On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

Response to ESMA Consultation Paper: “Guidelines on sound remuneration policies under the UCITS Directive and AIFMD”

Q1: In this consultation paper ESMA proposes an approach on proportionality which is in line with the AIFMD Remuneration Guidelines and allows for the disapplication of certain requirements on an exceptional basis and taking into account specific facts. Notwithstanding this, ESMA is interested in assessing the impact from a general perspective and more precisely in terms of costs and administrative burden that a different approach would have on management companies. For this reason, management companies are invited to provide ESMA with information and data on the following aspects:

1) All management companies (i.e. those that hold a separate AIFMD licence and those that do not) are invited to provide details on the following:
   a) compliance impacts and costs (one-off and ongoing costs, encompassing technological/IT costs and human resources), and
   b) any type of practical difficulties in applying in any circumstances the remuneration principles that could otherwise be disapplied according to the provisions under Section 7.1 of the draft UCITS Remuneration Guidelines (Annex IV to this consultation paper).

2) Management companies that also hold an AIFMD licence and benefit from the disapplication of certain of the remuneration rules under the AIFMD Remuneration Guidelines are asked to provide an estimate of the compliance costs in absolute and relative terms and to identify impediments resulting from their nature, including their legal form, if they were required to apply, for the variable remuneration of identified staff:
   a) deferral arrangements (in particular, a minimum deferral period of three years);
   b) retention;
   c) the pay out in instruments; and
   d) malus (with respect to the deferred variable remuneration).
   Wherever possible, the estimated impact and costs of these changes should be quantified, supported by a short explanation of the methodology applied for their estimation and provided separately, if possible, for the four listed aspects.
I. General comments

The private equity industry is responding to the consultation given that it: i) proposes a targeted amendment to the AIFMD Remuneration Guidelines and ii) raises questions and considers options that are of relevance to our asset class, particularly in the context of the proportionality principle.

We fully support the approach to the application of the proportionality principle that is proposed in the consultation paper. We encourage ESMA to retain its current interpretation of proportionality for private equity fund managers, allowing “neutralization” of certain remuneration rules that apply to them.

A change of the sort that the EBA has proposed in its “Draft Guidelines on sound remuneration policies under Article 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013” would be wholly inappropriate for the private equity industry. Moreover such a change contradicts the correct legal interpretation of the proportionality principle, including the concept of proportionality under the Treaty on European Union, and the specific intentions of the EU co-legislators in relevant pieces of Level 1 legislation. We enclose a copy of our response to the EBA consultation paper on sound remuneration practices under CRD IV.

While a specific carried interest model has been recognised by ESMA’s Guidelines on sound remuneration policies under the AIMFD as satisfying the requirements of the remuneration provisions, the proportionality principle is still an essential tool for ensuring that private equity managers can adopt effective and workable remuneration practices that are appropriate and necessary to the financial sub-sector in which they operate, to their risk profiles and governance structures.

Proportionality as adopted by ESMA in its AIFMD Remuneration Guidelines does not allow for a general disapplication or a general waiver from the remuneration rules. Neutralization is never automatically triggered on the basis of the Guidelines alone. AIFMs are always required to perform an assessment for each of the remuneration requirements and determine whether in their particular case and circumstances it would be proportionate to apply it wholly, in part, or, in some cases, to apply full neutralisation. The ways AIFMs implement the proportionality principle are also reviewed and overseen by their national competent authorities. This ensures that the proportionality principle and any subsequent neutralisation are applied in an appropriate manner.

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1 Full response of the private equity industry to the EBA consultation paper is available here: [http://www.investeurope.eu/media/391222/PAE-response_EBA_draft_guidelines_on_sound_remuneration_practices_040615.pdf](http://www.investeurope.eu/media/391222/PAE-response_EBA_draft_guidelines_on_sound_remuneration_practices_040615.pdf)
If ESMA was now to change its approach to the proportionality principle there would be significant disruption to the private equity industry. Remuneration structures based on typical carried interest arrangements would be undermined. A fundamental mechanism for providing protection to investors and for ensuring that fund managers’ and investors’ interests are aligned would be rendered inoperable.

In addition, it is difficult, if not impossible, to quantify the costs that would be imposed on the private equity industry if ESMA were to reverse the approach to proportionality set out in its existing Guidelines. The impact of such a reversal would be substantial (for the practical reasons set out in detail in section II below) and it is not an exaggeration to say that it would go to the heart of the private equity business model, rendering unworkable a model that has consistently delivered alignment of interests for investors and that meets the policy objectives set down at EU level.

At a time when the European Commission’s Action Plan on Capital Markets is explicitly looking to promote funds as a means of securing additional and alternative sources of capital for European businesses, such an outcome would be counter-productive.

II. Private equity remuneration structures and carried interest

A change in the interpretation of the proportionality principle is likely to substantially undermine established incentive arrangements applied in the private equity industry. These arrangements have been developed jointly over many years between private equity fund managers and professional investors who invest in private equity funds and form part of the legally binding agreement into which they enter. Furthermore with the introduction of AIFMD these arrangements have been – and continue to be – overseen by national supervisors, who have also offered their endorsement through the AIFMD authorisation process. This endorsement is offered not least because those arrangements already achieve the underlying policy objectives behind the remuneration principles.

Private equity carried interest and co-investment arrangements (which are explained in more detail below) feature inherent long-term deferral and risk-adjustment characteristics. In addition distributions (i.e. the payments made as a result of these arrangements) are based only on realised (not accounting) profits. These arrangements align interests and provide a variable long-term incentive to executives / “identified staff” of the fund manager.

Private equity fund managers are typically entitled to a priority profit share or a management fee, which during the investment period is typically based on the amount of capital committed to the fund and on the acquisition costs of unrealized investments thereafter. This is intended to cover the manager’s overhead costs (office space, salaries, etc.).
**Co-investment** refers to the practice by which executives / “identified staff” of the fund manager invest capital alongside external investors in the fund.

**Carried interest** is an agreed percentage of the cash profits of the private equity fund. This will be paid out to the manager and subsequently to its executives / “identified staff” who participate in the carried interest arrangements only once the external investors have:

- received back all of their drawn down capital (including typically also amounts drawn to pay the priority profit share/management fee);
- *plus* an agreed preferred return.

Only then are profits split between the investors and carried interest participants in the agreed proportion.

Such arrangements are specifically designed to incentivise the fund manager to focus on the long-term performance of the fund as a whole. Carried interest based distributions are only generated if and when investments are realised (i.e. cash returns have been achieved) and if the preferred return agreed with the investor at the outset has been achieved.

The benefit of this model has been tested and vindicated during the financial crisis. The performance of funds was such that in many cases, carried interest did not pay out at all, or paid out significantly less than might have been expected in the past. This is exactly the outcome the remuneration provisions of AIFMD are seeking to achieve.

Carried interest and co-investment based arrangements do not have the flaws and associated risks that have been identified in certain arrangements in other parts of the financial sector, where bonuses may, for example, be based on accounting profits (as opposed to realised cash profits) and fail to take account of the long-term impact of actions or omissions.

EU remuneration rules, developed through CRD III, AIFMD, CRD IV and UCITS V have attempted to address those failings. However, these rules are designed for structures that differ radically from those that are the norm in private equity. Provisions in these legislative acts regarding deferral, payment in units and risk adjustment may be appropriate and necessary in many parts of the financial sector but pose a fundamental challenge to one of the core features of private equity, where the current arrangements already achieve what is being intended. To apply those rules without the proportionality principle would in most cases be practically unworkable. This would serve to reduce the alignment of interests between investors and fund managers and could lead to perverse outcomes, which would not serve investors' interests and indeed may be regarded by investors as a retrograde step in protecting their exposure.
In Appendices A and B, we set out illustrative diagrams of private equity fund structures, and a more detailed explanation and description of "carried interest" and "co-investment".

III. The application of the remuneration rules in the private equity industry and the need for proportionality

The following illustrative example and commentary set out a typical private equity model. While specific funds will each have their own particular remuneration provisions, negotiated by investors and fund managers at the outset, the example below highlights how the private equity model works in principle, how some of the specific provisions of AIFMD can be a major challenge to it, and why the proportionality principle therefore has value in facilitating investors and fund managers to retain an approach that aligns their interests.

This is an example only and there will be variations across the private equity industry or across jurisdictions, depending upon local conditions and circumstances.

**How a carried interest arrangement operates over the life of a fund**

- **Start of fund’s life:**
  - A group of four executives set up a private equity firm which is authorized under AIFMD and raises a €600m fund in Europe.
  - The executives agree with their external investors in a legal contract arrangements related to the profit priority share/management fee, carried interest and co-investment that follow the principles set out in Appendices A and B.
  - All four executives are “identified staff” under the AIFMD remuneration rules and are participants in the carried interest and co-investment arrangement that has been agreed. This is their core incentive package as negotiated with the investors and is ‘variable’ from the outset as it is entirely dependent on the future (and unpredictable) returns that the fund achieves.
  - Payments made by the fund, which consist of a "pro-rata return on co-investment" by executives into the fund fall outside the scope of the remuneration rules. The rest of this example focuses only on carried interest arrangements, which do not satisfy this test.
  - The carried interest entitlement is made at this time. Carried interest may be paid at a future date, but this is only if investors have received the preferred return agreed at the beginning of the fund’s life (see below).
  - The fund starts to make investments.
• **Years 1 to 5:**
  o This is considered to be the investment period during which the fund makes investments.
  o A management fee typically of between 1.5% and 2% of the fund’s committed capital is paid to the fund manager during the investment period to cover ongoing costs such as salaries, office rents, travel expenses, etc. The executives may receive some annual variable remuneration funded out of the management fee.

• **Years 6 to 7:**
  o The investment period has ended and the fund starts to realise its investments (e.g. portfolio companies are sold to trade buyers, listed on the stock market, etc).
  o Investments are sold and the proceeds distributed to investors.
  o At this stage the fund manager is not entitled to a percentage of these distributions because investors have not yet received back the value of their drawn capital plus the agreed preferred return.

• **Years 8 to 9**
  o The fund continues to realize its investments.
  o Investors have now received sufficient distributions to cover their drawn capital plus the agreed preferred return (typically 8%).
  o At this point the fund manager and subsequently its executives become entitled to their percentage share (carried interest) of all future proceeds from realisations in line with the agreement made with investors at the start of the fund’s life.
  o However, even then some of the manager’s carried interest entitlement is retained in escrow; it is only released to the fund manager and its executives once investors have received further distributions sufficient to cover any undrawn capital commitments for which they remain liable.

• **Years 9 to 10:**
  o The fund continues to realise its investments.
  o Investors have now received sufficient distributions to cover their drawn capital plus undrawn commitments and the agreed preferred return.
  o The fund manager and its executives receive the carried interest due on all proceeds from realizations.
  o The fund is wound down once all its investments have been sold and at this point any proceeds held in escrow would be released to the carried interest participants.
Application of the pay-out processes

i. Deferral arrangements

- As demonstrated in the example above carried interest arrangements have an in-built deferral mechanism. While these arrangements are agreed at the outset of the fund, cash is typically only paid by the fund to the carried interest participants once investors have had their drawn capital back plus an agreed preferred return. The period between the agreement of the carried interest structure and cash being paid out will typically materially exceed the minimum ‘deferral’ period of three years included in the AIFMD Remuneration Guidelines.

- Cash will generally only start paying out under a carried interest arrangement towards the end of a fund’s life and not at regular intervals throughout the life of the fund. In addition there are agreed mechanisms (i.e. escrow and clawback) to ensure that if carried interest based arrangements do become due early in the life of a fund neither the manager nor its executives will have received any more than the agreed carried interest percentage on the profits of the fund by the end of the life of the fund.

- Carried interest is the core variable incentive for the executives. It is impossible to determine its future value at the outset of the fund. Even when investments are made, their value in the future is impossible to predict so a value simply cannot be attributed. This reflects the fact that if a fund portfolio performs poorly, no carried interest will be paid. Any carried interest based payments can only be made from cash profits after investors have received their drawn capital back plus the agreed preferred return.

ii. Retention

- Carried interest based arrangements have an inherent retention period as carried interest is generally paid out only when the investors have received both their capital back plus the agreed return which is typically towards the end of a fund’s life.

- This ensures longer term risk alignment with investors in the fund. These arrangements may also have additional inbuilt protection mechanisms to ensure that investors can claw back any carried interest overpaid for any reason. Given the way carried interest works and the typical length of time it takes the manager and subsequently its executives to receive payment from their carried interest based arrangements (9 to 10 years after it was first awarded – as shown in the example above) it can be seen that retention is an intrinsic part of the arrangements.
iii. Pay out in instruments

- The entire carried interest arrangement is linked to the performance of the fund and is typically in the form of a “special limited partner interest” in the fund.
- As the fund is closed-ended, this interest is negotiated and agreed before the start of the life of the fund. But it is typically subject to arrangements whereby the executives in question only receive this benefit towards the end of the life of a fund, which is ten years (or more).
- This entitlement to carried interest cannot be “paid out in instruments” over the life of the fund as there are no such instruments, especially in cases where a fund is no more than a co-investment agreement between investors and a general partner.
- The requirement to pay out 50% of the executives’ variable remuneration in ‘instruments’ is therefore not practically possible under typical carried interest arrangements.
- Moreover, it is impossible to calculate this 50% threshold at the outset, as the total amount that the executives will receive can only be known at the very end of the fund’s (usually ten year) life.

iv. Malus/ex-post incorporation of risk for variable remuneration

- The objectives of this requirement are met as the level of carried interest based payouts to executives of the fund manager will adjust automatically to the actual returns investors have received over the life of the fund.
- In the example above, carried interest is not paid out unless and until the investors have achieved (and received) an agreed preferred return.
- The ex-post risk adjustment operates over the life of the fund before carried interest is allocated and is performance-related as required by the remuneration rules. There are also clawback mechanisms to recover any carried interest that may have been overpaid.
- If the fund does not perform and the required level of returns is not generated for investors, carried interest is not paid out.

As these explanations show the carried interest based arrangements that are negotiated between fund managers and investors deliver inherently the objectives set out in the AIFMD remuneration principles. However, these fund managers and investors do need to be able to use the proportionality principle and have some flexibility to disapply certain detailed elements in order to operate these systems.

Without proportionality, private equity managers impacted would have to design an entirely new approach to remuneration and reward and it is difficult to see how this could
be achieved due to the way private equity funds are typically structured. Disruption would not be warranted as, for the reasons explained, the current structures meet the policy objectives.

The private equity industry is global and carried interest arrangements across the industry will typically follow the principles set out in Appendices A and B. Carried interest is a long-established arrangement in this industry, which already protects investors’ interests. Requiring wholesale changes to structures that have operated successfully for many years, including during periods of financial market stress, and that have thus far been regarded as legitimate under AIFMD, as they achieve the underlying objective, is difficult to justify. But a reversal of the existing interpretation of the proportionality principle would have precisely that consequence.

EU and global private equity investors understand carried interest arrangements and have seen over many fund cycles how they incentivise fund managers and their executives in a way that is aligned with their own interests and contribute to the delivery of real returns. Significant changes to these arrangements (which is the likely implication of any reversal by ESMA of its current interpretation and application of the proportionality principle) in the EU may not be acceptable to such investors, including those based here in Europe. Established carried interest arrangements would continue to be offered by non-European fund managers and there is a credible risk that investors – including those in Europe – will prefer to invest with such managers rather than be required to adopt new, untested, arrangements.

For these reasons it is also not possible to calculate the precise costs and impacts of a change to the interpretation of the proportionality principle. It would require a fundamental and pervasive change to how private equity firms in Europe operate, with unknowable implications for the willingness of institutional investors (European and global) to continue to commit capital to venture capital, private equity and infrastructure funds in Europe.

Q3: Do you see any overlap between the proposed definition of ‘supervisory function’ in the UCITS Remuneration Guidelines and the definition of ‘management body’ in the UCITS V Level 1 text? If yes, please provide details and suggest how the definition of ‘supervisory function’ should be amended in the UCITS Remuneration Guidelines.

We would like to draw ESMA’s attention to the fact that a separate supervisory function is not a common standard used across EU Member States. It is a feature that can be found in the company laws of certain Member States. We think therefore that the ESMA Guidelines should take this into account, recognising the fact that such a function may not exist in some cases.
Q5: Do you consider that the proposed ‘pro rata’ approach would raise any operational difficulties? If yes, please explain why and provide an alternative solution.

We support ESMA’s approach to the application of different sectoral rules as proposed in the consultation paper and we do not believe that the “pro rata” approach would lead to any operational difficulties.

Q6: Do you favour also the proposed alternative approach according to which management companies could decide to voluntarily opt for the sectoral remuneration rules which are deemed more effective in terms of avoiding excessive risk taking and ensuring risk alignment and apply them to all the staff performing services subject to different sectoral remuneration rules? Please explain the reasons behind your answer.

We support the alternative approach that allows management companies to opt for the sectoral remuneration rules that they deem more effective in terms of avoiding excessive risk taking and ensuring risk alignment.

It is perfectly legitimate to apply remuneration rules that were developed with a particular part of the financial services industry in mind and take into account its specific features and characteristics.

For example, private equity managers employ alignment of interest and incentive structures, in particular carried interest and co-investment based arrangements, which are specifically designed to align the interests of investors with fund managers and their executives/“identified staff” in order to avoid excessive risk-taking.

There is no better, more considered or aligned remuneration structure for the private equity industry and private equity managers and their executives/“identified staff” should be able to continue to apply these sector-specific remuneration rules even if they are part of a banking group or perform activities covered by other sectoral legislation.

Q7: Do you agree that the performance of ancillary services under Article 6(3) of the UCITS Directive or under Article 6(4) of the AIFMD by personnel of a management company or an AIFM should be subject to the remuneration principles under the UCITS Directive or AIFMD, as applicable? Or do you consider that that MiFID ancillary services do not represent portfolio/risk management types of activities (Annex I of the AIFMD) nor investment management activities (Annex II of the UCITS Directive) and should not be covered by the rules under Article 14b of the UCITS Directive and Annex II of the AIFMD which specifically refer to the UCITS/AIFs that a UCITS/AIFM manages? Please explain the reasons of your response.
We agree with the suggested approach that ancillary services should be subject to the remuneration provisions under the UCITS Directive or the AIFMD, as applicable.

**Q9: Do you consider that there is any specific need to include some transitional provisions relating to the date of application of the UCITS Remuneration Guidelines? If yes, please provide details on which sections of the guidelines would deserve any transitional provisions and explain the reasons why, also highlighting the additional costs implied by the proposed date of application. Please be as precise as possible in your answer in order for ESMA to assess the merit of your needs.**

While we do not have any specific comments on the transitional provisions concerning the date of application of the Remuneration Guidelines we nonetheless would like to raise one practical question.

ESMA’s consultation paper states that within two months of the date of publication of the Guidelines, competent authorities are required to notify ESMA whether they comply or intend to comply with those Guidelines. However, the paper does not provide clarity on how the publication date should be interpreted – is it the date of the publication in English or is it the publication in all EU official languages? We assume the latter but it might be useful to clarify that in the text.

**Q10: Do you agree with the assessment of costs and benefits above for the proposal on proportionality? If not, please explain why and provide any available quantitative data on the one-off and ongoing costs that the proposal would imply.**

We do not agree with ESMA’s assessment that Option 2 (consistency with the AIFMD approach), which allows for neutralization of certain remuneration rules, cannot ensure the same benefits in terms of investor protection as an approach which does not allow neutralization. We believe that investors are properly protected under the current AIFMD remuneration rules and this should not be called into question.

The neutralization envisaged by ESMA in its AIFMD remuneration guidelines does not amount to a general waiver from the remuneration requirements and neutralization is never automatically triggered on the basis of these guidelines alone. AIFMs are always required to perform an assessment for each of the remuneration requirements that may be disapplied and determine whether proportionality allows them to dis-apply each individual requirement.

The assessment of the application of proportionality and the extent to which a principle is relevant for a given institution, is carried out on a case-by-case basis and takes into
account an institution’s specific characteristics; its size, internal organization as well as the nature, scope and complexity of its activities. Although it is primarily the responsibility of the AIFM to assess its own characteristics and to develop and implement remuneration practices, the way an AIFM implements the proportionality principle is also reviewed and overseen by its national competent authority. This ensures that the proportionality principle is applied in an appropriate manner.

Moreover, as outlined under our response to Question 1, private equity fund managers already use highly-aligned compensation arrangements that encourage focus on the long-term success of funds managed and aim to prevent excessive risk-taking. As such, they already achieve the underlying policy objectives behind the remuneration provisions.
Appendix A

An explanation of carried interest and co-investment arrangements in the private equity industry

The description below is an illustrative example and is not uniform across all firms nor jurisdictions. Appendix B sets out diagrams which illustrate the below.

Investment management fee and salary

- A private equity fund structured as a limited partnership is created through negotiation between investors (also known as “limited partners”) and their legal advisers, on the one hand, and the private equity management group on the other hand. Investors make commitments to invest in the fund, i.e. the amount they originally agree to subscribe to the fund. The amount committed is not paid immediately on a fund’s closing but in tranches over the commitment period on an “as needed basis” (typically four to seven years).

- The private equity group owns the general partner (one of the partners in the fund) and the fund manager, which manages the fund. (In some cases the general partner and fund manager are a single legal entity.) This results in a document (for example, the limited partnership agreement), which sets out the key terms of the fund.

- Pursuant to the constitutional documents of the fund, the private equity group receives a fixed annual amount for managing the fund. This is often structured as a fee charged by the fund manager to the general partner, who pays the fee out of its priority profit share received from the fund ("PPS" or “management fee”). Any increase in risks in and the valuation of the fund does not increase the amount of management fee, so there is no incentive to increase these risks. Private equity managers must therefore carefully budget to ensure their cost base is covered by the PPS.

- The PPS/management fee is intended to cover the overheads of the general partner and fund manager, including e.g. salaries, office rents, etc.

Fund profitability

- Crucially, profits are achieved by the fund only on a successful realisation of the fund's investments, which might arise on the sale of the portfolio company or following its initial public offering. Fund profits for the purpose of paying out distributions are therefore realised and real (as opposed to being based on accounting valuations). Typically, proceeds received by a fund are distributed in a timely fashion to investors and are not held within the fund pending a fixed distribution date sometime in the future.

- When the fund as a whole has been realised in a profitable manner investors are first...
repaid all the money drawn down from them in full plus agreed preferred return before a percentage of any generated profits of the fund get paid-out in carried interest to the manager and its executives / “identified staff” . This ensures that investors receive back all of the money they have actually paid under the terms of the fund.

**Carried interest**

- Carried interest is a basic element in private equity fund structures. The detailed terms of a particular fund’s carried interest structure are agreed by the investors and fund managers and set out in the fund’s constitution document. The investors are almost universally institutional (professional) investors, who are highly experienced and well advised. To ensure alignment with their interests, investors expect key members of the investment team at the private equity group to be part of the carried interest based arrangements. They may also expect to see a co-investment obligation from these team members.

- Investors must receive back from the fund in cash an amount equal to their drawn down commitments (the amounts they actually pay in to the fund) plus a preferred return on this amount (currently, typically 8% p.a.). Only then does the carried interest vehicle start to participate in a percentage of the profits. After this preferred return has been reached, profits are allocated in accordance with a pre-determined formula agreed with investors and set out in the fund constitutional documents. In other words, carried interest operates on a cash to cash (realised profits only) basis. It does not pay out based on accounting valuations. This approach is designed to ensure that the fund manager and its executives / “identified staff” are incentivised not to “cherry pick” its good investments or “forget” about the bad performers but to see all investments as being important to generating returns for investors rather than being tempted to take excessive risks with any single investment.

- It will normally be several years before carried interest based payments are received by the manager and its executives / “identified staff”, who are incentivized through these arrangements. Many funds raised just before the financial crisis have only recently come into “carry territory”. There is, therefore, inherent "deferral" in carried interest based arrangements.

**Co-investment**

- Co-investment by private equity executives may be negotiated between investors and the manager to promote alignment of investor interests and to ensure that the investment team has "skin-in-the-game" alongside investors.

- In other words, they put at risk the loss of their own money through their stake.

- There is no common method by which the co-investment is funded. It will depend on the particular circumstances of the prospective participants and the level of the commitment.
Appendix B

Note: The diagrams below are illustrative only and not all firms operate in the same way.

Figure 1: example legal structure

- External institutional investors
- Limited partners
- General partner
- Limited partner
- General partner company
- NCA authorised manager (commonly a limited liability partnership)
- Usually, the investment committee sits here.
- Co-investment vehicle (commonly a limited partnership)
- Junior staff
- Limited partners
- Debt finance
- Portfolio group holding companies
- Carried interest vehicle (commonly a limited partnership)
Figure 2: funds flow diagram (for a single portfolio company sale)

External institutional investors

Proceeds of sale or IPO on exit of each portfolio company

Trade, secondary or other buyer or IPO vehicle

Portfolio group holding company

Carried interest vehicle (commonly a limited partnership)

Fund vehicle (commonly a limited partnership)

NCA authorised manager (commonly a limited liability partnership)

General partner company

Management fee

Key exec

Salary and bonus

Alternatively, in the case of owner-managers, a distribution of profit (in the case of an LLP, as profit share)

Carried interest returns

Carried interest commitment

Carried interest

Priority profit share

Co-investment returns

Co-investment commitment

Commitments to fund

Returns to investors
About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe’s private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe’s leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members’ role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry’s professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

For more information please visit www.investeurope.eu