A lean staff means internal talent management takes up about 10 percent of Solomon's time, which is typical for a CTO.

"The biggest impact CTOs can have is with the portfolio," says Giarman. "Especially if they take a strategic approach to building up the talent function at the individual companies, by working closely with CEOs to develop top tier practices."

But if it's what the firm needs, the role can be that of in-house recruiter.

10%

Time Genstar's CTO spends on internal talent management

Deegan, Giarman and Moore: talent spotting

Solomon had already created the role at one private equity firm before joining Genstar. "From that, I learned the cadence and rigor required for success in private equity which can be different than that at a public company," says Solomon.

Some argue private equity experience can be useful, but not at the expense of more important skills. Conversely, someone who worked in HR in private equity firm may need to add some skills.

What all candidates need is the ability learn fast and manage multiple projects. "These executives can't get lost in dealing with one issue at a single portfolio company, to the detriment of broader, pressing strategic issues in the rest of the portfolio," says McGrath.

GPs hiring for the role need to know what they want, carry out the search effectively and then provide the ideal candidate with the support they need. ■

"The default [priority] for firms looking for CTOs is talent acquisition, and that may be right, but it's worth understanding that's a choice," says Matt Moore, who holds the role at Alpine Investors.

Skills trump resume

And that choice should be what dictates the right candidate for a particular firm. If he or she will be charged with simply hiring at the portfolio company level, then it's a matter of bringing the right recruiter in, and most market participants agree that private equity experience isn't necessary for that.

However, the consensus among the recruiters and CTOs *pfm* spoke with was to avoid candidates who only corporate HR experience, as these executives tend not be to able adapt to the nimble, fast-paced culture of the asset class. The role will include advising members of senior management at multiple companies on their staffing issues, and he or she needs to command their respect.

"Whether they honed their skills in a corporate environment, at a recruiting firm, or at another private equity firm, the candidate must have the gravitas to build trust with their CEOs when their team needs performance development or if they have gaps on their team that have to be addressed quickly," says Giarman.

"I had some investment banking experience to complement my recruiting background, which was valuable," adds Deegan. "I was able to discuss balance-sheet issues and value-creation initiatives, which led to far more substantial conversations with both candidates and portfolio companies."

Don't just hire a CTO, support them

"In a sense, the CTO is an internal service provider for the portfolio," says Giarman. "But that CTO, like any service provider, needs to have the resources beneath them to handle the more mundane details so that they can offer the most strategic counsel possible."

One of the popular misconceptions is that a single CTO can handle all aspects of talent management alone, while the reality is many have one or two members of staff working beneath them or a budget to work with outside consultants. In many cases, they will have both.

"I have two people on my team," says Moore. "One focused on internal staff matters and the other on our various portfolio projects." But perhaps the most vital resource a CTO needs is the trust of the firm's senior leadership; recruiters and people in the role stress the need for GPs to empower them to use their skills.

"The partners grant me real decision-making power and agency," says Moore. "And our CEOs realize the sponsors have given me power and a voice to help them."

Without that power or voice, the CTO remains little more than in-house consultant, defeating the purpose of hiring someone to take human capital off the senior partners' desks.

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Many hats: CFOs have a growing list of responsibilities, and want something in return

Snaring a CFO

Compensation is crucial, but a seat at the table is increasingly important to back-office job-seekers. By *Claire Wilson*

Back-office staff are in demand, and those with skills beyond number-crunching are a particularly hot property. Vacancies for private fund chief financial officers and chief operating officers are at their highest level since 2007, according to executive search firm Heidrick & Struggles, while UK-based Private Equity Recruitment has had a busy 12 months, placing 14 CFOs or chief financial directors at London-based firms.

This demand is expected to be sustained over the next year. More than one-third of respondents to *pfm* and EisnerAmper's CFO survey said they plan to further boost their back-office headcount over the coming year, with tax, compliance and accounting skills particularly sought after.

With back-office staff on the wish-list of so many private fund firms, how can a business differentiate itself from the competition and attract the right candidate for the position? Salary is of course a crucial factor. There are three components to compensation: base salary, bonus and carry. The first two are very much dependent on a firm's size and its AUM, says Stuart Patterson, head of finance at Private Equity Recruitment.

"If we combine the two figures, the CFOs in the larger funds may well receive more than twice as much in total annual cash than those in smaller funds. Fund size is the biggest single factor affecting compensation," Patterson says.

Time in the role also plays into an employee's salary, and as CFOs tend to stay for many years, there is real opportunity to develop their career and their compensation, he adds.

Carry is becoming ever more important. Back-office staff know they are taking home less than their investment team peers, but there is a degree of competition among firms to offer the best package to new staff. This is increasingly including a bigger share in investment profit, Patterson says.

"Carry [is] an indicator on how they are viewed, [as] an employee or an integral member of the team that will benefit from the long-term success of the business. For a high-performing fund this could be millions," he says.

Climbing the ladder

While compensation remains a leading factor in a candidate's decision to accept a job, a minority are willing to move to one that pays the same as their current role if the new employer offers the opportunity to move up the organization's ladder, Heidrick & Struggles' Todd Monti tells *pfm*.

Increasingly, back-office staff are looking for a seat at the table, and if they're not recruited as a partner, they want to know that there is the chance they can become one further down the line.

"CFOs and COOs want a voice; they want to have a voice regarding a firm's strategy and growth, and when joining a firm with a track record, that they can bring best practices to the role," he says.

This was echoed by Patterson, who adds: "They want to know whether they are a head of back office or a board member/partner in the fund. The latter will attract the best talent."

It's no surprise that on the hiring side, candidate criteria have evolved over the past few years as the nature of private fund management has changed. Even in the areas that may have traditionally fallen into a finance professional's remit, there has been a notable increase in demand for staff with specific experience, such as tax structuring. Around 15 percent of respondents to the *pfm*/EisnerAmper survey said they expect to boost their in-house tax expertise over the coming 12 months. But beyond that, firms are looking for staff with other skills.

"Some [firms] put the emphasis on the individual having a strong accounting background, while others are looking for people that have the capacity to take on a broader COO/CFO hybrid role," Monti says.

Building on this point, Patterson says a CFO is now the CFO, COO, CCO and in some cases the head of IT and human resources.

"It is no longer enough just to be able to crunch the numbers. Process and system automation is becoming more and more important, they also need to learn the legal, compliance, deal/fund/tax structuring etc. The breadth and demands of the role naturally dictate the hiring needs."

CFOs of small funds, under £1 billion ($1.34 billion; €1.14 billion) in AUM, will do everything that isn't investment. The CFO of a £10 billion-plus fund will likely have a reasonable-sized team below them, but will still have oversight of these functions, Patterson adds.

"In a recent meeting with a CFO of one of the larger funds, she explained to me that she had just completed a large office move that took over two years to complete. This involved everything from identifying a suitable office space to ordering the stationery."

"CFOs and COOs ... want to have a voice regarding a firm's strategy and growth, and when joining a firm with a track record, that they can bring best practices to the role"

Todd Monti

Stemming the outflow

"To attract and retain top talent, we continually foster career growth opportunities for our team. We manage and communicate possible career paths for each employee, often discussing opportunities that could become available as the firm continues to grow," Stewart Kohl, the Riverside Company's co-chief executive, tells *pfm*.

"In addition to 360 degree reviews globally, the [firm] conducts an annual global talent review to identify the firm's top performers in the context of possible succession at every level of the organization. We also carefully consider the best ways to continue to incentivize them and hone their skills in advance of promotion opportunities," he adds.

On that particular day, she had ordered pens, reviewed tax structures in multiple geographies, assisted with the setup of an overseas office, looked over AIFMD documentation and performed carry waterfall calculations for a new fund, and of course, met me, he adds.

"This is a very typical day for a CFO; they literally have to be a Jack (or Jill) of all trades," Patterson says.

Talent pool

The requirement for different skillsets has had a ripple effect on the hiring pool. Traditionally, a private fund CFO may have been plucked from an accountancy firm, but a CFO hired in 2017 and beyond may be found elsewhere.

"The requirements [of a firm] and resources from which they will draw are very tailored. A large fund, for example, may have a number two who is ready to take the next step and act as a standalone," Monti says. "Others are looking for people with a specific skillset, which opens up the pool away from public accounting."

Patterson said those working at an accountancy firm that have been exposed to other areas of the business put themselves in a strong position. While they may have been in a fund accounting role, for example, they may have also been involved in the corporate and management accounting side.

From these positions they can help with tasks such as transaction due diligence, investor relations reports, software implementation and keeping up to date with regulatory aspects. These kind of people will be of increasing value to a fund that needs a CFO to do all non-investment tasks – and despite their job title, are worth considering. ■

Spring in their step: it's been a brighter year for associate-level salaries

Well-heeled youth

US-based entry level staff are pulling in more and more cash, but salaries for the top brass have stagnated. *Claire Wilson* examines why

Private equity staff's compensation in the US increased for all but the top echelon in 2017. It was fresh talent that attracted the highest rise in base salary, which mirrors the trend seen in Europe (see December/January p. 22).

US-based associates and senior associates have had a 14 percent raise, with average salary now $125,000, according to data from executive search firm Heidrick & Struggles. This is slightly higher than the increase in Europe, which was 13.5 percent. Further up the ranks, a 13 percent rise for vice-presidents took their pay packets to around $198,000.

The growth reflects "private equity's strength in recent years" including strong fundraising, dealmaking and exit activity, the firm says. Competition from other market sectors including tech, which advertise big ticket jobs to the right entry-level candidates, was also a driver, echoing Europe.

It also says demand for investment professionals over the past 12 months has been at its highest since 2007, with vice-presidents and principals particularly sought after. New funds, existing funds, firms that have not hired for many years, firms doing flexible capital or special situations and international firms growing in the US are all looking.

On the candidate side, potential hires are looking for firms focused on differentiated strategies, cultures and paths to partnerships.

"Due to strong fundraising and performance, candidates are 'stickier' and we need to reach out to two to three times the number of investment professionals as we did in recent years to complete assignments," the firm says.

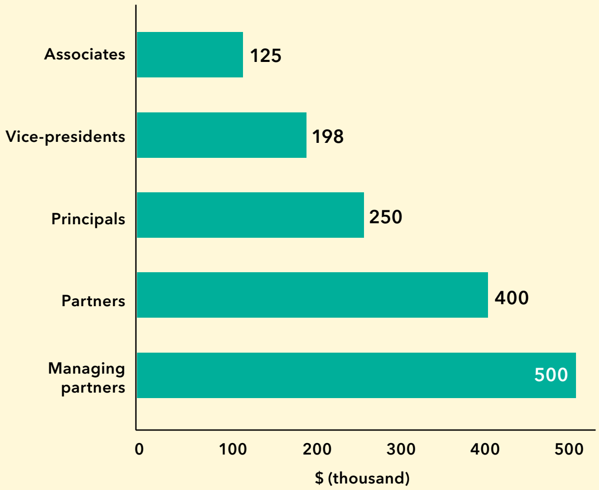
But while those making the initial foray into the industry, or with a few years' experience, are raking in the cash, those higher up are not seeing such salary growth. US-based principals, who saw the largest increase in compensation between 2015-16, have been given a smaller 6 percent increase.

"Firms are structured like pyramids and don't have the opportunity to move up from the mid-level. Even if a firm is doing well it may decide not to grow, to simply maintain its fund size. It leaves principals unable to take the next step, and to increase their compensation," Jonathan Goldstein, partner at Heidrick and Struggles tells *pfm*.

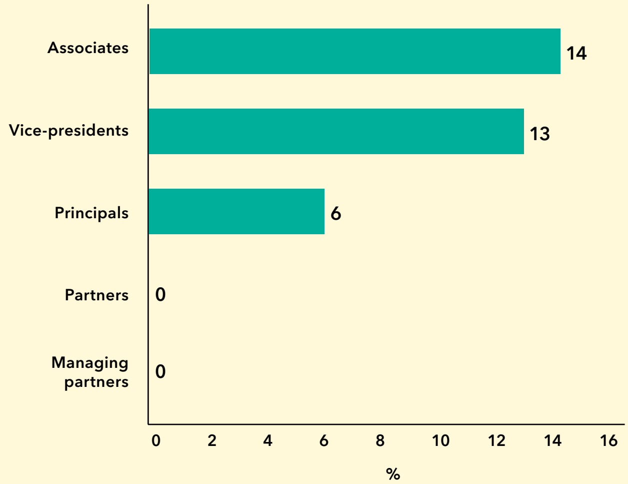
Managing partner base salary remained stagnant for a second year in the US, while in Europe these staff only reported a 2.5 percent increase.

"At the senior level firms aren't changing their compensation models, they're continuing to pay as they always have," Goldstein says. ■

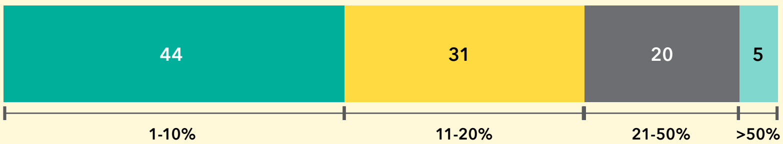
Pay check
Managing partners earn, on average, $500,000



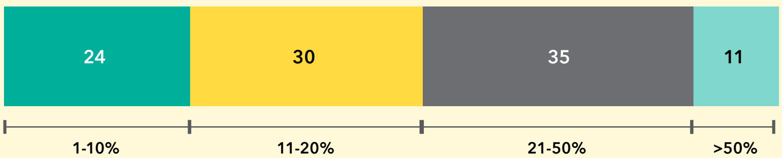
Gilt by association
Associate salaries saw the largest jump between 2016-17



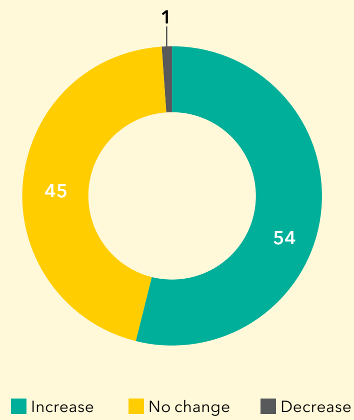
Trickle down
Pay rises were concentrated at the bottom end of the scale



Bonus edition
Most people who saw their bonuses increase gained 21-50%



A bigger slice of the pie
Change in base salary from 2016-17 (%)



57%
Reported an increase in base salary between 2015 and 2016

"Demand for investment professionals over the past 12 months has been at its highest since 2007"

24%
Reported an increase in bonus between 2016 and 2017

Source: Heidrick & Struggles

The secrets of a good handover plan

As the private equity industry matures, some of its iconic founders are addressing the future of their firms – and how to keep their legacies alive, *Marine Cole* reports

"We knew it was coming, but we didn't know when it would come and who it would be," a New York-based principal at Carlyle said the day after the 30-year-old firm announced its succession plan at the end of October. Effective January 1, co-chief executive officers David Rubenstein and Bill Conway and chairman Daniel D'Aniello stepped back and Kewsong Lee and Glenn Youngkin became co-CEOs.

As the private equity industry matures and some founders reach retirement age, it makes sense firms are considering their future. KKR appointed Joe Bae and Scott Nuttall as co-presidents and co-chief operating officers, and in mid-November, Apollo Global Management expanded its executive leadership team by naming Scott Kleinman and James Zelter as co-presidents, with the three initial founders keeping their current roles.

But timing a transition can be tricky. Done too early, and the culture of the firm might not be fully established and identifying the next generation might be difficult. But done too late, a firm runs the risk of losing key partners who want clear expectations regarding their future.

Passing the baton

Timing is not the only challenge, however; how a plan is drafted and executed is also critical.

Joe Bae

KKR

Previous position
Managing partner, KKR Asia; global head of infrastructure and energy real assets

New position
Co-president, co-chief operating officer

Scott Nuttall

KKR

Previous position
Head of global capital and asset management group

New position
Co-president, co-chief operating officer

Co-founders Henry Kravis and George Roberts at KKR and co-founder Leon Black at Apollo will continue to lead their firms, albeit as co-chief executives, showing this is only the first step in passing the baton to the next generation.

It is understandable that letting go of the day-to-day management is difficult for the businessmen who have grown these firms from a few million dollars in assets under management and a handful of employees to AUM in the hundreds of billions of dollars and several thousand employees. But to ensure the future of their firm, and with it their legacy, a robust succession plan is paramount.

"Succession planning is like trust estate planning," says Eric Zoller, founder of Sixpoint Partners, an investment bank that offers placement and investor relations services to mid-market private equity clients. "When you're younger you tend not to think about putting a will in place and managing your estate, also because you're smaller. As you get older you start to have a bigger family, or a bigger team around you, and you start thinking about succession."

But many firms have not addressed succession issues publicly. According to the Thelander-*PitchBook* 2015 *Investment Firm Survey*, nearly half of 446 surveyed US investment firms, including 160 private equity firms, said their firms didn't have a succession plan in place (47 percent), while 62 percent said the top person at the firm was involved in creating that plan.

Key considerations

When making a plan there are several aspects firms need to consider: the firm's economics; its governance; and the culture founders want to pass on.

"Firm leaders need to recognize their role at the firm, and this is the first step toward succession," Zoller says. "They have to identify who the future leaders

Kewsong Lee | **The Carlyle Group**

Previous position
Deputy chief investment officer, corporate private equity; Head of global market strategies

New position
Co-chief executive officer

Glenn Youngkin | **The Carlyle Group**

Previous position
President and chief operating officer

New position
Co-chief executive officer

at the firm are going to be. They have to set the business plan and the path to communicate the vision to those individuals. Then they have to make sure that the team they have in place can execute against that vision."

Concretely, a firm must figure out how founders can fade out and share the carried interest with more junior partners.

One way to transition out older partners is by gradually decreasing the amount of participation in the carried interest generated by new funds being deployed after they retire. Peter Laybourn, a private investment funds partner at Ropes & Gray, says firms with these types of models often set aside a fixed pool of carried interest available to pay out retiring partners.

He notes the tension around sharing the economics with the junior partners, who should also progressively be added to the firm's investment committee.

"One of the challenges in structuring succession plans is to make sure that there's enough economics left to compensate the next generation of dealmakers to properly run the business," says Laybourn. "They need that to attract and retain talent in the business."

Then there is the competition between the younger generation over who will succeed, with those who are overlooked potentially making an exit. Alex Navab, who headed KKR's Americas private equity practice and was not picked for the top job, left shortly after the succession announcement.

In addition to founders reaching retirement age and considering their firms' future, funds of firms specialized in buying minority stakes in GP management companies have accelerated the succession discussion, Laybourn says.

Several firms, including Neuberger Berman's Dyal Capital Partners and Goldman Sachs Asset Management's Petershill, are dedicated to buying these minority interests, adding another variable firms must account for as they think about transitioning ownership.

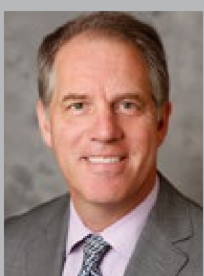
With the industry's biggest players leading the charge, it's likely more succession planning announcements will follow. One thing's for certain: firms that see a future for themselves in the industry cannot afford not to have a well-considered plan in place. ■

Scott Kleinman | **Apollo Global Management**

Previous position
Lead partner, private equity

New position
Co-president

Jim Zelter | **Apollo Global Management**



Previous position
Managing partner and chief investment officer, credit

New position
Co-president

Succeeding at succession

The private credit industry has nuances that private equity doesn't when it comes to laying the groundwork for a firm's future, *Andrew Hedlund* writes

This has been a watershed year for leaders of large publicly traded alternative asset managers, including those with substantial credit platforms, as they pave the way for a smooth transition when their leaders head for the exit.

"We typically underwrite not only the firm and strategy but also their people. In general, most firms in the alternative space are now becoming more mature," says Thierry Adant, a credit research consultant at Willis Towers Watson, arguing that the industry has reached a point where succession has become a more prominent issue. This is definitely the case in private equity, where Carlyle, KKR and Apollo all had 'succession events' in 2017 (see p. 34-35).

Blackstone's credit arm GSO Capital Partners also expanded its leadership team by bringing Dwight Scott in as president expanding his portfolio of duties beyond its energy debt business. Co-founders Bennett Goodman and Tripp Smith will continue to oversee the business.

The unique characteristics of credit managers, including the way debt funds are structured and the mix of investment products, mean their handovers require a different kind of planning than private equity businesses.

Retaining well

The retention of senior management is something investors look at very carefully.

"Clearly, the biggest asset that any asset manager has is client retention because that's where the value is," says George Mazin, a partner in law firm Dechert's financial services and investment management practice. "The question is going to be, if there is a material succession, will there be a flight of investors? What are they tied to? Is it the founders or the broader firm?"

> **"The question is going to be, if there is a material succession, will there be a flight of investors?"**
>
> **George Mazin**

In one such instance, the Alaska Retirement Management Board at a March 2017 meeting observed that the impending departure of Erik Falk from KKR – at the time global head of private credit and co-head of the direct lending strategy and now at Magnetar Capital – was a "negative development."

A consultant to the pension said it would "monitor this as part of their due diligence" for KKR Lending Partners III, the firm's latest direct lending vehicle. ARMB, which invested in Fund II, is yet to make a decision on Fund III.

The carried interest set-up means realization of profit only comes at the end of a fund, meaning the longer the fund, the longer before a general partner receives a payout.

Private credit funds often have six to eight-year lives, plus the standard option of two one-year extensions, while private equity funds often last a decade or more. As a result, investment professionals at credit firms will likely realize their portion of any carried interest much sooner than senior and mid-level employees at private equity shops.

"[Succession] timing becomes more important in private debt," says Adant. "In private equity, it might take much longer for them to vest. Given the velocity of the funds is faster in debt, private equity has been able to retain talent longer."

This is particularly true at firms that pay incentive fees via a European-type waterfall – where investors are reimbursed with their principal and preferred return before the GP sees its portion of those profits – rather than the American waterfall, which is paid on a deal-by-deal basis. As a trade-off, carry for private equity funds can be higher, often around 20 percent compared with 15 percent for private credit firms.

Credit the relationships

Differences in fund structure are not limited to fund lengths and carry fees. Credit vehicles can use leverage facilities, sometimes to a multiple of up to three times. That adds another alliance the firm must preserve.

"The one thing that is perhaps different for debt funds is that many debt funds are leveraged," Mazin says, "And in addition to sourcing deals it's important for debt funds to maintain relationships with lending partners they have."

Healthcare investment firm CRG, which closed Fund III on its hard-cap of $1.25 billion in January, began arranging its succession plan years ago, a roadmap that included details for carried interest in Funds IV and V, sister publication *PDI* reported in April. Founder Charles Tate will receive a portion of the profits from those two vehicles, in addition to a share of the firm's performance over a five-year time-frame.

CRG says Nate Hukill, the president who will fill Tate's shoes once he steps down, was involved in arranging the leverage facility for Fund III. Hukill remains on good terms with those providing the facility, a spokesman says.

Mazin adds debt firm must remain on amicable terms with other debt firms because – though they may vie against each other for deals – they often club together to close deals.

Private credit firms have a more diverse mix of products than orthodox buyout firms, Mazin says. Credit managers have private funds for different types of debt, asset-based lending groups, business development companies, plus collateralized loan obligations and loan syndication desks to name a few. BDCs use leverage facilities as well and CLOs have warehouse lines, adding even more counterparties for the firm to stay on good terms with.

"Private equity funds have become more diversified, but it's not as simple as it used to be because they've seen different cycles and they've realized they need to evolve," Mazin says.

Many private equity firms have added private credit operations, including BC Partners and Thoma Bravo in 2017.

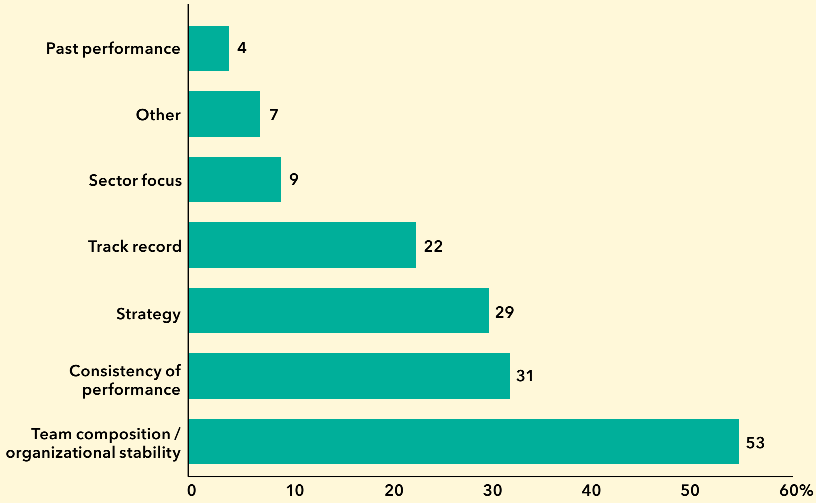
As they continue to add private credit operations, it brings another level of consideration to succession planning. Senior executives likely have solid relationships with their firm's limited partners, but developing and maintaining the types of relationship unique to credit firms is another important aspect.

In good hands

Governance structures have evolved as the alternative asset classes come of age and sometimes are altered through the succession planning process.

Why it matters

Organizational stability was the most frequently cited metric when Asante Capital asked private equity investors which they relied on most heavily as a predictor of future performance



Source: Asante Capital

"Firms are developing larger governance teams to take them to the next stage," Willis Towers Watson's Adant says. This can involve a split in duties. For example, the CEO's duties could shift to less involvement in capital raising, allowing that person to be more focused on the firm's strategic planning.

Twin Brook Capital Partners co-founder Chris Williams says when he and co-founder Trevor Clark speak to potential investors, LPs do raise succession.

"I think it's a natural question and part of most limited partners' standard list of diligence questions. They want to know you have thought about it, and do you have a detailed plan?" Williams says. "What they want to understand is what is the depth of the team behind Trevor and me. What's the bench strength behind the top two guys?"

Twin Brook's parent firm, Angelo, Gordon, drew up a succession plan in September 2016 after co-founder John Angelo's death in January that year. It included the creation of a four-person management committee. By 2021, Angelo, Gordon's senior employees will have acquired the controlling equity interests from co-founder Michael Gordon and Angelo's estate, and invest a substantial amount of capital.

At CRG, Tate created a five-person founders' group as part of the succession plan, consisting of senior executives.

Private credit as an asset class is far behind private equity in its development. Some 83 percent of institutional investors in a survey by investment consultant Callan said they created their private equity allocation prior to the global financial crisis, whereas many LPs are just adding private credit to their fixed-income or private equity allocations.

Though private debt is younger, it's still important to consider succession planning for its firms. Doing so could assuage any investor concerns and be a boon to the fortunes of the asset class. ■