Human Capital in Private Equity
Human Capital in Private Equity

Managing Your Most Important Asset

Edited by Dr Eric Warner,
Mercer H R Consulting

Published by Private Equity International, London
Contents

Acknowledgements

Foreword
David Rubenstein, Co-Founder and Managing Director, The Carlyle Group 11

Introduction
Eric Warner, World Wide Partner & Head of Private Equity, Europe, Mercer HR Consulting 13

Part I: ORIGINS & EVOLUTION - WHY PEOPLE MATTER

The Origin of the Species
Michael P. Harrell, Partner, Debevoise & Plimpton LLP
- Introduction
- What is private equity?
- Evolution of the private equity industry
- Evolution of the private equity firm
- Conclusion

The Evolution of the Private Equity Firm
Ian Armitage, Chief Executive, HgCapital
- Adaptive evolution through HR
- Action is all
- Conclusion

Why People Matter: the LP Perspective
Nicole Brandes, Director, Corporate Communications and Client Relations, and Katharina Lichtner, Managing Director, Co-head Investment Management, Capital Dynamics
- Common sense before scientific claim
- The status quo is history
- Moving within a complex environment
- The GP – LP relationship – a two-way street
- Summary

Why People Matter: a GP Perspective
Thomas Pütter, Managing Director, Allianz Alternative Asset Holding GmbH and Chief Executive Officer, Allianz Capital Partners GmbH
- People skills
- Institutionalised know-how
- Culture
- Institutional continuity
- Incentivisation and performance measurement
- Conclusion

Why People Matter: Portfolio Company Manager Perspective - it’s all about the numbers…stupid!
Nigel McConnell, Managing Partner, Cognetas
- Introduction
- Phase one – establishing the relationship
- Phase two – making it work
- Phase three – exiting the relationship
- Summary

Part IIa: VARIETY OF SPECIES - ELEMENTS & ROLES WITHIN THE FIRM

Sourcing the Successful Private Equity Practitioner
Guy Townsend, Joint Managing Director, Walker Hamill Executive Search & Selection
- The investment roles within a private equity firm
The supporting players: CFO, COO, investor relations, human resources & portfolio management

Professional demographics of prospective candidates: where do they come from?

Candidate assessment

Stars or team players?

Recruitment strategy

The headhunter’s role

Proprietary personnel flow: developing the network

Conclusion

The Dealmaker: Defining a Fund and a Firm
Ed Gander, Partner; Simon Cooke, Partner; Michael Crossan, Partner, Clifford Chance LLP

Towards a definition of a dealmaker

Where to recruit from and why

Key aspects of a dealmaker’s contract

The importance of carried interest

Retention tactics and tools

Conclusion

The Operating Partner: an Industrial Approach to Private Equity Investment
Roberto Quarta, Partner, Clayton, Dubilier & Rice

Global restructuring is influencing transaction supply

An industrial investment strategy

The operating partner’s profile and role

Leveraging operating capabilities in investment decision-making

A note of caution about private equity transformations

Conclusion

Private…but Not Secret: the Role of the Investor Relations Professional within the Private Equity Firm
Stephen Marquardt, Head of Investor Relations, Doughty Hanson

Investor relations – an overview

Serving two masters – no surprises

Summary

The CFO and the Finance Team: Beyond Instilling Order and Durability
Mike Goss, Managing Director & CFO, Bain Capital

Responsibilities

Required skill sets

Building a finance team

Compensation

Summary

Operational Personnel: COOs and more
Desmond Mitchell, European Operations Director, Advent International

Getting it right - the basics

Procedures & compliance

IT and infrastructure support

Corporate culture

Summary

The Associate: Recruiting the Foundation
Lori Sabet, Senior Vice President for Human Resources, The Carlyle Group

Where to find the best associates

Why train and develop associates?

What is the right path and pace for career development?

Developing a competitive compensation structure

How important is culture?

Conclusion
Part III: WIDER HORIZONS - HUMAN CAPITAL IN THE PORTFOLIO

Asset Transformation: The Role of Management
Jon Moulton, Managing Partner, Alchemy Partners
- Finding the assets
- Types of transformation
- Alignment of purpose and interest
- Conclusion

Compensation Issues for Management in an MBO
Michael Album, Partner; Jeffrey Gentes, Associate; Guillaume Kellner, Partner; Quentin Fournier, Associate, Proksauer Rose LLP
- Introduction
- The buyout’s effect on current compensation arrangements
- The new arrangement
- Conclusion
- Focus on France: Immediate capital investment by the management
- Focus on France: Deferred investment or right to interest in the capital of the management
- Focus on France: The other key elements of a management package

Start-ups: Growing the Young Company – Algorithms not Aphorisms
Ken Olisa, Chairman, Restoration Partners
- The four engines of equity value
- Focus on human capital
- Context – the entrepreneurial cycle
- Combined model
- Conclusion

Growth Companies: Managing the Transition from Company Founder to Professional Management
Michael Elias, Managing Director, Kennet Venture Partners
- Acceptance of the need for founder transition
- Recognise that a CEO transition takes time
- Managing the recruitment process
- Ensure that the board and shareholders understand the real cost of senior management
- Recognise that some founder functions will take time to replicate
- Agree what role the founder will play after a professional CEO is brought on board
- Conclusion

Private Equity Employee Risks: Understanding and Mitigating
Chris Morgan Jones, Regional Managing Director EMEA, Kroll
- Addressing personnel risk
- Due diligence
- Post closing and exit
- Loyalty risk
- Conclusion
Contributor Biographies

Part IV: APPENDICES

Appendix 1:  
The Portfolio Company Transformation Tool Kit  
Roberto Quarta, Partner, Clayton, Dubilier & Rice

Appendix 2:  
Survey: The Realities of Compensation

Appendix 3:  
Survey: The 2006 Private Equity International Compensation Survey

Appendix 4:  
Mercer Human Resource Consulting on The UK Pensions Regulator

Appendix 5:  
Private Equity International on Human Capital

Appendix 6:  
Private Equity Manager on Human Capital

Appendix 7:  
About Private Equity International

Appendix 8:  
About Private Equity International Research Products

Acknowledgements

The editor and the publisher wish to thank all the authors and their teams for taking the time, patience and effort to make the creation of this book possible.

We also wish to thank to the design and production team for their efforts in bringing the book together.

As the publishers, we have undertaken our utmost to ensure that the contents in this book are both accurate and up-to-date.
**Foreword**

*David Rubenstein, Co-Founder and Managing Director, The Carlyle Group*

In the early days of private equity, even the leading firms were small operations, employing few people, focused on the basic needs of raising capital and finding deals, and concerned more about survival than about building ongoing, global organizations. That world now appears gone forever.

Today, the leading private equity firms are often very large institutions, employing hundreds of investment professionals, managing scores of billions of dollars (or Euros), investing throughout the world, and controlling some of the world’s leading brand name companies.

Given their increased visibility and impact, today’s private equity firms have, in truth, become for many the face of 21st century capitalism.

But these modern private equity institutions should not be viewed as just institutions – whatever their size and headcount. They must really be viewed as collections of individuals with diverse skills and needs. These individuals may be founders, senior investment professionals, mid-level and junior investment professionals, analysts, operating managers, advisors, accounting professionals, support personnel, or, of course, human resource professionals.

Whatever their seniority level or area of expertise, these individuals - rather than the dollars (or Euros) being managed - are the heart of their firms. As such, these firms need to handle them with the same kind of professional care they would ideally use in managing the individuals who are the heart of their portfolio companies.

Specifically, private equity firms need to recognize that their ultimate, long-term success is dependent not just on raising large sums or achieving high rates or return, but rather on the skill with which individuals are recruited, retained, trained, compensated, promoted, and (in appropriate situations), transitioned or retired.

The successful private equity firms of today and, for the foreseeable future, will be those that manage these human capital challenges with the same skill, and passion, as they manage their investment challenges.

To date, the many human resource challenges facing private equity firms have received comparatively little comment in literature about private equity. That is beginning to change, fortunately for private equity firms and those working there.

One helpful step in that change is this research guide, which addresses the major human capital issues that all modern private equity firms face and must handle.

As the guide indicates, there are no perfect answers or solutions to these various issues. But private equity professionals who recognize both the challenges and opportunities inherent in managing human capital and address these head-on (in whatever manner might be best for a particular firm) will be a step ahead of competitors who ignore or fail to address these increasingly important issues.

For that reason alone, this guide deserves the attention of private equity professionals at all levels.

David is a Co-Founder and Managing Director of The Carlyle Group, one of the world’s largest private equity firms. He co-founded the firm in 1987. Since then, Carlyle has grown into a firm managing more than $40 billion from 24 offices around the world. He is a native of Baltimore, is a 1970 magna cum laude graduate of Duke, where he was elected Phi Beta Kappa. Following Duke, David graduated in 1973 from The University of Chicago Law School, where he was an editor of the Law Review.

Private equity firms have, in truth, become for many the face of 21st century capitalism.

Individuals - rather than the dollars (or Euros) being managed - are the heart of their firms.

long-term success is dependent...on the skill with which individuals are recruited, retained, compensated, promoted, and (in appropriate situations), transitioned or retired.

Successful private equity firms... will be those that manage these human capital challenges with the same skill, and passion, as they manage their investment challenges.
Introduction

Eric Warner, Mercer HR Consulting

In the autumn of 2004, Investoraccess, publishers of Private Equity International, launched an unusual conference in London. Rather than the normal round of speeches on fundraising and deal-making, this event focused on the internal operations of the burgeoning private equity (PE) industry, and was aimed specifically at the COO and CFO in such firms. I was invited to put together a panel discussion on the human capital aspects of the PE firm: i.e. selection, compensation, retention and succession. This panel, consisting of Lori Sabet of Carlyle, Robert Gregory of 3i, and David Currie of Standard Life, turned out to be a great success, with lively audience participation and high ratings. The subject apparently, was often thought about but never so well expressed, and proved a great source of interest and engagement. As a consequence, a seed was planted.

The following spring, David Hawkins, Publisher of PE International, entertained me to breakfast, and over the croissants drew out the first green shoots of the idea: could we devote a copy of the journal to this topic? Could we organize a larger, more extensive panel discussion on the area, which would be recorded? Could we indeed take the idea further? By the last drop of coffee, the notion of the book was firmly rooted.

To be involved with this book from the beginning has been arduous but inspiring. Ultimately, all businesses are the result of people; hence it follows that people issues are fundamental to the success of business – something Mercer has always believed in and built its business around. But this has not always been at the forefront of most discussion of private equity.

On approaching our many contacts in the industry, David and I were met in most cases with a ready reception of warmth and encouragement, thus drawing the green shoots of the idea out into the air and light, and allowing the roots to take hold. The result is the book you have before you.

A word about the structure of the book is in order. David proved an excellent gardener in pushing the amorphous idea into something more akin to an ordered design. We determined to start at the beginning, with a few words on origins of the PE species – in other words, a consideration of the essential human chemistry and components within a private equity firm. This idea links the chapters in Section I: from Mike Harrell’s panoramic overview of the industry through Ian Armitage’s treatise on the normal course of evolution within a firm. Anchoring this section is an investigation of how the human capital issues matter to both Limited and General Partners, as well as the portfolio company manager, perspectives provided by Nicole Brandes of Capital Dynamics, Thomas Pütter, of Allianz Capital Partners and Nigel McConnell of Cognetas respectively.

On the basis of this foundation the book moves in Section II to a more thorough examination of the people issues involved in the internal management of the PE firm. The initial selection of talent for the firm is the subject of Guy Townsend’s thoughtful consideration of how and where private equity firms source their talent; an analysis complimented by Lori Sabet’s consideration of the vital Associate level within a PE firm. One of the themes which shadows this book is the increasing functional specialisation and evolution of roles within the modern and mature PE firms, and thereafter this section attempts to look at some of these. Ed Gander, Simon Cooke and Michael Crossan of lawyers Clifford Chance examines the competencies required for that primal function, the dealmaker. Stephen Marquardt of Doughty Hanson provides a witty and incisive chapter on that equally important function, the fundraiser or Investor Relations officer. Mike Goss the CFO of Bain Capital provides an intriguing chapter on the operation of the finance function within a PE firm, while Roberto Quarta of

Ultimately, all businesses are the result of people; hence it follows that people issues are fundamental to the success of business – something Mercer has always believed in and built its business around. But this has not always been at the fore of most discussion of private equity.

We determined to start at the beginning, with a few words on origins of the PE species – in other words, a consideration of the essential human chemistry and components within a private equity firm.
On the basis of this foundation the book moves in Section II to a more thorough examination of the people issues involved in the internal management of the PE firm.

Finally, we felt that there were broader human capital issues in dealing with the portfolio investments of a firm, and that these should be treated as well.

I am impressed by the unwavering commitment to human capital many of them (contributors) display, in ways which do not often reach the headlines, and I am convinced the industry is stronger, and better, for it.

CD&R, offers a searching analysis of the developing role of an Operating Partner within modern private equity. Desmond Mitchell of Advent International offers an intelligent consideration of the role and responsibilities of the Chief Operating Officer as principal risk manager of the firm. Finally David Rapp of Private Equity International suggests how the LP Advisory Board needs to be composed and conducted to fulfil its delicate but demanding role.

The concluding part of Section II is devoted to examining the challenges of dealing with fundamental human resource issues within the smaller compass and partnership culture of a PE firm. First, David Currie of Standard Life Private Equity offers an elegant and compact overview of how the human resource function works within private equity, and the challenges it has to deal with in so doing. Second, Catherine Brown of Apax writes an analysis of the difficult art of assessment or performance management at various job levels within the firm. Stephen Cahill and Mark Hobel of Mercer’s Executive Compensation practice then provide an analysis of current trends in compensation – surely one of the most eagerly sought subjects in the industry. Your editor, in turn, suggests how a crucial issue that is increasingly confronting the industry, succession, the passing of the torch to the next generation, is best dealt with in this context. Finally, SJ Berwin closes the section with a piece on that necessary evil, dealing with departure, considering the procedures and options available when the face does not fit and people issues go awry.

Finally, we felt that there were broader human capital issues in dealing with the portfolio investments of a firm, and that these should be treated as well – which gave rise to the chapters in Section III. This section opens with a sparkling consideration of the role of management in transforming an underperforming company in the portfolio. Jon Moulton of Alchemy Partners provides this analysis, writing with his customary verve and wit. The role of equity incentivisation in this process is the subject of the next chapter, from Michael Album and Guillaume Kellner of Proskauer Rose. Ken Olisa of Restoration Partners deals with specific problems in the management of start up situations, a theme extended by Michael Elias of Kennett Ventures in dealing with second stage or growth companies. In all of these situations, an assessment of management competence is closely associated with trust, or an assessment of management’s probity. Chris Morgan-Jones of Kroll writes about the particularly focussed issues in dealing with these issues within a private equity context.

This book has been an undertaking occupying most of 2006, in addition to the duties of my day job. It has not always been easy, but I can say that it has been consistently rewarding. The pleasure of interacting with my many contributors, and the insights I have gained in the process, have made the effort a true pleasure. I am impressed by the unwavering commitment to human capital many of them display, in ways which do not often reach the headlines, and I am convinced the industry is stronger, and better, for it.

Eric D. Warner - Eric is Head of Mercer’s European Private Equity and M&A (PEMA) consulting practice and is a Worldwide Partner. He joined Mercer in 2001, to develop the business with private equity firms based in the UK and throughout Continental Europe. He has substantial corporate finance experience from many years in the investment banking industry in the UK and Europe. Previously he was with Societe Generale, NatWest Markets, and Security Pacific Hoare Govett, where he specialised in capital markets and Financial Institutions coverage. Immediately prior to joining Mercer he was Chief Financial Officer of Aon Group Ltd, based in the UK. Eric has a degree magna cum laude in English from Yale University, and a DPhil from Oxford.
The Origin of the Species

Michael P. Harrell, Debevoise & Plimpton LLP

INTRODUCTION

The modern private equity industry began to emerge after World War II, and grew into an asset class with real scale in the 1980s. Today, investment by private equity firms and the funds that they manage accounts for a significant percentage of M&A activity in the United States and Europe, and attracts some of the best financial talent from around the globe. The number of private equity firms in the United States alone has grown from 113 in 1980 to more than 1,600 today, and the amount of capital under management by those firms has grown from $4.5 billion in 1980 to more than $771 billion in 2005. Private equity firms and the funds that they manage invest in virtually every geographic region and pursue a wide range of investment strategies in almost every arena of commercial endeavour.

Especially since the mid-1990s, the growth in the size and number of private equity firms and funds has been fueled on the demand (investor) side: by increasing awareness of the asset class, and of the extraordinary investment returns of the leading firms; by demand for higher performance investments to supplement the performance of large investment portfolios, which necessarily rely primarily on index strategies; and by demand for strategic alliances with sponsors who serve as a source of transaction flow to pension plans, banks and other institutions. On the supply (fund sponsor) side, growth has been fueled by new generations of private equity professionals entering the market after being trained by pioneering sponsors; by the shift of talented professionals away from Wall Street and the City and toward the opportunities and challenges presented by private equity investing; by the development of new fund products; and by the extension of private equity skills to new industries and types of transactions.

This dramatic growth has been accompanied, not surprisingly, by increased complexity, not only in the structuring of private equity funds and their investments, but also in the management and operations of private equity firms, as discussed in more detail in subsequent chapters of this book.

WHAT IS PRIVATE EQUITY?

Types of Private Equity Firms and Funds.¹ Private equity firms invest their capital and capital provided by third party investors – most often through private investment funds organized as limited partnerships – in the securities of privately held businesses, in divisions and subsidiaries of large conglomerates, and in securities of listed companies, typically with a view to taking those companies private. Private equity firms and their funds make high risk, potentially high return investments, most notably venture capital and buyout investments. Venture capital firms typically invest, often in multiple rounds, in common or convertible preferred stock and options of newly-formed, emerging or high growth businesses. Buyout firms typically acquire controlling or substantial minority stakes in more mature businesses with relatively stable cash flows, where a substantial portion of the purchase price is financed with third party debt.

### Number of US Private Equity Firms, Funds and Professionals

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>113</td>
<td>660</td>
<td>1,447</td>
<td>1,626</td>
<td>14x</td>
</tr>
<tr>
<td>Number of Funds</td>
<td>158</td>
<td>1,134</td>
<td>2,797</td>
<td>2,875</td>
<td>18x</td>
</tr>
<tr>
<td>Number of Professionals</td>
<td>1,583</td>
<td>7,017</td>
<td>15,474</td>
<td>17,391</td>
<td>11x</td>
</tr>
</tbody>
</table>

Source: Thomson Venture Economics. Includes buyout and venture capital funds. Excludes funds of funds.

1. Although this chapter focuses on US and European funds, the discussion below on fund structures and terms for the most part applies equally to private equity funds investing in Asia.

Dramatic growth has been accompanied, not surprisingly, by increased complexity, not only in the structuring of private equity funds and their investments, but also in the management and operations of private equity firms.
Why People Matter: the LP Perspective

Nicole Brandes and Katharina Lichtner, Capital Dynamics

Everybody knows that the key resource in a private equity firm is top talent – people with an above average vocation in creating value. They are the key differentiator in creating alpha. This holds true for both limited partners (LPs) and general partners (GPs). So at Capital Dynamics the belief is that the often stated slogan ‘people are our greatest asset’ is actually true.

COMMON SENSE BEFORE SCIENTIFIC CLAIM

The idea to write about human capital from the LP perspective seems an obvious one: the issue of human capital is ubiquitously present. A vast number of books have been written given the increasing awareness of the importance of human capital in the economic world, but few are specific to private equity. According to our experience a systematic approach to human capital is still not used by all GPs. However a proxy for the rising importance of human capital is the rapid increase in salary top performers can demand, and the good margins executive search companies can achieve helping private equity firms to find such talent. The following lines are not a scientific article, but they go beyond the mere discussion of alignment of interests as driver of performance. Below are highlighted some of what are believed to be the fundamentals which drive our daily business.

THE STATUS QUO IS HISTORY

‘Change’ is probably the buzzword of our times. Pick up any newspaper, magazine or book which deals with business, and sooner or later one comes across that ‘c’ word again. It has become a convenient label for nearly every aspect of today’s life: economically, technologically, politically, legally, environmentally and sociologically. This is no different in private equity. With the development of the traditional financial markets, private equity has become recognised as a sophisticated asset class. The industry has shifted from being a niche player to one of wielding great influence both in terms of geography and financial power. A wider range of investors from all around the world are attracted to and investing in private equity.

Larger sizes of capital commitments flow into the industry. New markets, such as Asia and Eastern Europe, are garnering more interests. New GP teams emerge. Even the reputation of PE firms has shifted: rather than being job killers, PE firms are more and more recognized as job providers.

The change of paradigms impacts business as a whole. It requires a significant mind shift from all involved. Yes, the potentially high returns and diversification of risk are still the main focus of both, LPs and GPs. Performance undoubtedly is still the core target. But in the end, what drives performance? True, there are several elements which need to come together in order to achieve a high return, like finding the right deal, favourable markets, a stable or growing economic environment, etc. However, while performance is driven by many external factors, it does not take away the fact that human capital is the underlying and primary internal driver in ensuring success.

MOVING WITHIN A COMPLEX ENVIRONMENT

Globalization has reinvented the nature of competition and drastically increased the complexity of the industry. It places a huge onus on identifying capable, experienced human capital at the GP level. Why do LPs invest with GPs? Put simply, because an LP believes and trusts the skill set of the GPs. Top GPs are knowledgeable and skilled about how value can be generated. They can read and interpret the trends within their target markets. They can quickly implement the right investment approach. They have the networks and contacts. And they have the intuition. It is the intuition that marks out talent. In a world caught up in tight expediency, the courage to trust one’s intuition is one of the key catalysts.

But how to identify star performers? Think of it like digging for a gold nugget in a huge stream.

Everybody knows that the key resource in a private equity firm is top talent – people with an above average vocation in creating value. They are the key differentiator in creating alpha.

According to our experience a systematic approach to human capital is still not used by all GPs.

Performance undoubtedly is still the core target...However, while performance is driven by many external factors, it does not take away the fact that human capital is the underlying and primary internal driver in ensuring success.

Why do LPs invest with GPs? Put simply, because an LP believes and trusts the skill set of the GPs.
Why people matter: a GP perspective

Thomas Pütter, Allianz Alternative Asset Holding and Allianz Capital Partners

The evolution of private equity in Europe over the last ten to fifteen years has been more than dynamic. Early success in achieving attractive investment returns was coupled with the fact that private equity could evidence its beneficial impact on the companies it financed. This happy linkage led both to increasing amounts of money being allocated to private equity investments by institutional investors, and to greater numbers of investment opportunities being offered to the private equity industry. Though competition has intensified along with the growth in volume of funds committed, funds invested and number of firms financed, the industry has gained in experience both on the part of fund investors and private equity investment teams. In short, over the last two decades private equity has evolved from an opportunistic investment activity to a mainstream and significant part of the modern financial markets.

The evolution of the private equity industry to its current state is the result of the industry participants’ attempt to gain competitive advantage through evolving business models. The adaptation of business models was necessary in order to allow the industry to be able to operate throughout the investment cycle, and within any given business environment. This holds true for the competition for investment funds as well as for investment targets. The fact is that the investor base for private equity (the LP) has become increasingly sophisticated in their evaluation of a private equity firm’s success factors, which include measures of success scalability and success duration or success sustainability. Investment team due diligence and a private equity firm’s “operating culture”, have become central quality assessment factors in the decision-making process for fund investors.

Investor demands, the increased competition in the private equity sector for funds, as well as investment opportunities, coupled with the heightened maturity and experience of private equity practitioners, means, in short, that private equity is in the midst of a process of industrialisation. Whereas twenty years ago boutiques were the common structural model, where a handful of talented individuals made “deals”, this model today is no longer persuasive to either fund investors or investment targets. It is against this background, that the attitude to personnel planning, personnel structure and personnel management has changed and is continuing to grow in significance.

It is obvious to state that a private equity firm’s principle assets are its people. No longer, however, are private equity firms a group of talented professionals who have joined together in order to “do deals” and “make some money”. Private equity firms have instead institutionalised and are thinking in terms of their life expectancy across generations of professionals. Today private equity firms are faced with all the issues that successful growth brings – issues that the rest of the financial services industry has had to grapple with over the last two decades. Indeed these are many of the same issues that any successful and evolving industry must face. It may be useful, therefore, at this stage to highlight in greater detail what these issues are.

1. PEOPLE SKILLS

The private equity business has increased in complexity due to its greater cross-border reach, and the greater diversity of industries it is willing to invest in.

Private equity has also gained significantly in complexity because of its growing understanding of what its true value drivers are.

Investment team due diligence and a private equity firm’s “operating culture”, have become central quality assessment factors in the decision-making process for fund investors.
Assessment: Motives and Methodologies when Tracking Performance

Catherine Brown, Apax Partners

Performance assessment is relatively new to private equity. Unlike large corporations, where managing performance is something of an industry in and of itself, the entrepreneurial roots and the small teams of most PE firms have meant that performance could be managed for many years by the personal observations of the founder partners. However, with ever-larger amounts of capital being deployed, and greater competition to secure investments, there is little room for error. Underperformance in an investment team – the valuation model is incorrect, the due diligence is inadequate – can cost investors millions. Therefore, ensuring the team is working to the highest possible standards is a necessity, and doing this through a consistent and transparent process is key.

Private equity has an image of requiring investment professionals to demonstrate world-class educational achievement, excellent analytical skills, sound business judgement, and previous work experience with a blue chip investment bank or consultancy. These people will work long hours, generate great deals and realise 30 percent plus IRRs. To a certain extent, this is true. PE firms are investing other people’s money, and they cannot take chances on second-rate performance.

However, it is not a one-size-fits-all industry, and performance management needs to be sensitive to the unique aspects of each firm’s investment strategy.

Investors in private equity funds invest on the basis of 1) the investment strategy proposed by the private equity firm advising the fund, and 2) the ability of the firm to deliver exceptional returns based on the proposed strategy. As with any industry, there is more than one way to become a successful private equity firm. In fact, a degree of diversity encourages the collaboration and competition between firms, which are essential to an efficient marketplace. As a consequence, there are a variety of skills and experiences that can be valuable to a particular firm. Within a particular firm, however, it is vital that the individual’s abilities match the requirements and expectations of the firm they work for. Managing performance is an essential element in ensuring there is a good match, providing the firm with feedback on its capability and effectiveness in achieving its investment strategy.

DEFINING STRATEGY AND PERFORMANCE

Private equity’s business objective is universal across all firms: to generate returns to investors, which match or exceed their expectations for investments with this risk profile. There are, however, a range of strategies for achieving this objective, each with an assortment of viable organisation structures, cultures and teams to match. So long as there is clear alignment between strategy, organisation, culture and team, achieving the objective should be possible.

As with any business, to turn a strategy into actual performance there needs to be an organisation which enables delivery and a team of people who collectively possess all the relevant skills, experience and behaviours required to execute the strategy effectively. This is all about alignment: how closely the abilities of the team are aligned with the strategy they are trying to achieve. To take a couple of examples:

An opportunistic firm’s strategy is to make investments in companies experiencing high levels of growth as a result of industry or country factors. These investments tend to be opportunistic: today it might be the energy sector in Europe, tomorrow it might be high tech in India or manufacturing in China. This team needs to be strong on deal origination and structuring, and creative in identifying opportunities. This type of firm is likely to look for investments where generic buyout mechanisms, such as capital restructuring and leverage, will generate value.

• A specialist-focus firm’s strategy is to make investments where, through depth of experience and expertise in particular industries or investment classes, it can significantly increase the value of the businesses it acquires. This team needs to possess industry expertise and...
Sourcing the Successful Private Equity Practitioner

Guy Townsend, Walker Hamill Executive Search & Selection

Since the mid 1990s, an institutionalisation trend has developed within the private equity industry. Funds have grown greatly in size, deal flow has increased significantly and there has been a corresponding expansion in the size of individual investments. As a result, competition for the most promising deals has intensified, as has competition for the best talent. In most instances the result has been a significant growth in the number of people employed by each firm: doing deals now simply requires more people. Additionally, the need has arisen for much greater internal organisation and support and along side the investment team, the roles of chief operating officer, chief financial officer, investor relations, human resources and portfolio management have all developed considerably. This has necessitated structure, internal titles, clear career paths and ultimately a defined hierarchy.

Sourcing private equity practitioners has become a relatively frequent occurrence for most firms and the processes and methodologies involved have become well practiced. However, for reasons explored later in this chapter, acquiring the right people presents a constant challenge.

**THE INVESTMENT ROLES WITHIN A PRIVATE EQUITY FIRM**

On the deal side, five distinct layers of investment practitioner can now be identified in the majority of funds. Titles and relative comparability vary according to firm size, investment focus and geographic location, but in broad terms the majority of funds have now adopted the structure shown in Diagram 1.

Traditionally, one of the attractions of the private equity sector to potential new entrants was its reputation for flat structures, lack of hierarchy and freedom of action: a suitable home for budding entrepreneurs. However, as the industry matures and firms grow, leading to institutionalisation and dia-

![Diagram 1: Private Equity: Typical Investment Team Structures](image)

- European funds have typically adopted the structure above, with the Associate title used for the entry level/lowest MBA role. US funds have traditionally referred to this role as Analyst, with Associate being an immediately post MBA role.
- Interestingly, many equity firms are rarely pyramidal by headcount - if anything, they are inverse pyramids, or at best, columnar

*Source: Walker Hamill 2006*
The Dealmaker: Defining a Fund and a Firm

Ed Gander, Simon Cooke and Michael Crossan, Clifford Chance LLP

TOWARDS A DEFINITION OF A DEALMAKER

How to define a private equity dealmaker? Not an easy task. Would it be an aggressive negotiator wearing a sharp suit with "$8" imprinted on his eyelids or, rather, a sophisticated financial investor with commercial nous, industry connections and an eye for a good deal? In reality, a successful private equity dealmaker is probably a combination of the two. Perceptions from outside the industry may lean towards the former (witness the likening of private equity firms to "locusts", as (in)famously voiced by a prominent German politician in 2005), but it is generally recognised by those who work with, and for, successful private equity firms that their deal executives need a wide range of highly specialised skills.

The character traits which result in the oft-perceived "aggressive" nature of private equity professionals can be explained, to a large extent, by the internal pressures faced by individuals within the organisation. Private equity is a results-driven business: an individual’s performance is judged on the success (or otherwise) of deals he has worked on or (more fundamentally) originated and brought before his firm’s investment committee. Private equity is a very competitive industry. Due to the potential remuneration available to executives, large numbers of highly qualified professionals are queuing up to take the place of unfortunate deal executives whose performance is not up to scratch. The pressure that this working environment puts on an individual, taken in the context of the large sums of money at stake in today’s market, should not be underestimated.

There are numerous qualities and attributes that characterise a successful private equity dealmaker:

- Financial awareness - this business is, after all, about making money. The majority of deal executives will have an accounting and/or economics background, and even those that do not will have a sound understanding of all financial aspects of private equity transactions. Many will be graduates of the finest business schools and be well versed in financial investment techniques: the more innovation and flair they can demonstrate, the more sought after they will be.

- Commercial awareness - seeing opportunities to make money out of real businesses is a vital ingredient. Without at least some element of this, a dealmaker will simply not be able to perform effectively. In other words a successful dealmaker will be a natural investor and a sharp deal originator with an emphasis on adding value to a business through practical hands-on experience.

- People skills - this is not just about being well-connected, with a fat personal contacts folder. Private equity executives have to be able to deal with an array of different people, from sophisticated fund investors and professional advisers, to inexperienced junior members of management teams. A successful dealmaker will show flexibility and versatility and will therefore, be able to manage, and get the best out of, all of these people. The component parts of a typical private equity transaction require the dealmaker to conduct negotiations on different levels (and requiring very different approaches), with the seller, his lending banks and his management team. A seller is looking for maximum value, generally with no retained interest in the direction that the business may or may not be heading, unless an incentivisation mechanism is built in as part of the consideration. The lenders will be looking to protect their investment, whilst the management team are looking towards the future of the company and their stake in it. To manage the intricate expectations of others takes focus and persistence in order to satisfy competing objectives. Here, more than in any other area, the perception of private equity dealmakers as depicted in
The Operating Partner: an Industrial Approach to Private Equity Investment

Roberto Quarta, Clayton, Dubilier & Rice

All private equity firms seek to maximize the value of their investments. However, there are many different models or routes to this end. What shall be referred to as the “industrial approach” in this chapter is a distinctive model which is based on acquiring businesses that are underperforming relative to their potential and then working closely with the management to improve long-term profitability. Operating improvement, rather than multiple expansion or excessive going-in leverage, and its translation into increased enterprise value can produce superior risk adjusted investment returns.

Private equity firms that build the companies they acquire into stronger, more competitive and more profitable enterprises will create better exit options, irrespective of capital market conditions. In some cases, portfolio companies that have been materially transformed under active ownership, a hands-on style distinguished from traditional private equity portfolio management, are well positioned to select between multiple attractive exit alternatives. To execute the industrial private equity strategy requires a combination of financial and executive management skills within the private equity firm.

Firms that integrate an “industrial mindset” into their investment process also will have a competitive advantage in globally sourcing and generating superior returns from these investments.

The essence of the industrial oriented investment strategy is to leverage operating expertise to drive above-market investment returns as it applies across the entire lifecycle of an investment.

Current market dynamics for deploying private equity funds, together with trends in the corporate landscape, (e.g., global divestiture transactions and large corporate transformations), favor what can be described as an industrial oriented investment strategy. The essence of this strategy is to leverage operating expertise to drive above-market investment returns as it applies across the entire lifecycle of an investment, from sourcing through structuring, managing and ultimately exiting the investment. An industrial approach to private equity is predicated on the belief that effective governance, active involvement and, if necessary, timely intervention, are essential elements in the value building process. As corporations confront unprecedented levels of cost, complexity and competition, the need to focus on core businesses and clear up balance sheets becomes ever more compelling. Meeting this need is the large emerging supply of private capital seeking attractive investment opportunities, which increasingly demand strategic, hands-on operating support, as well as additional capital.

The supply of potential transactions is being influenced by a number of trends that align well with industrial oriented investment strategies focusing on acquiring underperforming, non-core corporate divisions. Some of these trends are explored in more detail:

First, there is a definitive link between the pace of corporate divestitures and corporate leadership changes. CEO tenure in mean years has declined precipitously and is today a little over six years. The number of CEO dismissals has tripled in the last decade, largely reflecting relentless pressure from investors and global competition. At the start of 2006, eight of the thirty companies making up the Dow Jones Industrials had new CEOs, including HP, Boeing and Walt Disney. New CEOs often embrace new strategic priorities. They buy and sell assets, often large quality businesses that are considered non-strategic. Over time, as corporate M&A rises, so too does the supply of divestiture candidates.

As corporations confront unprecedented levels of cost, complexity and competition, the need to focus on core businesses and clear up balance sheets becomes ever more compelling.
The Associate: Recruiting the Foundation

Lori Sabet, The Carlyle Group

Professionals with 2-3 years pre-MBA experience provide the foundation that allows senior investment professionals to analyze, execute, and manage multiple investments. Most of the financial world calls them associates. These young professionals assist more senior colleagues with essential work. During their two- to three-year tenures, associates help build financial models, revise transaction documents, and process due diligence materials. The more reliable a firm’s associates, the more time its senior professionals can spend on higher-level efforts to source and manage transactions. The best associates possess high levels of intelligence, attention to detail, and drive: in return for valuable professional experience and high compensation relative to career stage, firms expect associates to dedicate themselves to an often demanding role. Fifteen years ago, the most reliable of these young professionals were rare gems in private equity, as investment banks, start-up companies, and large corporations captured much of the best new talent. Today, a different employment hierarchy has emerged and private equity has become the top choice for the best young professionals. The globalization of the private equity industry and its increasing inclusion in business school curricula, have spread awareness of the opportunity the industry can provide.

Private equity may have captured the imaginations of a growing pool of qualified candidates, but the industry itself has grown as well. Firm sizes are substantially larger than a decade ago, in keeping with the growing size and differentiation of funds under management. Thus competition for the best candidates has dramatically increased. Today, there is fierce competition for the same pool of talent, with private equity firms, investment banks, management consultancy and strategy firms all taking part. A private equity firm must differentiate itself from the competition in this annual hiring process. A firm must cultivate and market an “edge” that sets it apart from other private equity shops as well as investment banks. Components of an edge include a culture based on sharing industry knowledge, competitive market compensation, and excellent training and development programs. Many firms advertise these differentiators, but few can deliver them. Some firms have chosen not to compete for talented associates. This strategy may save short-term cost and effort, but deprives senior investment professionals of key resources over the long term. Firms cannot profit by luring associates in with false advertising. In today’s employment market, another firm just down the street - or now across the globe - will hire unhappy talent away. A firm must deliver on its “edge” to each new class of associates or risk damaging its reputation in the market. Despite rapid growth in recent years, the private equity industry remains relatively small and very closely connected compared to other industries. Word spreads quickly and a firm’s advertised edge becomes a competitive advantage only if the firm continues to meet expectations after hiring.

Private equity firms were once all boutiques, but some have since become large and complex organizations. Many leading global private equity firms have increased staff size at double-digit annual percentage growth rates. Accordingly, firms have embraced both the art and science of human resources. Firms not only devote significant time to recruitment, but also study and attempt to implement effective policies in training and development, compensation, and career path initiatives. The most successful firms recognize that scale requires a serious effort to identify and preserve a culture. This culture, rather than the personalities of core individuals, must maintain a maturing firm’s values and professional standards. The following “edge” differentiators discussed in the next sections apply to private equity and could equally apply to other industries.

WHERE TO FIND THE BEST ASSOCIATES

Institutional investment banks’ analyst programs have historically provided the recruitment pool for entry-level positions for private equity firms. These programs’ deserved reputation for grueling hours extends beyond the financial world. Perhaps less often mentioned are the many hours investment banks devote to competition for the best candidates has dramatically increased...a firm must cultivate and market an “edge” that sets it apart from other private equity shops as well as investment banks...including a culture based on sharing industry knowledge, competitive market compensation, and excellent training and development programs.

Professionals with 2-3 years pre-MBA experience provide the foundation that allows senior investment professionals to analyze, execute, and manage multiple investments. Most of the financial world calls them associates.

The more reliable a firm’s associates, the more time its senior professionals can spend on higher-level efforts to source and manage transactions.

Firms cannot profit by luring associates in with false advertising...another firm...will hire unhappy talent away.
The Commitments: a Look at the Role of LP Advisory Boards

David Rapp, Private Equity International

INTRODUCTION

Few players in private equity personify the word “commitment” more than the limited partner (LP). An LP commits funds to the care of a general partner, the fund’s manager, who then invests the money more or less as he sees fit. The LP knows going in that the money could be tied up in that commitment for many years, and once he signs the limited-partnership agreement, his measure of control over the money is as limited as his potential liability. The nature of these agreements provides little room for an active role by LPs, particularly when it comes to decisions made by the fund manager.

That sense of powerlessness can make even the toughest LPs a bit nervous, but a GP is wise, for a whole host of reasons, to keep his LPs happy. It also pays to have easy access to LP expertise when urgently needed. Fortunately, there is a multifaceted vehicle in which an LP can remain involved without compromising the legalisms of the LP agreement. That vehicle is the LP advisory board.

Depending on whom you talk to in the private equity universe, LP advisory boards are either invaluable resources or mere window dressing; either a key provider of assistance or a rubber stamp for GP’s wishes. One school of thought, consisting largely of GPs, believes that advisory boards are more or less meaningless, and should remain rather toothless from a legal standpoint. Under the current system, board members have little to no real influence on GPs, and no legal authority to penalize fund managers who go down what the board might consider the wrong road.

On the other side of the argument—a side taken primarily by investors—is the notion that LP advisory boards should wield real power and influence, and exercise a form of corporate governance over a fund’s management. Under this view, the board acts as a safety monitor of sorts, making sure that the fund’s declared strategy at the outset of the fund remains in place, without going on wild tangents.

In weighing these points of view, a GP seems to be faced with a clear-cut either-or—either a fund is a powerless nonentity, or it the powerful heart and conscience of a private equity fund. As with most things, perhaps the answer to this question lies somewhere between the two extremes.

KNOWING LIMITS

First off, one must take into consideration an almost obvious point: the LP status is limited for an important reason. It pays to ask: what does the word “limited” in the phrase “limited partner” really mean? Of course, it describes an LP’s potential liability; but it should also act as an apt description of the communication style with the general partners.

If an LP is actively involved in the investment side, and something goes wrong and some aggrieved third party sues, the LP may have put their limited status at risk by becoming too involved. Such a legal nightmare should, of course, be avoided, so it is in everyone’s best interests to put a figurative Chinese wall between the GP and the LP, and, for most funds, this goes for LP advisory boards as well.

Under many LP agreements, limited-partner status is so fragile, it can be shattered by a
Compensation: Objectives, Metrics, Components and Results

Stephen Cabill and Mark Hobel, Mercer HR Consulting

INTRODUCTION

As investors have increasingly turned to the private equity market in search of high returns, the number of private equity firms and the volume of deals have increased dramatically in the last several years. Employees represent a key asset for these firms, and as the war for talent rages on, the ability to attract and retain the right people appropriately is of paramount concern to these companies.

Private equity firms have to compete for top talent not only within their industry but also with public firms as well. They appear to be successful in some respects as a number of high profile politicians and CEOs (e.g. former General Electric CEO Jack F Welch and former Viacom CFO Richard J Bressler) have made the move. The “brain drain” from other industries is not just noticeable from senior ranks. Many top business schools send some of their best students into private equity. The potential compensation package is quite attractive, but for senior people in particular, getting away from the public disclosure of their pay is a considerable incentive as well. For those joining the private equity world as hands-on operators (the senior management team at companies backed by private equity investment) decision making is quicker, and these executives have more freedom to implement change than their public company counterparts. So, what kind of compensation potential are the best and brightest really signing up for when they move to private equity?

In this chapter a closer look is taken at aspects of compensation within private equity firms: who gets what from the partnership down, the significance of carried interest plans, the role of co-investment plans, other considerations, and the difference in pay between private equity and public companies.

A CLOSER LOOK AT COMPENSATION

There are many players within the private equity world. There are the employees of private equity firms themselves, collectively known as general partners (GPs); hands-on operators, as previously mentioned; fund investors (also known as limited partners) who provide the financing for fundraising, and many others. The compensation structure will vary greatly depending on which category a person falls into, however, in this chapter the focus will be on compensation for GPs. The discussion on compensation issues assumes firms pay carried interest on a fund basis instead of a deal-by-deal basis, though the differences will briefly be examined later on in this chapter.

Many private equity firms have fairly lean operations, many with a staff of around 40-50 investment professionals, half of which usually consist of the partnership team. The organizational structure tends to be rather flat, with the remainder of the team below the partnership consisting of three or four job levels. While job titles vary by firm, the most common titles representing these levels are director, senior associate, and associate. Our discussion will focus on these levels within an organization, managing general partner, senior partner, and senior associate.

Most employees receive some combination of base salary, bonus, and long term incentives (to varying degrees). The firm’s compensation philosophy will generally dictate what’s offered. Some feel the need to make long term incentive grants throughout the organisation, whereas others will limit them to the senior team. The most common forms of long term incentive plans among private equity firms are carried interest plans and co-investment plans. While carried interest plans alone had been the typical form of long term incentive grant for many years, many firms now require participation in their co-investment plans as a condition for participating in the company’s carried interest plan. Fund investors increasingly require management teams to have “skin in the game” (a personal stake in the portfolio company) in order for them to receive the potentially large payouts under carried interest plans and will typically include this requirement in the prospectus during the fundraising stage.

Depending on the compensation elements offered, the compensation structure for partners
Succession Planning in Private Equity

Eric D Warner, Mercer H R Consulting

CONFRONTING THE ISSUE

The private equity industry is characterized by sharply defined personalities and strong characters who created it. Can we imagine KKR without Henry Kravis? Or Blackstone without Schwarzman? In European private equity the same questions beckon: can there be an Alchemy without Jon Moulton? Or an Apax apart from Sir Ronald Cohen? These entrepreneurs and others like them have moulded the industry over the past twenty years, to the point where it is now an accepted, even institutional, part of the business and financial arena. The concept of succession, therefore, seems a strange one to entertain. Yet the idea increasingly presses on the industry, heard in discussion, treated in industry conferences. Why is this, and what if anything should be done about it?

Some questions spring to mind immediately on announcing the topic. First of all, is succession planning relevant to Private Equity, which is typically organized in small, closely-held partnerships? Is it necessary in an environment which focuses on deals and deal-making, collegiate discussion and decisions? Yet the answer may come with a little mental effort, expanding our historical range of reference. Over the last 50 years another, similar, industry, founded by charismatic individuals, faced precisely the same issues and did just this: the investment banks – for example SG Warburg, Schroders, and, further back still, JP Morgan. In the same way, what is beginning to happen now to the private equity industry is the process of institutionalization of firms moving on from the early founders. Consider the evolution of a typical buy-out firm. The first stage, or origin, of most firms is the banding together of a small group of like-minded, entrepreneurial individuals, usually with significant deal-doing experience behind them, who persuade a group of investors to back them in the first fund. Stage 2 follows over the next 5-7 years when the fund is invested and, hopefully, exits realized. In due course this would lead onto a blissful Stage 3 when, over the next two decades, successive funds are raised, capitalizing on the strength of a firm growing in size, personnel and complexity of transactions. At the end of this period comes the fourth stage where the original partners have grown rich, tired, bored and/or want to retire.

This then raises an increasing question as to how the firm plans to address the future. This question is one of heightened concern for the investors who are being asked to renew commitments to new funds, as well as for the “next generation” of talent coming up in the firm itself. This pressure will only grow and force the firm to face a stark choice: they either address the succession plan or they undertake an orderly wind-up of the firm.

This talent pool of the top performers in an organization is the repository of both the critical skills (e.g. negotiation excellence) and/or scarce resources (e.g. fund raising capacity). Can we imagine KKR without Henry Kravis? Or Blackstone without Schwarzman? The concept of succession therefore, seems a strange one to entertain.

What is beginning to happen now to the private equity industry is the process of institutionalization, of firms moving on from the early founders.

Buyout shops that begin with a high degree of competence in deal-doing skills, need to grow and nurture other skills as they evolve.

---

Stage 6: Firm addresses this or dissolves
Stage 5: Investor concern, next generation press the issue of succession
Stage 4: Founders grow tired, rich, bored...
Stage 3: Raising of Funds 2, 3, 4, etc
Stage 2: Successful investments/investments over 5-8 yrs
Stage 1: Small group of like-minded entrepreneurs get together & raise fund

Source: Mercer
Start-ups: Growing the Young Company – Algorithms not Aphorisms

Ken Olisa, Restoration Partners

“We back jockeys and not horses” was the claim that separated the venture capital men from the boys back in the days leading up to the dot.com boom and bust.

The appeal of simple homilies back in the 1980s and 90s was evident. Technology investors were being inundated with business plans as if the tech boom was going out of fashion, and discriminating between one aspiring “Leading global supplier of xyz” and another was time consuming and non-trivial. Worse, any putative investor attempting to perform a detailed analysis of a particular business plan, risked exposing the impossibility of knowing as much about the subject as those making the proposal.

The solution was simple. Borrowing from the parallel universe of horse racing, venture capitalists sought to define the secret sauce, the magic ingredient which would give one plan an edge over the others. If jockeys were a metaphor for a business’ leadership then horses represented the business itself. Far easier, the argument went, to find yourself a Frankie Dettori or a Jerry Bailey and give them their head, than to try to pick winning racers from amongst the confusingly large field of runners.

There are two problems with this model. Firstly, it is far too simple an approach to the complex realities of transforming technology into wealth. One only has to witness the brutal firing of a senior management team after a run of poor results to see how quickly investors’ admiration for jockeys can wane. And secondly, it doesn’t even work for horse racing!

Racing statistics show that star jockeys like Dettori and Bailey are likely to win only 20% of the races they enter, while top mounts such as the legendary SeaBiscuit win closer to 50% of their races and are placed in more than 75% of them. To quote from Richard Eng’s seminal guidebook on racing:

“Winning a horse race is never a one man show. Granted, there’s no replacing a fast, talented racehorse. But when you’re handicapping the races, the contributions of the jockey, trainer and owner and even the reputation of the stable’s skilled help – such as grooms and exercise riders – must be taken into account.”

But the jockey versus horse model does have three redeeming features:

1. It acknowledges the pivotal role of humans in technological wealth creation;
2. It points to the important role of models in trying to define and predict winners; and
3. It serves to remind all that the ultimate human capital asset – judgement – is a necessary if not sufficient element of successful investing.

Thankfully the hard realities of 21st century venture capital leave little room for simple aphorisms. Following the public equity market investors’ advances into algorithmic trading, private equity limited partners (LPs) and General Partners (GPs) are increasingly realising that sustainable success depends on structured and repeatable approaches to finding, developing and exiting high growth opportunities. Thus today’s investing requires a more sophisticated approach.

At an abstract, theoretical level, intending investors worry about finding effective ways to answer questions such as:

● What do we do when things start to go exceptionally right or wrong?
● What is the optimum management mix?
● How should we incentivise the leaders?
● What external assistance do the senior managers require?
● What is the ideal infrastructure for the business?

Business schools teach ways to arrive at generic answers to general questions such as these. The
Appendix Two:

Survey

The Realities Of Compensation

This survey was undertaken at ‘The 2006 Private Equity COOs & CFOs Forum’ during July 2006 in London.

There were 225 attendees that participated in this event organised by Private Equity International.

The main part of this survey looks at compensation issue, whilst the final part focuses on the issue of succession.
Appendix Seven:

About Private Equity International

In November 2001, a management team bought out their business from major financial publishing group, Euromoney Institutional Investor PLC. This business was centred on private equity and venture capital, and included the website PrivateEquityOnline.com – already one of the most heavily used private equity news sites around – as well as plans for a major new magazine dedicated to the asset class. That magazine was launched in December 2001 and is called Private Equity International.

Since then, that same group of managers plus a growing team of seasoned journalists and other publishing professionals, have been busy developing a range of publications and other media centred on private equity, venture capital and real estate. The company now has offices in London, New York and Singapore and is able to track all aspects of these two key alternative asset classes across all time zones. We are genuinely global in our approach to what are truly global markets.

Today the company has the following publications and products:

**Private Equity International**: the global magazine for private equity. One of the most widely read and recognised monthly magazine on private equity and venture capital. Written by one of the most highly regarded editorial teams with over thirty years combined experience of the industry. PEI delivers fresh news and insight on how the asset class is developing worldwide.

**PrivateEquityOnline.com**: probably the best known website dedicated to private equity and venture capital. Launched in April 2000, its daily news coverage from around the world is now read by professionals all over the world. Journalists in London, New York and Singapore are posting stories on PEO throughout each day on the people, the deals and the firms shaping the industry. Extended and updated in September 2005, PEO is acknowledged to be the online source for global private equity news.

**Private Equity Real Estate**: the only monthly magazine dedicated to private equity-style investing in real estate, PERE tracks the investors, managers and deals that are helping make this one of the most dynamic parts of the global real estate investment industry. The magazine is the first to combine in-depth features on strategy and markets with granular news coverage and proprietary data.

**PEI Asia**: the new monthly magazine dedicated to the private equity and venture capital industries across all of Asia, Australia and the Middle East. The magazine has been launched to give readers a substantive and insightful source of news and analysis covering the deals, the funds, the firms and the people that are helping extend the reach and importance of the asset class across the whole of the region - from Dubai to Jakarta, Mumbai to Shanghai and from Tokyo to Sydney.

**IP Investor**: the brand new magazine dedicated to the world of commercializing intellectual property. It examines IP as a distinct alternative asset class focusing on IP monetization, deals, people and investment vehicles.

**Private Equity International Conferences**: in order to provide private equity professionals with a number of focused events that make full use of the company’s knowledge of the private equity industry, PEI now hosts a series of conferences in Europe, North America and elsewhere. Our Private Equity COO & CFO meetings in both London and New York, for example, have already established themselves as the annual meetings for this community; likewise our annual Middle East Private Equity Forum is acknowledged to be the premier event for the region’s top practitioners.

**Private Equity International Research Products**: please turn over to find out more about our research products, including our online databases, books and directories.
About Private Equity International Research Products

Our expanding range of in-depth market reports, research guides, directories and online databases cover the issues and trends shaping the asset class on a global basis. They offer private equity professionals, investors, advisors and others involved in private equity the quality research, in-depth analysis and insightful comment they need.

Directories
These practically orientated, comprehensive and detailed publications profile investors in the asset class as well as advisors, service providers and private equity firms:

**Global Limited Partners Directory – 2nd Edition**
Containing the profiles of more than 1400 sources of capital, this comprehensive directory is an indispensable research tool and an essential purchase for anyone involved in private equity and venture capital fund raising and marketing.

**Global Directory of Investors in Private Real Estate Funds**
Containing the profiles of more than 500 sources of capital, this outstanding directory is the most comprehensive, extensive and user-friendly guide to current and active limited partners investing in the asset class available today.

Online Databases – PEI Data
A growing series on online database products to add to our existing suite of directories. Wholly web-based, PEI Data gives access to our unique online databases of institutions investing in alternative assets, and is fully searchable and constantly updated.

**Private Equity Connect (PE.Connect)**
This online database tracks investors in private equity and venture capital funds globally. Everyday our researchers are gathering detailed information from all over the world about who is investing how much in which kinds of funds. The database is designed to let you undertake precise and detailed searches across its entire content and lets you also export the information you want as both a PDF and to Excel. You can also consult investor specific news coverage, see who is committing to which funds and be alerted about personnel changes amongst the institutions covered.

**PERE Connect (PERE.Connect)**
Similar in functionality and platform to PE.Connect, this specialised online database tracks investors in private equity real estate funds globally.

The breadth and depth of the content of the databases, the freshness of the information and the functionality provided makes these the definitive global fund raising and investor-monitoring tools.

Market Reports
These highly specialised and targeted reports cover technical issues or particular areas of the private equity industry in an incisive manner, providing readers with a valuable primer:

**The Guide to Distressed Debt and Turnaround Investing**
This detailed report provides a comprehensive guide offering insight on distressed debt and turnaround investing. It contains chapters written by leading industry experts, a survey which outlines investor views and attitudes towards these types of investments, as well as a directory of investors that have invested in and have an appetite for turnaround/distressed funds.

**A Guide to Private Equity Fund of Funds Managers**
This outstanding publication is the most complete guide to the global private equity fund of funds market available today. It contains a comprehensive directory of fund of funds managers together with in-depth editorial from leading fund of funds managers, placement agents and advisors, as well as the results of a survey into the dynamics and future of the fund of funds market.

This newly updated and expanded version of the best-selling first edition is the definitive guide to private equity placement agents, offering insight as to how they work, who they are and how the rest of the private equity community regards them.

**The UK LBO Manual**
This outstanding report is the definitive practical guide to structuring private equity-backed buy-outs in the United Kingdom. It provides a clear, concise and user-friendly guide to the main legal, regulatory, tax and commercial issues when structuring and completing a UK LBO.
The French LBO Manual
This indispensable manual delivers the most detailed picture available of how to execute a buy-out successfully in France. It provides clear, concise and user-friendly information about the main legal, regulatory, tax and commercial issues when executing an LBO in France.

The German LBO Manual
This market report provides detailed, practical information on the realities of structuring and completing an LBO in Germany and provides clear, concise and user-friendly information about the main legal, regulatory, tax and commercial issues when executing an LBO in Germany.

Research Guides
Consisting of in-depth analysis and comment, along with the results of surveys into the attitudes and opinions of private equity professionals and investors, these research-rich, multi-contributor studies provide readers with some of the most authoritative and substantive comment on private equity available today:

Routes to Liquidity
This multi-faceted study provides readers with a substantive and up-to-date guide to the alternatives now open to investors for achieving liquidity in private equity and for proactively managing their allocations to the asset class. It combines expert commentary from some of the most seasoned practitioners in the private equity market, along with the results of a unique survey into the attitudes of buyers, sellers and GPs towards the secondary market.

The Guide to Private Equity Fund Investment Due Diligence
This outstanding publication combines in-depth editorial with a global directory of consultants providing specialised private equity advice to institutions, along with the results of a survey of over 300 institutional investors about their attitudes towards fund investment due diligence.

The Guide to Private Equity Fundraising
This detailed and in-depth research guide combines expert editorial from leading market practitioners with the results of two surveys of limited partners on the topics of fund terms and conditions and investor relations, alongside a number of unique case studies of actual recent fundraisings.

If you have any queries about Private Equity International’s current and forthcoming research products please contact:

Kapriel Kasbarian
Head of Research Products
Private Equity International
Second Floor
Sycamore House
Sycamore Street
London EC1Y 0SG
United Kingdom
Tel. +44 (0)20 7566 5437
Fax. +44 (0)20 7566 5455
kapriel.k@investoraccess.com