



HEIDRICK & STRUGGLES
PRIVATE EQUITY PRACTICE

2017

European Private Capital Compensation Survey

Executive Report

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Introduction

Welcome to our fifth annual European Private Capital Compensation Survey.

We invited executives working in the European private capital industry to participate in an online survey on compensation.

This year we received 516 complete responses, and we have received more than 2,500 cumulative responses since our inaugural survey in 2013. Many of these professionals have contributed to our survey each year; others are new to the process. We would like to thank everyone who completed the survey. We truly value your support.

We reached out to executives across the private capital value chain: those who raise and retain capital, those who invest capital, and those who work to improve returns.

Investment professionals (399 responses) comprise the largest respondent group, and this report principally focuses on their compensation levels and trends.

Where data quality and quantity enables, we have analyzed and reported some aspects of the compensation for fund-raising professionals, investor relations professionals, and operating professionals.

Should you wish to discuss the survey in greater detail, please do not hesitate to contact us.



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On confidentiality:

The survey has been conducted on an anonymous basis for the individuals and their employers, and Heidrick & Struggles has removed the data relating to identity from reported compensation figures.

Methodology

All data collected is self-reported by private capital professionals and has been aggregated to evaluate trends in compensation packages, including base salary, bonus, and carried-interest plans (carry). We have carefully reviewed all data received and have culled approximately 6.85% of responses. Some respondents did not fill out the survey in its entirety, others filled out the survey incorrectly, and some respondents were not employed by private capital firms.

A note on exchange rates

All reported compensation figures have been converted to euros using historic, year-end exchange rates for 2015 and 2016. Compensation for 2017 was converted using the prevailing rate on July 31, 2017.

A note on definitions (investment professionals only)

Managing partner/partner: Experienced deal makers and senior members of the firm who are responsible for sourcing and originating investments. Managing partners/partners interact directly with management teams, lead negotiations, and are either part of or deal with the firm's investment committee.

Principal: Accomplished executors who lead and manage deals and deal teams. Depending on their level, principals are also expected to originate their own investments and identify potential acquisitions.

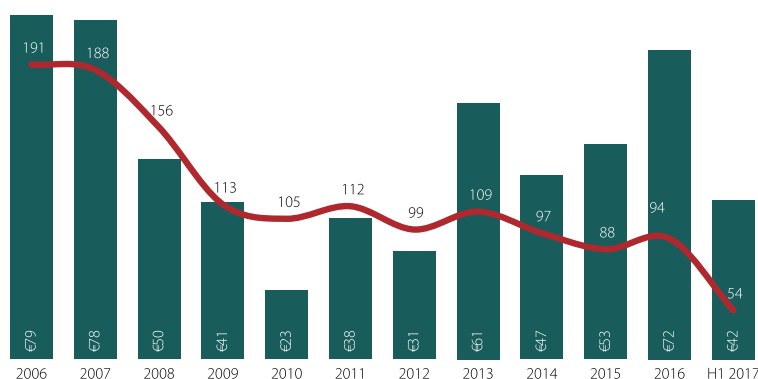
Associate: Responsible for analyzing companies and business plans, financing modelling, conducting due diligence, working with service providers, and assisting with the management and monitoring of portfolio companies under the direction of senior team members.

Market backdrop

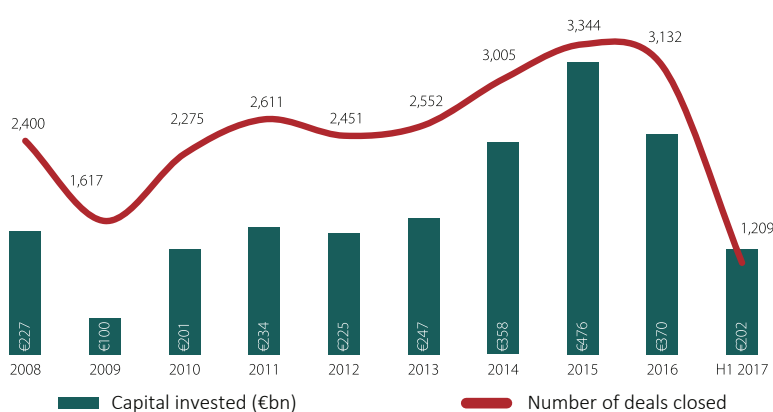
Despite €195.1 billion of dry powder in the market, fund-raising, a crucial component in determining compensation, continues to boom as interest rates remain low. Through the first half of 2017, 54 funds raised €42 billion from institutional investors attracted to private equity's strong performance. Strong capital flow into the industry has enticed new fund managers to raise funds, crowding the market and increasing competition for investment opportunities.

Deal activity has continued to slow as valuations remain inflated with more funds in the market and geopolitical uncertainty surrounding Brexit persists. Deal volume has decreased through June 2017 with €202 billion of capital invested in more than 1,209 portfolio companies. Private equity firms are facing greater pressure not only to deploy dry powder but to continue acquiring companies with a high potential for growth and to maximize returns. In order to achieve these goals, firms must attract top talent, and many are offering generous compensation packages.

European PE fund-raising



European PE deal activity



Source: Pitchbook

Hiring and talent trends

- Following a steady start to the year, hiring at the general partner level and across the portfolio has continued to increase, with the second and third quarters being particularly busy from a hiring standpoint.
- Demand for talented “deal captains” and individuals with strong origination skills continues to increase as funds seek opportunities to invest in a competitive market.
- To date, Brexit seems to have had little impact on hiring decisions. But given political and economic uncertainty, this dynamic may change over the coming months.
- We have observed demand for talent from all subsectors of private capital. In particular, traditional limited partners continue to build direct investment teams.
- Traditional, single-strategy funds are seeking to add complementary adjacent strategies.
- Larger funds continue to seek advantages from scale.
- There is a notable inflow of capital from non-traditional markets, such as Asian funds, into Europe.

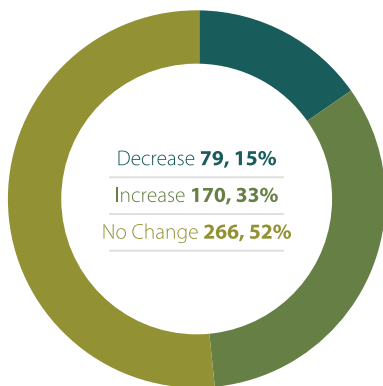
General observations on compensation trends

More than half (52%) of all respondents had no change in their year-over-year base salary from 2016 to 2017, while 33% reported an increase during the same period. Of the respondents who experienced an increase in salary in 2017, 45% had an 11–20% increase in base salary and 37% recorded a 21–40% increase.

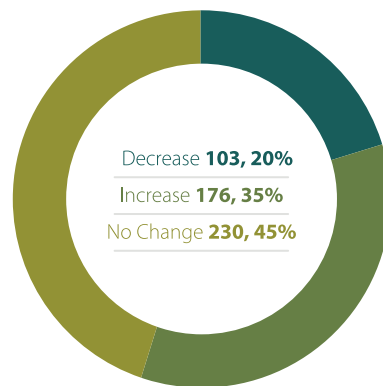
Bonuses held strong in 2017 with 45% of respondents reporting no change from 2016 levels and 35% receiving a year-over-year increase.

Time series data is analyzed later in the report (page 16).

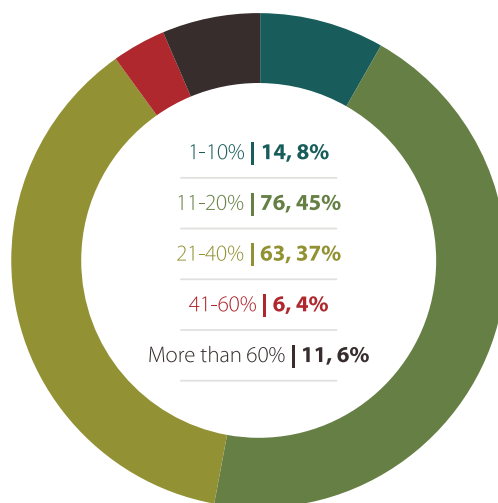
Base salary 2017 vs. 2016



Bonus 2017 vs. 2016



Breakdown of respondents reporting an increase in 2017 base salaries



Respondents' cash compensation development, 2015–17

While total cash compensation grew for all professionals at every job level in 2017, only associates outperformed their self-reported compound annual growth rate (CAGR) from 2016. Cash compensation for principals rebounded modestly in 2017 after a decline from 2015 to 2016, and managing partners/partners experienced a significant slowdown as compared with 2016.*

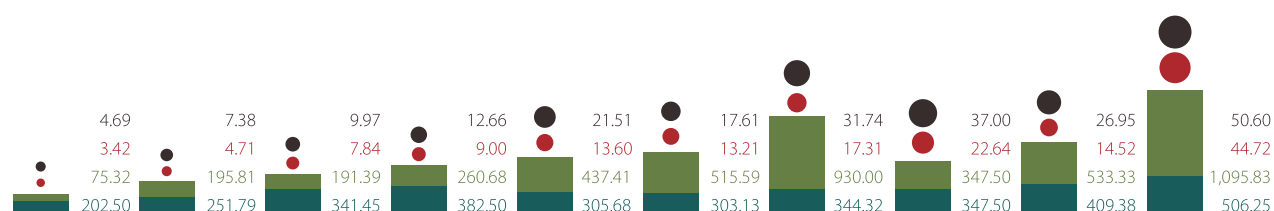
(€k)				2016			2017			CAGR Total comp 2017	CAGR Total comp 2016
All professionals	Mean base	Mean bonus	Total comp	Mean base	Mean bonus	Total comp	Mean base	Mean bonus	Total comp		
Managing partner/partner	299.61	319.30	618.91	307.72	340.25	647.97	314.38	336.28	650.66	2.53%	4.70%
Principal	158.54	147.07	305.61	162.83	165.06	327.89	171.69	170.84	342.53	5.87%	7.29%
Associate	84.56	54.28	138.84	92.33	70.63	162.96	97.07	80.33	177.40	13.04%	17.37%

(€k)				2016			2017			CAGR Total comp 2017	CAGR Total comp 2016
Investment professionals	Mean base	Mean bonus	Total comp	Mean base	Mean bonus	Total comp	Mean base	Mean bonus	Total comp		
Managing partner/partner	309.30	332.72	642.02	320.77	363.70	684.47	327.81	354.90	682.71	3.12%	6.61%
Principal	157.00	155.46	312.46	159.63	170.54	330.17	169.33	175.60	344.93	5.07%	5.67%
Associate	85.56	58.24	143.80	91.60	77.55	169.15	97.29	88.11	185.40	13.55%	17.63%

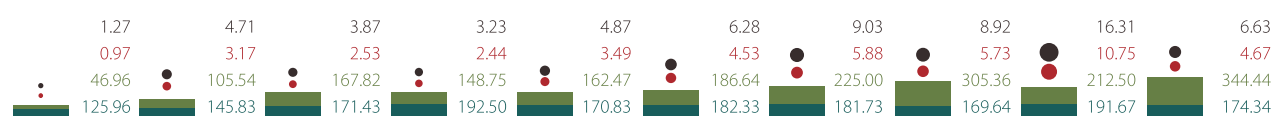
*Total cash compensation is equal to the sum of reported mean base and bonus.

Mean base, bonus, and carry by fund size, 2017: Investment professionals only

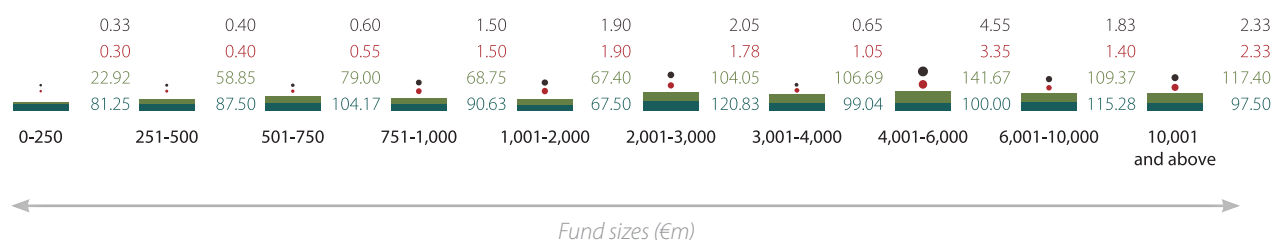
Managing partner/partner



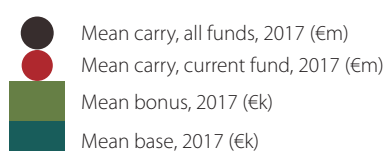
Principal



Associate



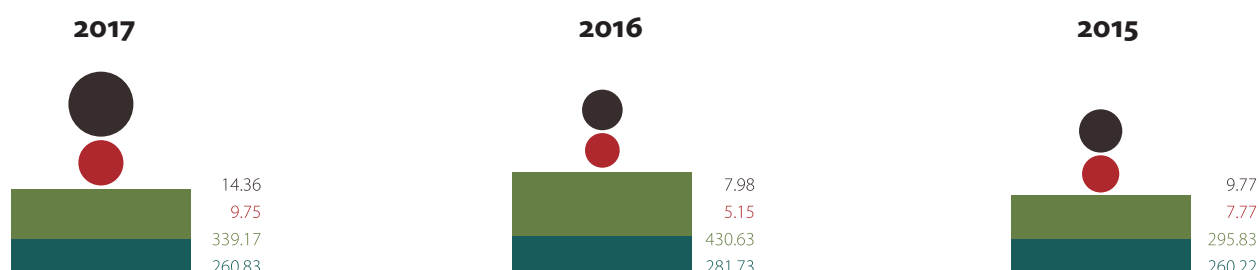
Carry-€ at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



Consistent with the prevailing trend since 2013, we continue to see an increase in base salaries and compensation at all levels of experience and across all fund sizes.

Mean base, bonus, and carry, 2015–17: Fund-raising and investor relations professionals only

Managing partner/partner



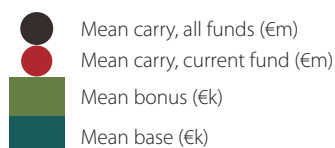
Principal



Associate



Carry-€ at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

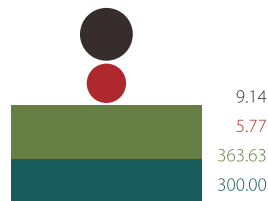


Fund-raising across the region continues to boom as investors seeking strong returns increasingly deploy their capital in private markets. This trend is reflected in the higher levels of compensation for fund-raising and investor relations professionals with significant growth in 2017 carry across all job levels.

Mean base, bonus, and carry, 2016–17: Operating professionals only

2017

Managing
partner/partner



Principal



2016

Managing partner
/partner



Principal

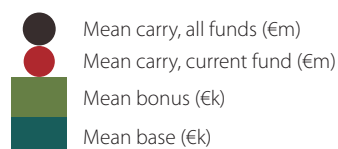


Associate



Private equity firms are increasingly focusing on operational value creation as valuations increase and closing deals becomes more difficult. In response, funds are employing operating professionals to implement cost-saving measures and improve efficiency across portfolio companies, hoping to generate returns by offering strong compensation packages.

Carry-€ at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



No responses received for operating professionals at associate level in 2017.

Operating professionals at associate level do not receive carry.

Years of PE experience and compensation, 2017 vs. 2016: Investment professionals only

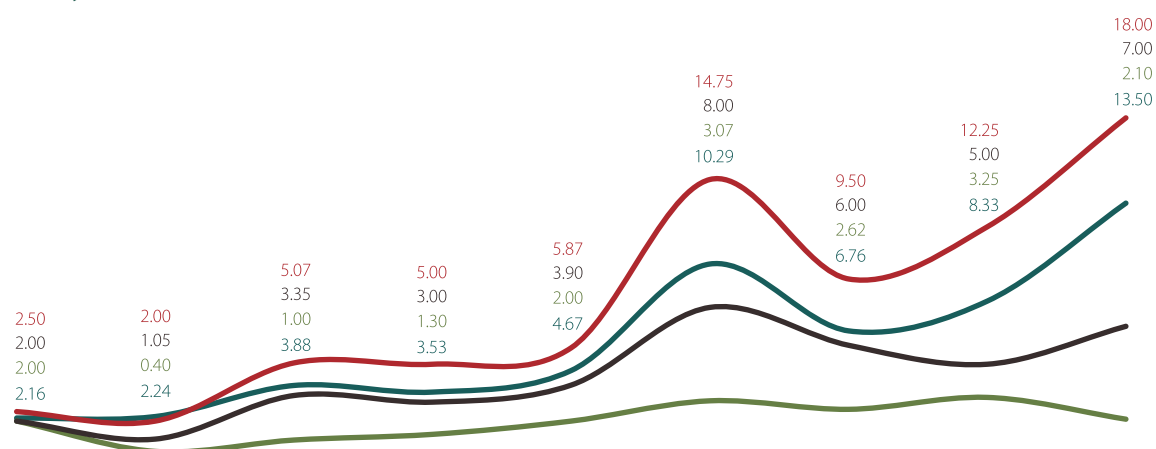
Years of PE experience	Mean (€k)					
	Base (2017)	Bonus (2017)	Total cash (base + bonus 2017)	Total cash (base + bonus 2016)	Total cash (base + bonus 2015)	Percent change in total cash for 2017
0–2	88.89	81.50	170.39	159.40	112.80	6.89%
2–4	119.17	93.83	213.00	198.90	177.18	7.08%
5–6	158.92	192.59	351.52	329.57	297.43	6.67%
7–8	170.45	165.94	336.39	323.26	307.30	4.06%
9–10	201.13	207.46	408.60	391.08	385.27	4.47%
11–12	285.83	321.55	607.39	604.97	553.83	0.40%
13–14	274.10	223.59	497.69	490.16	454.42	1.53%
15–16	306.81	400.57	707.38	682.98	588.73	3.57%
17+	352.88	396.12	749.00	771.50	754.84	–2.91%

Cash compensation has increased at every job level in 2017 (excluding those with more than 17 years of private equity experience). Of particular note is the significant increase at the industry's entry level where we are seeing record levels of cash compensation.*

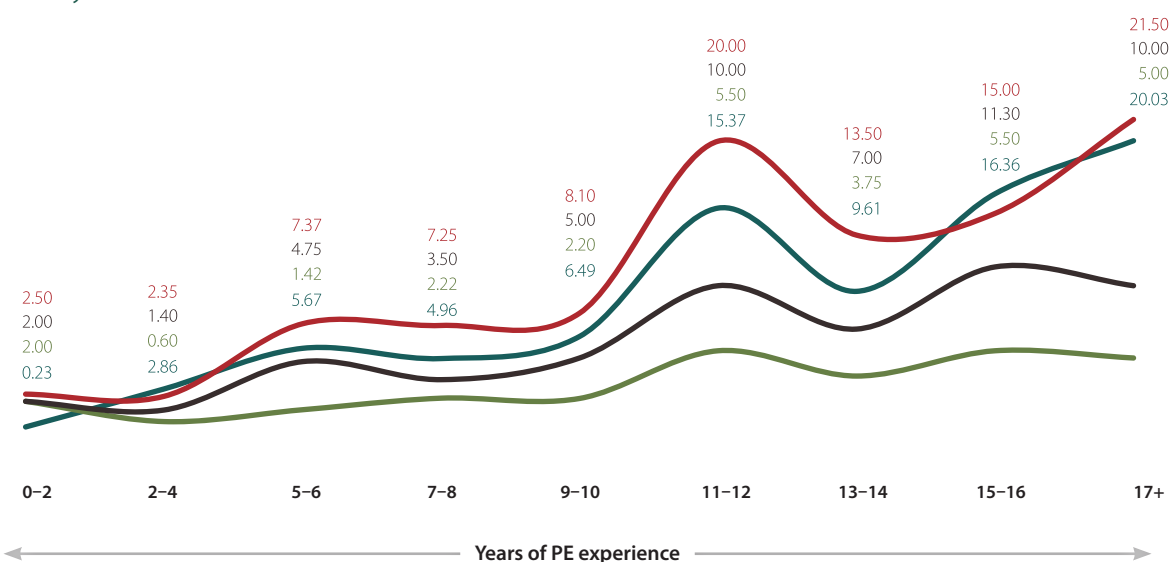
**Total cash compensation is equal to the sum of reported mean base and bonus.*

Years of PE experience and carry, 2017: Investment professionals only

Carry in current fund (€m)



Carry in all funds (€m)



The graph above shows the relationship between carry development and experience.

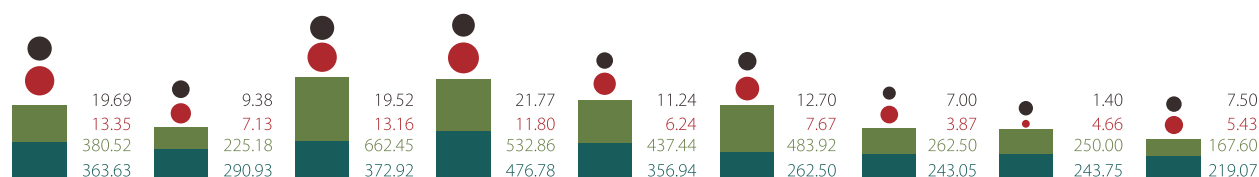
Carry-€ at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

- 75th percentile
- Median
- 25th percentile
- Mean

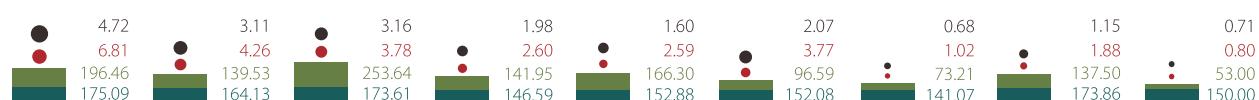
Whilst we draw the data above into quartiles, we do not report on performance and cannot comment on whether there is a strong correlation between fund performance and compensation.

Mean base, bonus, and carry by investment strategy, 2017: Investment professionals only

Managing partner/partner



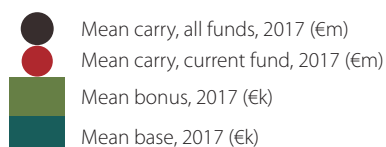
Principal



Associate



Carry-€ at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



For the second year in a row, compensation for managing partners/partners and principals is highest in distressed funds. Increased demand for credit professionals is boosting compensation levels as geopolitical and macroeconomic conditions continue to affect private markets across the region.

Comparison of compensation across Europe, 2017: Investment professionals only

Responses from some countries are grouped under:

Benelux:

Belgium, the Netherlands, and Luxembourg

Central and Eastern Europe (CEE):

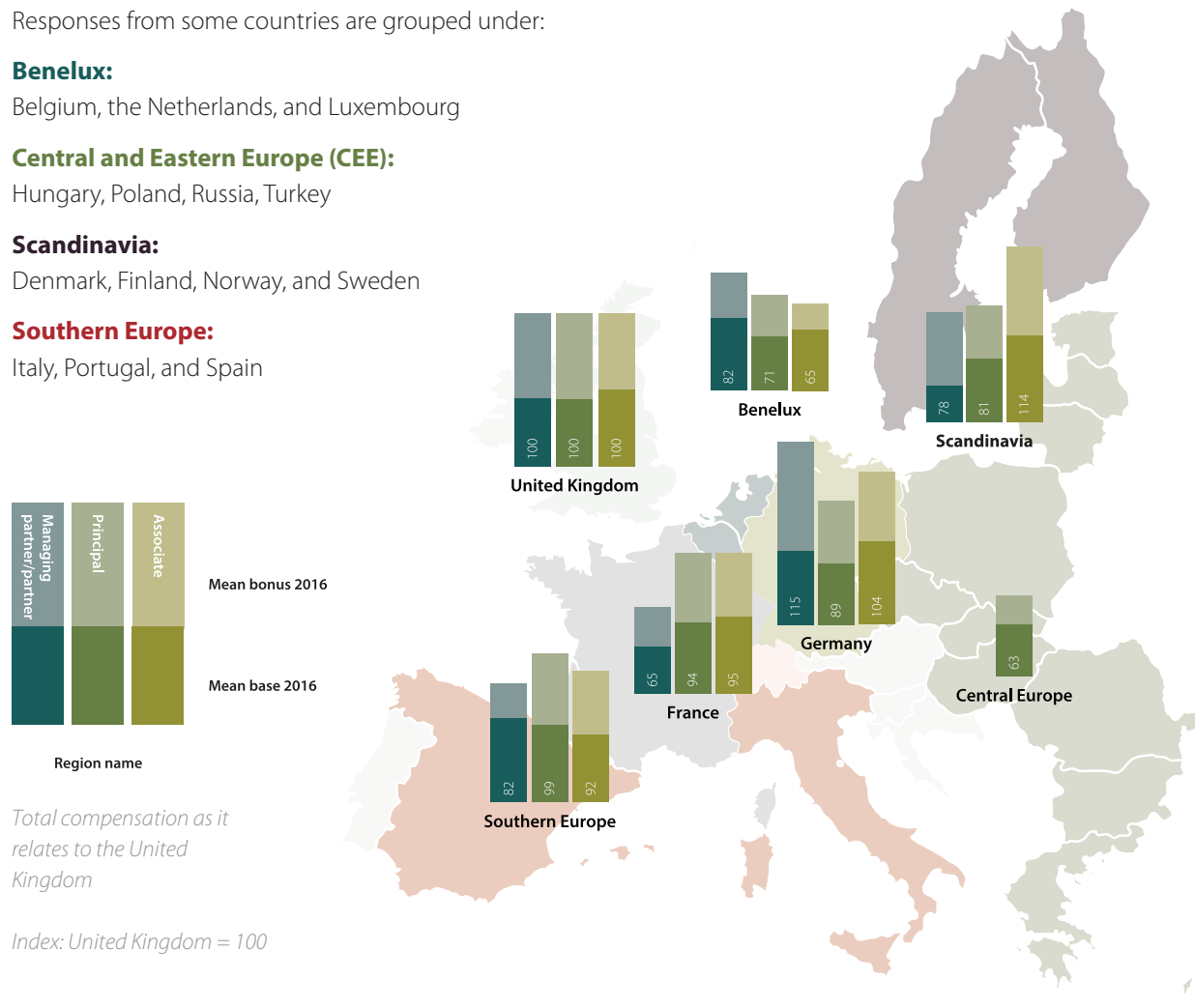
Hungary, Poland, Russia, Turkey

Scandinavia:

Denmark, Finland, Norway, and Sweden

Southern Europe:

Italy, Portugal, and Spain



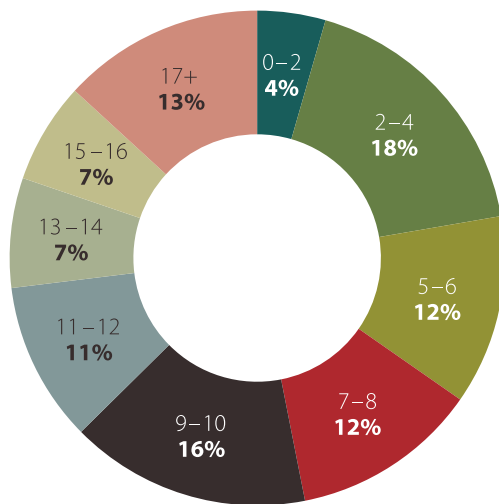
Accounting for the varying costs of living across the region, total cash compensation differs by the investment professional's location.

Germany has overtaken the United Kingdom as the most highly compensated market for managing partners/partners as geopolitical concerns over Brexit continue. Germany is well positioned to become a new hub for private equity with its strong economy, healthy middle market, and perceived relative safety for capital deployment.

Conversely, managing partners/partners in France significantly lagged their counterparts across the region.

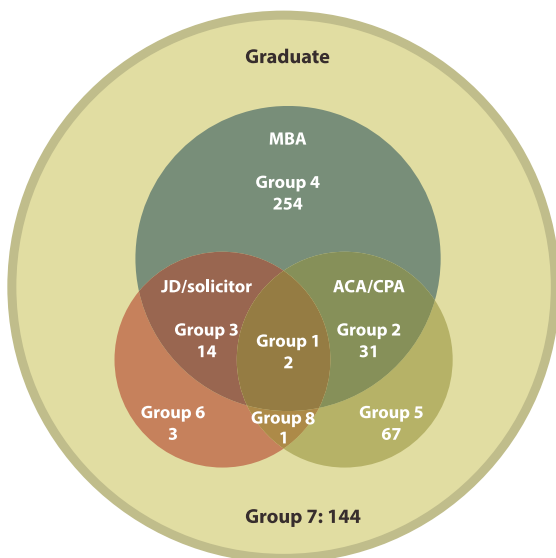
Respondents' PE experience demographics and educational qualifications: All professionals

Respondents' PE experience demographics



Years of PE experience	Number of professional respondents
Less than 2	23
2-4	92
5-6	64
7-8	63
9-10	81
11-12	54
13-14	37
15-16	34
17+	68
Total	516

Respondents by educational qualifications



Respondents can be classified broadly under the following groups based on educational qualifications:

Respondents with MBAs are as follows:

- Group 1: 2 respondents with MBAs and both ACA/CPA and JD/solicitor qualifications.
- Group 2: 31 respondents with MBAs and ACA/CPA qualifications.
- Group 3: 14 respondents with MBAs and JD/solicitor qualifications.
- Group 4: 254 respondents with MBAs and no additional qualifications.

Respondents without MBAs are as follows:

- Group 5: 67 non-MBA respondents with ACA/CPA qualifications.
- Group 6: 3 non-MBA respondents with JD/solicitor qualifications.
- Group 7: 144 non-MBA respondents with no additional qualifications
- Group 8: 1 non-MBA respondent with both ACA/CPA and JD/solicitor qualifications..

Appendix: Compensation breakdown, 2015–17

Investment professionals only

New for our 2017 survey, per requests from clients, is our breakdown of compensation by mean and quartiles.

(€k)	Base mean and quartiles 2015					Base mean and quartiles 2016					Base mean and quartiles 2017				
	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100
Associate	85.57	73.00	89.79	107.12	175.50	91.60	66.27	100.89	115.15	175.50	97.30	74.76	91.57	121.75	200.50
Principal	157.01	117.49	153.20	188.25	325.50	159.63	127.36	157.87	187.20	325.50	169.33	138.45	166.85	194.70	350.50
Partner/managing partner	309.31	200.89	268.47	342.69	1,525.50	320.77	202.58	263.00	339.25	2,025.50	327.82	206.75	261.75	335.31	1,775.50

(€k)	Bonus mean and quartiles 2015					Bonus mean and quartiles 2016					Bonus mean and quartiles 2017				
	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100
Associate	58.25	21.28	46.59	90.92	225.50	77.56	36.56	70.69	111.66	225.50	88.11	46.93	81.27	134.43	275.50
Principal	155.47	71.04	131.75	201.75	900.50	170.54	77.58	143.88	212.52	1,000.50	175.60	82.41	149.06	217.30	975.50
Partner/managing partner	332.72	94.25	198.71	344.25	2,000.50	363.69	103.18	223.94	389.56	2,025.50	354.90	86.86	220.95	420.50	2,025.50

(€k)	Carry in current fund				
	Mean	25	50 Median	75	100
Associate	1,500.00	400.00	1,100.00	2,000.00	6,200.00
Principal	4,130.00	1,000.00	2,550.00	5,000.00	7,240.00
Partner/managing partner	9,925.00	3,000.00	6,850.00	12,875.00	64,400.00

Number of responses for base and bonus		
Associate	Principal	Partner/managing partner
74	183	142

Number of responses for carry		
Associate	Principal	Partner/managing partner
37	166	122

Appendix: Compensation breakdown, 2015–17

Fund-raising and investor relations professionals only

New for our 2017 survey is our report on compensation by mean and quartiles for fund-raising and investor relations professionals.

(€k)	Base mean and quartiles 2015					Base mean and quartiles 2016					Base mean and quartiles 2017				
	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100
Associate	68.75	38.00	50.50	100.50	150.50	87.50	50.50	67.17	125.50	200.50	90.63	58.83	75.50	100.50	200.50
Principal	200.00	113.00	200.50	263.00	425.50	207.14	129.67	175.50	246.33	450.50	208.93	129.67	175.50	263.00	450.50
Partner/managing partner	257.50	172.38	209.88	266.13	675.50	254.17	181.75	209.88	281.75	625.50	260.83	154.88	216.13	328.63	650.50

(€k)	Bonus mean and quartiles 2015					Bonus mean and quartiles 2016					Bonus mean and quartiles 2017				
	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100	Mean	25	50 Median	75	100
Associate	40.38	12.50	25.50	50.50	125.50	46.75	25.50	38.00	50.50	125.50	49.88	25.50	42.17	75.50	125.50
Principal	135.64	33.00	50.50	238.00	500.50	182.07	44.25	125.50	294.25	575.50	212.46	79.67	150.50	288.00	550.50
Partner/managing partner	380.80	122.38	463.00	556.75	875.50	360.80	134.88	338.00	481.75	900.50	339.17	119.25	238.00	556.75	875.50

(€k)	Carry in current fund				
	Mean	25	50 Median	75	100
Associate	2,250.00	1,375.00	2,250.00	3,125.00	4,000.00
Principal	3,380.00	1,100.00	2,250.00	4,900.00	10,000.00
Partner/managing partner	9,750.00	2,000.00	7,000.00	9,750.00	33,000.00

Number of responses for base and bonus		
Associate	Principal	Partner/managing partner
8	14	15

Number of responses for carry		
Associate	Principal	Partner/managing partner
2	10	6

Appendix: Number of responses

Mean base, bonus, and carry by fund size, 2017 Investment professionals only

(€m)	0–250	251–500	501–750	751–1,000	1,001–2,000	2,001–3,000	3,001–4,000	4,001–6,000	6,001–10,000	10,001 and above	Total
Base	46	64	36	43	34	54	37	18	29	32	393
Bonus	45	64	36	42	34	54	35	18	26	29	383
Carry, all funds	38	55	31	31	27	43	24	15	26	26	316
Carry, current fund	41	56	32	32	28	45	24	15	26	26	325

Mean base, bonus, and carry, 2015–17 Fund-raising and investor relations professionals only

	Associate	Principal	Managing partner
Base	8	14	15
Bonus	8	14	15
Carry, all funds	2	10	6
Carry, current fund	2	10	8

Mean base, bonus, and carry, 2016–17 Operating professionals only

	Principal	Managing partner
Base	13	22
Bonus	13	22
Carry, all funds	8	19
Carry, current fund	8	21

Mean base, bonus, and carry by investment strategy, 2017 Investment professionals only

(€m)	Buyout	Growth	Distressed	Credit	Direct lending	Secondaries	Fund of funds	Co-investment	Venture capital	Total
Base	282	128	33	28	32	23	17	32	33	608
Bonus	276	127	31	25	31	22	17	32	32	593
Carry, all funds	228	105	26	18	27	16	12	22	26	480
Carry, current fund	233	106	26	18	26	18	13	24	27	491

Private Equity Practice

Heidrick & Struggles' global Private Equity Practice combines a deep understanding of private equity markets with world-class expertise across all major industries and functions to provide a broad range of value-adding services.

We pride ourselves on finding top private equity management talent by recruiting investment professionals, operating partners, and other essential senior managers who support financial growth. Additionally, we work with private equity-backed portfolio companies to bring innovative services designed to meet today's challenges while securing the leadership needed to deliver on tomorrow's strategies.

Our expertise includes due-diligence support, pre- and post-acquisition executive search, leadership assessment, proactive introductions, and the construction of advisory boards for both private equity firms and their portfolio companies. With more than 80 consultants in 50 offices around the world, our team includes functional experts in areas such as technology and operations, financial officers, human resources, marketing, compliance, risk, and legal infrastructure. Our blend of search and consulting services enables us to develop long-term strategic partnerships that build winning leadership teams and create substantial value.

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