

HEIDRICK & STRUGGLES

PRIVATE EQUITY PRACTICE

2016 Europe & Africa Private Capital Compensation Survey

Executive Report



Introduction

Welcome to our 2016 Europe and Africa Private Capital Compensation Survey. This is our fourth annual edition.

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

We received 454 complete responses (since 2013 a cumulative total of 1,985 responses). Many of these professionals have contributed to our survey each year; others are new to the process. We would like to thank everyone who completed the survey. We truly value your support.

We reached out to executives across the private equity (“PE”) value chain: those who raise and retain capital; those who invest capital; and those who work to improve returns. We also included CFOs, general counsels, and CHROs of their funds.

Investment professionals (330 respondents) comprise the largest respondent group, and this report principally focuses on their compensation levels and trends.

Where data quality and quantity enables, we have analyzed and reported some aspects of the compensation for fund-raising professionals, operating professionals, and infrastructure professionals (HR, finance, and general counsel).

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

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On Confidentiality

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

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Market Backdrop

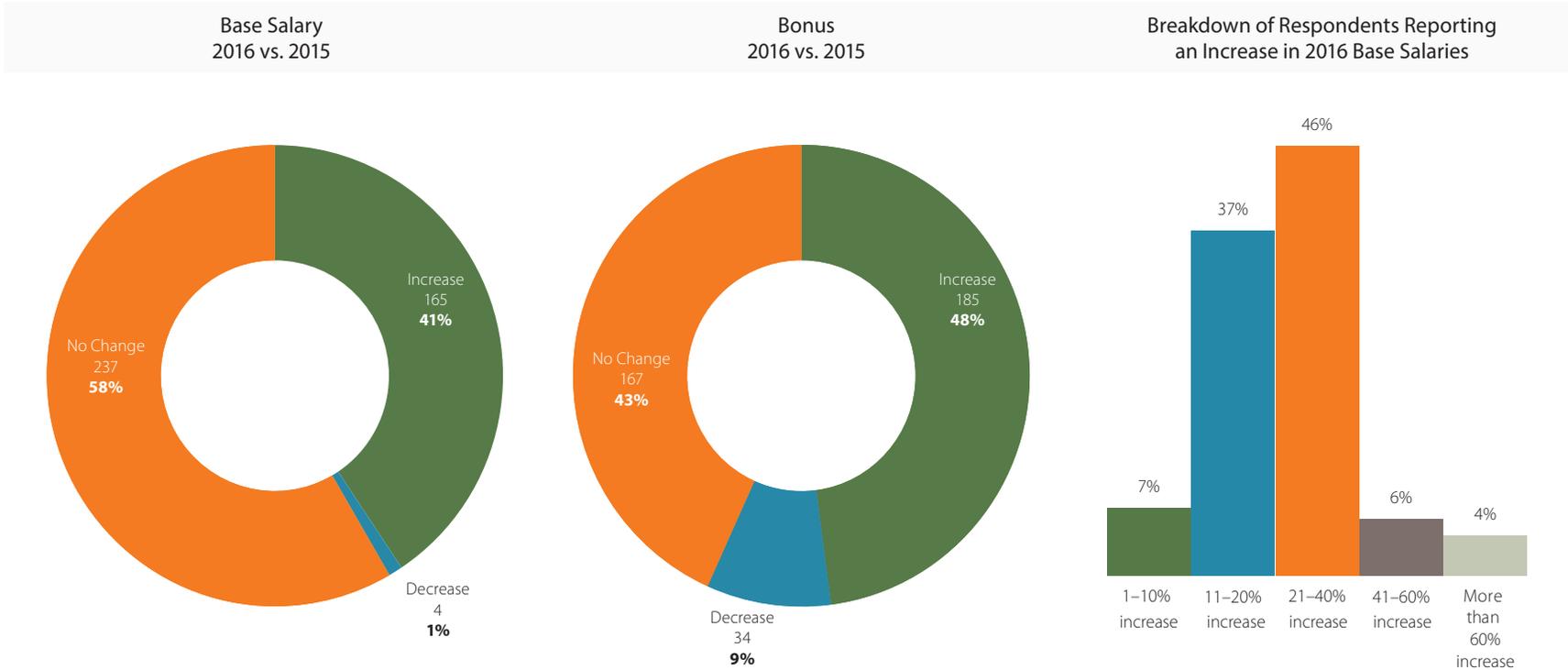
More capital will be raised in 2016 by funds investing in Europe than at any time since 2008.

- Low interest rates across US and European markets make PE an attractive asset class for investors.
- The level of dry powder in the region drives intense demand and competition for assets.
- There remains a 'pricing gap' between sellers' high expectations, and buyers who want factors such as 'Brexit' to be priced-in.
 - Pricing has adjusted somewhat as many financings have been renegotiated following the surprise vote result.
 - The long term impact of Brexit is unknown, and sponsors continue to be cautious deploying capital against this backdrop.
- With credit investment offering low returns, and equity pricing at excessive levels, the 'fashionable' strategy in 2016 has been special situations, with new funds and teams coming to market.

Hiring and Talent Trends

- The market has experienced generally low hiring demand despite many funds increasing AuM; however, replacement hiring continues, especially at the 'deal captain' level.
- There has been an influx of specialist, Chinese-backed investment vehicles coming to Europe, looking to invest in local companies and grow their business in Asia. These funds are recruiting heavily.
- Sovereign and pension investors that hope to deploy more capital in direct strategies continue to seek talent from traditional GPs.
- Growth in special situations has led to an increase in demand for proven professionals who are effective in a cross capital structure investment environment.
- There continues to be little new demand for operating professionals in-house.
- In addition, there has been a pause in demand for fund-raising professionals.

General Observations on Compensation Trends



48% of respondents reported base salary increases between 2015 and 2016 (a 7% decrease from last year representing a continuing decline in the number of individuals reporting base increases). Similar to 2015, the scale of increase is being reported as between 11% to 40% by the majority (83%) of those receiving increases.

Time series data is analyzed later in this report (page 10).

Respondents' Cash Compensation Development, 2014–16

(€'000)	2014			2015				2016			
	Mean Base	Mean Bonus	Total Comp	Mean Base	Mean Bonus	Total Comp	CAGR	Mean Base	Mean Bonus	Total Comp	CAGR
All Professionals											
Managing Director Level: Managing Directors, Managing Partners, Senior Partners, Partners	262	240	502	278	282	560	11.6%	298	297	595	8.9%
Principal Level: Principals, Vice Presidents, and Directors	142	127	269	155	146	302	12.3%	171	160	332	11.1%
Associate Level: Associates and Analysts	76	53	129	89	61	150	16.2%	95	71	166	13.5%

(€'000)	2014			2015				2016			
	Mean Base	Mean Bonus	Total Comp	Mean Base	Mean Bonus	Total Comp	CAGR	Mean Base	Mean Bonus	Total Comp	CAGR
Investment Professionals											
Managing Director Level	268	243	511	282	264	545	6.6%	302	294	597	8.1%
Principal Level	142	131	273	155	153	308	12.8%	171	167	338	11.3%
Associate Level	75	55	130	89	63	152	17.4%	95	73	168	13.8%

Self-reported compensation for all levels has grown by close to, or at, double-digit percentages in both 2015 and 2016. Managing directors' cash compensation increased 11.6% in 2015 and 8.9% in 2016. For principals and associates, these increases were 11.1% and 13.5% respectively, only slightly below the large increase in 2015 (12.3% and 16.2%).

Mean Base, Bonus & Carry (current fund and all funds) by Fund Size, 2016

Investment Professionals Only

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

- Mean Carry All Funds (€ Millions)
 - Mean Carry Current Funds (€ Millions)
 - Mean Bonus (€ Thousands)
 - Mean Base (€ Thousands)
- Fund sizes in € Millions



The data above remain consistent with the overall picture since 2013. We continue to see a rise in base salaries and in cash compensation overall, at all experience levels.

Mean Base, Bonus & Carry in 2016 vs 2015 vs 2014

Fund-raising and Investor Relations Professionals

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

- Mean Carry All Funds (€ Millions)
 - Mean Carry Current Funds (€ Millions)
 - Mean Bonus (€ Thousands)
 - Mean Base (€ Thousands)
- Fund sizes in € Millions



The data above incorporate 36 respondents. We compare compensation across the last three years for fund-raising professionals, a period which has seen unprecedented levels of capital raised in the industry. The data suggests this has not been reflected in compensation for these professionals with only managing directors receiving an increase in bonus compensation (up 46% from 2015). At the principal and associate levels, compensation has remained flat or below the previous year's levels.

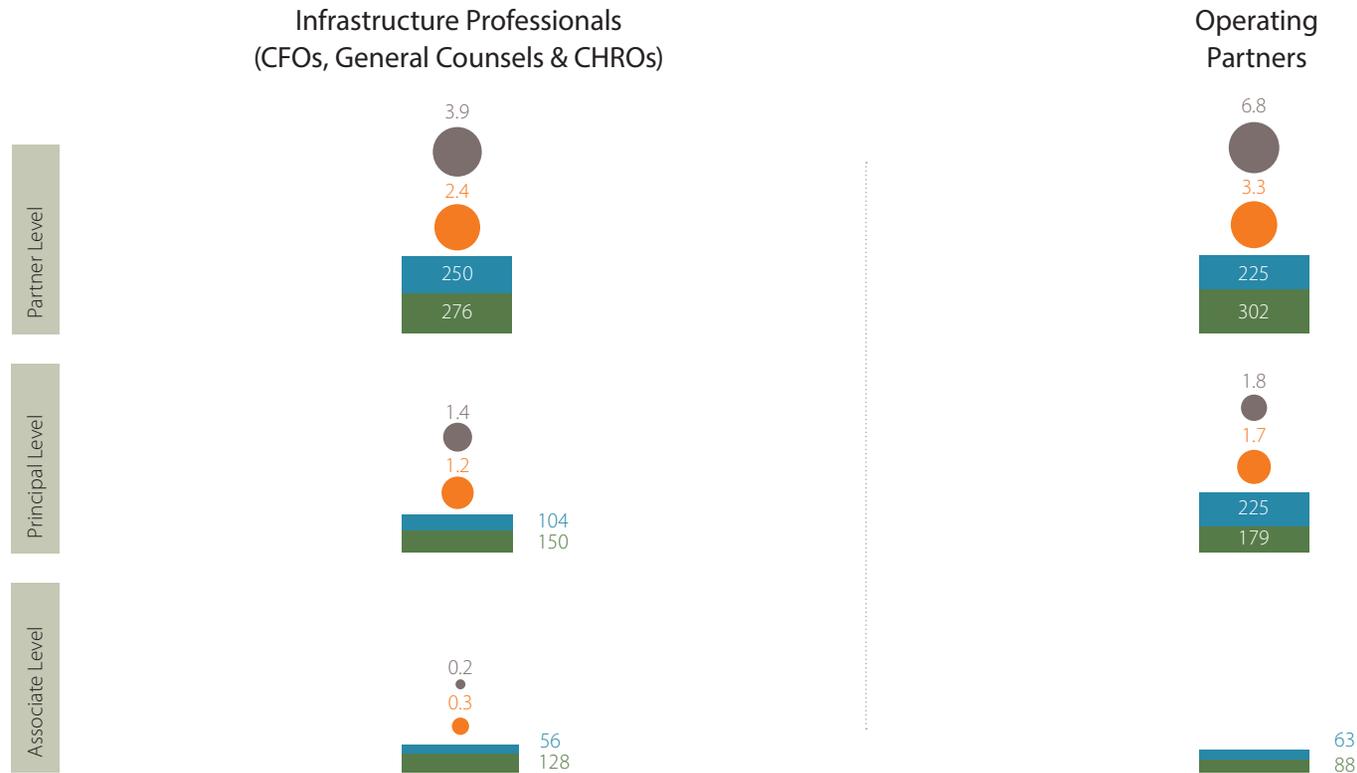
Mean Base, Bonus & Carry, 2016

Infrastructure Professionals and Operating Partners

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

Operating partners at associate level don't receive carry.

- Mean Carry All Funds (€ Millions)
 - Mean Carry Current Funds (€ Millions)
 - Mean Bonus (€ Thousands)
 - Mean Base (€ Thousands)
- Fund sizes in € Millions



Reintroduced for 2016 is our analysis of infrastructure and operating professionals' compensation. Our analysis reflects 24 responses from infrastructure professionals and 28 responses from operating professionals.

We have amalgamated roles in finance, legal, and human resources within the infrastructure bucket.

Operating professionals, similar to fund-raising professionals, compare favourably with their investment peers on base and bonus levels; however, they tend to receive carry equivalent to a level below that for investment professionals.

Years of PE Experience & Compensation in 2016 vs 2015

Investment Professionals Only

Years of PE Experience	(€'000)					
	Base (2016)	Bonus (2016)	Total Cash (Base + Bonus 2016)	Total Cash (Base + Bonus 2015)	Total Cash (Base + Bonus 2014)	% change in total cash for 2016
0-2	94	70	156	155	126	0.9%
2-4	111	82	187	168	149	11.2%
5-6	155	148	303	278	237	8.8%
7-8	218	193	401	383	332	4.7%
9-10	201	219	406	383	364	6.1%
11-12	271	255	526	442	402	19.0%
13-14	241	274	515	463	398	11.2%
15-16	276	220	481	487	510	-1.2%
17+	315	345	659	603	550	9.3%

The analysis reflects 'time-stamped' data, and shows a confirmed increase in compensation throughout the industry.

While the entry level role (those with less than two years' industry experience) has seen very little increase since 2015 (0.9%), every other experience bracket has seen at least a 5% increase, and for those with 11 to 14 years' experience on the buy-side, this is a double-digit margin.

Of note is the 11.2% increase for those with two to four years' industry experience. This is reflected in the demand for talent with some buy-side experience, those still in their apprenticeship phase and not locked in by carry.

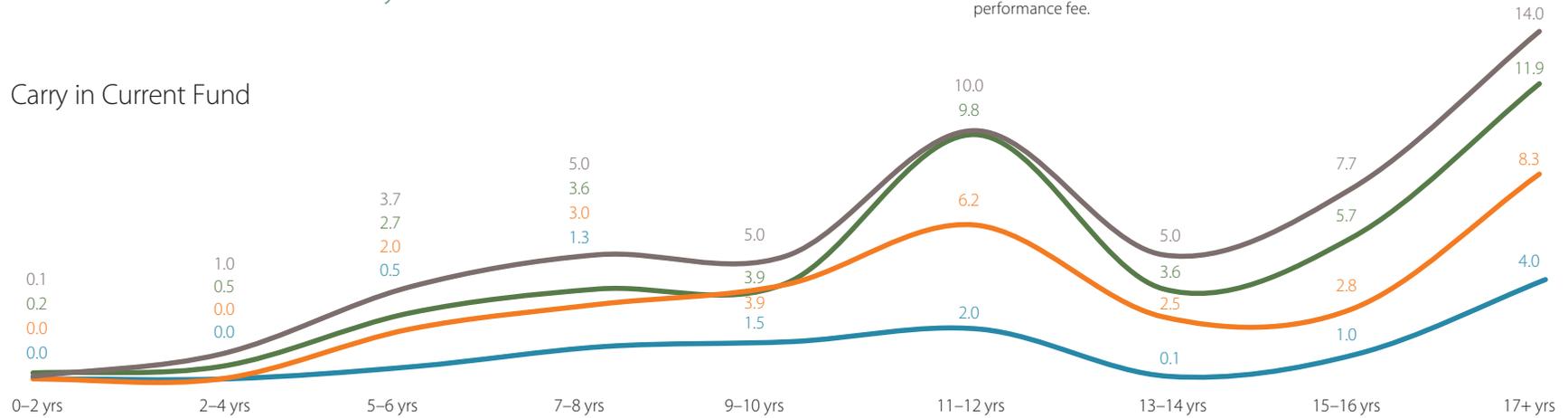
Years of PE Experience & Carry, 2016

Investment Professionals Only

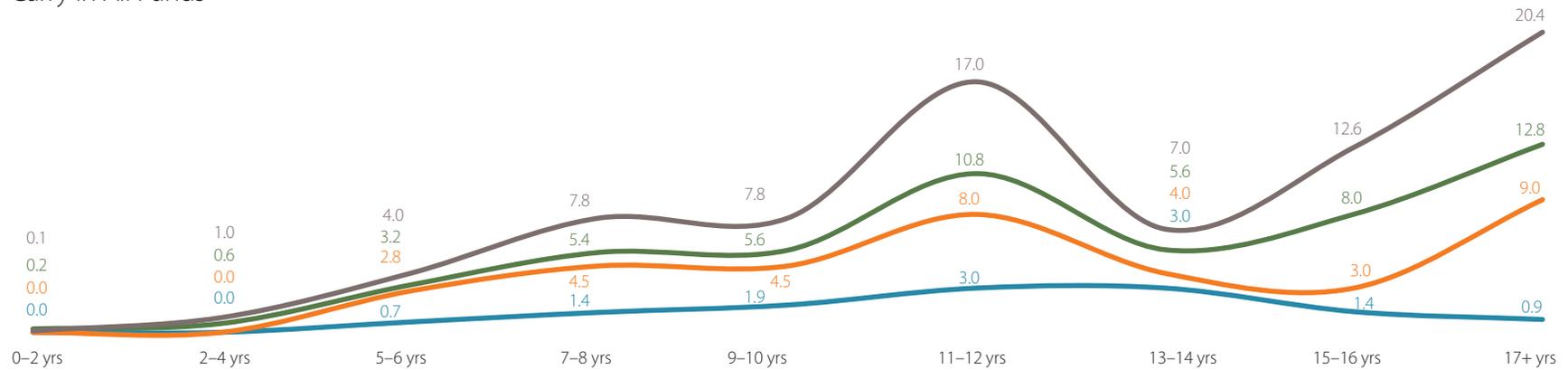
Carry-€ at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

- Mean
- Median
- 25th Percentile
- 75th Percentile

Carry in Current Fund



Carry in All Funds



The graphs above illustrates the relationship between carry development and experience for 2016 and the percentile ranges.

Above, we compare carry in current funds vs. carry in all funds.

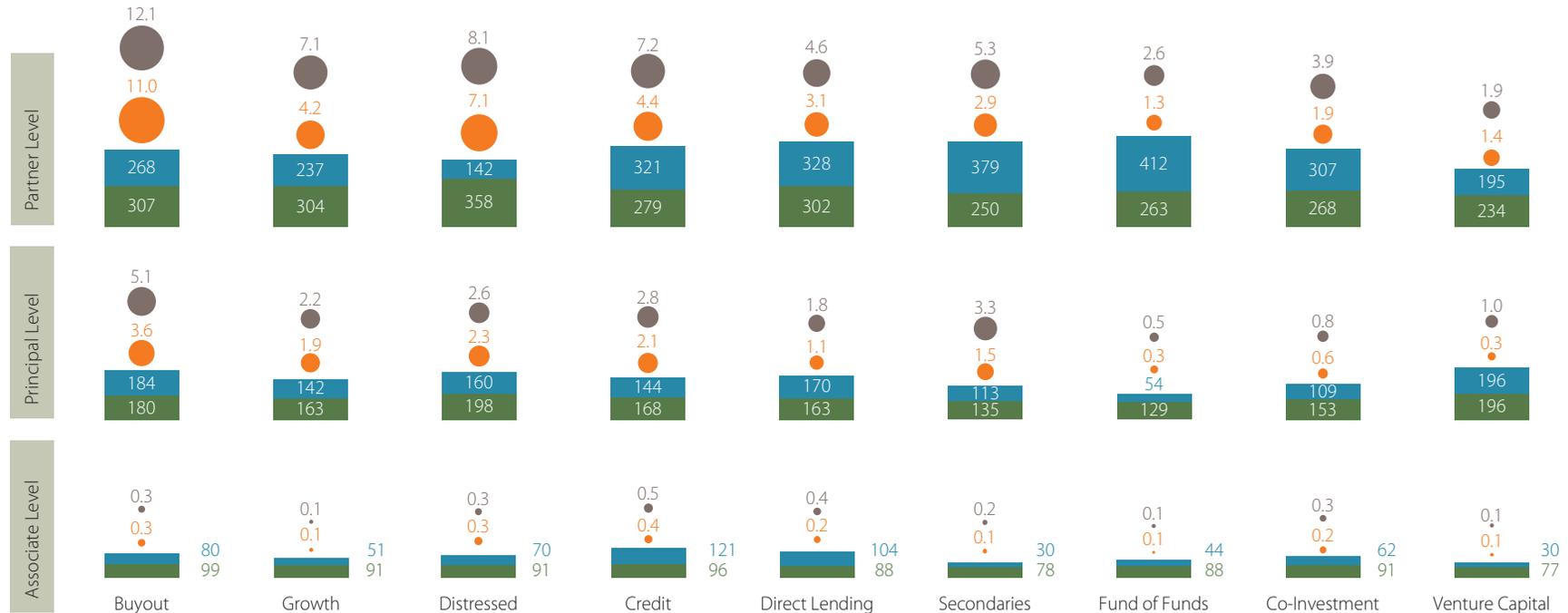
While we draw the data into quartiles, we do not report on performance so cannot comment on whether there is a strong correlation between fund performance and compensation.

Investment Strategy Mean Base, Bonus & Carry, 2016

Investment Professionals Only

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

- Mean Carry All Funds (€ Millions)
 - Mean Carry Current Funds (€ Millions)
 - Mean Bonus (€ Thousands)
 - Mean Base (€ Thousands)
- Fund sizes in € Millions



The data above allow us to show trends across private capital strategies.

It is notable that in 2016, for the first time in the history of this survey, base salary compensation levels for managing directors and principals is highest in distressed funds.

Buyout funds remain the highest compensators, while the continued demand for credit professionals has sustained high compensation levels across that strategy.

Comparison of Compensation across Europe and Africa, 2016

Investment Professionals Only

Cost of living and demand for talent continues to drive variability for cash compensation across Europe depending on geographic location.

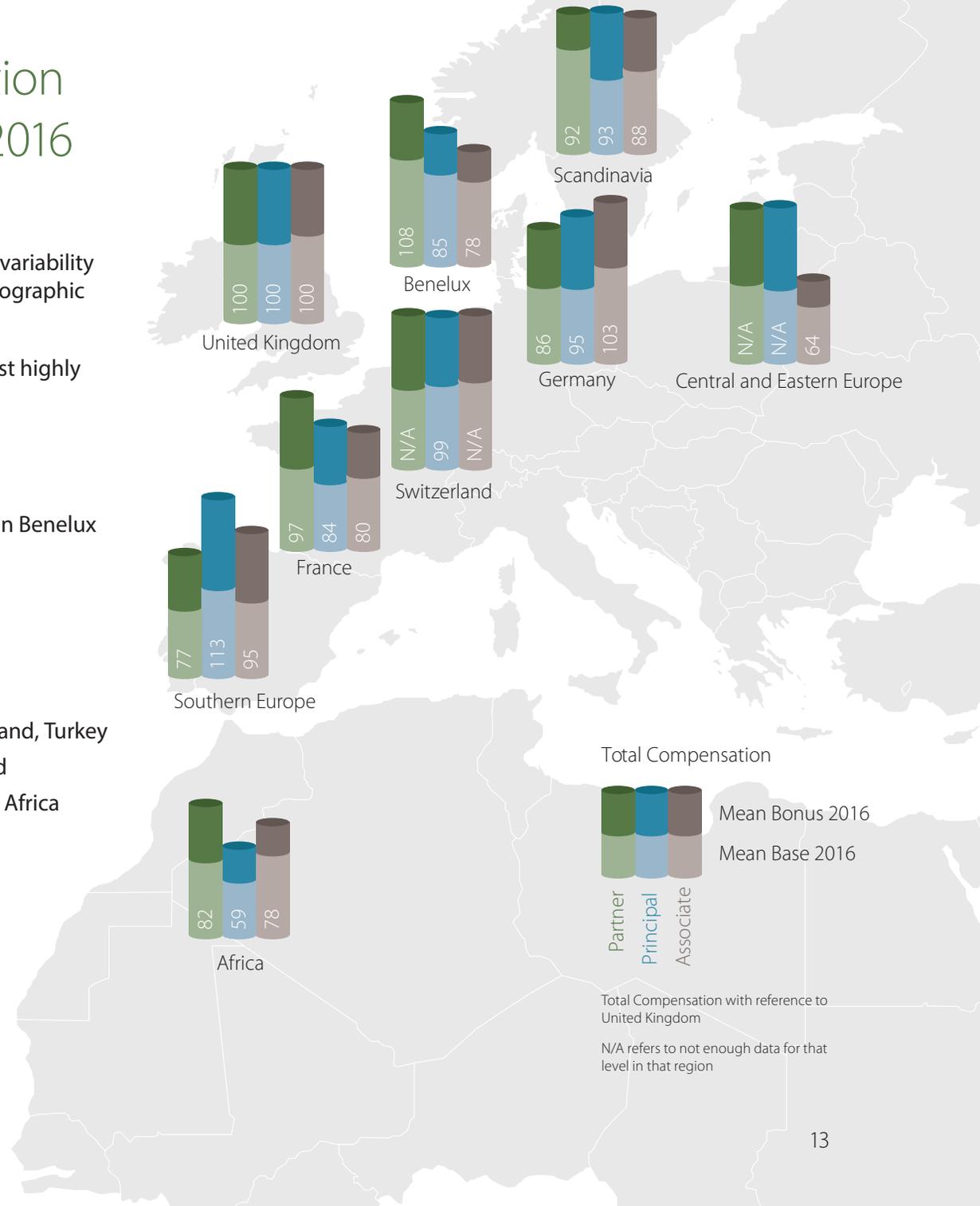
The United Kingdom has returned to the top as the most highly compensated market (from Switzerland in 2015).

Only in Germany are juniors compensated better than their peers in the UK.

Principals in Southern Europe and managing directors in Benelux are also rewarded at higher levels than peers in the UK.

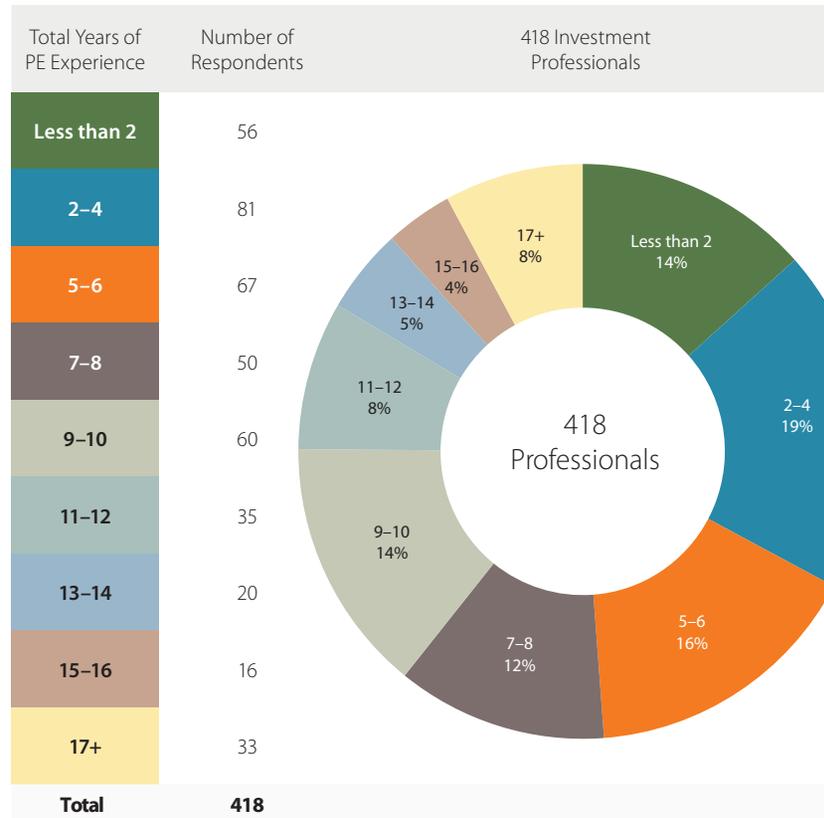
Responses from some countries are grouped under a region:

- **Benelux:** Belgium and Netherlands
- **Central & Eastern Europe (CEE):** Russia, Bulgaria, Poland, Turkey
- **Scandinavia:** Denmark, Norway, Sweden, and Finland
- **Africa:** Nigeria, Republic of Tunisia, Kenya, and South Africa
- **Southern Europe:** Spain, Italy, and Cyprus



Respondents' PE Experience Demographics

All Professionals



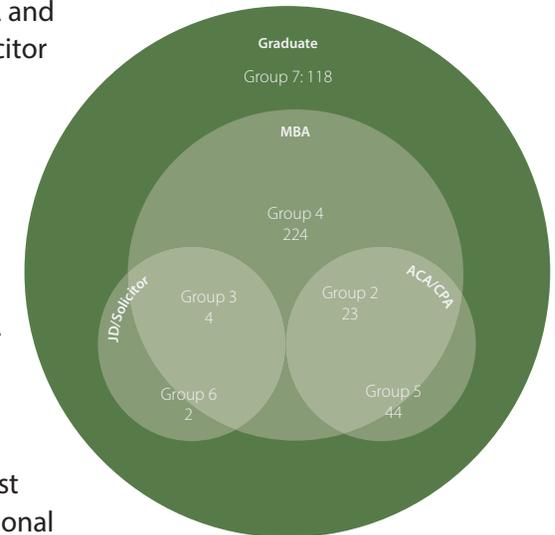
Split of Respondents by Educational Qualification

All Professionals

Respondents' education qualifications are broadly classified under the following categories.

Respondents with MBA are as follows:

- **Group 1:** 0 respondents with MBA and both ACA/CPA & JD/solicitor qualifications
- **Group 2:** 23 respondents with MBA and just ACA/CPA qualifications
- **Group 3:** 5 respondents with MBA and just JD/solicitor qualifications
- **Group 4:** 224 respondents with just MBA and no other additional qualifications



Respondents without MBA are as follows:

- **Group 5:** 44 non-MBA respondents with just ACA/CPA qualification
- **Group 6:** 2 non-MBA respondents with just JD/solicitor qualification
- **Group 7:** 118 non-MBA respondents with no additional qualification

Private Equity Practice

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

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

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

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