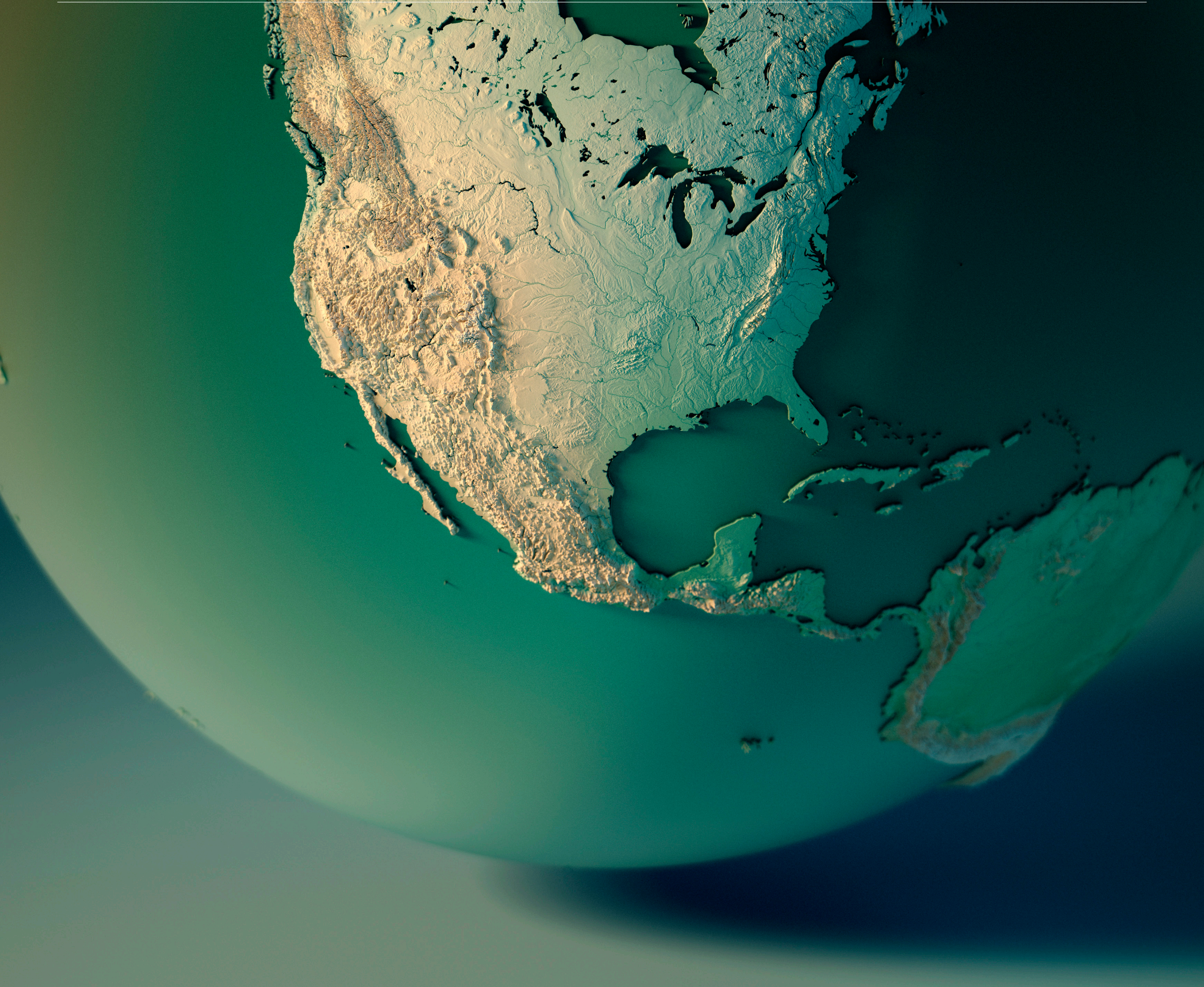
2019 North American Private Equity Operating Professional Compensation Survey



2019 North American Private Equity Operating Professional Compensation Survey

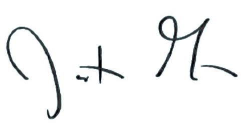
A message from the authors

Welcome to our *2019 North American Private Equity Operating Professional Compensation Survey*. Together with our surveys of private equity investment professionals, this report provides a comprehensive picture of the compensation that North American private equity (PE) executives are currently receiving.

Looking at the PE industry more broadly, we believe the present is an exciting time—and not simply because deal activity is at or near all-time highs (see pages 8–9). We're seeing the business become more sophisticated, and firms are generating record demand for executives with an increasingly crucial skill set: helping portfolio companies reach their full operating potential.

We hope you enjoy reading the survey, which remains the only one of its kind. As always, suggestions are welcome, so please feel free to contact us—or your Heidrick & Struggles representative—with questions and comments.

With warmest regards,



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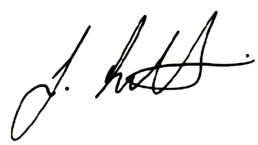

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On confidentiality
The *2019 North American Private Equity Operating Professional Compensation Survey* has been conducted on an anonymous basis; no data relating to the identity of individual respondents or their employers is included in the following report.

Acknowledgments
The authors wish to thank **Mohd Arsalan** and **Samantha Lassoff** for their contributions to this report.

Methodology

In an online survey, we asked participants to provide compensation data from 2016, 2017, and 2018. All data collected is self-reported by private equity operating professionals and has been aggregated to evaluate trends in compensation packages, including base salary, bonus, and carried interest plans (carry).

Responses from 217 participants are included in the survey results.

In each compensation table, we report mean base, bonus, and carry for each of six levels of private equity operating professionals. Please note that the mean can be influenced by particularly high or low data points, especially in small sample sizes.

Carried interest is calculated using “carry dollars at work,” which is 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 example, 7 points (700 bps) of carry (out of a possible 100) in a $500 million fund with 20% carry would result in $7 million of carry dollars at work (500 X 0.2 X 0.07 = 7).

All compensation figures in tables and charts are reported in USD thousands unless otherwise noted.

A note on titles

While title structures vary according to firm, we have divided respondents into six groups based on level and responsibility.

Firm leader (e.g., managing partner, head of portfolio operations, etc.): Most senior level at the firm. Typically, although not always, one of the founders.

General partnership level (e.g., operating partner, general partner, managing director, etc.): Proven operational track record. Experienced board member. Sometimes on the investment committee.

One step below general partnership level (e.g., operating principal, operating executive, director of portfolio operations, operations director, etc.)

Vice president: Works closely with the portfolio and might have board exposure or seats.

Associate: Most junior, entry level. Most of the work is research and analysis.

Senior/executive advisor: Typically a part-time role that can consume 5–50% of the individual’s time. Frequently exclusive to one PE firm, although the individual might have other non-PE board relationships and responsibilities.

Executive summary

This year's survey includes a review of 2018 activity in North American private equity, our thoughts on the major hiring trends for operating professionals, and a deep dive into what 2019 compensation packages for operating professionals look like.

Private equity: The big picture (pages 8–9)

- As measured by deal activity in 2018, the US private equity market is robust. A record 4,828 deals closed during the year, and total deal value was an estimated $713 billion, the second-highest level ever.
- Fundraising dropped sharply, which most likely reflected firms' focus on investing the huge amounts of capital they'd raised in 2016 and 2017.
- Several factors bode well for industry growth going forward:
    - US interest rates should remain low at least through 2020, which will keep credit cheap and readily available to PE borrowers.
    - Investors expect to increase the number of their general partner (GP) relationships in the next five years, implying a built-in source of demand for PE firms.
    - Investment in both GP equity stakes and the secondary market for fund stakes is rising, which should boost demand for specialized professionals—and raise their compensation as well.

Operating professionals: Hiring trends (page 10)

- The operating partner role is diverse across function, level, and industry specialty. We have seen significant demand across all of these roles. We have seen the most growth, however, in the head of talent, CFO of CFOs, and generalist operating partner roles.
- The vast majority of operating partner hires have no prior connection to the investment firms they join—a big indicator of how the position is growing.
- Successful operating partner candidates tend to have a mix of experience in consulting and operations (ideally with P&L responsibility), and previous exposure to private equity.

Operating professionals: Compensation trends (pages 16–28)

Compensation by seniority (pages 17–25)

- Among **firm leaders,** average compensation rises, on the whole, as assets under management (AUM) increase. Where AUM is $10.1 billion to $20.0 billion (the second-highest AUM level of surveyed firms), leaders average total cash compensation of almost $3.4 million (consisting of $1.9 million in base and $1.5 million in bonus); these leaders also report $35.3 million in carry, the highest figure at any fund size.
    - The picture is slightly more varied looking at compensation by most recent fund, but the highest cash compensation is also at the second-highest fund size, with firm leaders at funds with $10.1 billion to $20.0 billion reporting total cash compensation of just over $2 million and carry of almost $37 million.
- At the **general partnership level,** compensation is more variable. Cash compensation by AUM is highest at funds with $1.5 billion to $3.0 billion under management, third from the bottom; looking at most recent fund, the highest cash compensation is at the second-highest fund size. Carry is highest at other fund sizes: the second-highest fund size looking at AUM and the third-highest fund size looking at most recent fund.

Base and bonus (pages 26–28)

- Sixty-eight percent of respondents received 2018 base increases of $50,000 or less, up from 54% in 2016. Most of this jump came at the expense of the highest base increase range ($200,000 or more).
- Forty-six percent of respondents told us that their base went up in 2018, about the same as in 2017 but nearly double the percentage in 2016.
- Bonuses also went up most often in the $50,000 or less range (53% in 2018 versus 38% in 2015). While increases were down in most other ranges, the biggest such declines were for bonuses of $200,000 or more (11% versus 20%) and $50,000 to $100,000 (21% versus 27%).
- Forty-eight percent of respondents reported a higher bonus in 2018, a bit more than in 2017 but 77% higher than in 2015.[1]

Funding of cash compensation (pages 29–30)

- Three primary revenue streams fund cash compensation: fund management fees, portfolio company oversight fees, and time billed directly to portfolio companies. Some firms use just one of these streams and others use combinations.
- Two-thirds of respondents told us that their firms fund their compensation with just one of the three streams, with fund management fees accounting for the highest proportion (41%).
- Of the combination sources, fund management fees and portfolio company oversight fees are used most frequently.

Non-cash compensation (pages 30–35)

- **Carried interest.** For the vast majority of respondents eligible for carried interest, vesting takes place on a straight-line schedule.
    - Carry is most commonly calculated on a whole-fund basis. Only among vice presidents did a majority (60%) report that they were eligible for deal-by-deal carry participation.
- **Warrants/options.** Most respondents told us that they're not eligible to receive warrants or options in the portfolio companies they oversee.
    - The largest proportions of those who can get warrants or options are 43% of senior/executive advisors and 29% of general partners. Average warrant participation for these two groups is $2.4 million and $2.6 million, respectively.
- **Direct equity participation.** As with warrants/options, most respondents said that they're not eligible for direct equity participation.
    - Average cumulative direct equity participation is highest at the firm leader ($5.7 million) and general partnership ($2.8 million) levels.
- **Co-investment rights.** Solid majorities of respondents at almost all professional levels told us that they have co-investment rights.
    - Whether co-investment rights are based on the performance of funds or individual deals varies by seniority, with the highest fund-based participation reported by firm leaders (77%), those one step below general partnership level (68%), and those at general partnership level (55%). Most vice presidents, associates, and senior/executive advisors can co-invest based on individual deals.

[1] Bonus data was not available for 2016.

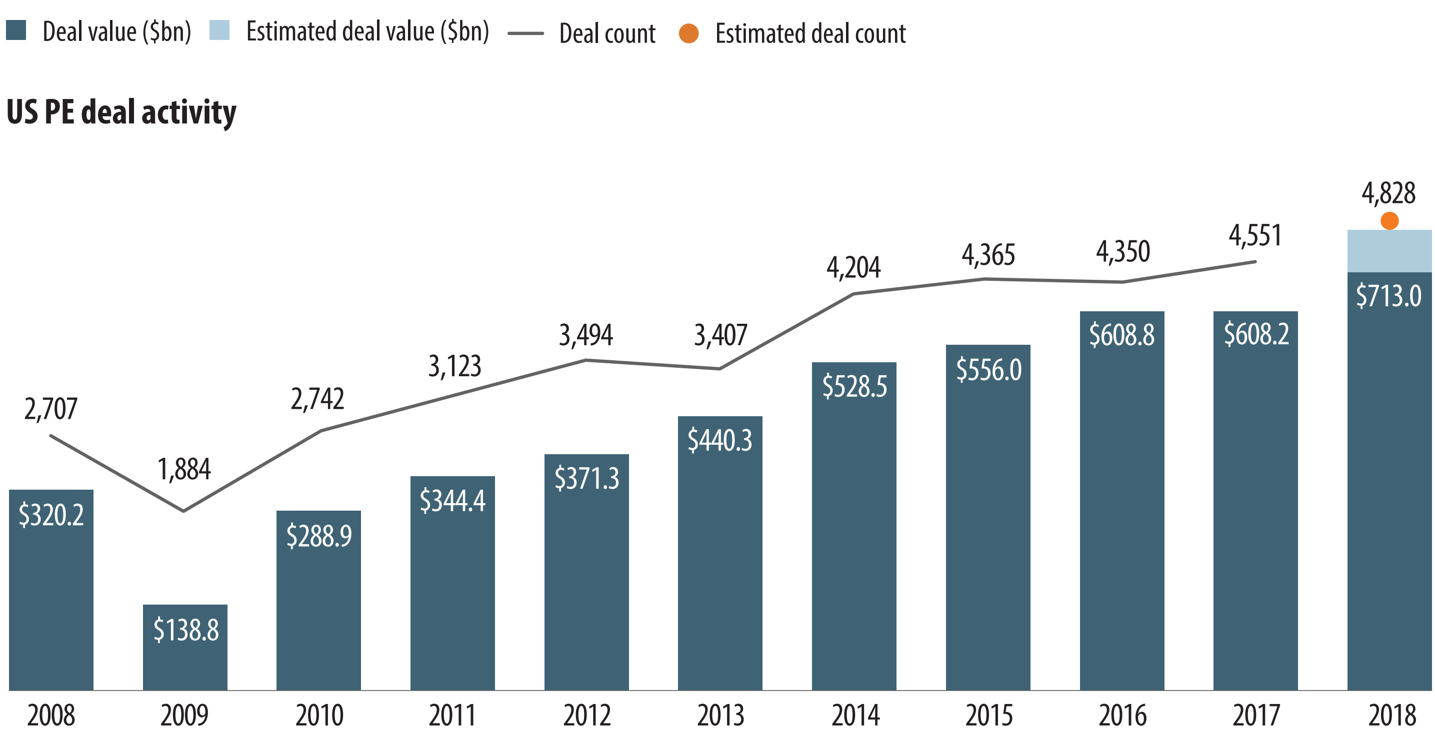
State of the private equity market

Given the strength of the US private equity market in the past few years, it's not surprising that compensation growth has been strong for operating executives. The PE industry experienced a particularly robust year in 2018: a record 4,828 US deals[2] closed—the first time the figure exceeded 4,600—and total US deal value was an estimated $713 billion, the second-highest level ever behind $807 billion in 2007.

[2] PitchBook, *2018 Annual US PE Breakdown*, January 2019, pitchbook.com.

The state of the US PE market is strong

US PE deal activity



Source: PitchBook

At first glance, the picture for fundraising—a critical determinant of compensation—is less encouraging. Both the number of funds and the total capital raised in the United States during 2018 dropped sharply from their buoyant levels of 2016 and 2017. Yet this apparent weakness more likely reflected firms' emphasis on deploying the huge sums they'd raised in the preceding years.

Looking ahead, we see a number of factors that bode well for industry growth and, therefore, overall compensation:

- The Federal Reserve has suspended its program of raising interest rates and may even cut rates in 2019 or 2020. If the Fed merely maintains existing rates, doing so will keep credit cheap and flowing to big borrowers such as PE firms.
- Forty-three percent of respondents to a survey of institutional investors said that they expected to increase the number of their general partner (GP) relationships in the next five years.[3] This implies a built-in source of demand for PE firms irrespective of any other factors.
- Investors are using fund assets to buy stakes in GPs and other asset managers rather than commit capital to the GPs' funds. While still in an early stage, this approach is gaining in popularity such that the number of these deals more than doubled in 2018, to 25 from 11 in 2017.[4]
- The secondary market for fund stakes is booming as GPs get increasingly creative in structuring their secondary transactions. As is the case with buying GP stakes, the secondaries trend should raise demand for specialized professionals who can excel in this emerging marketplace—and raise their compensation as well.

There are additional factors that look particularly auspicious for operating executives:

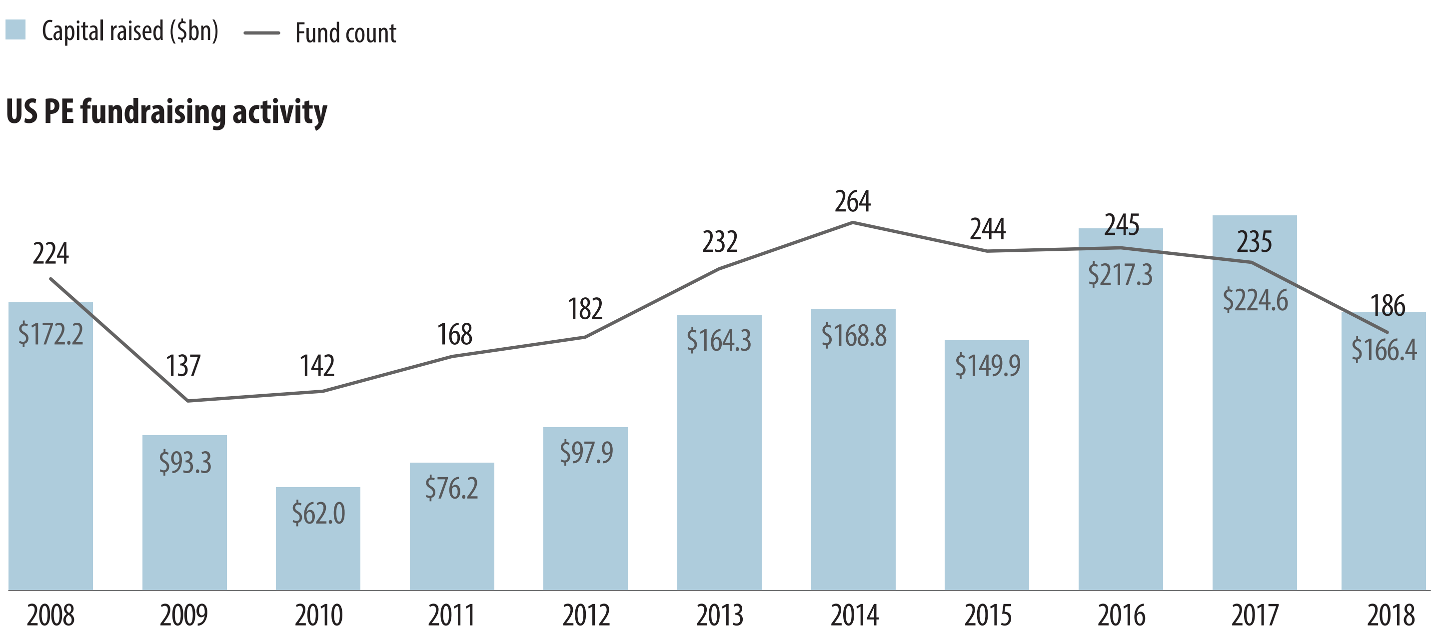
- Operational issues are becoming more complex for GPs, especially the larger and more established firms that have multiple funds and an expanding roster of portfolio companies. Combined with limited partners' insistence on lower fees and greater investment options, this puts extraordinary pressure on GPs to reduce costs and raise efficiencies. The operating executives who can meet these challenges will be in demand, a reality that their compensation will undoubtedly reflect.
- As the PE industry continues to grow, firms must work harder to differentiate themselves from each other. One means of differentiation is the development of hard-to-duplicate niche expertise; indeed, 88% of respondents to another recent survey of senior PE executives said that this expertise is important to the success of their firms.[5] Pay packages for niche experts such as operating specialists should benefit accordingly.

[3] PitchBook, *2018 Annual Institutional Investors Survey*, December 2018, pitchbook.com.

[4] PitchBook, *2019 Private Equity Outlook*, December 2018, pitchbook.com.

[5] Dechert and Mergermarket, *2019 Global Private Equity Outlook*, September 2018, dechert.com.

Weaker 2018 US fundraising reflects strength in 2016 and 2017



Source: PitchBook

Hiring trends

Demand

We're experiencing record demand for operating partners among private equity firms. Indeed, the operating partner role is the fastest-growing position within the industry as of mid-2019.

While both general partners and limited partners are aggressively looking for operating executives, demand is strongest from GPs. Two factors are primarily driving this trend:

- Most of the value derived when portfolio companies exit is achieved from owning them and not necessarily from exiting them at a profit. It's thus strongly in GPs' interest to hire top-flight operating specialists.
- Investment professionals are spending more time hunting for and closing deals—which means that firms tend to pay less attention to their existing (and growing) holdings. Firms are aware of this deficiency and are increasingly hiring operating executives to address it.

PE firms are adding generalists, industry specialists, and functional specialists from the middle level through the most senior ranks.

The two most sought-after specialist roles are head of talent—not surprising, considering the expanding range of required skills and the criticality of attracting and retaining outstanding professionals—and chief financial officer.

Supply

Our survey shows that the vast majority of operating partner hires—87%—have no prior connection to the investment firms they join. This speaks volumes for the growth of the position.

In that context, it's clear that hiring firms favor certain kinds of experience. Our work indicates that successful candidates tend to have a mix of these backgrounds:

- Consulting
- Operational experience, ideally with P&L responsibility
- Exposure to private equity, either at a portfolio company or (for a small number) as an operating partner elsewhere

Tactics for success

A number of PE firms are experiencing movement in their top ranks, enough so that they're on the second or third iteration of their operating team. Many firms are therefore now able to avoid a range of what we consider rookie mistakes when adding operating executives, such as the following:

- Hiring people with little to no operational experience or exposure to private equity
- Hiring people who can't keep up with the demanding pace, intensity, and roll-up-your-sleeves nature of the job
- Hiring people who aren't comfortable acting as advisors and mentors
- Not getting unanimous buy-in and support from the firm's senior partners on hires
- Treating new hires as second-class citizens
- Not getting the firm's operating partners involved from the beginning of the diligence phase of investment evaluation

More positively, firms tend to succeed with operating executives when they:

- Align pay between deal professionals and operating partners
- Get the input of current operating partners early in the hiring-decision process

We encourage firms looking for operating executives (and any other staff, for that matter) to take note of these lapses and tactics for success. Designing a thorough, well-thought-out recruitment process and applying a healthy dose of common sense will allow firms to not only bring on candidates whose probability of success is higher, but also gain a competitive advantage over firms that don't.

Respondent profile

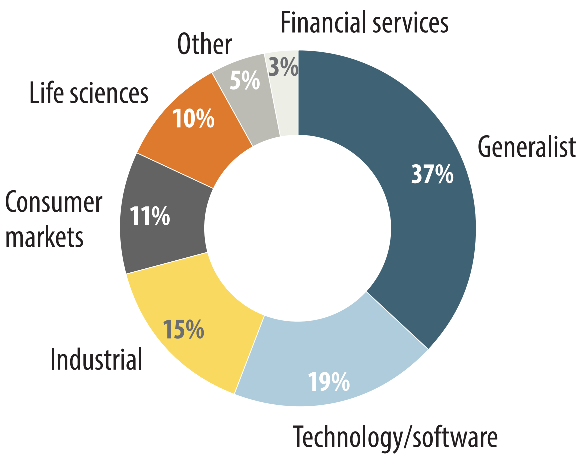
Our survey respondents represent a broad swath of private equity operating professionals. This is reflected not only in their job titles and degree of seniority but also in their industry focus, functional expertise, prior role, employer, responsibilities, experience, and education.

A few points strike us as particularly noteworthy:

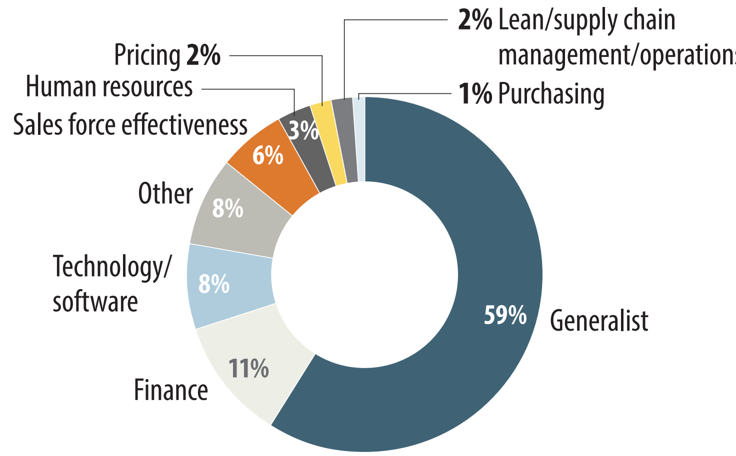
- The proportion of respondents who said their firms offered a clear path to becoming a partner or managing director has remained consistent—and somewhat disappointing—in recent years. Only a bit more than half (56%) said their firms had such a path, about the same response as in our last two North American operating professional surveys (in 2014 and 2016).
- Since the 2014 survey, we've seen a big drop in respondents employed by GPs (48% versus 60%), matched by a big gain in those who are self-employed (34% versus 21%). We believe that this reflects both the increasing cost of operating professionals and GPs' desire to shift the expense from their own balance sheet to their portfolio companies.
- Operating professionals have a wide scope of responsibilities. At least half of respondents identified eight areas as part of their jobs: planning value creation (85% of respondents), driving value-creation initiatives (83%), due diligence (83%), board representation (66%), managing external consultants (62%), post-deal M&A activity (61%), hiring or firing of management teams (58%), and interim management (51%).
- If you want to reach the upper ranks of management, there's no substitute for experience: 21 years in the industry was the minimum experience level for 86% of firm leaders, 82% of those at the general partnership level, and 91% of senior/executive advisors.
- Advanced education and/or accountant certification are less common than might be expected, even at the highest levels. For example, 50% of firm leaders had an MBA or were a CPA, 52% of those one step below general partnership level had either an MBA or a JD or were a CPA, and just 30% of associate-level respondents had either an MBA or a JD.

Profile of respondents

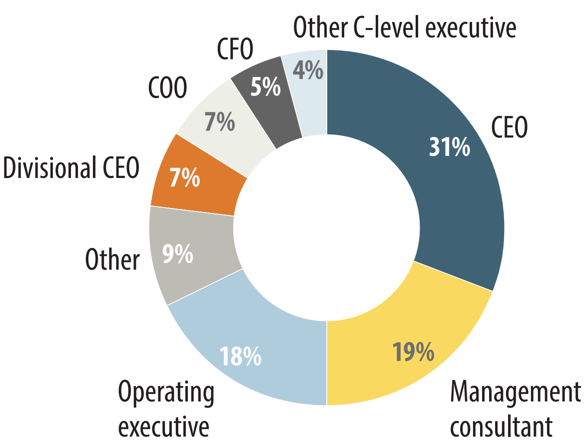
Industry focus



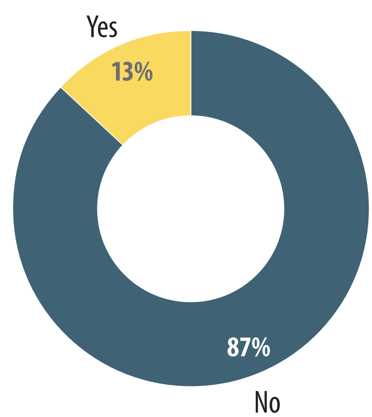
Functional expertise



Prior role



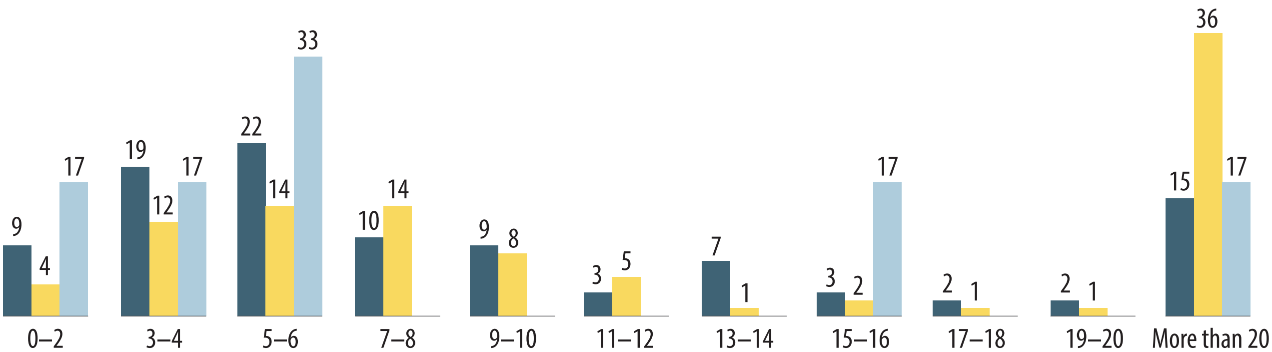
Previously employed by portfolio company of current GP/investment advisor



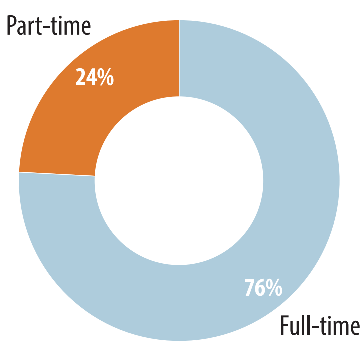
Firm structure

■ Single-strategy LP/GP investment partnership ■ Multistrategy LP/GP alternative investment group ■ Other (sovereign wealth fund, family office, etc.)

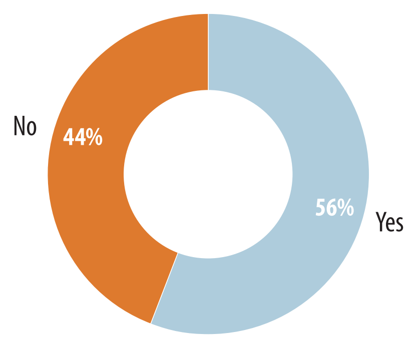
Number of operating executives employed by firm, %



Full-time vs. part-time employment

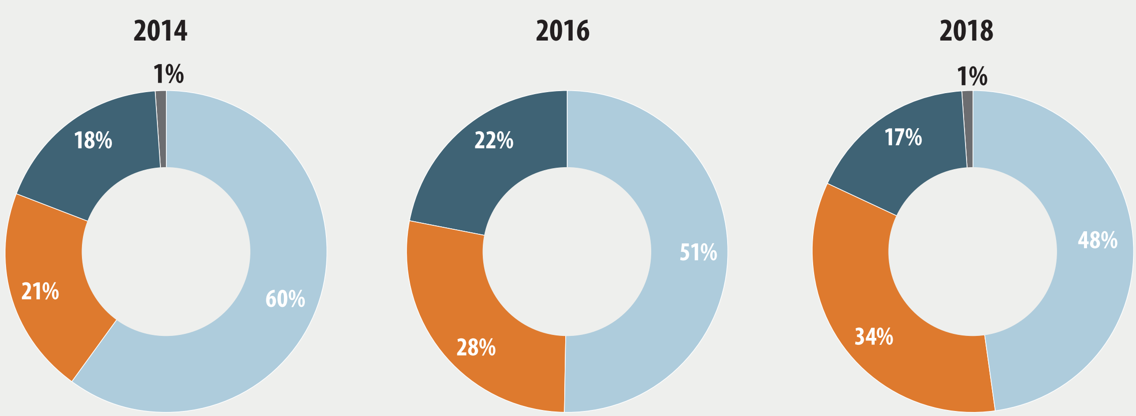


Clear path to becoming partner or managing director?



Operating executive employer

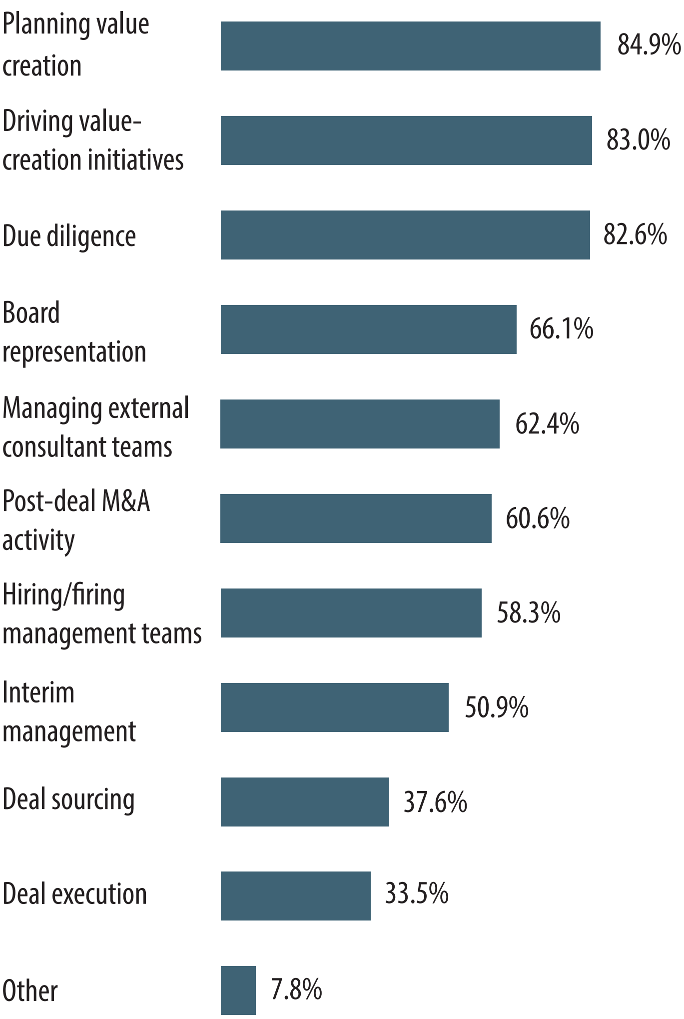
■ General partner ■ Self-employed ■ Separate legal entity/operating company ■ Other



Note: Numbers may not sum to 100%, because of rounding.

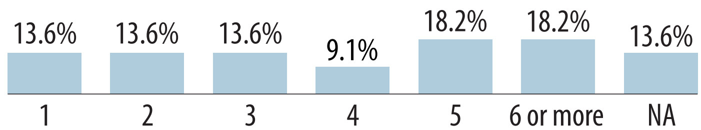
Scope of operating executive role and board representation

Scope of role

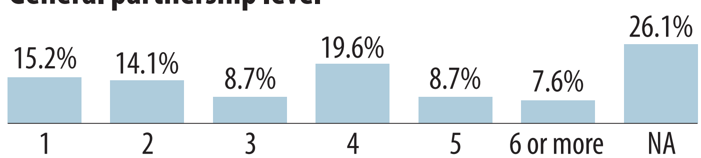


Average number of portfolio company board seats by level

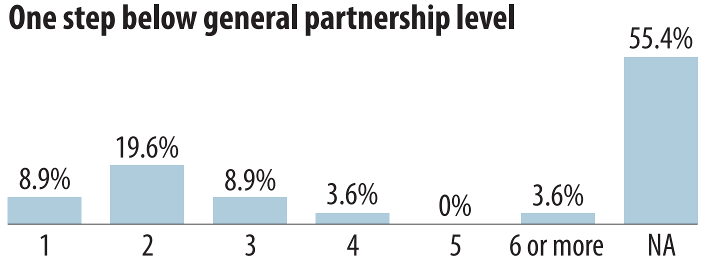
Firm leader



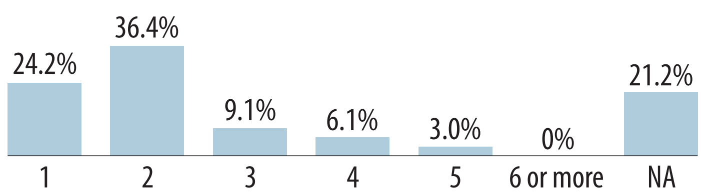
General partnership level



One step below general partnership level

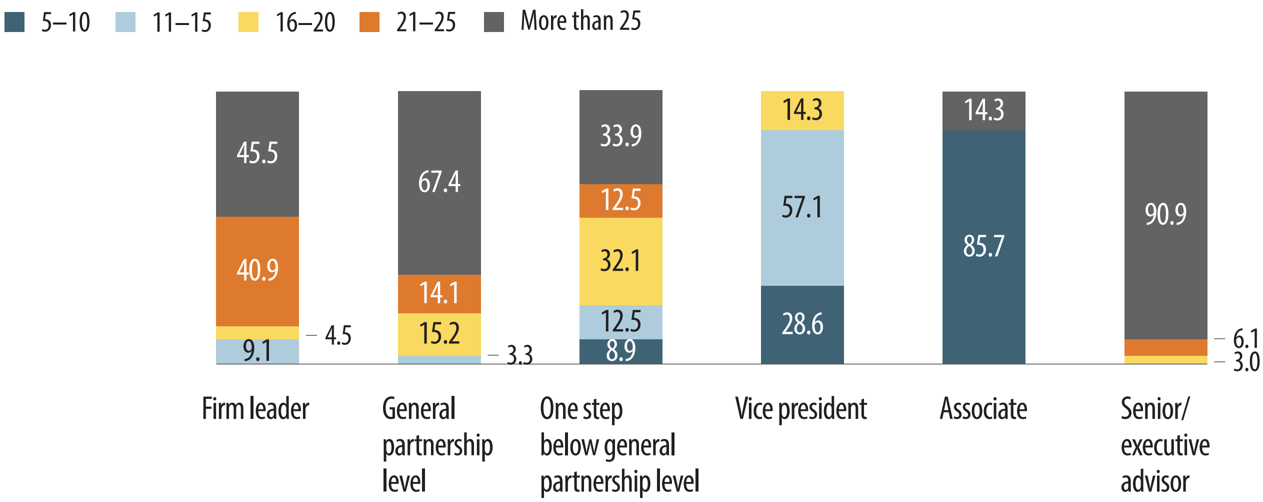


Senior/executive advisor



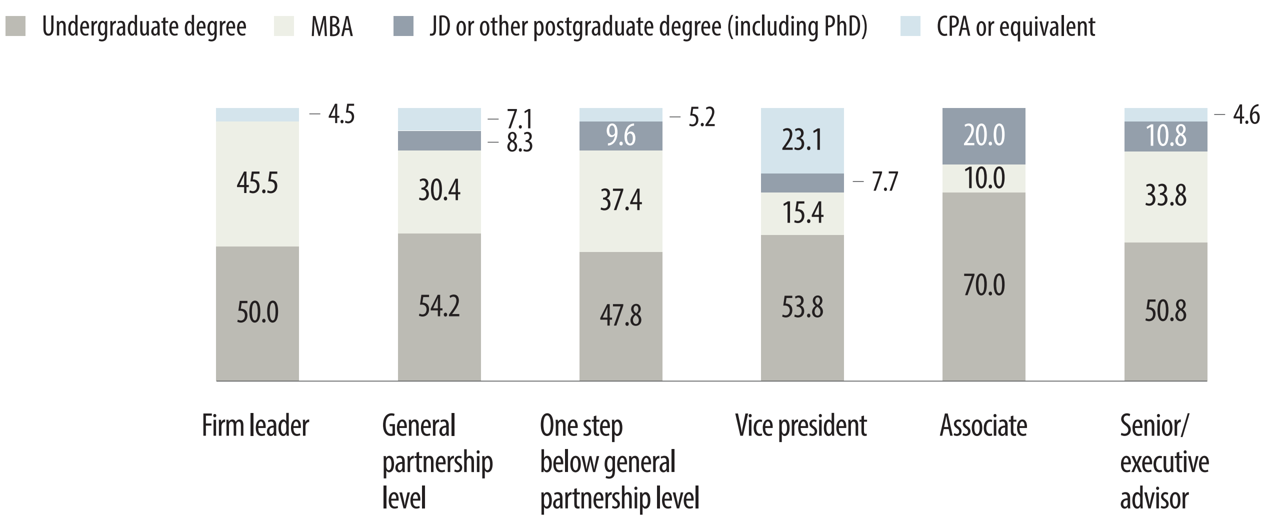
Years of experience and education

Years of experience by level, %



Note: Numbers may not sum to 100%, because of rounding.

Education by level, %



State of operating executive compensation

The state of compensation for private equity operating executives offers a mixed picture compared with our last survey, in 2016: some measures have risen, some have fallen, and many haven't changed much at all.

Compensation by seniority

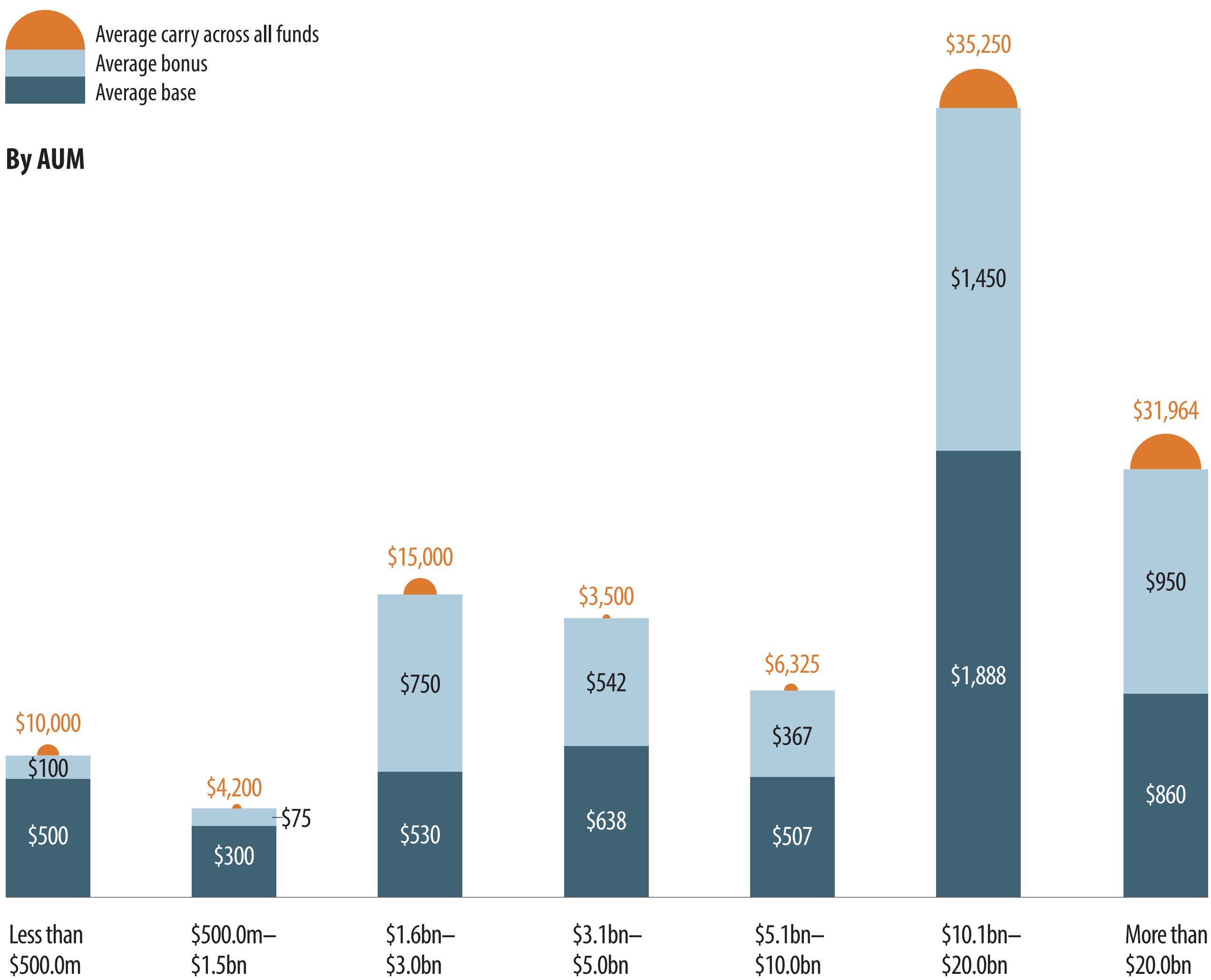
Firm leader

Cash compensation rises, on the whole, as assets under management (AUM) increase. Where AUM is $10.1 billion to $20.0 billion (the second-highest AUM level of surveyed firms), leaders average total cash compensation of almost $3.4 million (consisting of $1.9 million in base and $1.5 million in bonus); these leaders also report $35.3 million in carry.

- The numbers are a bit lower at firms with more than $20.0 billion in AUM, but still much higher than at smaller firms.
- This pattern is similar when looking at compensation based on the firm's most recent fund.

Average 2018 base, bonus, and carry: Firm leader

Managing partner, head of portfolio operations, etc.



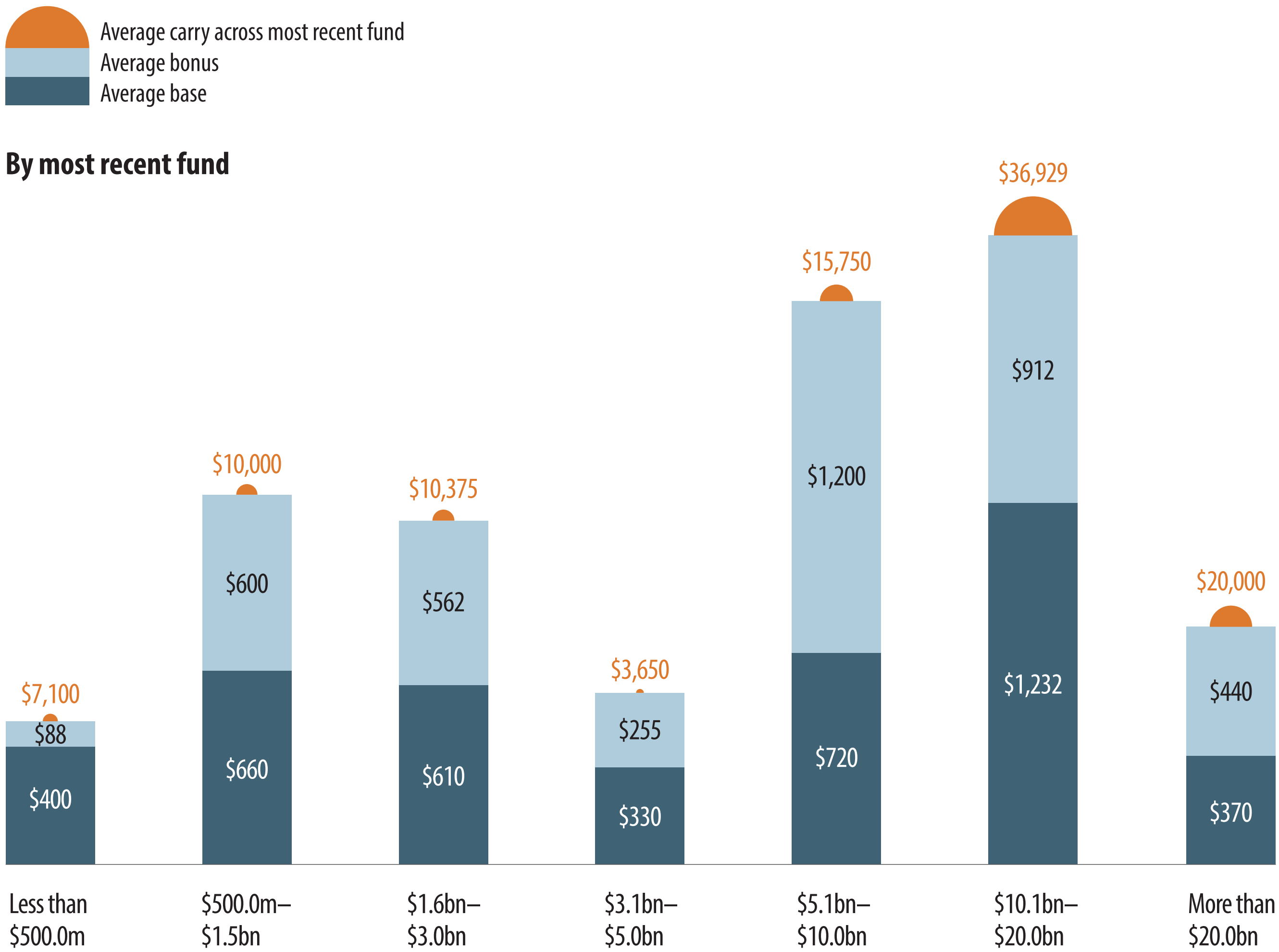
Number of respondents

	Less than $500.0m	$500.0m–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	$10.1bn–$20.0bn	More than $20.0bn
Carry	1	1	2	1	4	2	7
Salary	1	1	2	2	5	2	8

Note: Only includes compensation of full-time operating executives.

Average 2018 base, bonus, and carry: Firm leader

Managing partner, head of portfolio operations, etc.



Number of respondents

	Less than $500.0m	$500.0m–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	$10.1bn–$20.0bn	More than $20.0bn
Carry	2	1	4	2	1	7	1
Salary	2	1	5	2	3	7	1

Note: Only includes compensation of full-time operating executives.

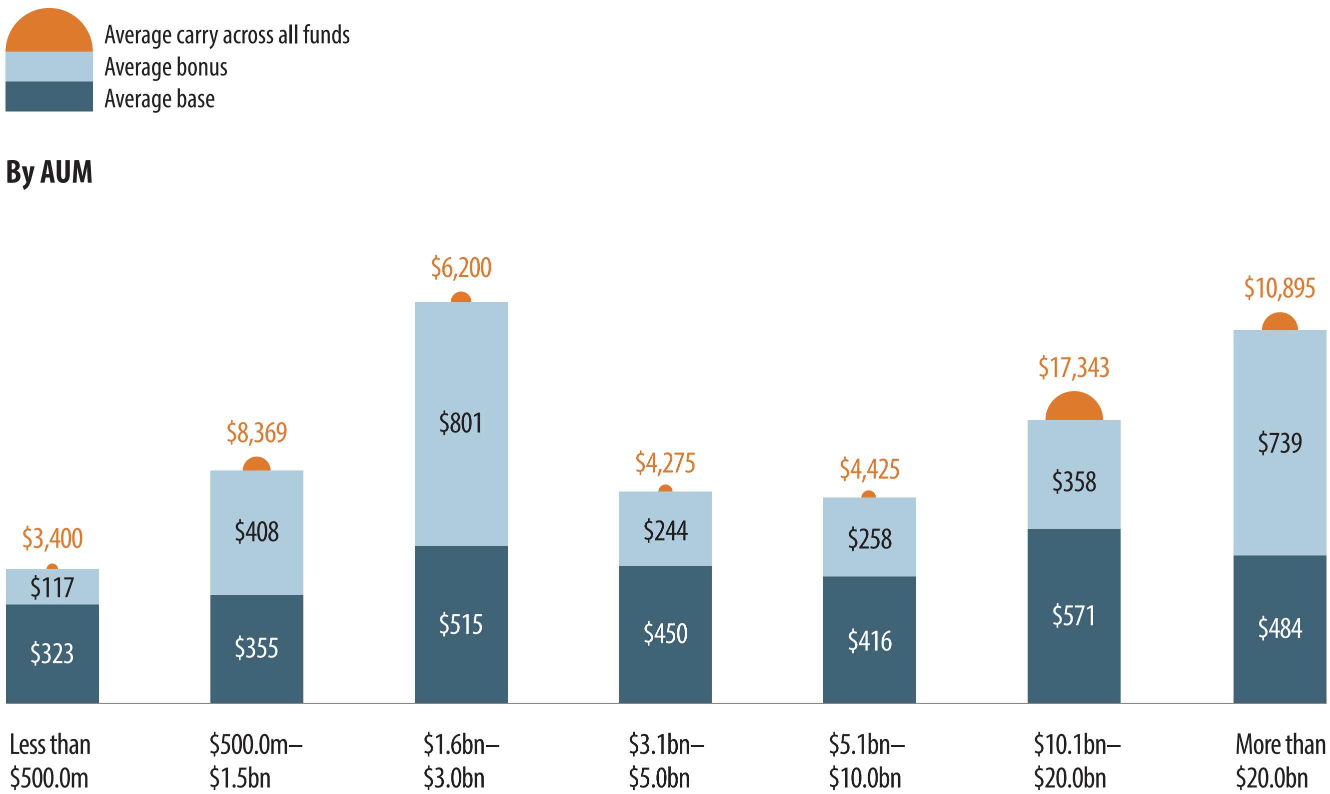
General partnership level

The highest cash compensation by AUM is at funds with $1.6 billion to $3.0 billion under management, third from the bottom; looking by most recent fund, the highest cash compensation is at the second-highest fund size. Carry is highest at other fund sizes: the second-highest fund size by AUM and the third-highest fund size by most recent fund.

Average 2018 base, bonus, and carry: General partnership level

Operating partner, general partner, managing director, etc.

By AUM



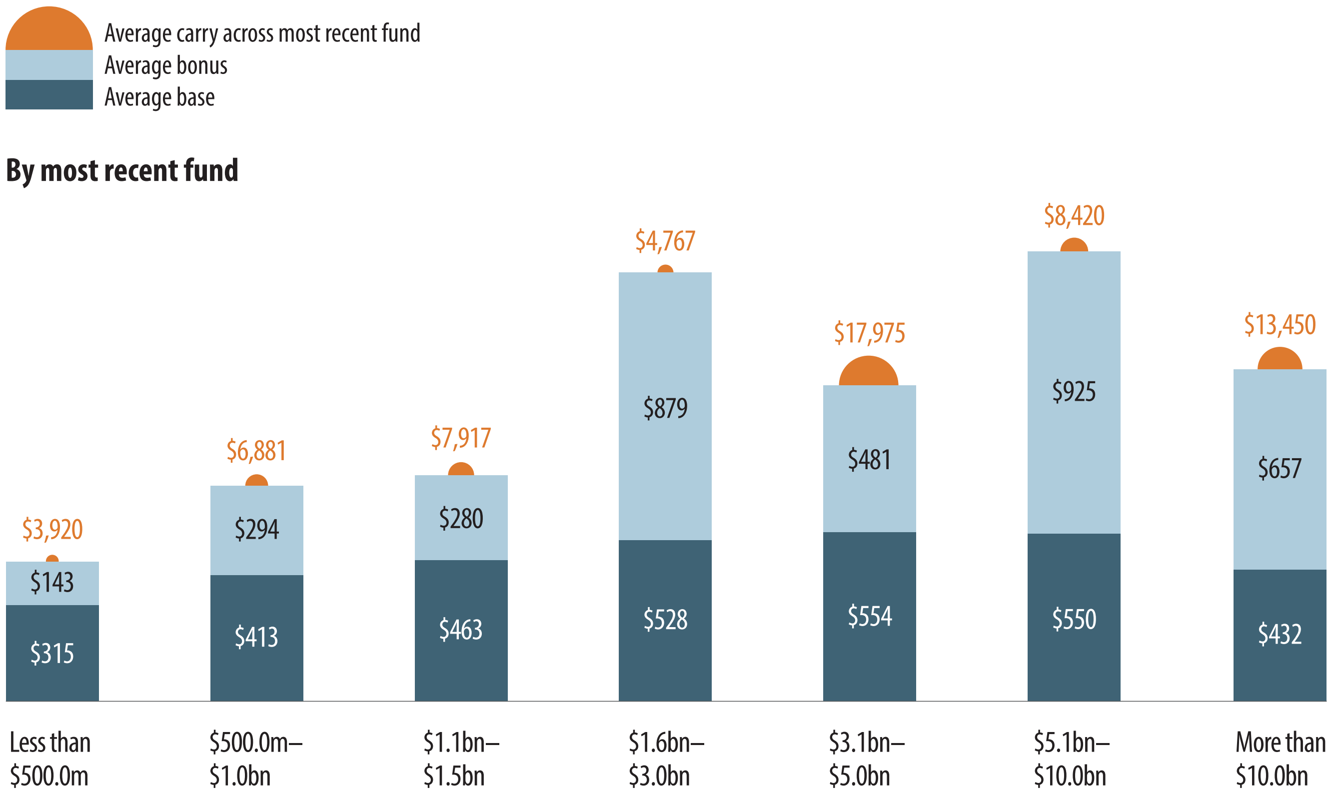
Number of respondents

	Less than $500.0m	$500.0m–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	$10.1bn–$20.0bn	More than $20.0bn
Carry	6	8	6	7	4	9	11
Salary	12	11	16	17	7	10	19

Note: Only includes compensation of full-time operating executives.

Average 2018 base, bonus, and carry: General partnership level

Operating partner, general partner, managing director, etc.



Number of respondents

	Less than $500.0m	$500.0m–$1.0bn	$1.1bn–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	More than $10.0bn
Carry	5	13	6	6	6	5	5
Salary	9	24	12	11	8	6	9

Note: Only includes compensation of full-time operating executives.

One step below general partnership level

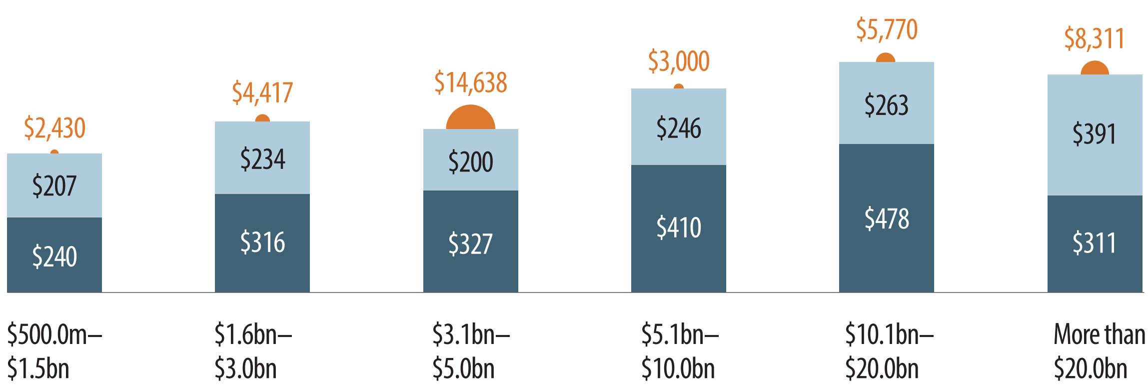
Cash compensation figures show a similar pattern at this level, assessed both by AUM and by most recent fund, with the figures highest at the second-highest fund size. Carry figures are even more variable at this level.

Average 2018 base, bonus, and carry: One step below general partnership level

Operating principal, operating executive, director of portfolio operations, operations director, etc.

Average carry across all funds
Average bonus
Average base

By AUM



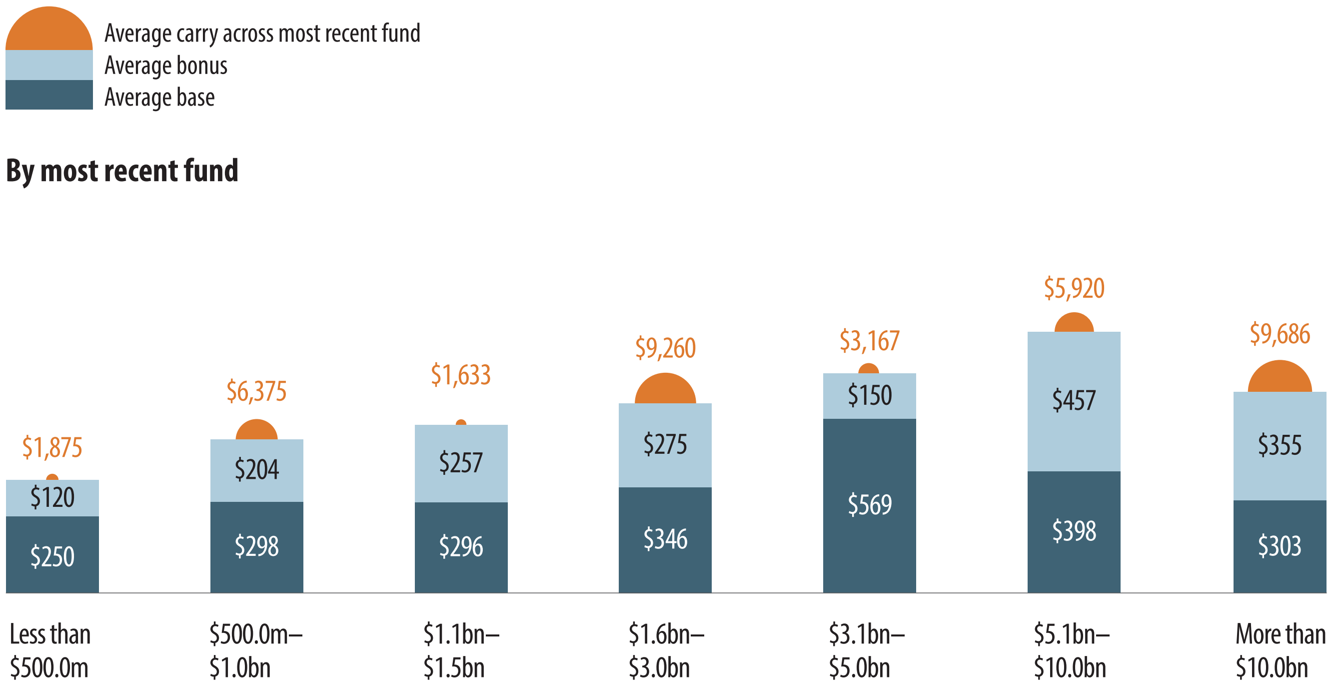
Number of respondents

	$500.0m–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	$10.1bn–$20.0bn	More than $20.0bn
Carry	5	6	4	4	5	9
Salary	6	14	9	5	6	11

Note: Only includes compensation of full-time operating executives.

Average 2018 base, bonus, and carry: One step below general partnership level

Operating principal, operating executive, director of portfolio operations, operations director, etc.



Number of respondents

	Less than $500.0m	$500.0m–$1.0bn	$1.1bn–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	More than $10.0bn
Carry	2	8	3	5	3	5	7
Salary	4	14	4	11	4	5	9

Note: Only includes compensation of full-time operating executives.

Vice president

Average cash compensation for vice presidents is assessed in a single category (looking at both AUM and most recent fund) and rises in line with fund size. Carry is assessed separately for AUM and most recent fund but also rises directly in line with size.

Associate

Associates' cash compensation also rises in line with size, assessed in a single category (looking at both AUM and most recent fund). The very low sample size of carry figures for associates prevents us from drawing any conclusions.

Average 2018 base, bonus, and carry: Vice president and associate

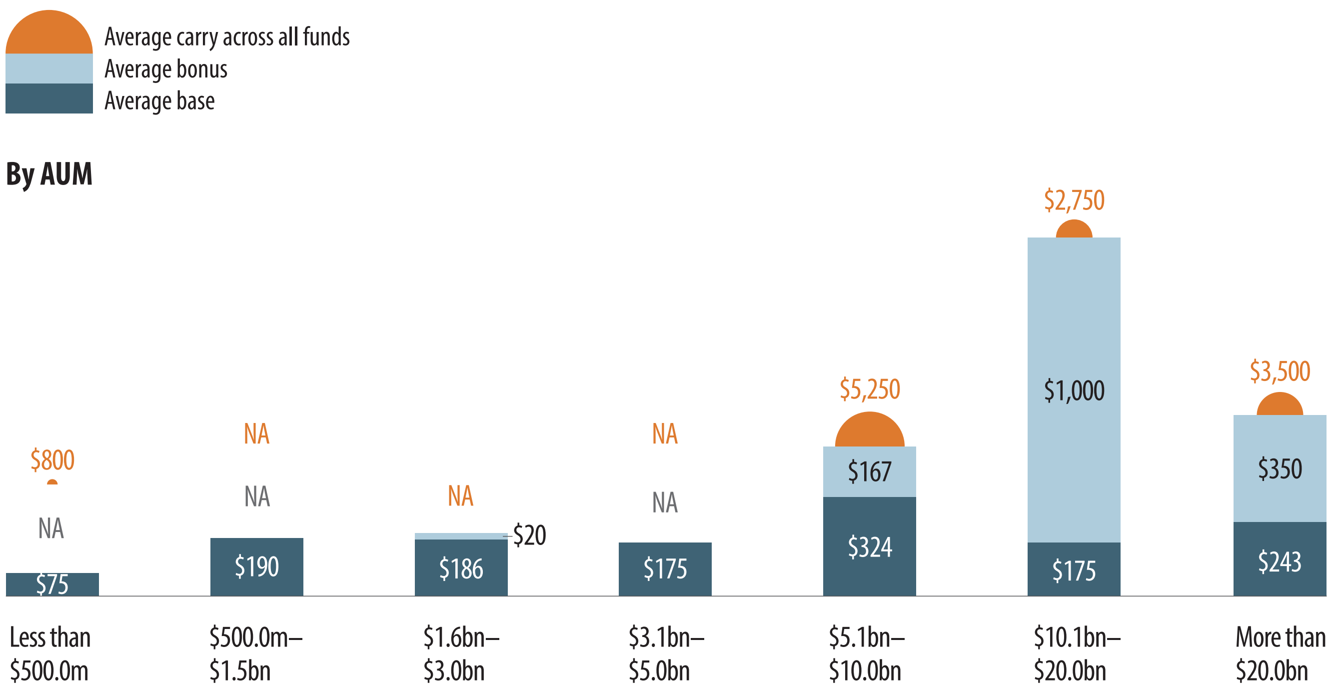
	Low	Average	High	Responses
Base				
Vice president	$165	$193	$225	6
Associate	$90	$179	$300	7
Bonus				
Vice president	$55	$156	$300	6
Associate	$30	$90	$175	6
Carry across all funds				
Vice president	$150	$583	$1,000	3
Associate	$1,800	$1,800	$1,800	1
Carry across most recent fund				
Vice president	$100	$417	$600	3
Associate	$1,800	$1,800	$1,800	1

Note: Only includes compensation of full-time operating executives.

Senior/executive advisor

It’s difficult to draw broad conclusions about compensation for senior or executive advisors because respondents didn’t report carry or bonus for all AUM ranges. Nonetheless, based on AUM, we see the same pattern as with the senior full-time executives, with the highest cash compensation at the second-highest fund size. Looking at most recent fund, the highest cash compensation is at the third-highest fund size ($3.1 billion to $5.0 billion).

Average 2018 base, bonus, and carry: Senior/executive advisor



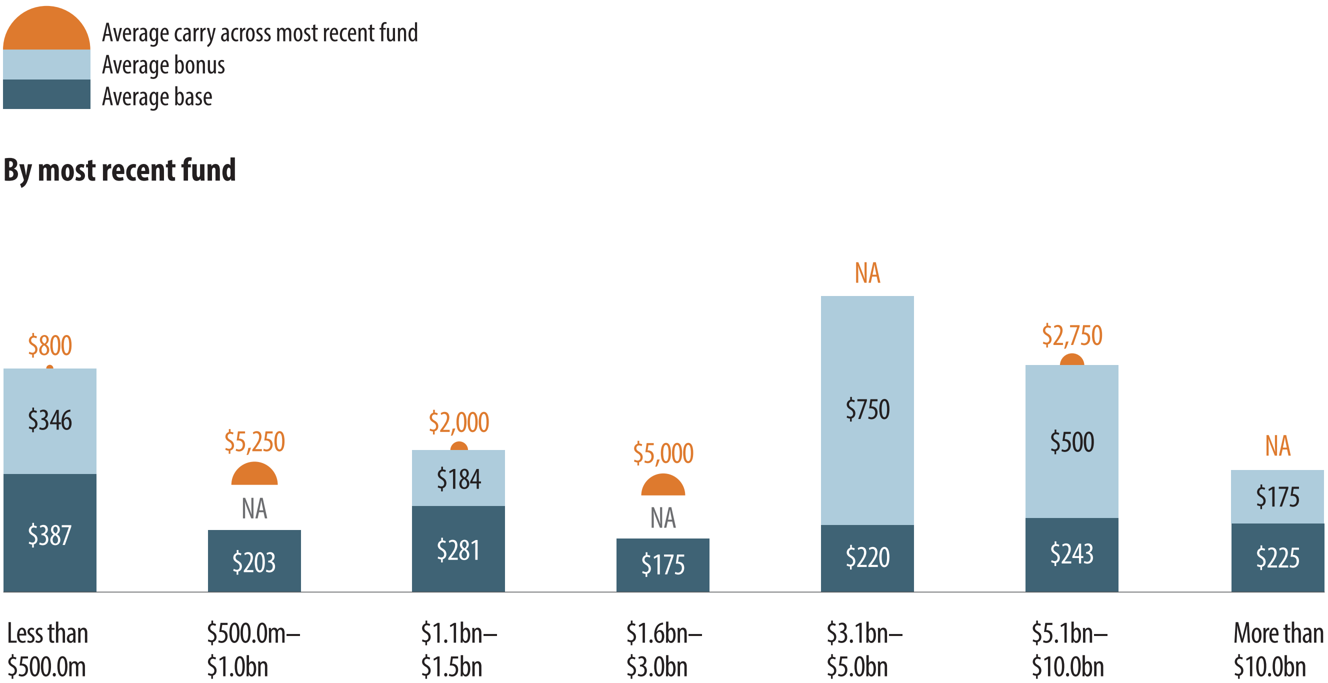
Number of respondents

	Less than $500.0m	$500.0m–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	$10.1bn–$20.0bn	More than $20.0bn
Carry	1	0	0	0	1	1	2
Salary	2	2	7	2	6	3	11

Note: Only includes compensation of part-time executives.

Average 2018 base, bonus, and carry: Senior/executive advisor

By most recent fund



Number of respondents

	Less than $500.0m	$500.0m–$1.0bn	$1.1bn–$1.5bn	$1.6bn–$3.0bn	$3.1bn–$5.0bn	$5.1bn–$10.0bn	More than $10.0bn
Carry	1	1	1	1	0	1	0
Salary	3	9	8	2	2	6	3

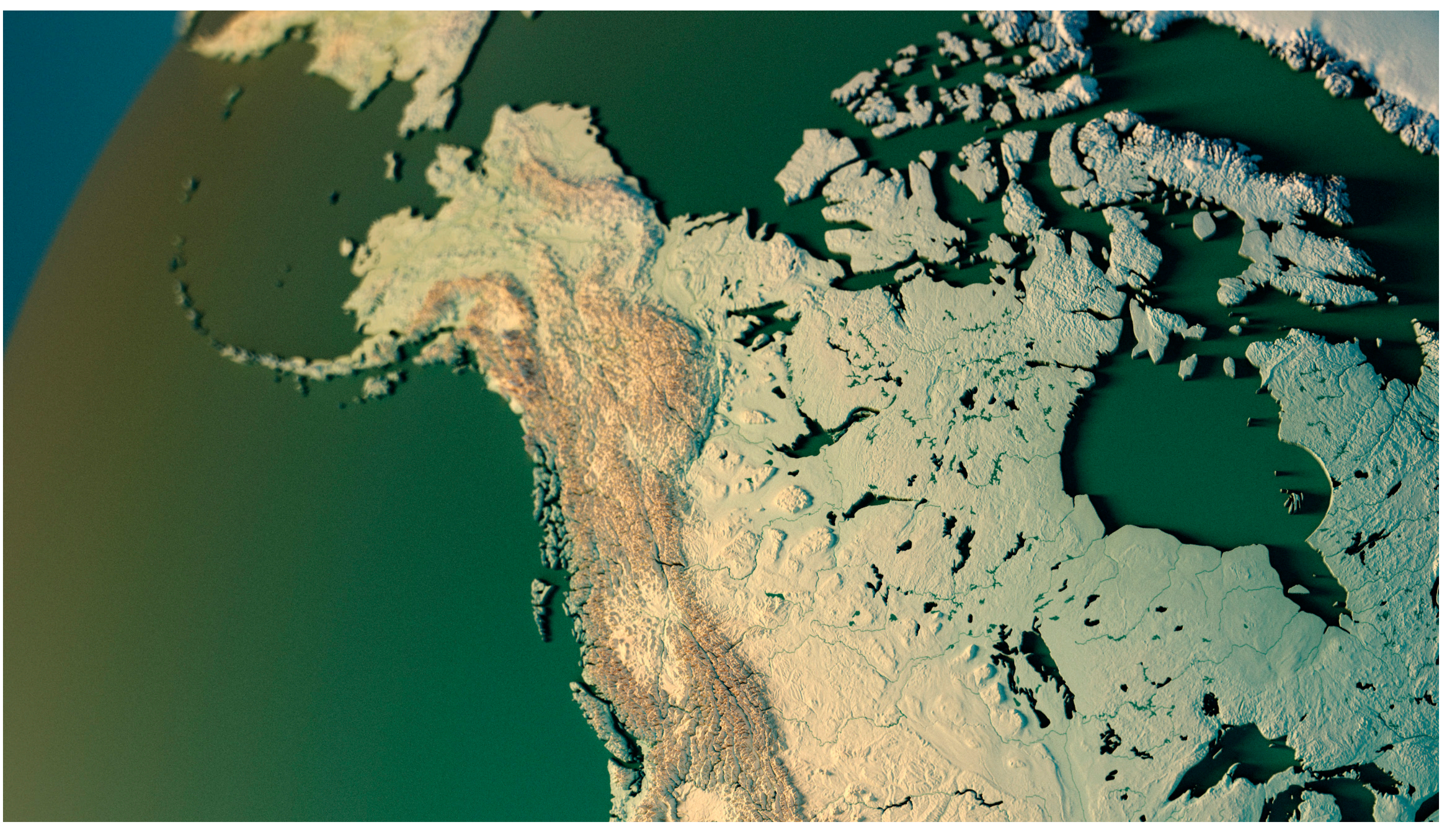
Note: Only includes compensation of part-time executives.

Base and bonus: Up, down, or unchanged?

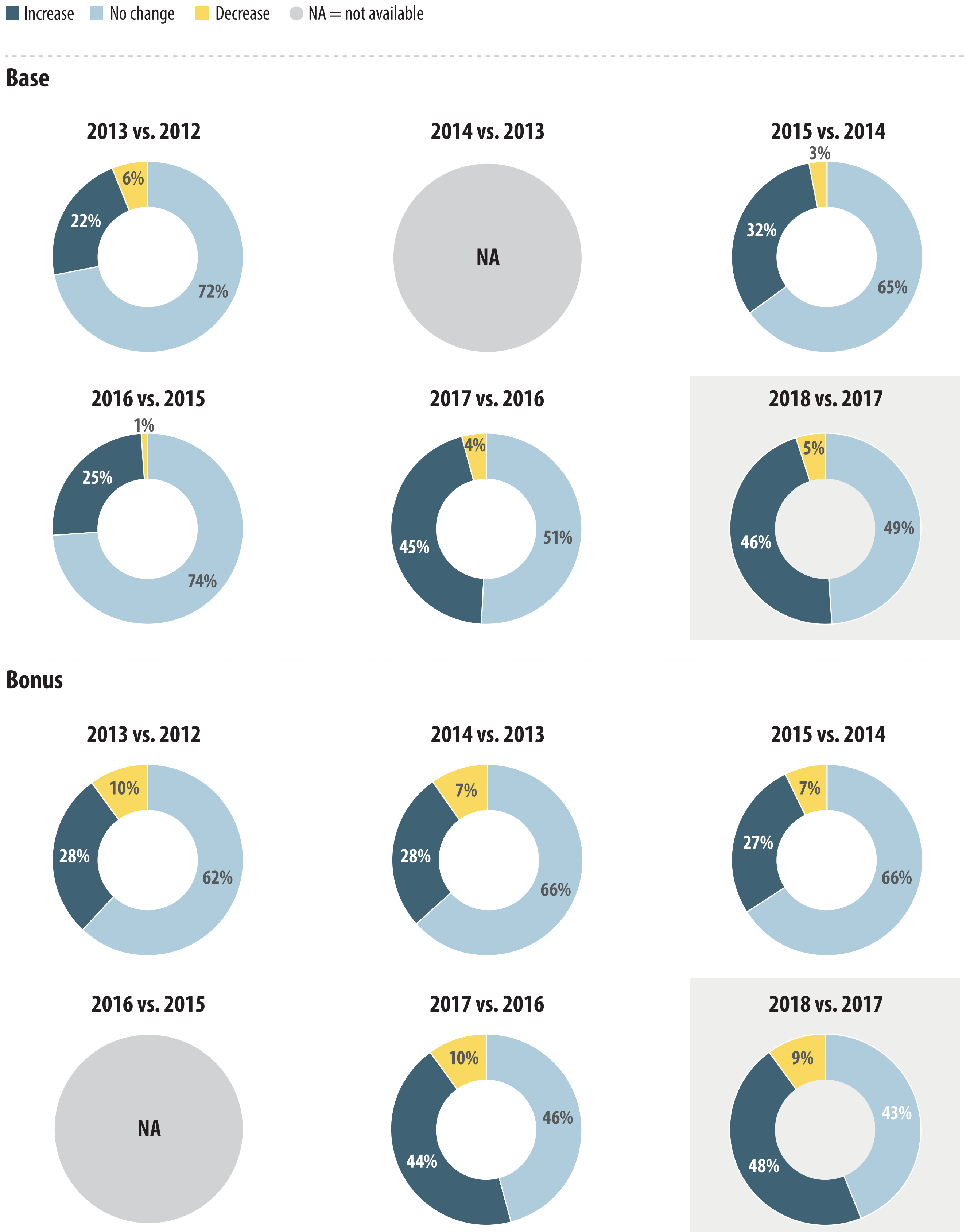
We asked respondents whether their base and bonus—whose size and directional movement are closely linked to their firm's performance in the preceding year—had risen, fallen, or stayed the same in 2017 and 2018. The data underscores the industry's hugely successful fundraising in 2016 and 2017.

- Forty-six percent of respondents told us that their base went up in 2018, about the same as in 2017 but nearly double the percentage in 2016. While those reporting a 2018 decline in base soared 400% versus 2016, their proportion of the total was only 5%.
- Bonuses followed a similar pattern: 48% of respondents reported a higher bonus in 2018, a bit more than in 2017 but 77% higher than in 2015.[6]

[6] Bonus data was not available for 2016.



Changes in base and bonus, 2012–2018



Note: Numbers may not sum to 100%, because of rounding.

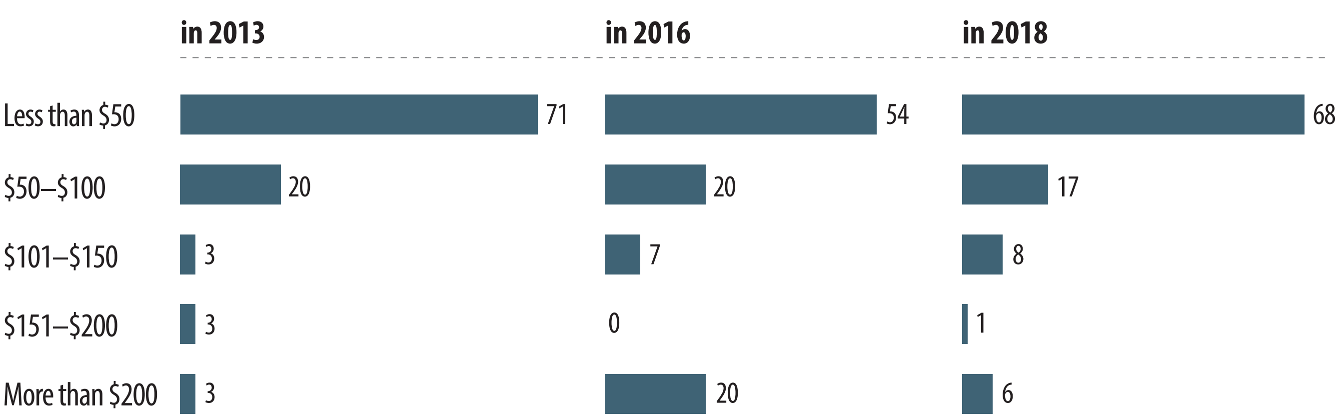
Base and bonus: Size of increase

We also asked respondents who received higher bases and bonuses how large their increases were. Consistent with our previous surveys in 2016 and 2014, increases in both cases most frequently were at the low end.

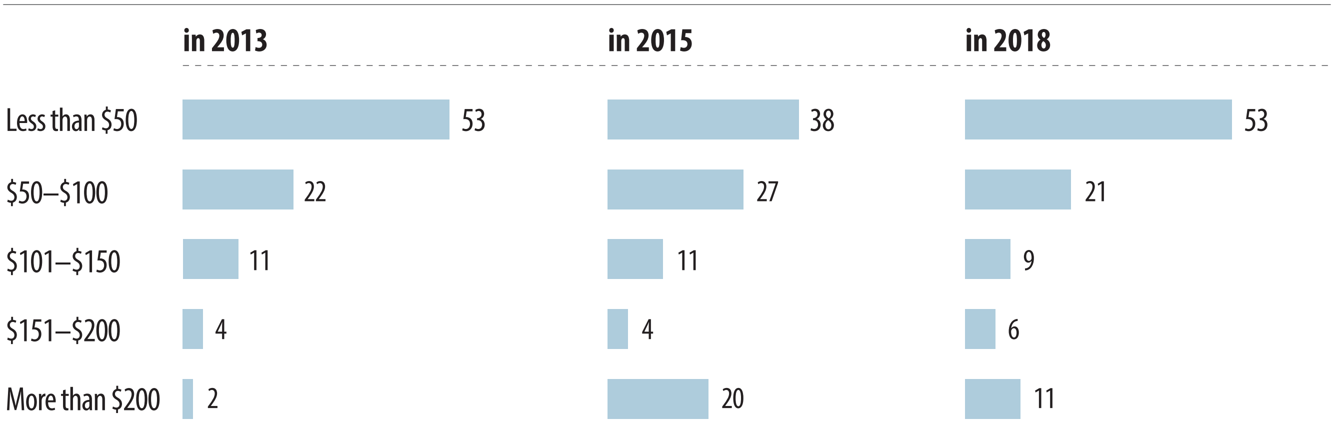
- Sixty-eight percent of respondents received 2018 base increases of $50,000 or less, up from 54% in 2016. Most of this jump came at the expense of the highest base increase range, $200,000 or more, whose respondent proportion fell to 6% from 20%.
- Bonuses also went up most often in the $50,000 or less range (53% in 2018 versus 38% in 2015). While increases were down in most other ranges, the biggest such declines were for bonuses of $200,000 or more (11% versus 20%) and $50,000 to $100,000 (21% versus 27%).

Size of base and bonus increase

Percentage of respondents reporting base increase by amount



Percentage of respondents reporting bonus increase by amount



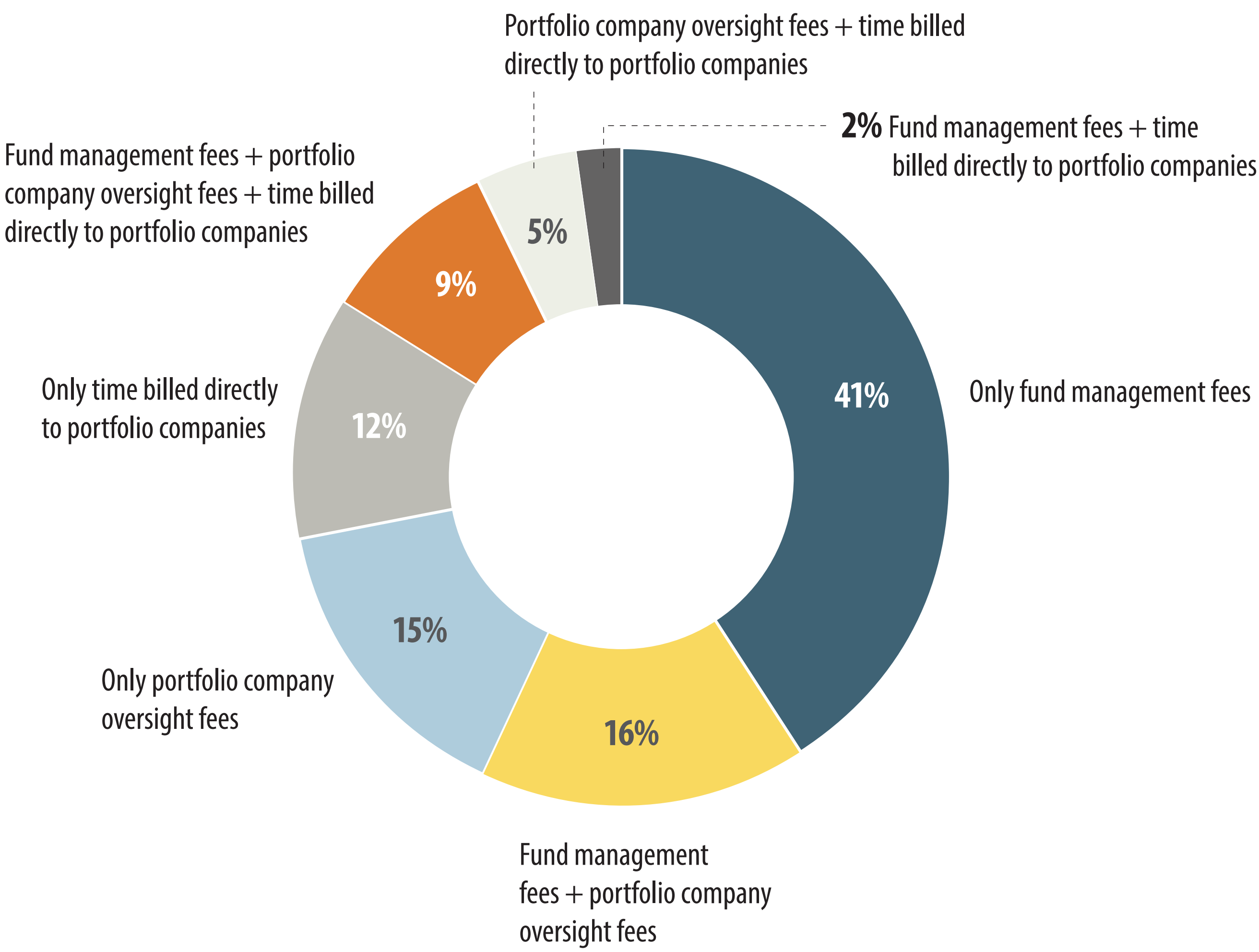
Note: Numbers may not sum to 100%, because of rounding.

How is cash compensation funded?

Sources of funding for cash compensation vary. While there are three primary revenue streams that fund compensation—fund management fees, portfolio company oversight fees, and time billed directly to portfolio companies—some firms use just one of these streams and others use combinations.

- Two-thirds of respondents told us that their firms fund their compensation with just one of the three streams, with fund management fees accounting for the lion's share (41%). Similar proportions were cited in 2016 and 2014.
- Of the combination sources, fund management fees and portfolio company oversight fees are used most frequently, though still by only 16% of firms.

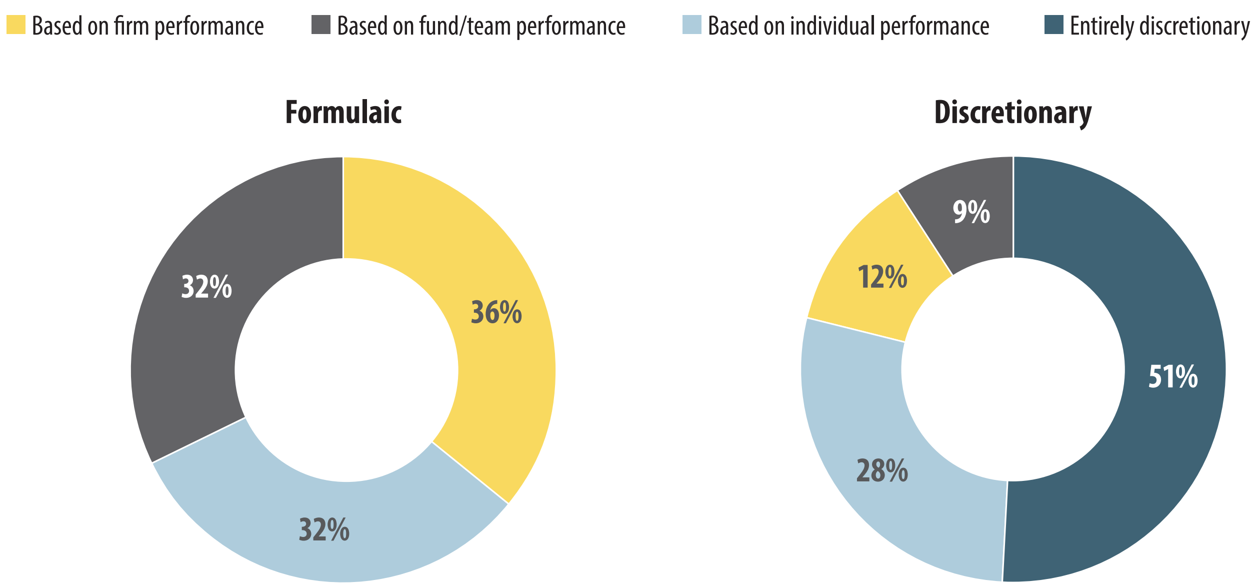
Funding cash compensation



Another view of how compensation is funded applies specifically to bonuses. We asked respondents about the criteria that their firms use to determine whether they receive bonuses and, if they do, what the dollar amount is.

- Formulaic bonuses can be based on the performance of the firm, a specific fund or team, or the individual professional. The proportions of respondents saying that one of these factors determines their bonus are nearly identical.
- Among those whose firms pay discretionary bonuses, half said that their bonuses are entirely discretionary—up 10 percentage points from 2016—and 28% said that their own performance is the sole criterion.

Basis of bonus plan



Non-cash compensation

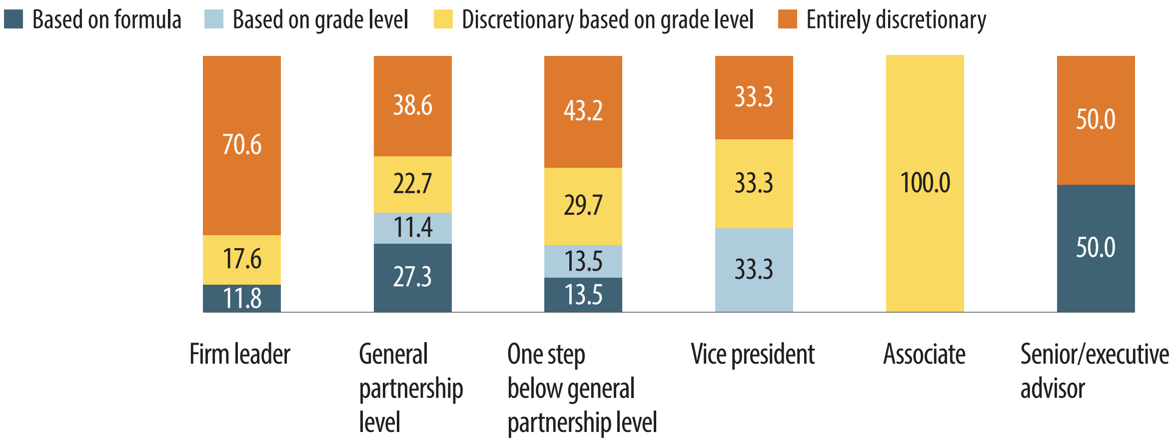
Our survey covers four forms of non-cash compensation: carried interest, warrants/options, direct equity participation, and co-investment rights.

Carried interest

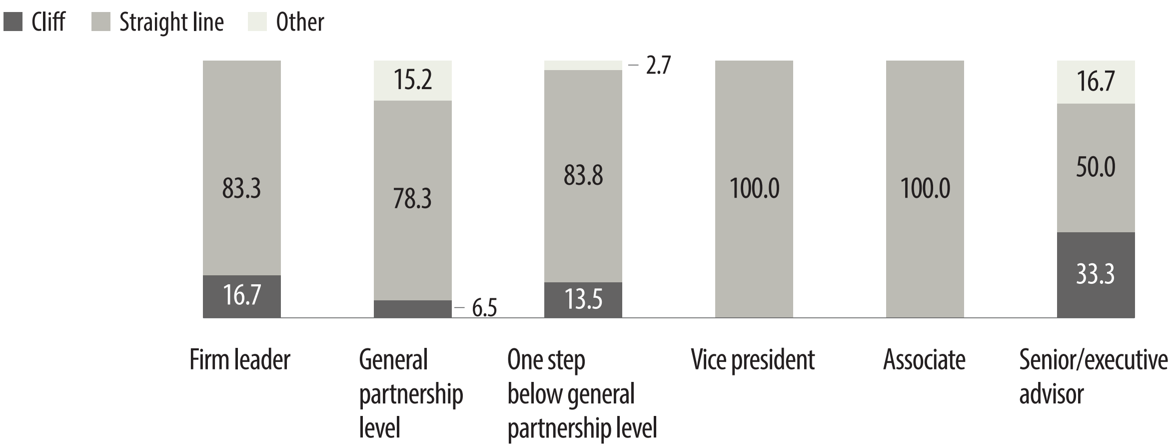
- For the vast majority of respondents eligible for carried interest, vesting takes place on a straight-line schedule.
- Most often, the timing of carry vesting is based on a predetermined amount of time from the inception for each new fund. This is true for 78% of firm leaders, 65% of those one step below general partnership, half of senior/executive advisors, and 39% at the general partnership level.
- Carry is most commonly calculated on a whole-fund basis. Only among vice presidents did a majority (60%) report that they were eligible for deal-by-deal carry participation.

Carried interest plans

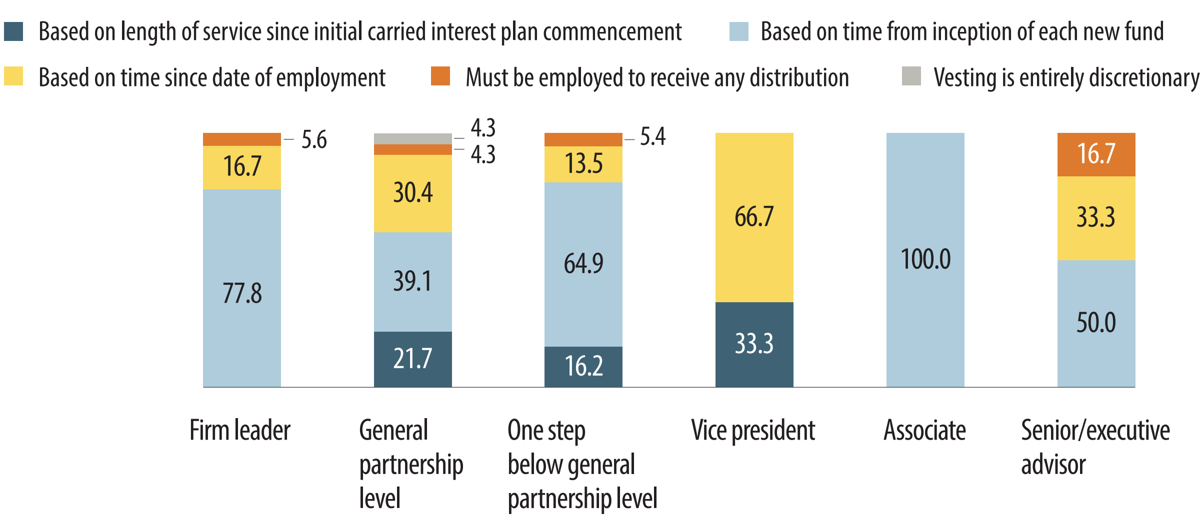
Basis of carried interest allocation, %



Vesting schedule structure, %



Basis of carried interest vesting, %



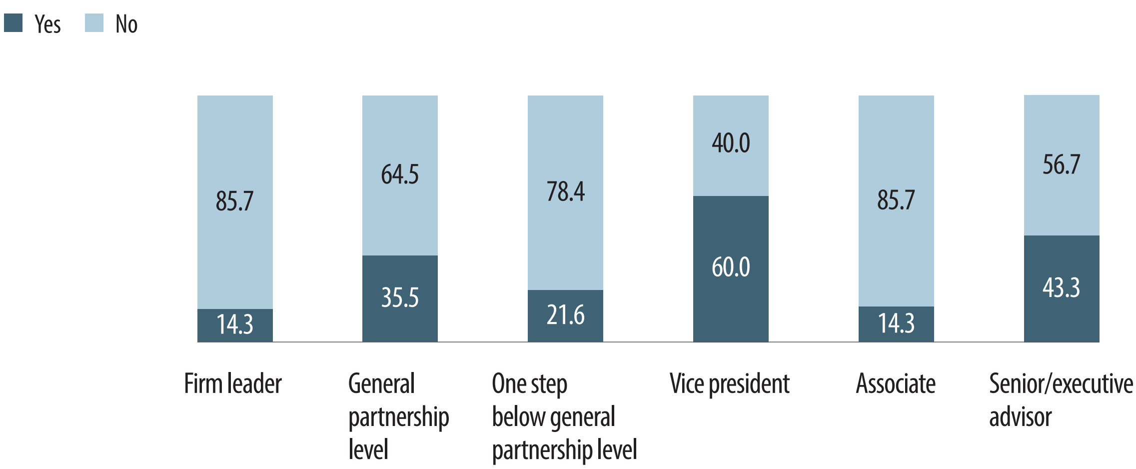
Note: For senior/executive advisor level, only part-time executives were considered, and for other levels, only full-time executives were considered. Numbers may not sum to 100%, because of rounding.

Deal-by-deal carried interest

Average deal-by-deal carried interest

	Firm leader	General partnership level	One step below general partnership level	Vice president	Associate	Senior/executive advisor
Value (USD thousands)	$12,500	$3,296	$2,546	$225	$100	$12,500
Time (years)	4.50	3.91	3.82	3.67	NA	4.00

Deal-by-deal carried interest participation, %



Note: For senior/executive advisor level, only part-time executives were considered, and for other levels, only full-time executives were considered.

Warrants/options

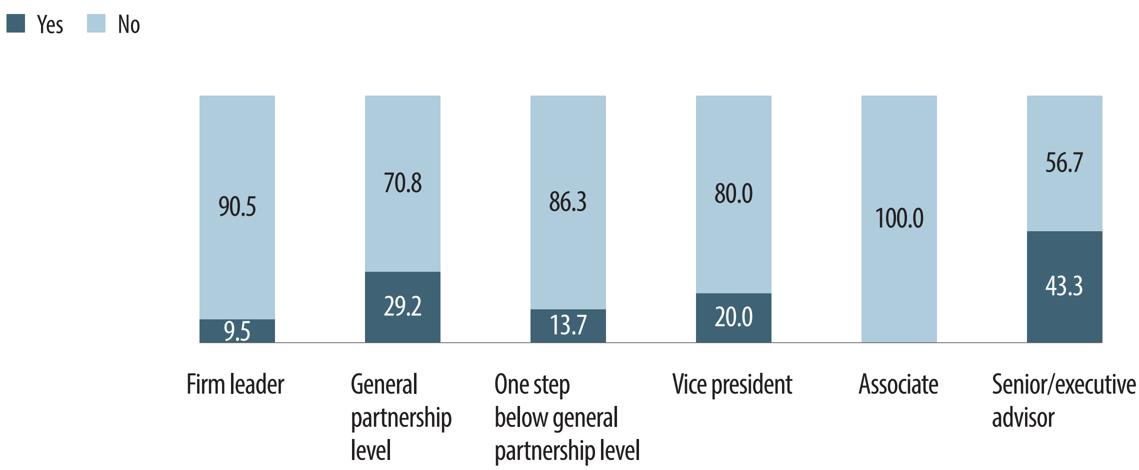
- Most respondents told us that they're not eligible to participate in deals via warrants or options.
- The largest proportions of those who can get warrants or options are 43% of senior/executive advisors and 29% of general partners. Average warrant participation (based on the firm achieving its base-case targets) for these two groups is $2.4 million and $2.6 million, respectively.

Warrants/options

Average warrant participation (based on company achieving its base-case targets)

	Firm leader	General partnership level	One step below general partnership level	Vice president	Associate	Senior/executive advisor
Value (USD thousands)	$2,000	$2,618	$1,092	NA	NA	$2,390
Time (years)	7.00	3.91	3.71	NA	NA	3.92

Warrants/options participation, %



Note: For senior/executive advisor level, only part-time executives were considered, and for other levels, only full-time executives were considered.

Direct equity participation

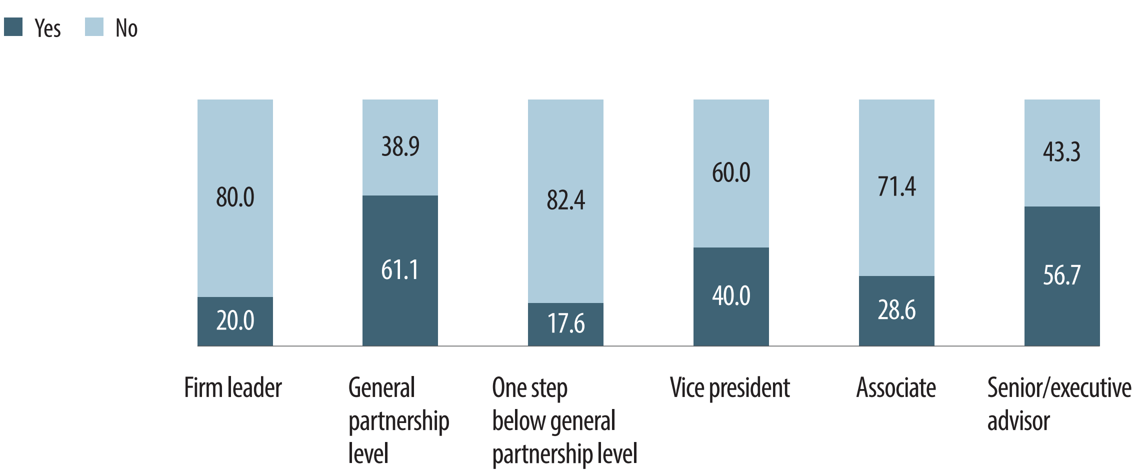
- As with warrants/options, most respondents said that they're not eligible for direct equity participation.
- Average cumulative direct equity participation (based on the firm achieving its base-case targets) is highest at the firm leader ($5.7 million) and general partnership ($2.8 million) levels.

Direct equity participation

Average cumulative equity participation (based on company achieving its base-case targets)

	Firm leader	General partnership level	One step below general partnership level	Vice president	Associate	Senior/executive advisor
Value (USD thousands)	$5,667	$2,754	$1,694	$225	$2,700	$1,933
Time (years)	4.00	3.77	3.78	3.50	4.33	3.47

Direct equity participation, %



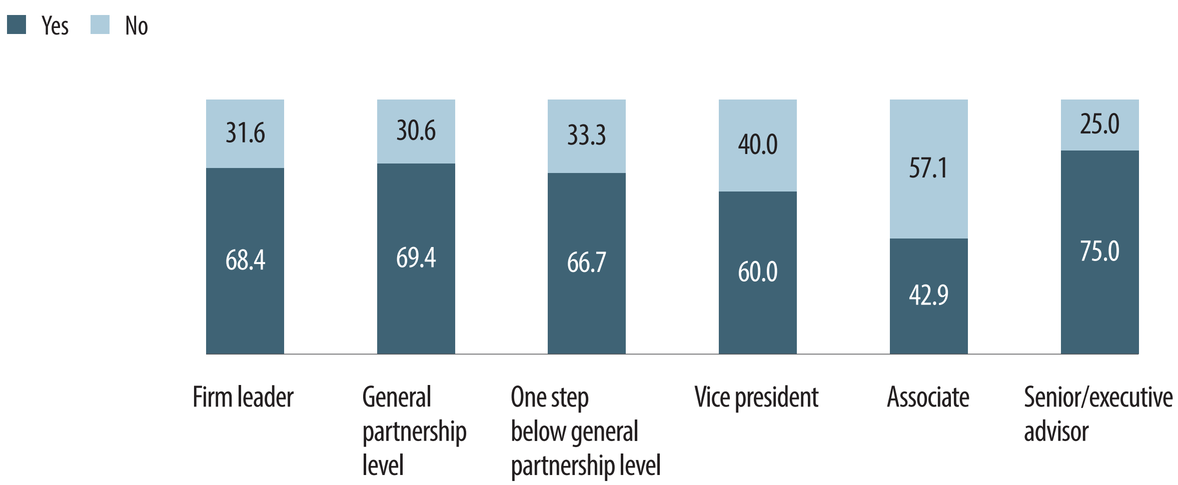
Note: For senior/executive advisor level, only part-time executives were considered, and for other levels, only full-time executives were considered.

Co-investment rights

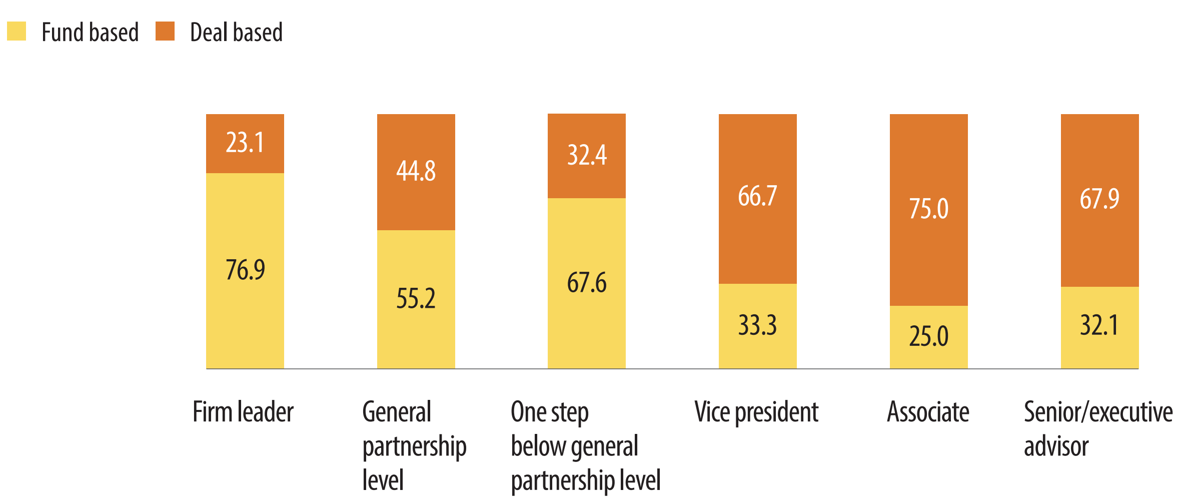
- Solid majorities of respondents—at least 60%—at almost all professional levels told us that they have co-investment rights. The exception was associates, of whom just 43% can co-invest.
- Whether co-investment rights are based on the performance of funds or individual deals varies by seniority, with the highest fund-based participation reported by firm leaders (77%), those one step below general partnership level (68%), and those at general partnership level (55%). Most vice presidents, associates, and senior/executive advisors can co-invest based on individual deals.

Co-investment rights

Co-investment rights, %



Basis of co-investment, %



Note: For senior/executive advisor level, only part-time executives were considered, and for other levels, only full-time executives were considered.

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