DEVELOPMENT AND ALUMNI RELATIONS GIFT CAPACITY RATINGS METHODOLOGY

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1. THE PRINCIPLES

Wealth Indicators	**Immediate rating points**	**(Negative wealth events)**
Value of home(s)	Reputable net wealth estimates	Business losses
Location of home(s)	Reputable business sale estimates	Career hiatus
Prestige Purchases		
Occupation/title		
Career point/seniority		

2. THE MATHS

Wealth indicators plus reputable net wealth estimates less any significant costs which could be a visible barrier to a fundraiser's 'ask'.

3. TRADITIONAL RATING METHODOLOGY

Many High Net Worth (HNW) and Ultra High Net Worth (UHNW) prospects feature in easily accessible Rich Lists such as:

Sunday Times Rich List (predominantly UK based HNW & UHNW prospects)

Forbes Billionaire Lists (Global & Regional lists)

The wealth estimates that these reputable sources place on HNW & UHNW prospects are quite reliable and updated regularly so can be treated as a “net wealth assessment” for our rating purposes.

Our capacity rating snapshot is based on one twentieth of a net wealth assessment or 5% of a person’s estimated net wealth.

For example, a prospect with £2bn as a net wealth assessment is calculated to have a £100m Gift Capacity Rating,
£2bn divided by 100 and multiplied by 5 = £100m

Net Wealth	Gift Capacity Rating
£2bn+	£100m
£1bn - £2bn	£50m - £99.9m
£500m- £1bn	£25m - £49.9m
£200m - £500m	£10m - £24.9m
£100m - £200m	£5m - £9.9m
£40m - £100m	£2m - £4.9m
£20m - £40m	£1m - £1.9m
£10m - £20m	£500k - £999k
£5m - £10m	£250k - £499k
£2m - £5m	£100k - £249k
£1m - £2m	£50k - £99k
£200k - £1m	£10k - £49k
<£200k	<£10k

4. ACCUMULATED WEALTH

A net wealth assessment is always a judgement based on accumulated wealth with the assumption of accrued earnings, shareholdings, investments balanced against expenses of mortgages, school fees, etc. Notice should be taken particularly when rating in the financial sector of earnings derived from a key position in a financial institution over the previous five years.

If you know that someone has been a Managing Director at an investment bank and earned £1m basic salary per annum with a bonus set at two to three times that level annually then it makes sense to assess how long he or she has been a Managing Director at the investment bank.

If the prospect is likely to have earned in the low millions every year for the past 10 years then the rating calculation becomes:

£2.5m x 10 years = £25m. From there we can do our usual calculation; £25m divided by 100 and multiplied by 5. This would place the prospect in our capacity banding at a seven figure gift level (£1m - £9m).

If we neglect to take into account accumulated wealth we could seriously underestimate capacity and therefore risk guiding a fundraiser towards an 'under-ask'.

5. SHAREHOLDINGS, SHARE OPTIONS AND SHARE-SAVE PLANS

Below the level of prospects appearing on annual Rich Lists we then get into major shareholders in public companies.

The latter have become more important with the spread of LTIPs (Long Term Incentive Plans) for company directors as public and shareholder pressure demands that the directors of such companies have their remuneration benchmarked to the company's share price.

Controversial pay awards have led to the development of a scale of pay which is measured in shares in the company concerned and 'lock-in' deals where a director may receive a large amount of shares but only after three years of service.

These performance-based share awards often dwarf salary and bonus levels, especially at the global-level 'dotcom' and entertainment sectors (Google and Walt Disney as examples respectively).

Where you suspect from desk research that someone is a director of a public company it is always worth checking **Morningstar** for director's remuneration in the UK.

For shareholders in the US, searches via any search engine using the terms "**SEC EDGAR [FIRST NAME] [FAMILY NAME]**" can sometimes yield surprising results. The 'SEC EDGAR' reference is a way of telling the search engine to restrict its searching to the Securities & Exchange Commission website in the United States. The 'EDGAR' reference is the name given to the SEC's internal search engine. Searching via EDGAR itself can be quite cumbersome and unrewarding but using a wild search such as the one highlighted in this paragraph can deliver any reference to shares held by the prospect and declared to the SEC. **Capital IQ** can be helpful for directors' remuneration although this database does not provide a comprehensive remuneration report and is dependent on what information is provided by the company concerned and placed in the public domain.

6. FINANCE SECTOR OVERVIEW

Within the last 20 years economies on both sides of the Atlantic and globally have diverged from the old model of the manufacturing sector and the service sector.

Propelled by the development of the digital economy and technology in general we have seen the emergence in the finance sector of every developed economy of some discrete trends.

'Hedge funds' in particular have attracted global media attention partly because of a certain mystique around their activities and partly because of the extraordinary rewards collected by the star-players in that sector.

7. HEDGE FUNDS

Essentially a hedge-fund is a pool of money created by investors and actively managed by an investment manager to take advantage of market conditions and a stated strategy in order to return profits to the investors.

A hedge-fund is legally set up as a limited partnership and seeks to attract High Net Worth investors, investment banks, insurance companies and any client willing to 'lock in' an investment for a minimum period in the hope that the hedge-fund's investment manager can return a profit for them by using the strategy and dedicated pool of money in the financial markets.

Almost invariably all hedge-funders have been fund managers/equity traders for large banks or investment houses. Many hedge-funders emerge from the investment banking community where they have established their credentials while managing funds for a bank's clients.

Quite often the investment banks themselves, rather than losing a good fund manager, will strike a deal with a star fund manager and give them a mandate to manage their clients' money when they strike out on their own.

Mr Prospect worked for Banco Uno in Hong Kong as an equity trader up to 2009. He was a successful trader with a strategy that was returning profits for the Banco Uno funds to which he was allocated. It is likely therefore that he was earning on average between £1m and £1.5m per annum.

Along with two friends from Banco Duo Mr Prospect decided to strike out on his own and the three friends formed ABC Hedgefund, forming the business in London in 2009. It is very likely that the funds they began to trade with were supplied by Banco Uno and Banco Duo out of client funds. Banco Uno and Banco Duo may well have helped convince their clients that the three traders had a good record and were likely to be successful with their chosen strategy and focus on European stocks.

Mr Prospect and his two co-founders managed between \$750m and \$1b over the years 2010 and 2011. They managed to return a profit of 38% in 2010 and 20% in 2011. In their first year of operation their ABC Hedgefund was charging the customary 1.5 management fee on all funds they managed, which equates to \$15million. Hedge funds also customarily take a 15% share of profits. This latter calculation on the basis of \$1b invested would have returned \$57m to ABC Hedgefund (being 15% of \$380m profit for the year). As there are only three founder partners of ABC Hedgefund the implication is that Mr Prospect's net wealth assessment increased by over \$20m in 2010.

If he had remained with Banco Uno as a trader in Hong Kong he would have earned a fraction of that while essentially doing the same job.

Rating Mr Prospect:

ABC Hedgefund's Assets Under Management (AUM)	\$1billion	Source: Financial media
2% management fee on \$1billion	\$20m	Source: Financial media
Profit in 2010 = 38%	\$380m	Source: Financial media
ABC Hedge-fund's share of profit (20%)	\$76m	Source: Financial media
Each of 3 partners of ABC Hedgefund's implied wealth from 2010 which is comprised of \$20m management fee plus \$76m share of profit; (\$96m divided by 3 for the number of partners.)	\$32m	ABC Hedgefund's management fee plus profit share divided by 3

The key questions a researcher should ask when they trying to rate a hedge-funder:

1. Is your hedge-funder a founder/co-founder of the hedge-fund?

2. Can you see how much money the hedge-fund manages? This will be referred to as 'AUM' in media coverage of the hedge-fund, or 'Assets Under Management'.

3. Do you know how much the hedge-fund charges its clients? (This is commonly 2% management fee and 20% of the profits annually. If you cannot see any comment on the charges assume that these are the correct figures until notified otherwise.)

4. Is there any coverage of what return the hedge-fund is delivering to its clients? This is commonly described as the 'return' whatever-the-percentage-is each year.

If you have answers to these questions, particularly a 'yes' to the first question above then you have enough information to be able to rate your hedge funder.

a) Yes, Mr Prospect is a co-founder of ABC Hedgefund and therefore owns a third share in the business along with each of his co-founders.

b) Yes, we know the hedge fund's AUM in 2010 was US$1billion (from reputable financial press resources).

c) Yes, we know that ABC Hedgefund was charging its clients 2% management fee and 20% of the profits.

d) Yes, we know that the hedge fund made a 38% profit in 2010 and 20% in 2011 (from reputable financial press resources).

e) The management fee was 2% of $1billion which equates to **$20m**.
The share of profit for ABC Hedgefund was 20% of $380m, which is **$76m**.

There are three co-founders of ABC Hedgefund.

Divide **$96m** by 3 to assess the increase in each of the co-founder's wealth; $32million.Referring to our ratings guide and taking into account the effect of accumulated wealth, given that hedge funders tend to place their own money in the funds they manage it is easy to see that Mr Prospect is a major gift prospect. Certainly above £1m level and more likely to have a capacity to give in the £2m - £4.9m range and he should probably be considered as conservative as the rating is based on a single year of excellent returns.

5. PRIVATE EQUITY

Private equity investors are institutional and accredited investors who seek to make a profit by investing in companies that are not quoted on any stock exchange - hence the word 'private'.

There are many strategies private equity investors use to analyse a company that may be under-performing due to staid management, a lack of knowledge or access to capital-raising financial instruments or which may be stuck at a certain level of growth due to a lack of development capital.

The institutional investors and funds which specialise in private equity transactions are prepared to lock in their investment for a period during which they hope to turn around the situation for the private company. They then aim to sell the company to other investors, including venture capital companies, or to list it on a stock exchange when it is a much more attractive proposition for public shareholders and private companies.

There are institutional investors such as banks and funds who specialise in private equity deals and which are prepared to commit hundreds of millions for a sustained period to turn a company around. There are also smaller operations who will commit funds in the low hundreds of thousands in the hope of reviving a private company.

The private equity market is dominated globally by perhaps less than a dozen specialist private equity houses that can raise many billions for private equity deals.

Typically the founders of the largest private equity firms and funds emerged from the investment banking sector in the 1970s. Private equity dealmakers may have been traders, fund managers, or specialists in capital-raising instruments.

How do private equity companies earn their money? In some ways there are remarkable similarities between private equity partnerships and hedge-funds in the fees they charge.

Where there is a private equity fund, that is where a number of investors have got together to create a pool of capital to invest, the administrators of the fund will charge 2% management fee plus 20% of the profits from the fund each year.

Where a private equity house makes a profit by bringing a previously private company in a healthy state to an initial public offering on one of the world's stock exchanges, the profit can be realised in the form of the sale of their share of the private business to shareholders. For example, an initial investment of £100m could be realised as £500m on the market thereby returning a 400% profit.

Rating Private Equity Prospects:
There are very few individuals who are owners of a private equity business, certainly at the top end of global activity. It is unlikely you will discover a previously unknown founder of a major private equity business although the chances increase as you get further away from the major private equity houses and down to the smaller businesses operating in the sector around the world.

There is an emerging ranking system available which helps to determine the seniority, and therefore implied wealth, behind titles at major international firms:

Founder Partner	Will own a share in the business overall. Wealth increases exponentially with increased level of business. There are likely to be net wealth assessment reports in reputable financial media.
General Partner	May not be a founder of the business but is likely to have a profit-share arrangement known as the 'carry'. These incentive plans give the General Partner a stake in every deal in which s/he is personally involved and can result in increased wealth in the tens of millions in a good year. Due to the nature of the incentive plan the General Partner is likely to hold over or 'carry' their share in the business forward from year to year rather than take the money out annually. For tax reasons they prefer to roll over their profit each year and their wealth can therefore increase as they earn a bigger slice of the profits each year. Very likely to have an understated net wealth assessment in the reputable financial media. Any reports on ratings for General Partners in significantly sized private equity businesses are unlikely to have any idea of the 'carry' or profit-sharing element of a General Partner's income.

Managing Partner/Partner	Likely to have an LTIP (Long Term Incentive Plan) which rewards the Partner/Principal for staying with the private equity house or fund.
PE Portfolio Manager	Much more likely to be paid like traditional share portfolio managers and fund managers. Likely to be paid a flat salary plus performance-related bonus. Estimate £500k salary and £1.5m in bonus payments and you are likely to remain conservative and unlikely to be out by a rating capacity band.
PE Fund Manager	Similar to Portfolio Managers. In 2014, Fund Managers in the UK earnt an average of £300k with customarily three times that amount in bonuses so we could for conservative estimation give a rating of £1.2m per annum.
PE Analyst/Associate	Lowest rung of the ladder and likely to be on a salary plus bonus scheme not much more than £150k per annum on average across the sector.

Mr Prospect began his career at Goldman Sachs, working on leveraged buyouts. He joined leading global private investment firm ABC Private Equity in 1997, and moved to the company's Hong Kong office in 1998 to manage the Asian and emerging markets businesses. He has had a highly successful career, leading a number of very lucrative private equity deals for ABC Private Equity.

We originally estimated Mr Prospect's giving capacity at £1-2m, although we suspected this estimate was probably too low based on his career profile. Further research around financial media revealed that Mr Prospect is regarded as a deal originator ('rainmaker' in city circles) and spoke for ABC Private Equity's investments in the many millions of pounds.

Senior-level staff at ABC Private Equity and close competitor KKR are known to have a profit share in every deal they make for their companies and the wealth associated with such 'carry' profit sharing arrangement (as partner profit shares rolled over each year are known).

We have been able to raise our capacity rating from £1m - £1.9m to £5m-£9.9m based on informed comment from a senior financial sector Campaign volunteer who was able to verify that Mr Prospect would qualify as one of ABC Private Equity's senior dealmakers at a level which suggests a rank of General Partner and should have a wealth estimate of £100m.

The key questions a researcher should ask when attempting to rate a private equity prospect:

a) Is your private equity prospect a founder/co-founder of the private equity business? Or a General Partner? Managing Partner?

b) Are there any reputable financial media articles denoting your prospect as a leading dealmaker, ‘rainmaker’ etc.?

c) How long has your prospect been in the private equity business?

Note: Because private equity prospects at the level of the example above are rare, it is worth checking with Research team colleagues on each individual case as they will be able to tell quickly whether a rating is possible or whether the prospect is at a level visible enough to provide a coherent rating.

6. VENTURE CAPITAL

Venture capital is a term used to describe an investment pool created by one or more investors and specifically aimed at funding start-up companies, or those without access to traditional methods of fundraising such as issuing debt via capital markets, in exchange for equity. The investors hope to benefit from their stake in the company when it moves into profitability, is sold to a larger business or is launched on the public stock market.

There are thousands of venture capital investors ranging from individuals (often referred to as ‘Angels’ or ‘Business Angels’) to major investment banks who may operate a specialist venture capital fund or business arm.

Venture capital can be a high-risk business as many small businesses fall by the wayside or fail to be as competitive as investors hoped. The vast bulk of venture capital investors therefore try to prevent putting all their eggs in one basket and will often spread risk by investing in a range of small companies.

Many venture capital investment specialists follow one particular sector of industry. For example, venture capital is quite usual in the pharma sector where a small company with medical expertise will endeavour to bring a particular medicine or advanced treatment to the health market and will often require venture capital funding to support research and development until the product or unique intellectual property they own is ready to become a commercial/marketable product.

The high-tech digital economy is another business sector where venture capital funding is quite common. The product the venture capital investors hope to cash in on is in reality a form of intellectual property the start-up company may be developing: a piece of software, an advance in computer hardware or microchip technology or, as previously mentioned, some proprietary biochemical development.

Rating Venture Capital Prospects:

Partner	Part-owner of the VC firm and shares in the 2% management fee it earns on money invested, plus a share in the 20% ‘carry’ or share of the firm’s profits (if any)	Safe to assume that a Partner has ‘carry’. This is the option to invest money alongside the firm’s money in a venture capital deal. A typical Partner’s ‘carry’ can be 10% of money invested. For example, if the VC firm invests £500k then the Partner’s ‘carry’ can be the option to invest £50k. If the investment is £5m then the partner’s carry can be £500k. We will rarely see details and partners at VC firms can have multiple carries in play at any given time. A partner at a VC firm should be assumed to be a £1m capacity rating pending fundraiser qualification. Base Salary, Year End Bonus and the ‘Carry’.
Principal/VP	3-5 years post-MBA or 7-10 years (if no MBA) of solid operating experience	Base salary, Year End Bonus, may or may not have ‘Carry’ depending on the firm.
Associate (post-MBA)	Partner-track position post-MBA, consistent identification of profitable venture capital opportunities qualifies the Associate for Principal level.	Base Salary, Year End Bonus, may or may not have ‘Carry’ depending on the firm. *Basic pay £150k but can go as high as £400k in a ‘bubble’ year.
Analyst (pre-MBA)	Sourcing and due-diligence processes in possible deals to offer to the firm’s Partners	Base Salary, Year End Bonus, no ‘Carry’. *Basic pay £100k - £150k with bonus of up to 3 times basic payable between January & April each year depending on the bank.

*Analysts and Associates are said to earn slightly more than investment bank equivalents because opportunities for advancement and ‘department’ bonuses are rare. Everything depends on individual consistent performance rather than teamwork which is the opposite of investment banking at entry level. For Analysts and Associates in Venture Capital operations assume conservatively a similar level of salary to equivalents in investment banking.

Rating the individual venture capital investor:
Very often the only information publicly available around a venture capital investment is a public statement that a company seeking such investment has completed a funding round. The most obvious signal that a venture capital company has made money on an investment

is where a company in which they have an interest has announced that it is seeking a listing on a stock exchange (the 'IPO' or Initial Public Offering).

To a venture capital business this is known as the 'exit', denoting where they have cashed in or increased the value of their shareholding in the business they have been nurturing with development capital. Other ways of making a profitable 'exit' include selling on their shareholding at a profit to a private equity group or larger investor.

Key considerations when rating venture capitalists:

a) Check whether your venture capital prospect is the owner/founder/co-founder of the venture capital vehicle he or she is managing.

b) Check whether the prospect or their investment vehicle is mentioned in any news reports - use the [prospect name] or [prospect investment vehicle] in desk research along with search terms such as 'Exit', 'Initial Public Offering' and/or 'IPO'.

c) Such news reports are likely to contain information which will allow you to estimate the value of such transactions and come to a conclusion about the capacity of the prospect and their investment vehicle.

Cautionary note: It is easy to be deceived by the profile of a prospect who answers the research description of a venture capitalist but who may in fact be a representative for a venture capital fund and therefore is a board member on a target company to represent the venture capital investor. What looks like a venture capital investor may turn out to be a professional board member who may have no direct stake in the venture capital investment.

If you have a prospect that is described as a venture capitalist then the answer to these questions should help uncover whether the prospect is the investor or whether the prospect is a salaried representative for a venture capital firm.

a) Is the prospect described in reputable media sources as an investor?

b) Is the prospect linked with a venture capital firm where the prospect is not mentioned as a board member of the venture capital firm?

c) If the prospect is mentioned in connection with high profile deals/transactions can you see on **CapitalIQ** under the 'ownership' section for the companies mentioned in the deal whether there is a collection of funds/companies/individuals other than the prospect listed as owners? Another resource is **Crunchbase** which often provides data on how much VC investment a company has attracted.

The best possible result in attempting to rate a venture capital prospect is to find that they have invested their own money and their investment has paid off in the form of a profitable sale of their interest either to a larger concern or by being launched on the stock markets.

7. INVESTMENT BANKING

There is a noticeable hierarchy in investment banking and therefore a methodology available in rating prospects who work in the sector.

Title	Explanation	Rating Guide
Managing Director	Interface directly with the Bank's clients and shepherd deals for the bank and its clients.	Average basic just under £1m but with bonus of up to 2.5 times that amount payable between January and April each year.
Director/Senior Vice President/Executive Director Principal	Intermediate seniority between Vice-President and Managing Director	Between £400k and £1.5m. Bonus of up to 2.5 times basic pay payable between January and April each year depending on the bank.
Vice-President (predominantly found in US investment banks)	Run a team of analysts and generally report to Managing Directors	Between £400k and £1million (inclusive of bonus).
Associate	Experienced Analyst	Basic pay £150k but can go as high as £600k in a 'bubble' year (inclusive of bonus up to 2.5 times basic pay payable between January and April each year depending on the bank.)
Analyst	The entry level to investment banking teams	Basic pay £100k - £150k with bonus of up to 2.5 times basic payable between January & April each year depending on the bank.

8. FUND MANAGERS & PORTFOLIO MANAGERS

A Fund Manager is a designated professional responsible for managing the day-to-day trading in assets in a given investment fund.

Fund Managers are employed by hedge-funds, investment banks, and pension funds to actively oversee the funds they manage and are expected to report on profit or loss on those activities which affect the overall returns to investors in the Fund.

The average remuneration for a Fund Manager in the UK in 2014 was £300k per annum plus bonus which varies between 1.5 and 3 times basic salary, dependent on the Fund's profit at the end of a given year.

There can be extraordinary variations in Fund Manager remuneration. Whereas a relatively junior Fund Manager entrusted with a small fund may earn a six-figure salary, at the senior end of Fund management one individual in 2013 earned £17million.

When rating Fund Managers, researchers should always work on an estimate at the conservative end of the scale unless there are specific and reputable media articles detailing 'stellar' pay and bonuses for a star trader.

A Portfolio Manager is similar to a Fund Manager in what they do - except that they may be trading in a number of funds or trading between funds in order to return a profit to their employers' investors. There are fewer Portfolio Managers than there are Fund Managers working in the finance sector.

Here again there is such a wide variation in Portfolio Manager remuneration that it is safest to rate them in the same way one would rate a Fund Manager.

Average salary £300k x 2 to account for the usual bonus element common in the industry and taking note of accumulated wealth in the same way we would for an investment banker.