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Zero2IPO Releases Research Report on Salary of VC/PE Professionals;Mixed Opinions on Follow-on Investment System

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Zero2IPO Releases Research Report on Salary of VC/PE Professionals; Mixed Opinions on Follow-on Investment System

Written By Gillian Zhang, Zero2IPO Research Center

The VC/PE industry is a late comer in China compared with developed countries. As this industry has entered into the high-speed development stage for only a few of years, the industry professionals are still at the stage for experience accumulation and investment talents remain in shortfall. Moreover, the brain drain due to the shortcomings of the incentive system is becoming increasingly prominent. The deep research on market mechanism and salary system in China's VC/PE market also plays a critical role in strengthening the incentive and constraint mechanisms for investment professionals and maintaining the stability of investment teams. Zero2IPO Research Center, a well-known VC/PE research institution in Greater China, recently released the Research Report on Management Mechanism and Salary System of China's VC/PE Institutions. As to the salary system, we adopt both market survey and interview methods to ensure the integrity and accuracy of the data, thus providing the industry with valuable references. The survey questionnaire largely consists of the following three sections:

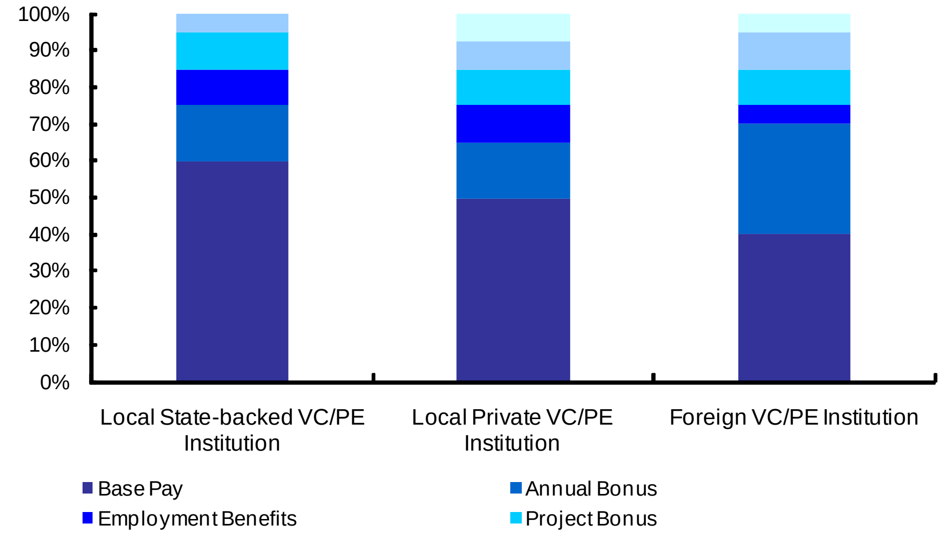
(Ⅰ) Personal information: Nature and form of organization, fund currency, position, working years, etc.;

(Ⅱ) Salary survey: Composition of the respondent's salary, and income breakdown, and growth, etc.;

(Ⅲ) Satisfaction with salary and employer: The degree of the satisfaction of the respondent with the current salary and performance review method, the part expected to be improved in salary system and reasons for leave.

The salary of employees in China's VC/PE institutions is usually composed of base pay and variable salary. The base pay mainly is linked with the expertise, skills and working experience of the employees, while the variable salary is associated with the performance, including annual bonus, project bonus, project revenue sharing, project follow-on investment incomes and employee benefits. Through market survey and interviews, Zero2IPO Research Center found that there are big differences in the salary system construction between domestic and foreign VC/PE institutions. The salary system of foreign insti-

Figure 1 Composition of Salary of Employees in Local and Foreign VC/PE Institutions



Source: Zero2IPO Research Center

tutions is more mature and systematic, and various incomes in the salary system are clearly higher than those in domestic VC/PE institutions. It should say that the salary system of domestic VC/PE institutions is not constructed completely based on the fair, competitive and incentive principles. For example, private institutions are better marketized, most of which adopt the incentive system of "low base pay and high performance-linked salary". On the contrary, the state-backed investment institutions usually offer higher basic salaries, but the incomes of employees are less linked with the investment performance.

In the report, Zero2IPO Research Center sums up and makes an analysis based on the responses of the respondents in such aspects as base pay and the growth in the past year, performance-linked salary and the satisfaction degree with the employer. The following are the research results in the variable salary, such as project bonus, sharing return from project exit and follow-on project investment.

(Ⅰ) Project Bonus

Project bonus refers to that the project head can obtain a certain percent of the investment amount if the project proposed by him is approved by the investment decision committee. The project bonus is an incentive bonus. Of all respondents participating into this survey, 43.8% said that their project bonus is less than 1.0% of the project investment amount after the involved project is approved by the investment decision committee and then is implemented.

(Ⅱ) Sharing Return from Project Exit

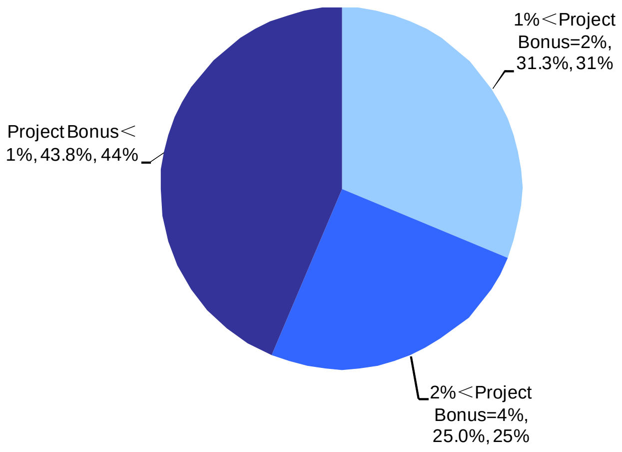
According to the Article 38 in the Interim Administrative Measures for Venture Capital Enterprises (the "Administrative Measures") drafted by ten ministries, including the NDRC, and issued by the State Council on Nov. 15, 2005, "the venture capital investment enterprises may set aside a certain portion of its investment returns as remuneration for the achievements of management personnel or management consultancy institutions, and establish a performance-based incentive mechanism."

Sixty percent of the respondents participating into the survey said that they obtained less than 5.0% of the project return after the successful return of their involved projects, and 6.7% who work for foreign VC/PE institutions may obtain 10.0%-20.0% of the project return.

(Ⅲ) Follow-on Project Investment Mechanism

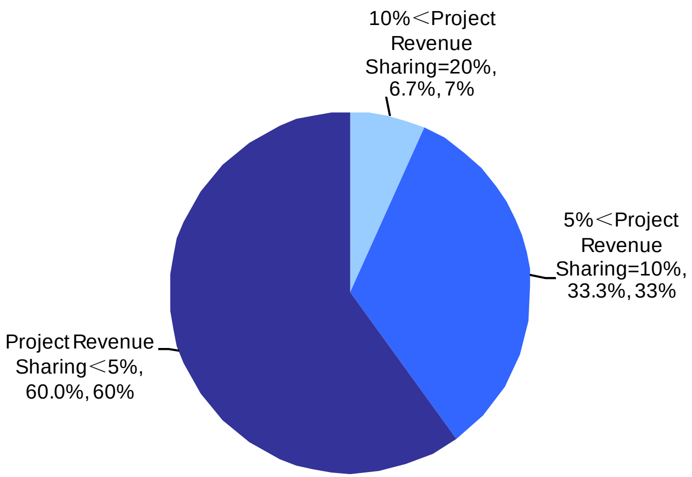
The follow-on investment return refers to the revenue coming form the investment made by

Figure 2 Proportion of Project Bonus to Project Investment Amount in Local and Foreign VC/PE Institutions



Source: Zero2IPO Research Center

Figure 3 Project Revenue Sharing of Employees in Local and Foreign VC/PE Institutions



Source: Zero2IPO Research Center

project head and/or its team with their own capital after the institutional investment. In some institutions, core senior executives or individuals with great contributions may enjoy special benefits in such aspects as housing and vehicle use.

According to the survey of Zero2IPO Research Center, most state-backed VC/PE institutions don't set the follow-on project investment mechanism. Currently, the institutions adopting the follow-on investment mechanism can be divided into the following categories based on their running methods:

1. Compulsory follow-on investment: General partners in the investment decision committees and the investment manager of the project are mandated to follow the investment with their own capital;

2. Voluntary follow-on investment: This includes the investment in funds (team members willing to follow the investment should inject their own capital into the investment fund rather than selecting the investment projects at their discretion) and investment in projects (funds usually have the provisions on the horizontal competition, e.g., the percent of the follow-on investment and the priority of the investment).

Therefore, the follow-on project investment plays both incentive and constraint roles at the same time. When interviewed by Zero2IPO Research Center, some investment managers said that the institutions hope that the project heads can also make investments, and the clear willingness of the heads to follow the investment may increase the success rate that the project is approved by the investment decision committee.

The interviews of Zero2IPO Research Center find that investment institutions have mixed opinions on the follow-on investment mechanism. Some institutions believe that the follow-on investment mechanism is not rational and even illegal, as it may lead to the conflicts of interest between fund management team as well as management institutions and investors. For example, the team members may put more efforts into those projects participated by them with their own capital, and their objective judgment may also be affected. Regarding this concern, some institutions agreeing the follow-on investment mechanism said that the follow-on investment method in which the team members decide their investments in the fund may avoid the above-mentioned conflicts of interests to a certain extent. Meanwhile, some other VC/PE institutions believe that the follow-on investment mechanism effectively combines investment institutions with the interests of project team to realize the risk and profit sharing between employees and institutions, which may control and reduce the brain drain risk to some extent and is also an effective incentive mechanism.

In this survey, over the half of respondents from local VC/PE institutions said that their institutions allow the employees to make follow-on investments, while the percent of the follow-on investment return in their total incomes is highly related to their roles. For example, in the institutions allowing employees to make follow-on investments, all personnel acting as analysts said that the follow-on investment return contributes less than 10.0% to their total incomes, compared with 40.0-50.0% for those people acting as investment director/partner. Another half of the respondents said that the follow-on investment return contributes more than 90.0% to their total incomes.

Unlike local VC/PE institutions, 68.8% of respondents from foreign institutions said that their institutions don't allow employees to make follow-on investments, and the professionals in foreign institutions that allow the follow-on investment said the return of the follow-on investment contributes less than 10.0% to their total incomes. ■

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June 24th, 2011, Zurich, Switzerland

2011年6月24日，瑞士 苏黎世

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2011 China Venture Capital & Private Equity Forum @ Europe will lead you on a fantasy journey in Zurich. One day forum will cover most of the hot topics on investment market in China. There will be more than 30 industries titans share experience with you. Investment issues and opportunities will be discussed in depth.

Pomoho.com Completes A US $10M-class Financing

Mar. 23, 2011, TechWeb, Li Qing

Pomoho.com has completed a new round of financing from investors with oversea background.

Wu Genliang, CEO of Pomoho.com, confirmed this investment, saying that it's not convenient for him to reveal specific investment value, but it is more than US $10M. Wu Genliang said that the strategic planning and development orientation of the company will be officially announced to the public before Apr. 10. He disclosed that Pomoho.com had taken video community as future development orientation.

He said, "I assumed my post as CEO last year and have adjusted the company's business structure. Pomoho.com gave up movie and TV opera operations two years

ago. The video alliance was cancelled as well a while ago. The video community will be the focus of our future development."

Finally, Wu Genliang said that Pomoho.com would not directly compete with major video service providers, such as Youku.com Inc. and Shanghai Tudou Network Technology Co. Ltd. and would seek differentiated development. He disclosed that the new channel of video community will be officially launched next week.

Zbird.com Receives US$50M Investment to Promote Industry Expansion

Mar. 23, 2011, Information Times, Chen Li

The domestic online diamond seller Zbird.com announced officially that it got its 3rd round of investment recently. The investors include Fountain Vest and Ceyuan Ventures. An insider declared that Zbird.com obtained investment of US $50M, with the amount more than that of the first two rounds.

Since its establishment in 2002, Zbird.com has completed two rounds of fundraising.

Ventures and Capital Today.

At present, zbird.com opened 12 experience centers nationwide. zbird.com said that after obtaining fundraising, it will further speed up the integration of "upstream" supply chain to gain competitive advantage of more advanced and competitive upstream supply chain with high cost performance. Its business will cover all major cities throughout the country in the next two years.

Meridian Capital Launches Its Second RMB Fund

Mar. 23, 2011, PEdaily.cn

Meridian Capital (SG) Ltd., a Singapore private equity fund, Launched Meridian Southeast Cultural Industry Fund, its second