Current trends in the design and levels of compensation in the private equity and venture capital industry
Table of Contents

**PART 1. Executive Summary**

I. Introduction/Participant Summary 1
   - Key Findings 2
   - Definitions 9
   - Firm Classifications (Type and Size) 7 & 10
   - List of Positions Surveyed 11
   - List of Participants 12
   - About the Authors 13

**PART 2. Qualitative Information**

II. Financial and Operational Data 15
   - Committed Capital and Cost of Investments 16
   - Number of Funds Managed and Number of Portfolio Companies 17
   - Ownership Structure 18
   - Management Fees/Other Fees/Fee Ratios/Fee Splits 19

III. Human Capital 23
   - Number of Employees per Employee Group 24
   - Staffing Changes 2019/2020 25
   - Investment Manager Ratios (Capital/Fees/Portfolio Companies) 27
   - Human Capital Policies/Years to Partner/ MBA Hiring & Compensation 28
   - Payroll Cost and Total Employees 29

IV. Compensation Strategy 31
   - Types of Compensation 32
   - Salary & Bonus Changes 34
   - Annual Bonus Plans 38
   - Carried Interest Plans 40
   - Employee Benefits 49
   - General Partner Commitment (GPC) 53
   - Co-Investment Plans 55

**PART 3. Quantitative Data**

V. Year to Year Changes in Compensation Levels 57
   - Geographic Differences 57

VI. Compensation Levels Per Position (By Type & Size of Firm) 62

VII. Compensation Levels by Type & Size of Firm – North America, Canada (178), Asia Pacific (180), plus Employee Benefit Costs (182) 138

**Survey Background**

The 2020-2021 Holt-MM&K-Buyouts Private Equity and Venture Capital Compensation Report is a joint effort of three parties. They are compensation consultants Holt private equity consultants and MM&K; and global private equity publisher Buyouts. It is jointly written by Michael Holt, Dan Gunner and Bobby Drysdale.

The report is based on an extensive, two-part survey of private equity firms conducted in the spring and early summer of 2020.

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PART 2. Sections II - IV are the qualitative or "How" sections of the report. We collected and analyzed data concerning financial and operations information; human capital practices; and the design of compensation plans including salary, bonus/incentive plans, carried interest plans, co-investment plans, general partner commitment and employee benefits. Although this is 2020 information, we believe it can be helpful in planning for 2021.

PART 2. Sections II - IV Firm Classifications:

We classify firms by type and by committed capital to all active funds. Altogether we created 14 sample groups to complement our discussion of firm-wide compensation issues (Sections II-IV of report). The smaller samples (ie. Large VC or small/mid-size VC) correspond to your peer groups; the larger samples (ie. All Firms) showcase broader industry trends.

- LBO/VC/Growth Capital: Combines LBO / Growth Equity and VC firms into one “Catch-All” category with a standard 20% carried interest
  - > Large: firms with $2.5 billion plus in committed capital (all active funds)
  - > Small/Mid-Size: firms with less than $2.5 billion in committed capital (all active funds)
- > All Firms
- LBO / Growth Equity – same as LBO/VC/Growth Capital:
- Venture Capital – same as LBO/VC/Growth Capital:
- Institutional – All Firms
- Mezzanine/Debt - All Firms
- Fund of Funds - All firms
- Secondary/Co-Investment – All firms
- All Firms (includes all investment types as described above)

Overall, 139 organizations participated in the survey, somewhat below last year’s report (162), primarily due to coronavirus. They provided information on 5,663 workers, employed in 46 different positions, ranging from analyst to managing general partner on the investment side and receptionist to chief operating officer on the administrative side. The survey questionnaire consisted of two parts. The first gathered data on firm-wide recruiting and compensation practices, such as the structure of carried interest and co-investment programs; the second gathered data on the compensation packages of individual employees.

Sample Characteristics
The table below shows you the number of firms populating each of the 14 sample groups used in Sections II-IV of this report covering firm-wide compensation practices. You can also see the make-up of each sample in terms of assets under management (committed capital, all active funds).

<table>
<thead>
<tr>
<th>Firm Classification</th>
<th>Committed Capital (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Active Funds</td>
</tr>
<tr>
<td></td>
<td># Firms</td>
</tr>
<tr>
<td>LBO/VC/Growth Equity (Large)</td>
<td>18</td>
</tr>
<tr>
<td>LBO/VC/Growth Equity (Small/Mid-Size)</td>
<td>42</td>
</tr>
<tr>
<td>LBO/VC/Growth Equity (All)</td>
<td>60</td>
</tr>
<tr>
<td>LBO / Growth Equity (Large)</td>
<td>10</td>
</tr>
<tr>
<td>LBO / Growth Equity (Small/Mid-Size)</td>
<td>14</td>
</tr>
<tr>
<td>LBO / Growth Equity (All)</td>
<td>24</td>
</tr>
<tr>
<td>Venture Capital (Large)</td>
<td>8</td>
</tr>
<tr>
<td>Venture Capital (Small/Mid-Size)</td>
<td>28</td>
</tr>
<tr>
<td>Venture Capital (All)</td>
<td>36</td>
</tr>
<tr>
<td>Mezzanine/Debt (All)</td>
<td>11</td>
</tr>
<tr>
<td>Fund of Funds (All)</td>
<td>10</td>
</tr>
<tr>
<td>Co-Investment/Secondary (All)</td>
<td>12</td>
</tr>
<tr>
<td>Institutional (All)</td>
<td>33</td>
</tr>
<tr>
<td>All Firms</td>
<td>126</td>
</tr>
</tbody>
</table>
PART 3. Sections V – VII are the quantitative or "How Much" sections of the report. We collected and analyzed data for various positions on salaries, bonuses, and carried interest distributions. It also covers carried interest as a percent of the fund and as “dollars at work” from both “most recent fund” and “all active funds.”

The table below is an example of the exhibits we provide to summarize data collected on Part 3 of the survey report.

### Sample Tables: PE 02. Senior Partner / Senior Managing Director (s) – All LBO/VC/Growth Capital combined (Details in full report)

| Job Title                        | # Firms | Base Salary ($000) | Salary + Bonus ($000) | Carry Distribution ($000) | Avg. | 25th | 50th | 75th | Avg. | 25th | 50th | 75th | Avg. | 25th | 50th | 75th | Avg. | 25th | 50th | 75th |
|----------------------------------|---------|---------------------|-----------------------|---------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| LBO/VC/Growth Equity (Large)     | 40      | 990.0               | 557.8                 | 1,000.0                   | 1,218.3 | 1,369.4 | 1,680.0 | 13 | 93.3 | 31.9 | 64.3 | 72.7 |
| LBO/VC/Growth Equity (Mid-Size)  | 35      | 594.2               | 350.0                 | 405.0                     | 705.0 | 1,063.8 | 630.4 | 919.0 | 1,387.5 | 8 | 259.3 | 19.4 | 44.7 | 599.5 |
| LBO/VC/Growth Equity (Small)     | 6       | 486.9               | 346.0                 | 437.5                     | 526.2 | 591.8 | 488.3 | 546.7 | 746.9 | 0 | - | - | - | - |
| LBO/VC/Growth Equity (All)       | 81      | 781.7               | 385.0                 | 600.0                     | 1,000.0 | 1,179.7 | 705.0 | 1,025.0 | 1,575.0 | 21 | 156.6 | 23.9 | 64.3 | 72.7 |

<table>
<thead>
<tr>
<th>Job Title</th>
<th># Firms</th>
<th>% of Most Recent Fund</th>
<th>Dollars At Work Most Recent Fund (Millions)</th>
<th>Dollars At Work All Active Funds (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LBO/VC/Growth Equity (Large)</td>
<td>25</td>
<td>1.6%</td>
<td>20.2</td>
<td>26.2</td>
</tr>
<tr>
<td>LBO/VC/Growth Equity (Mid-Size)</td>
<td>22</td>
<td>2.1%</td>
<td>14.5</td>
<td>20.0</td>
</tr>
<tr>
<td>LBO/VC/Growth Equity (Small)</td>
<td>4</td>
<td>3.2%</td>
<td>1.7</td>
<td>3.0</td>
</tr>
<tr>
<td>LBO/VC/Growth Equity (All)</td>
<td>51</td>
<td>2.0%</td>
<td>16.5</td>
<td>21.9</td>
</tr>
</tbody>
</table>
Levels Of Compensation:
For each sample statistic we typically show average, 25th percentile, median and 75th percentile. Always bear in mind that the average could be influenced by particularly high or low data points in the sample, especially if the sample size is small. Most firms that use compensation surveys set compensation targets between the median and the 75th percentile. Also, in 2020, a few firms that normally participate did not due to the virus. For these firms, we used their 2019 compensation data in order to ensure a valid sample size.

Firm-Weighted Data versus Incumbent-Weighted Data:
Compensation reports based on employee surveys may show data on either an incumbent-weighted or a firm-weighted basis. Incumbent-weighted samples simply include all employees in the sample, even if a significant percentage of them all work for the same firm; the results may therefore be unduly influenced by one or more firms and won’t be representative of the overall marketplace. We can correct for this potential flaw by calculating the data on a firm-weighted basis. For example, assume there are 10 firms in a survey and nine firms have one incumbent on a position and one firm has 10 incumbents. The firm with 10 incumbents would affect over 50% of the data. However, if we average the 10 incumbents in the one firm and treat them as one, we eliminate this issue. (When we combine all sizes of data for investment managers, we modify between the employee and firm data by weighting small firm data once; mid-size data twice; and large size data three times.)

Mix of Compensation Types:
In our employee compensation tables we show salaries; salaries plus bonuses; and carried interest distributions. However, firms in our samples may view the mix of these compensation components in different ways, and give more emphasis to one or the other. Venture firms tend to pay high salaries and low bonuses, while buyout firms, with their roots in investment banking, tend to pay lower salaries and larger bonuses. Most firms see carried interest as the most important compensation component – at least for higher level employees – as it rewards long-term positive performance on behalf of the firm and its investors. In light of this, well-established firms whose partners already have a high net worth may well pay relatively low salaries and/or bonuses. This of course can vary based on the amount of management and other fees that are received as revenues.

Carry Distributions
Historically, we have added carried interest distributions to salary plus bonus. There is a “flaw” in this approach because many firms do not report the distributions. They may consider the data confidential or simply do not wish to take the time to report them. Thus, if 10 firms report salary plus bonus, but only five of them report distribution we previously were dividing by ten to obtain salary plus bonus plus distributions. Starting in 2014, we do not add the distributions to salary plus bonus. We show the distributions separately but only for those that reported a distribution. (From our above example, we divide by five rather than ten). Firms can decide for themselves how to use this data.

Carried Interest Plan Allocation:
Where applicable, we show three carried interest allocations. The first is the percent of the most recent fund allocated to each employee as carried interest, also referred to as carried interest points. Employees typically share the 20 points of carry allocated to the GP, although a portion may be allocated to a parent company, or held in reserve for future hires and promotions. We also show the carried interest “dollars at work” for the most recent fund, which is the carried interest points assigned an employee multiplied by the size of the fund. For example, a partner with 1 point of carry on a $100 million fund has $1 million at work in that fund—in other words, the dollars at work that can result in realized investment gains. We also show the most important feature of carried interest - the dollars at work for all active funds.
PART 3. Sections V - VII. Firm Classification: For our analysis of employee compensation starting in Section V of this report we created 21 samples, described below. Institutional firms (groups sponsored by banks or other large parents) are included in these samples unless otherwise noted.

- LBO/VC/Growth Capital: Combines LBO / Growth Equity, and Venture Capital firms.
  - Large: $2.5 billion or more
  - Mid Size: $1.0 billion – $2.5 billion
  - Small: Less than $1.0 billion
  - All Firms
- LBO / Growth Equity – same as LBO/VC/Growth Capital
- Venture Capital – same as LBO/VC/Growth Capital
- Institutional – same as LBO/VC/Growth Capital
- Mezzanine/Debt - All Firms
- Fund of Funds - All Firms
- Co-Investment/Secondary - All Firms
- Canada – All Firms
- Asia Pacific - All Firms
Scope & Methodology
Partial Participant List (Certain firms have requested anonymity)

VENTURE CAPITAL
ABS Capital Partners
Amadeus Capital Partners
Arix Bioscience
Ascension Ventures
Asset Management Ventures
B Capital Group
Bessemer Venture Partners
Bond Capital Management, LP
CRV, LLC
Emergence Capital
ePlanet Capital
Forgepoint Capital Management
F-Prime Capital Partners
Framework Venture Partners
Frazier Healthcare Partners
Google Ventures
Grotech Ventures
Icon Ventures
Institutional Venture Partners
Longitude Capital Management
New Leaf Venture Partners
Norwest Venture Partners
Pappas Capital, LLC (Pappas Ventures)
RiverVest Venture Partners
Saudi Aramco Energy Ventures
Scale Venture Partners
Silicon Valley Bank
SJF Ventures
SV Health Investors, LLC
Tecum Capital
Third Rock Ventures
Vertex Management Inc
Vivo Capital, LLC

LBO/GROWTH EQUITY
Allstate Investments
Ascension Ventures
Atomico
B Capital Group
Centre Lane Partners
Frazier Healthcare Partners
Fremont Group
Google Capital (CapitalG)
Great Hill Partners LP
Guardian Capital Partners
HGGC, LLC
Institutional Growth Partners
Landon Capital Partners
Leeds Equity Advisors, Inc.
Linden Capital Partners
Lovell Minnick Partners
New Leaf Venture Partners
Norwest Equity Partners
Norwest Venture Partners
Southfield Capital
Sunstone Partners
Tecum Capital
TVV Capital
Vivo Capital, LLC
Waterstreet Healthcare Partners

FUND OF FUNDS
Abbott Capital Management, LLC
Allstate Investments
BlackRock Private Equity Partners
C.M. Capital Corporation
Glouston Capital Partners
Manulife
RCP Advisors 3 LLC
Renaissance Venture Capital
Silicon Valley Bank
True Bridge Capital Partners
Twin Bridge Capital Partners

INSTITUTIONAL
Abbott Capital Management, LLC
ABS Capital Partners
Allstate Investments
Ascension Ventures
BlackRock Private Equity Partners
F-Prime Capital Partners
Google Capital (CapitalG)
Google Ventures
Guardian Capital Partners
Manulife
Norwest Equity Partners
Norwest Venture Partners
Norwest Mezzanine Partners
Silicon Valley Bank
Tecum Capital
Yukon Capital Partners

CO-INVESTMENT/SECONDARY
Abbott Capital Management, LLC
Allstate Investments
BlackRock Private Equity Partners
C.M. Capital Corp
Fremont Group
Glouston Capital Partners
Manulife
RCP Advisors 3 LLC
True Bridge Capital Partners
Twin Bridge Capital Partners
Whitehorse Liquidity Partners Inc.

MEZZANINE/DEBT
Centre Lane Partners
Manulife
Norwest Mezzanine Partners
Southfield Capital
Tecum Capital
Yukon Capital Partners
Holt Private Equity Consultants specializes in assisting clients with private equity/venture capital organizational and human resources issues, which includes compensation and performance management. The Holt firm has designed numerous carried interest and co-investment plans, as well as annual incentive plans. It also has consulted with various real estate and investment/funds management organizations.

He has been an “expert witness” on numerous occasions.

Prior to founding Holt private equity Consultants in 2001, Mike Holt was a consultant with William M. Mercer, KPMG, and Hay Management Consultants, where among other things he conducted private equity/venture capital compensation surveys. Previously, he was head of compensation and employee benefits at Norwest (now Wells Fargo) and for Pillsbury (consumer products).

Mike received his undergraduate degree at the University of Notre Dame and a Masters Degree in Business Administration from Roosevelt University. He also served as a Lieutenant in the U.S. Army.

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