HEIDRICK & STRUGGLES

PRIVATE EQUITY PRACTICE

2023 Europe Private Capital Compensation Survey

Contents

A message from the authors

Welcome to the *2023 Europe Private Capital Compensation Survey*. Our goal in producing this survey is to develop and share with the industry a comprehensive understanding of both compensation practices and backgrounds of investment professionals at private capital firms across Europe.

This year's survey includes responses from 212 professionals. Many thanks to all who have completed the survey, whether you have done so every year or participated for the first time this year. We appreciate your time and effort in contributing to the project. If you wish to discuss the survey in greater detail, please do not hesitate to contact us.

With warmest regards,

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On confidentiality

The Europe private capital compensation survey, 2023, was conducted on an anonymous basis for individuals and their employers, and Heidrick & Struggles has removed any data relating to identity from reported compensation figures.

Acknowledgments

The authors wish to thank **Mohd Arsalan** for his contributions to this report.

Methodology

In an online survey, we asked participants to provide their compensation data from 2021, 2022, and 2023. All data collected was self-reported by private capital professionals and has been aggregated to evaluate trends in compensation packages, including base salary, bonus, and carried interest (carry). In addition to overall compensation data, we split responses by gender, level of seniority, fund size, and investment strategy across buyout, growth capital, distressed, credit, direct lending, secondaries, fund of funds, co-investment, and venture capital.

Responses from 212 participants are included in the survey results.

In some compensation charts, we report the mean, lower quartile (25th percentile), median, and upper quartile (75th percentile) responses. Please note that the mean can be influenced by particularly high or low data points, especially in small sample sizes. Many firms that use compensation surveys set their compensation targets around or above the upper quartile. Carried interest is calculated using "carry euros at work," which is the expected return on total carry participation across all vehicles, based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee. For example, 7 points (700 bps) of carry (out of a possible 100) in a €500 million fund with 20% carry would result in €7 million of carry euros at work (500 X 0.2 X 0.07 = 7).

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

A note on titles

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

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

Principal
Considered "deal captains," principals are accomplished executives who lead and manage deal teams. They also may be expected to originate their own investments and identify potential acquisitions.

Associate
The entry-level role for investment professionals. Associates are responsible for analyzing companies and business plans, financial modeling, conducting due diligence, working with service providers, and assisting with the management and monitoring of portfolio companies under the direction of senior team members.

State of the European private capital market 2023

The 2023 survey was fielded coming off the back of four years of strong growth within the private markets space. Despite market conditions deteriorating in 2023, with challenged fundraising and limited deal activity, the sector has remained active and demand for talent remains consistent, if not quite reaching the levels of previous years. Preqin reports a 3.2x gap between supply and demand—the widest the industry has seen since the global financial crisis.[1] A recent conversation between Bain & Company's Hugh MacArthur and Graham Rose also noted the gap: "Most fundraising ambitions have something in the range of 10% to 15% per annum growth in their target fund," said Rose. "But at the end of the day … the amount of capital available to … private equity is growing closer to 8%. …And that implies that you have to go win share of that capital base."[2] We have heard the term "equity crunch" recently, an echo of the previous financial crisis having been dubbed a "credit crunch."

We have seen firms tackle this limited capital base in different ways. Many are pushing into the retail investor market for the first time, looking to break into the large pool of capital held by retail investors globally. Firms have also pushed into the wealth and family office client space, seeking to attract ultra-high-net-worth individuals (UHNWIs) or utilize private banking platforms to gain access to a new LP base, one where the appetite for private markets products continues to grow. Finally, firms are targeting insurance companies, whose balance sheets represent a significant amount of capital, particularly in Europe, which is currently limited in its exposure to private markets products, other than credit. Many anticipate regulatory barriers will soon be reduced, potentially creating a large pool of capital that could be invested into private markets products.

In that context, and even as overall hiring has slowed, we have seen an interesting shift in the demand for talent: from more pre-partner-level hiring to increased senior-level hiring. Firms are now looking for team leaders and culture setters who have the ability to effectively coordinate deal teams and set high standards across the board. This is partly due to the increasing number of businesses entering private markets but is also because many existing GPs are working to future-proof their teams for the next cycle of capital, allowing them to remain competitive in a market that is becoming increasingly saturated. With this, the requirements for these leaders are growing—it is no longer enough to be a skilled investor or fundraiser alone. As deal flow has slowed and with valuations still high and leverage expensive, firms are using this lull as an opportunity to stabilize its teams for the future and make cultural progress in areas such as DE&I.

Indeed, while DE&I in private markets is in its infancy compared to other industries, we are seeing a genuine desire from leaders to make progress. However, the nature of the workplace culture within private equity firms—one in which work is often all-encompassing—can be a barrier. We still see, for example, retention drop significantly for women around child-bearing age. And a recent McKinsey & Company report notes that, "At almost every level, women in investing roles are promoted at significantly lower rates than men. Globally, men in investing roles are about 50% more likely, on average, to be promoted than their female colleagues, a trend that persists across all levels in investing roles."[3]

This is reflected in our survey results. At the associate and principal levels, we see compensation parity. But at the managing partner/partner level, the earnings men report are almost double those women report. Though the scarcity of women in the senior ranks might suggest that they could command premium compensation, some are not in full-time roles and few are founding partners, both of which affect compensation.

In terms of compensation overall, for the first time in more than half a decade, carried interest valuations are coming down. One explanation for this could be the lack of exits this year, with many firms unable to realize performance of their assets given the high-interest-rate environment has reduced deal flow. This creates a cycle in which firms struggle to exit portfolio companies, creating limited returns to LPs, and then, in turn, firms struggle to raise capital from existing or future LPs.

Looking forward, an anticipated change in the United Kingdom's government may affect UK-based private equity professionals. One of the headline policies of the Labour Party—which many expect to come into power in 2024—is to tax carried interest at the rate of income, rather than capital gains. It is too soon to know the effects of this policy, but some fear it could drive private equity talent to leave the United Kingdom, creating instability.

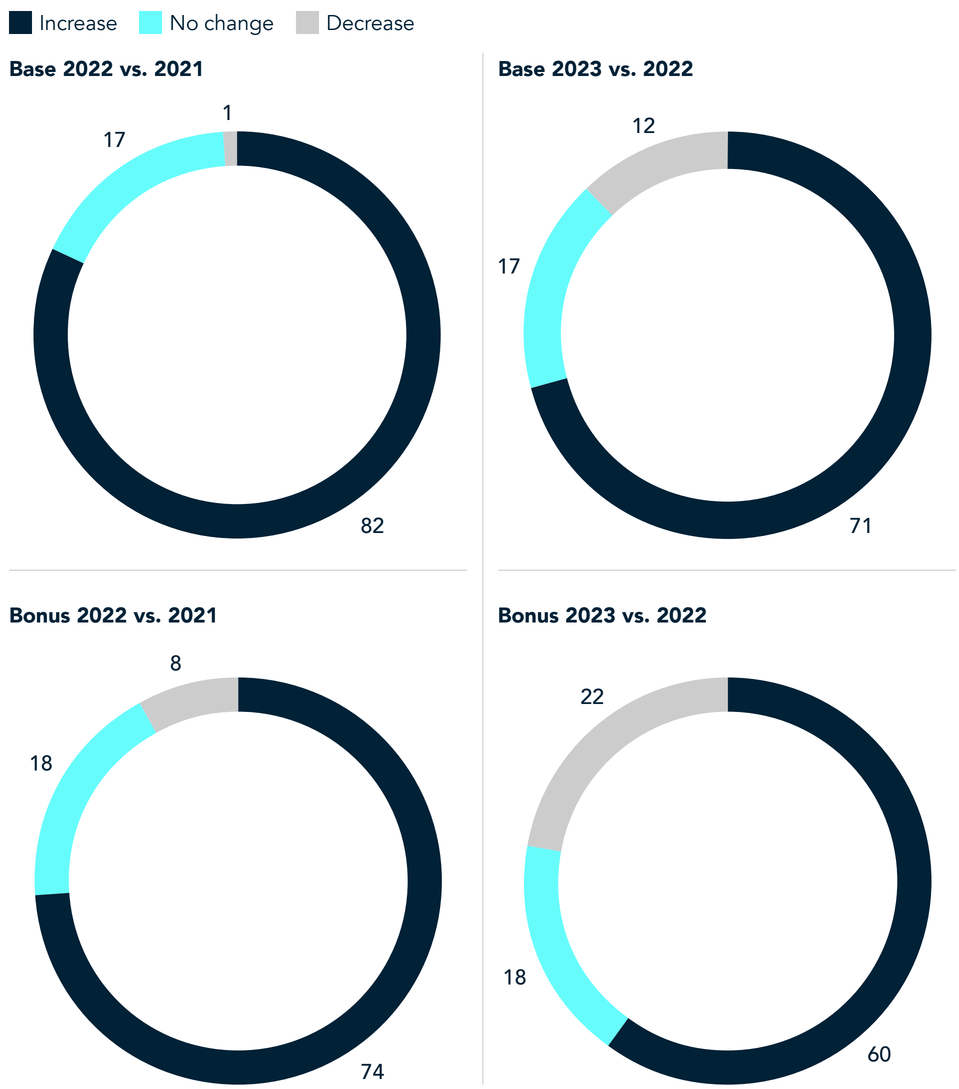
1 Or Skolnik, Brenda Rainey, Greg Callahan, Mónica Oliver, and Alexander De Mol, "Taking Private Equity Fund-Raising to the Next Level," Bain & Company, July 17, 2023, bain.com.
2 Hugh MacArthur and Graham Rose, "Level Up Your Fund-Raising Game," *Dry Powder: The Private Equity Podcast*, Bain & Company, October 19, 2023, bain.com.
3 Pontus Averstad, Fredrik Dahlqvist, Eitan Lefkowitz, Alexandra Nee, Gary Pinshaw, David Quigley, and Mohammed Shafi, *The state of diversity in global private markets: 2023*, McKinsey & Company, August 22, 2023, p. 12, mckinsey.com.

State of private capital professional compensation

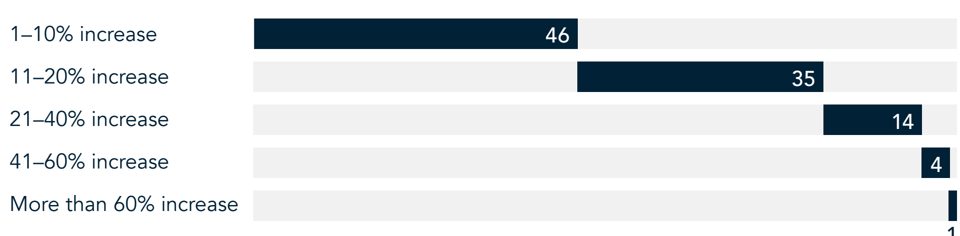
The majority of the professionals we surveyed continued to report higher compensation, though at a slower pace than in previous years. And, on the other end, 12% of respondents reported a decrease in base compensation in 2023, up from only 1% in 2022. However, this 12% is still less than the 15% who reported a decrease between 2020 and 2021.

The share of respondents reporting a decrease in bonuses more than doubled.

General observations on compensation trends (%)



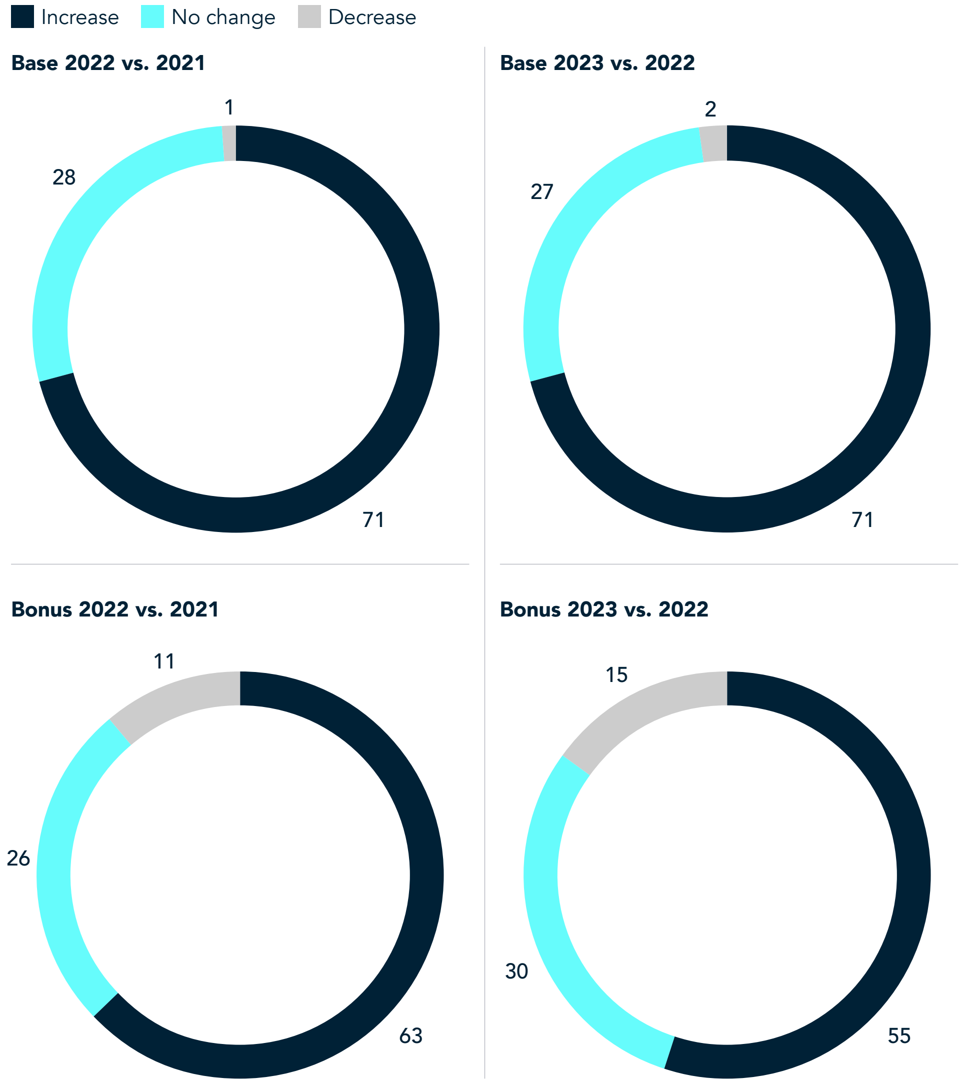
Breakdown of respondents reporting an increase in 2023 base salaries (%)



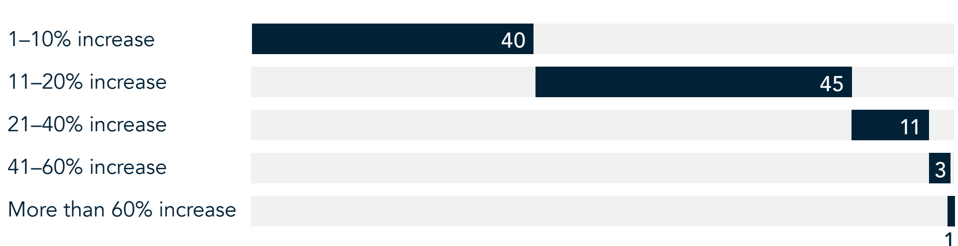
Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 212 respondents

Looking only at respondents outside the United Kingdom, compensation more closely resembles the previous year, suggesting that the UK market saw more change than Europe's, landing them in about the same position.

General observations on compensation trends in Europe (excluding UK) (%)



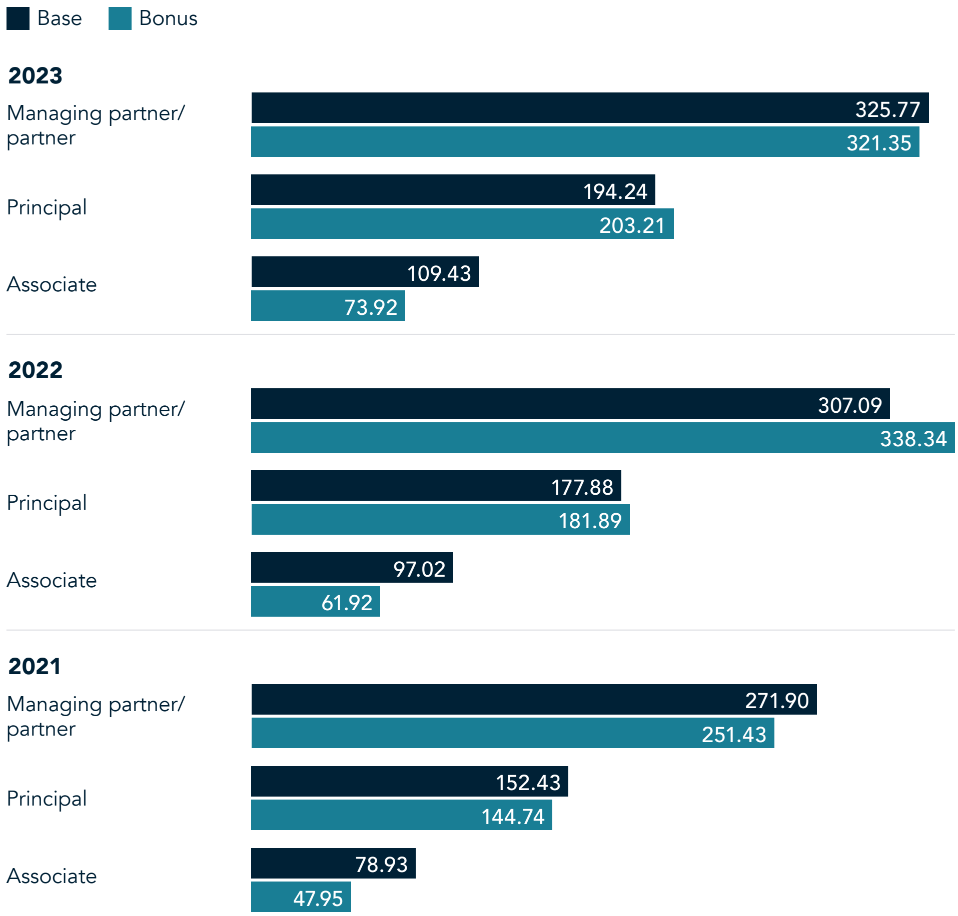
Breakdown of respondents reporting an increase in 2023 base salaries (%)



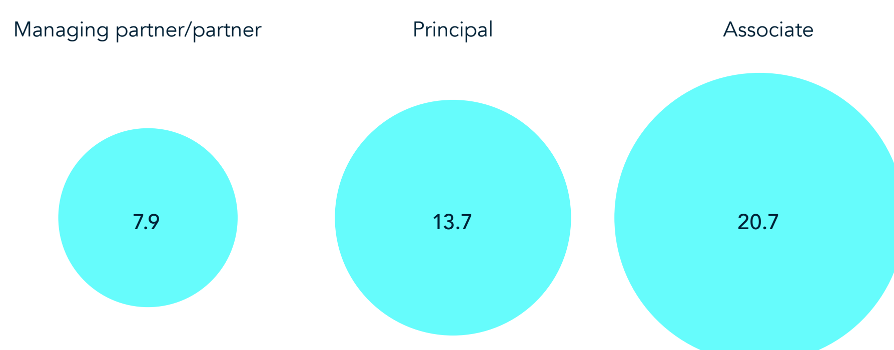
Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 110 respondents

Digging into compensation by seniority, respondents at almost all levels reported increases in average base and bonus, with the exception of managing partner/partner bonuses. The notable rise in associate cash compensation is likely driven by increased competition for young talent from investment banks and corporate finance houses, as well as by increased demand for finance expertise in sectors such as technology and healthcare.

General observations on compensation trends, all professionals (€)



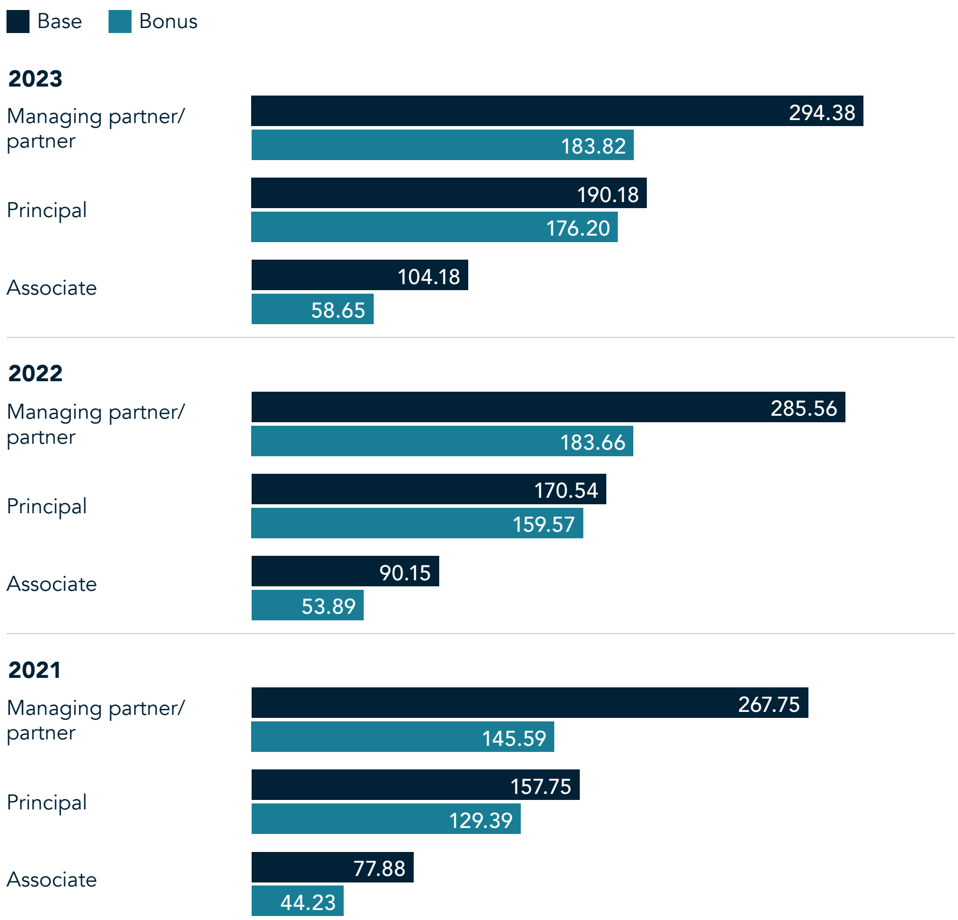
3-year CAGR of total cash compensation (%)



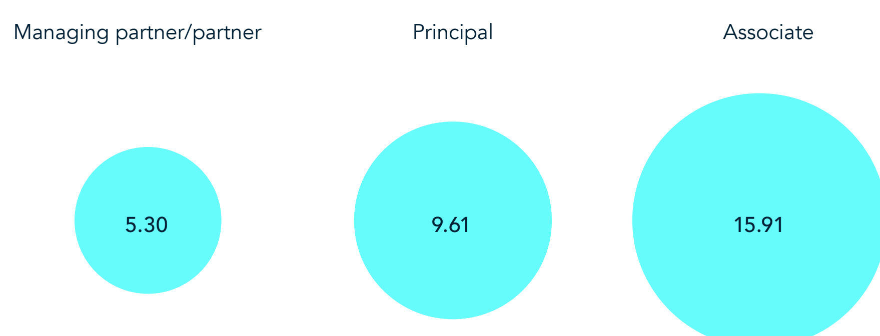
Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 212 respondents

Respondents outside the United Kingdom reported lower average base and bonus compensation.

General observations on compensation trends in Europe (excluding the United Kingdom), all professionals (€)



3-year CAGR of total cash compensation (%)

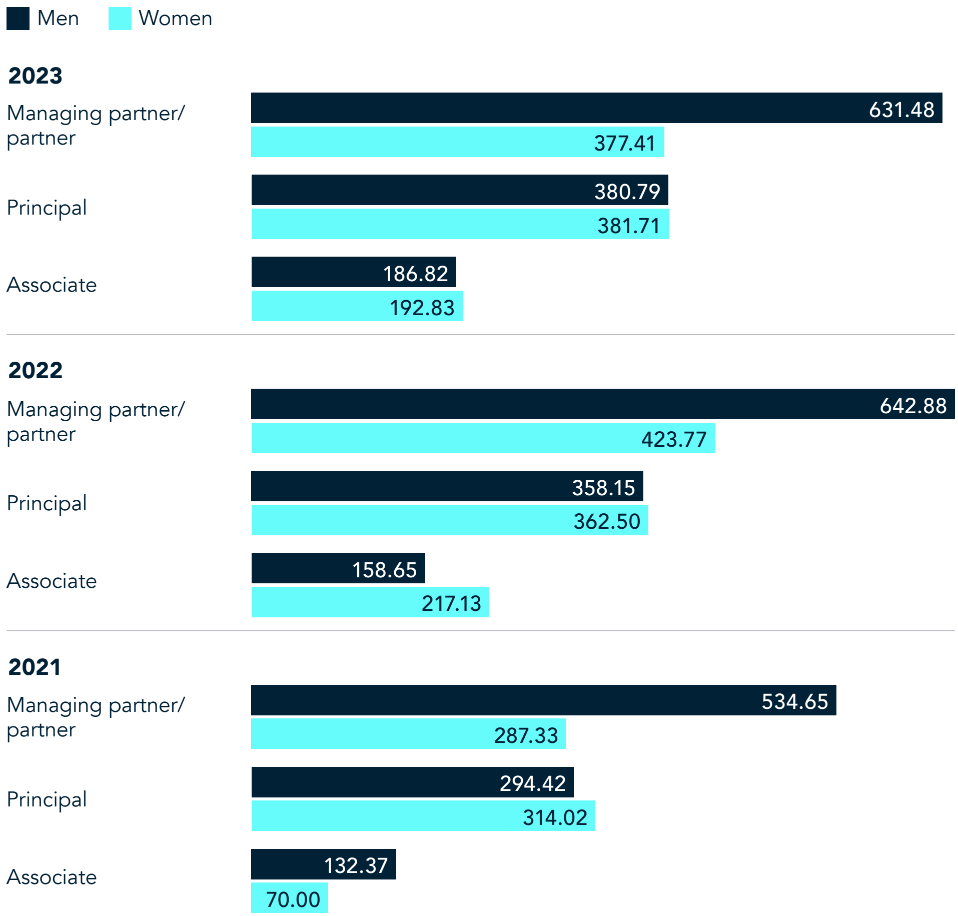


Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 110 respondents

Compensation and gender

Compensation by gender reveals a significant gap at the most senior levels. As noted, some of the most senior women are not in full-time roles and few are founding partners, both of which affect compensation. Encouragingly, compensation at the junior levels remains almost equal between men and women. This suggests that firms have a good opportunity to improve gender balance and compensation balance over time—and that retention is a key component of progress.

General observations on compensation trends, all professionals (€)



Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 181 respondents

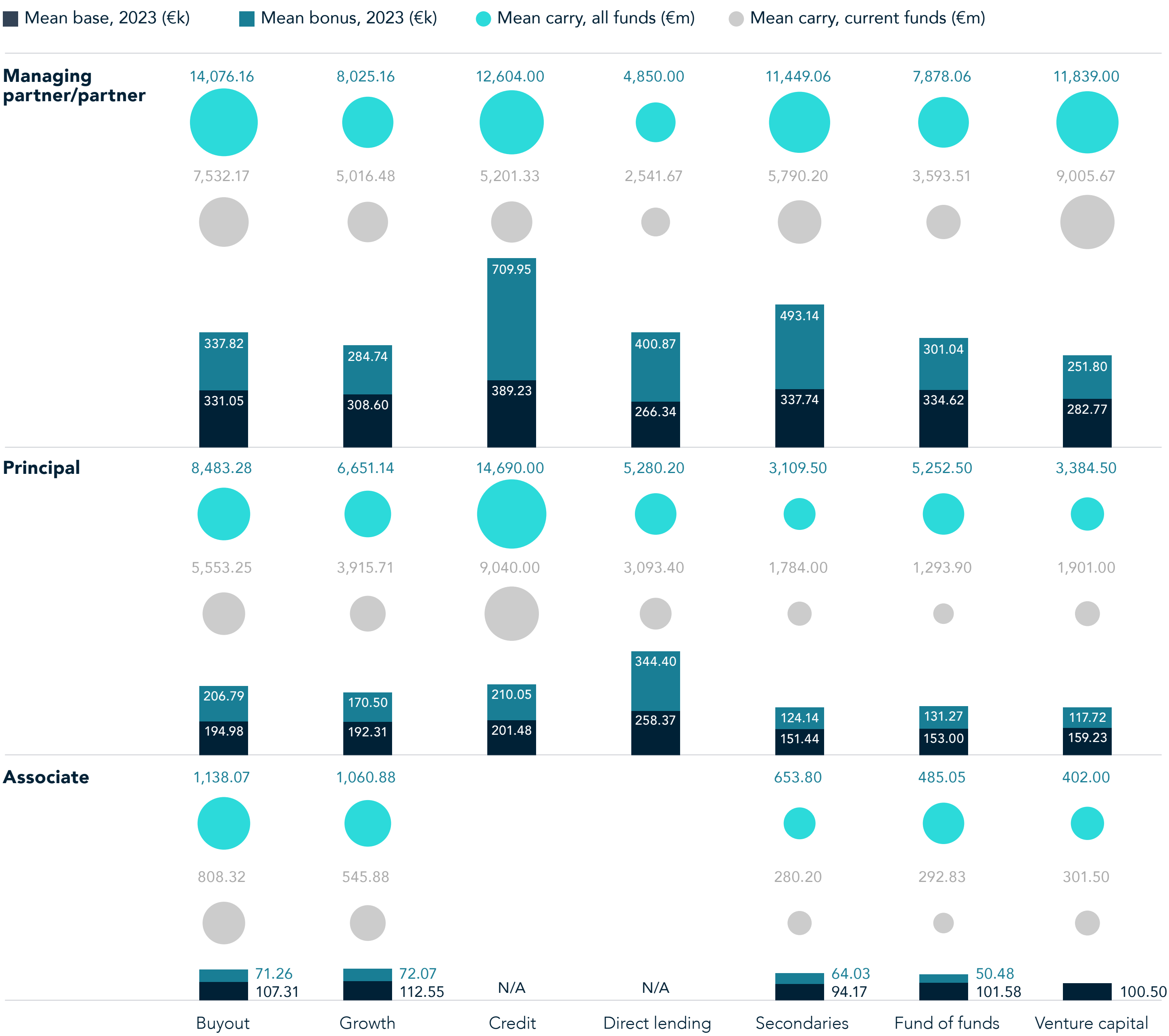
State of investment professional compensation

Compensation by investment strategy

By investment strategy, managing partners/partners at credit firms reported the highest average total cash compensation.

Managing partners/partners at buyout firms saw the highest average carry across all funds, while those at venture capital funds saw the highest average carry by current fund.

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

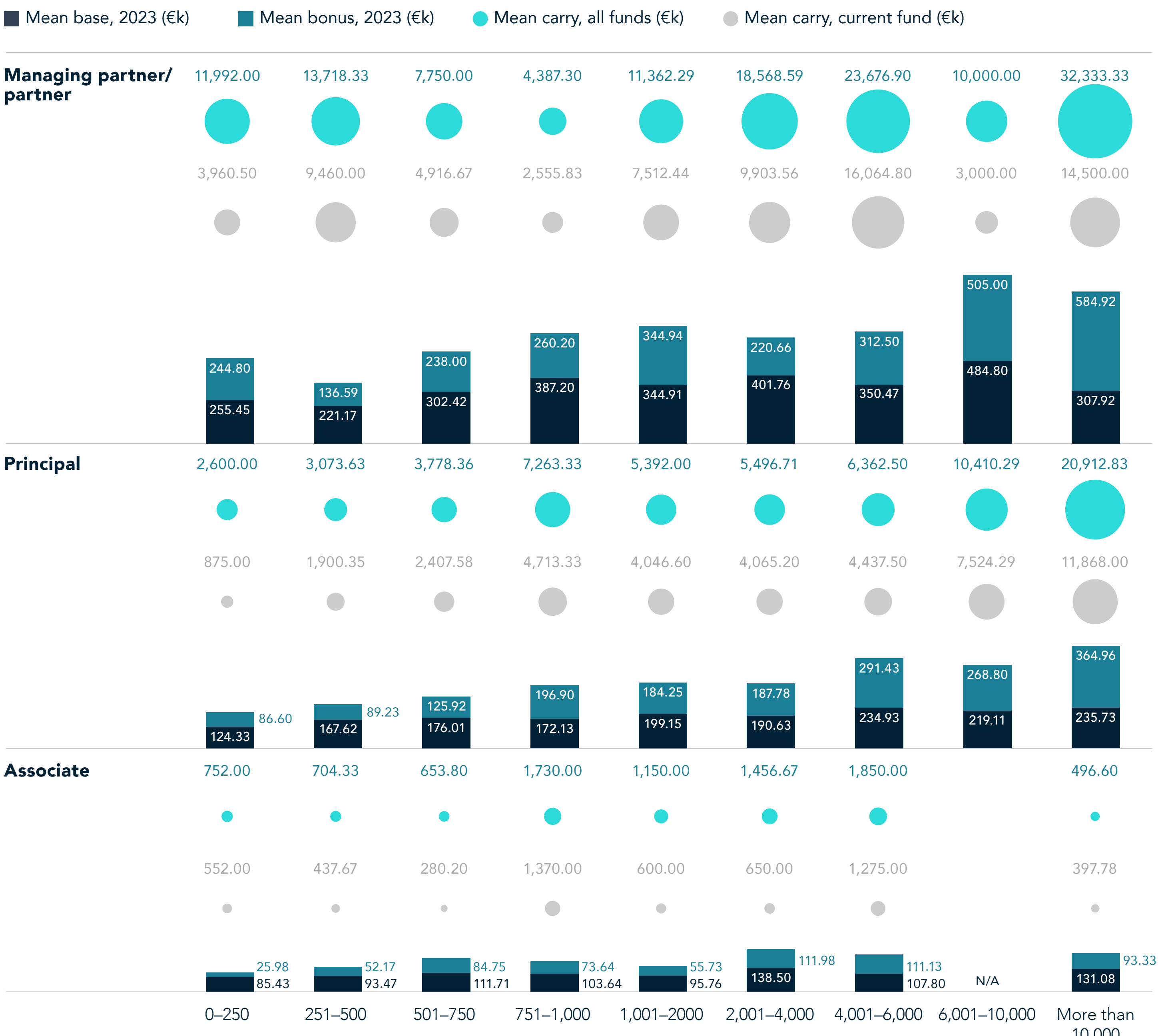


Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 181 respondents

Compensation by fund size

Across all levels, average compensation generally rises by fund size.

Mean base, bonus, and carry by fund size (€m), investment professionals only



Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 179 respondents

Compensation by years of experience

Compensation also generally rises with years of private equity experience. However, this year, respondents with 13 to 14 years of experience reported outearning even their more experienced colleagues.

Years of PE experience and compensation, investment professionals only

	Mean (€k)					
Years of PE experience	Base (2023)	Bonus (2023)	Total cash (base + bonus 2023)	Total cash (base + bonus 2022)	Total cash (base + bonus 2021)	3-year CAGR total cash (2023)
0–2	€ 109.85	€ 69.15	€ 169.79	€ 161.17	€ 115.88	21.05%
3–4	€ 132.38	€ 101.64	€ 212.84	€ 211.42	€ 170.17	11.84%
5–6	€ 142.38	€ 118.55	€ 255.77	€ 227.02	€ 195.68	14.33%
7–8	€ 225.59	€ 162.46	€ 356.81	€ 325.22	€ 291.57	10.62%
9–10	€ 233.21	€ 252.79	€ 460.72	€ 431.42	€ 352.68	14.30%
11–12	€ 305.70	€ 279.86	€ 529.59	€ 513.12	€ 375.34	18.78%
13–14	€ 243.54	€ 405.71	€ 612.36	€ 568.12	€ 468.31	14.35%
15–16	€ 312.53	€ 284.11	€ 525.61	€ 569.23	€ 487.19	3.87%
17+	€ 324.37	€ 270.87	€ 566.22	€ 607.00	€ 525.31	3.82%

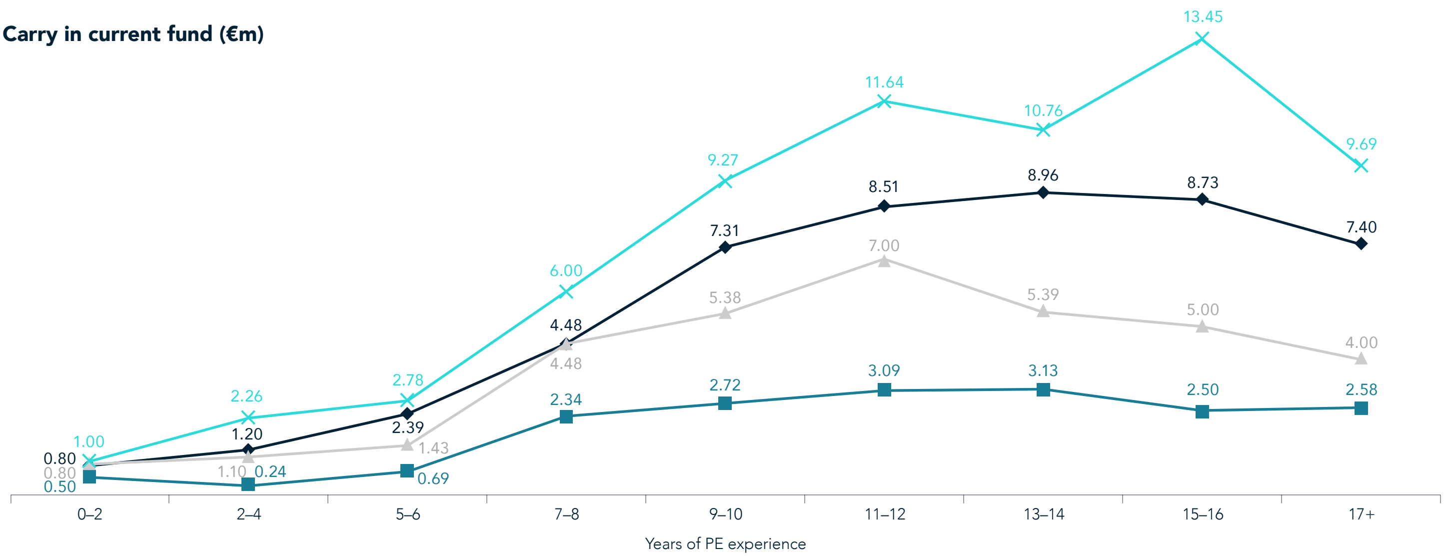
Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 179 respondents
Note: Total cash compensation is equal to the sum of reported mean base and bonus.

Investment professionals with 15 to 16 years of experience reported the highest carry at both their current fund and across all their funds.

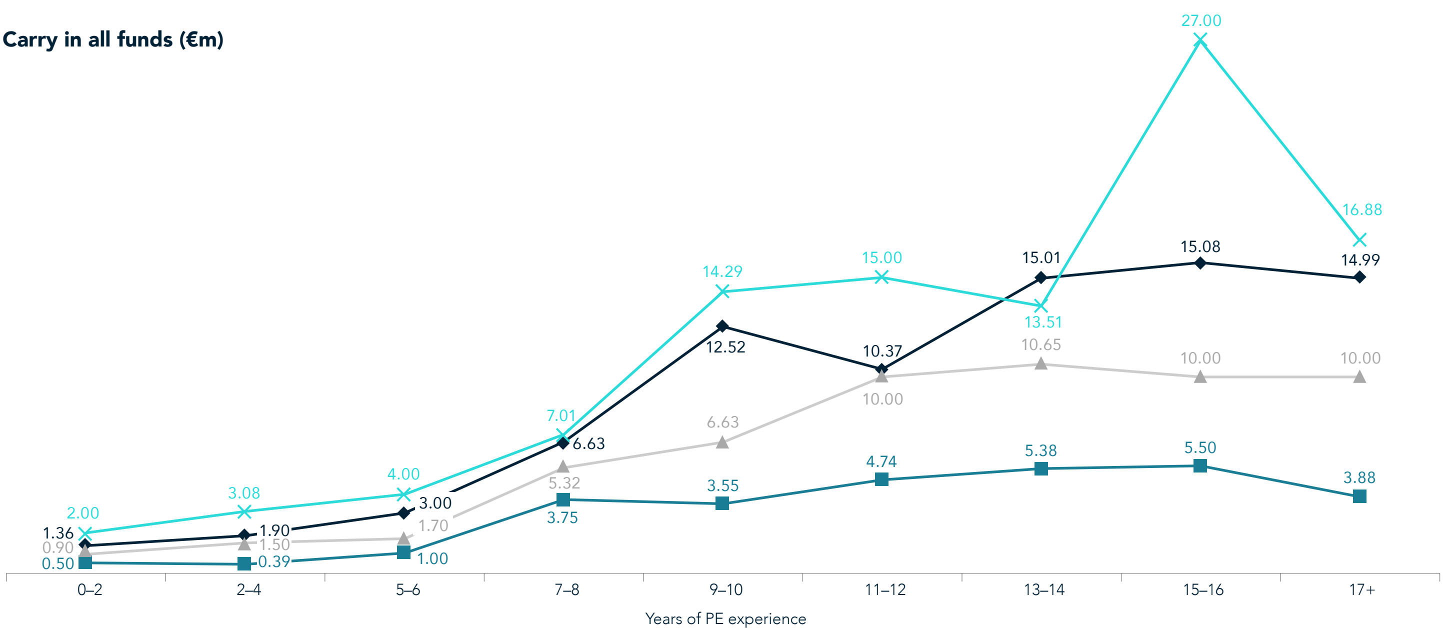
Years of PE experience and carry, investment professionals only

Mean | 25th percentile | Median | 75th percentile

Carry in current fund (€m)



Carry in all funds (€m)



Source: Heidrick & Struggles Europe private capital compensation survey, 2023, n = 140 respondents
Note: While we draw the data above into quartiles, we do not report on performance and so cannot comment on whether there is a strong correlation between fund performance and compensation.

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.

With more than 80 consultants in 50 offices around the world, our expertise shadows the private equity life cycle from pre-deal due-diligence support to 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.

We pride ourselves on our work with private equity–backed portfolio companies to secure the leadership needed to deliver on tomorrow's strategies. Our consulting services enable us to develop long-term strategic partnerships that build winning leadership teams and create substantial value.

In addition, we are the leader in finding top private equity management talent by recruiting investment professionals, operating partners, and other essential senior managers who support financial growth.

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