



More than Management Equity Plans

Motivate, outperform and
turn vision into value



Foreword

A message from the Private Capital Industry Leader

I'd like to start by thanking the Private Equity (PE) funds and management personnel for taking the time to contribute to our various discussions, roundtables, and surveys. We truly appreciate your commitment of time and your contributions that have assisted in our analysis.

Private Capital is a cornerstone of Australia's economy. Yet in an environment of rising capital costs, economic uncertainty, a weakening of the Australian dollar against other currencies and geopolitical tensions, it has become more challenging for Private Equity and related funds (PE) to maximise returns on exit. This has led to longer holding periods, making talent retention and effective management incentive structures critical to sustained value creation.

As a result, PE funds are rethinking how to better manage talent to keep investments on a profitable trajectory.

At the same time, employers—both listed and unlisted—are looking more at their total reward framework and how to best attract and retain talented employees. This framework includes base pay, benefits, short term incentives (STI) as well as long term incentives (LTI). Consideration is also being given to the manner in which rewards and their value are communicated to all relevant employees.

This situation provides both a **risk and an opportunity** for PE to revisit their house view on their reward framework for key talent in their portfolio companies, as the competition for talent from both listed and unlisted employers, locally and globally, intensifies.

Questions that PE funds should be considering in relation to the total reward framework for portfolio company talent include:

- Is the incentive structure (STI and LTI) **competitive** against listed and other unlisted employers in the relevant industry?
- Is the incentive structure **competitive** in a **global** talent market; in an environment where the global war for talent continues and the depreciation of the Australian dollar makes Australia less attractive?
- Does the mix of STI and LTI provide the PE fund with the **flexibility** needed in the current environment and provide employees with the incentive needed during times of uncertainty, especially in relation to longer holding periods?
- Is the **form and quantum** of the Management Equity Plan (MEP) appropriate to both optimise the outcome for the investors **and** minimise complexity / allow benefits to be clearly understood and recognised?

- Has the buyer universe been considered as part of the MEP design given longer dated exit horizons and possible use of Continuation Funds? For an MEP to truly motivate key talent there must be **clarity** around exit and how value can be realised.
- While management of portfolio companies is key to success, what benefits could **broad-based equity ownership** provide to investors?

In addition to considerations relating to the broader reward framework, this paper explores MEPs through market insight into the importance and value of:

- developing a house view or standard framework;
- keeping the MEP structure simple and communicating its value effectively and frequently;
- extending the MEP to key personnel, not just the C-Suite; and
- defining where incentives under the MEP start and stop.

Given the war for talent and the current market environment, we encourage PE funds to consider whether they should be offering **More than MEPs** to their employees through reviewing their broader total reward framework.

We hope this paper provides helpful guidance. If you would like to discuss any aspects raised here, please do not hesitate to reach out to your PwC contact.

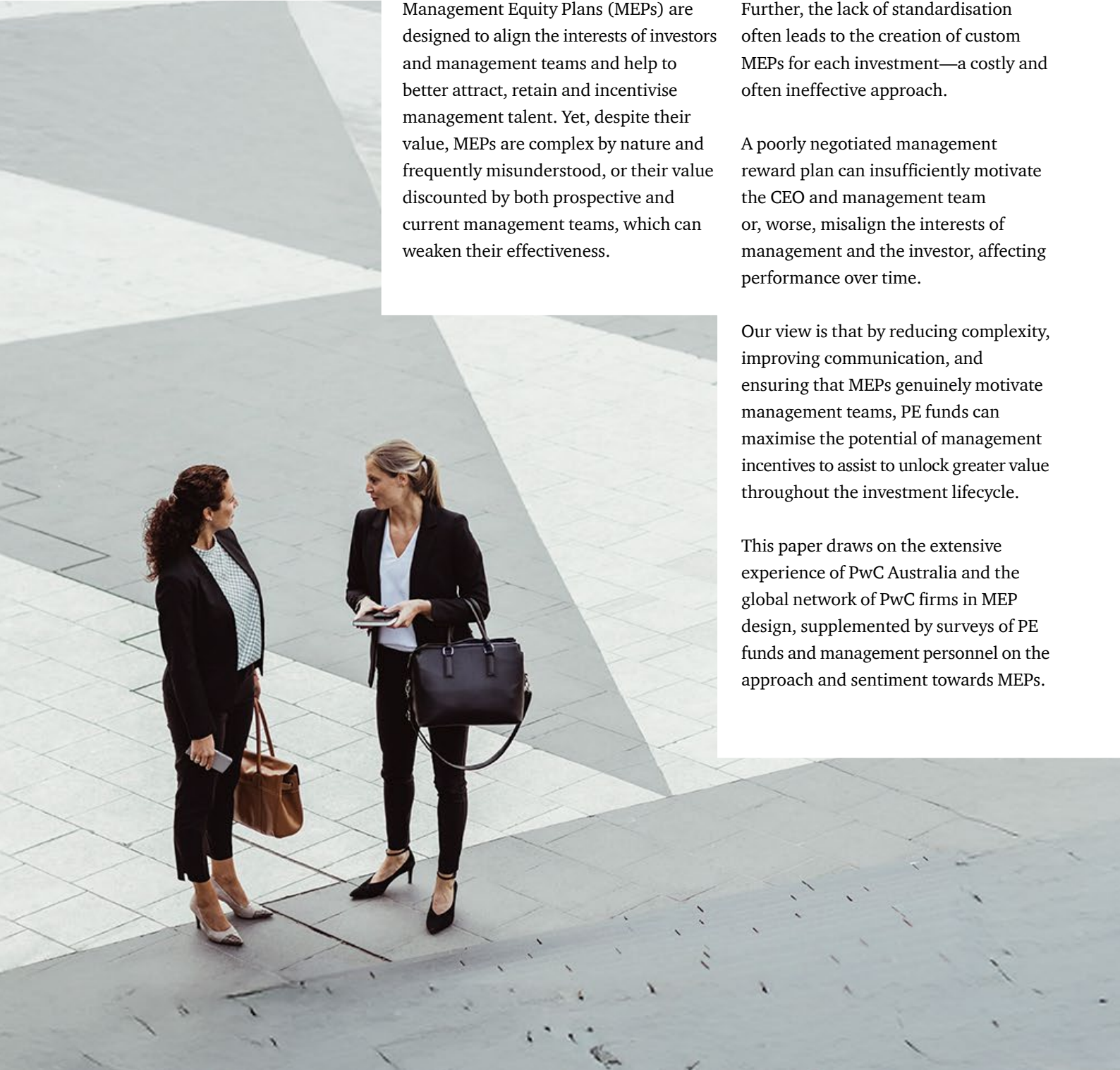
Troy Porter

Partner,
Private Capital Industry Leader,
PwC Australia

Contents

| | | |
|-----------|---|-----------|
| 01 | Executive Summary | 04 |
| 02 | Five ways for PE funds to improve equity incentive offerings | 06 |
| | Work within your broader reward framework | |
| | Develop a 'house view' | |
| | Keep it simple and communicate well | |
| | Consider extending equity incentives to key personnel, not just the C-Suite | |
| | Define where incentives start and stop | |
| 03 | Optimising equity incentive plans | 20 |

01 Executive Summary



Management Equity Plans (MEPs) are designed to align the interests of investors and management teams and help to better attract, retain and incentivise management talent. Yet, despite their value, MEPs are complex by nature and frequently misunderstood, or their value discounted by both prospective and current management teams, which can weaken their effectiveness.

Further, the lack of standardisation often leads to the creation of custom MEPs for each investment—a costly and often ineffective approach.

A poorly negotiated management reward plan can insufficiently motivate the CEO and management team or, worse, misalign the interests of management and the investor, affecting performance over time.

Our view is that by reducing complexity, improving communication, and ensuring that MEPs genuinely motivate management teams, PE funds can maximise the potential of management incentives to assist to unlock greater value throughout the investment lifecycle.

This paper draws on the extensive experience of PwC Australia and the global network of PwC firms in MEP design, supplemented by surveys of PE funds and management personnel on the approach and sentiment towards MEPs.

In our analysis, there are five key takeaways for PE funds looking to improve their management incentive offering:

I. MEPs work best within a broader reward framework

In PwC's recent survey "Enhancing the effectiveness of Management Equity Plans (MEPs) used by the Private Capital industry in Australia" ("Survey") we canvassed the views of portfolio companies, management teams and PE Funds. Our survey respondents agreed that MEPs were effective in retaining talent and motivating participants to achieve the business' strategy and investment objectives. However, in our experience, the most effective employee equity arrangements are built as part of a broader reward framework. PE funds should develop MEPs in this broader reward context.

II. Develop a 'house view'

Nine in ten PE funds we surveyed admitted they had challenges drafting, implementing and administering MEPs. While there is no best-practice MEP design per se, several of these challenges can be mitigated by developing a house view on the core aspects that feed into an MEP design. Developing a house view, or a set of up-front principles, can reduce design complexity, while still allowing for some flexibility across a fund's individual portfolio companies.

III. Keep it simple and communicate well

MEP structures for unlisted companies are inherently more complex in design and implementation than those of listed companies. Research shows that equity plan participants attach significantly more value to an award with a structure they understand. PE funds should therefore address the complex nature of MEPs by better communicating the value of the award—at the negotiation phase *and* throughout the lifecycle of the investment.

IV. Consider extending equity incentives to key personnel, not just the C-Suite

As the name suggests, management equity plans tend to be offered to management. In many cases, this is limited to very senior levels of the organisation. However, there is evidence to suggest that equity plans with the right design and implementation features, given to a broader segment of the employee population result in greater levels of employee commitment, engagement and collaboration, as well as improved business performance.

V. Define where incentives start and stop

While our survey respondents found MEPs to be an effective way to incentivise participants, they also cited challenges around dealing with leavers (both 'good' and 'bad') and ensuring success after an exit event. Addressing these challenges upfront will provide greater clarity and transparency, ensuring smoother MEP administration over the lifecycle of the investment.

02

Five ways for PE funds to improve equity incentive offerings





Work within your broader reward framework

The survey results from both PE funds and participants found that MEPs were highly valued as a tool to align management with the strategy and financial outcomes of the sponsor. These findings included:

- all PE funds rated the effectiveness of MEPs as ‘very good’ or ‘good’, with 96% saying they believed MEPs had a positive impact on attracting top management talent in Australia;
- all participants said being offered an MEP was ‘very important’;
- 92% of participants said their MEP was an effective incentive; and
- 83% of participants said their MEP enhanced their day-to-day working experience.

While the above sentiments are very positive and point to the continued importance of MEPs in a PE fund’s reward strategy, our view is that they shouldn’t be the only component.

A typical remuneration framework is composed of fixed remuneration, short-term incentives and a long-term incentive, and each component plays a key role in the motivation and retention of participants over time.

A study¹ by PwC and the London School of Economics on the Psychology of Incentives provides some excellent insight into executive pay. Three major findings are worth noting:

1. executives in Australia and the UK are the most risk-averse;
2. complexity and ambiguity erode incentive value; and
3. executives see deferred pay as significantly lower in value to its economic or accounting value—in other words, the longer an executive must wait to realise value, the less the incentive is worth to them.

Given most MEPs are complex and typically consist of one-off grants (as opposed to annual grants) with a longer timeframe for payout (typically five years or more), participants in an MEP will discount the ‘value’ they attribute to MEPs. PE funds, therefore, should consider the need to have other reward levers they can pull to balance the long-term and uncertain nature of MEP payouts.

MEPs should be supplemented by a robust reward framework that includes short-term performance-based rewards that are in participants’ control, such as cash bonuses. A well-designed bonus plan strikes a balance between rewarding short-term performance

metrics and longer-term incentives, where the value is more uncertain, but the pay-offs can be materially higher. It is important for participants to see that the bonuses are achievable.

Our survey showed that only 50% of MEP participants found their cash bonus target was ‘attractive’, suggesting there is room for improvement here.

Another consideration is to benchmark your remuneration packages. Research into the psychology of incentives¹ shows that executives need their pay to be considered ‘fair’ within their own company—and when compared to the market. Interestingly, it was not the quantum of the remuneration

that was most important to executives, but rather how it compared to the remuneration of others.

In that context, and as noted above, there is an opportunity for PE funds to think more holistically about their total reward offering. That means better integrating employee values and preferences, including market value—but also work-life balance and career development opportunities—into the package.

This could be effective where an exit event is likely to be more than three years away, and where the market for talent is highly competitive.





||. Develop a ‘house view’

When it comes to the MEP component of the reward framework, one of the greatest challenges for PE funds is to avoid reinventing the wheel each time a new plan is negotiated. Having multiple MEPs within the same PE fund can lead to administrative complexity, inconsistent incentives, and diluted alignment with the fund’s overall strategy, which can hinder value creation.

The purpose of a house view is to reduce some of the challenges with drafting and implementing MEPs. Once the foundational principles are in place, they should be tested against your overarching people strategy by asking the following questions:

- What is the tone of the culture we're trying to set?
- How do we want to be seen in the market?
- What behaviours are we trying to reward?
- What will we lose if key people walk away?

While there is no best-practice MEP design per se, developing a house view on the core aspects that feed into an MEP can reduce some of the administrative and legal burden, and create clear, consistent incentives that resonate with management teams across the portfolio. In this way, a house view also creates efficiencies for the investment team.

Key considerations include:

Award instrument

The first, and arguably most important, consideration is what award instrument is the most appropriate. Choosing a default plan, with alternatives based on common sets of circumstances, is an important starting point when designing your house view on MEPS.

For example, PE funds in Australia most commonly use **loan-funded share plans** as their preferred structure. That's because this type of plan gives participants an ownership interest. It is also tax effective, typically attracting capital gains tax treatment as opposed to income tax treatment. So, the loan-funded share plan might be your default award instrument.

However, loan-funded share plans are not always appropriate. For example, in cases where the MEP participant is already a shareholder, the loan-funded shares become more complex to navigate. An alternative award instrument, such as a **standard option** or **premium exercise** priced option may be more appropriate here.

Similarly, loan-funded share plans can be ineffective for employees based overseas (because other structures are more common and therefore better understood in other jurisdictions). In these circumstances, PE funds could consider a **growth share plan** (also known as a flowering share plan) or a standard option as alternatives.

The key is to simplify the types of award instrument on offer, and to align them to a defined set of circumstances. This should help reduce complexity and create better consistency and administrative efficiency across your portfolio.





Class of shares

The next consideration is what class of shares to use within your preferred plan.

When using a loan-funded share plan, for example, the default position is to create a special class of shares with unique rights, obligations, or restrictions that balances employee incentives with shareholder protections. This allows PE funds to more effectively administer the award, including in circumstances such as a compulsory divestiture.

A common structure is for the special class of shares to carry differentiated dividend and capital rights and exclude voting rights.

These shares can convert into ordinary shares with full rights upon a vesting or exit event.

It is critically important to ensure that specific terms for a class of shares are clearly defined in the company constitution (or equivalent governing documents). Doing so establishes the legal foundation for how the shares operate, protects the rights of shareholders, ensures compliance, and minimises the risk of disputes.

For option-based awards, the options would typically be over ordinary shares.

Value of shares

Under a loan-funded share plan, shares should be acquired at market value to ensure the tax outcome is as expected. Valuation discounts can sometimes be applied to reflect illiquidity, minority shareholder status, or restrictions, provided they are properly justified and documented.

The market value may be verified by an external valuer, noting that the tax market value can be different to the accounting value and, in some cases, the ordinary value. If engaging a valuer, be clear on the type of valuation you need.

More broadly across all award instruments, it is also important to have a house view—with supporting legal documentation—on how the value of shares will be determined on exit and in forfeiture events. For a compulsory divestiture, the valuation methodology should form part of the terms of the special class of shares themselves (with the value often set to a nominal value).

In other cases, on divestiture, the plan may provide for the class of share to be varied to another class of share that will typically have no voting, dividend or capital rights, essentially turning it into a valueless share before it is dealt with (for example, via a share buy-back and cancellation).

This step ensures the company's equity structure aligns with its goals, whether that's simplifying ownership for a new buyer or complying with regulatory requirements for the divestiture.





Leavers

How leavers are defined should be outlined clearly in the terms of the MEP.

A 'good leaver' is an employee or participant who leaves a company under circumstances that are generally viewed as favourable or beyond their control, including redundancy, retirement, disability or even death.

Conversely, a 'bad leaver' is typically someone who resigns voluntarily, is terminated for misconduct, or breaches their employment contract.

Good leavers may be able to retain some or all their vested or unvested awards, while for bad leavers, anything unvested will usually be forfeited. This allows for the equity pool to be refreshed for new grants to new hires.

Clearly defining and applying good leaver provisions ensures fairness and consistency in managing MEPs during employment transitions. With that in mind, consideration should be given to the full set of circumstances that apply to good and bad leaver definitions. For example, what happens in the event of mutual termination, or if someone leaves before a set date?

Exit

Having a house view on exit provisions is also key. It may be appropriate, for example, that all awards vest on exit. Or, in other circumstances (e.g. where retention of management and/or other key personnel is key, such as many areas of the Healthcare and Services sectors) it may be more appropriate for a portion of awards to remain unvested.

The key here is having a view on what proportion of the equity can be realised on exit, versus what proportion should be rolled over. This transparency is important for both participants and a potential acquirer.

Given many exits now result in a secondary sale to another PE fund or to a long-term focused financial investor,

knowing there are mechanisms within the rules to ensure the MEP can have a retentive effect beyond the transaction is important. The plan should provide maximum flexibility as to how shares can be dealt with on exit as the specific form of the transaction may have a tax and commercial impact.

Another point to consider is what happens if the investment timeframe changes or, more specifically, if the exit is delayed beyond the initial expected timeframes. Under that scenario, you may decide there are no changes to the awards. Alternatively, you may look at short-term incentives, directing more value into the existing awards, or providing some artificial liquidity (i.e. allocating a portion of shares to be sold).

“Every business should start with clear remuneration principles. While these can evolve, having a consistent point of view on the ‘why’ and the ‘how’ is essential. Without that starting point, organisations end up with inconsistency and confusion. Exits and rollovers are a major point of friction between MEP participants and PE funds. This is why it is critically important to agree these positions upfront. If you cannot articulate the upfront principles, you are going to have a problem.”

Daryl O’Callaghan
Managing Director,
Reward Advisory Services, PwC Australia





|||. Keep it simple and communicate well

According to our survey, 70% of PE fund personnel said their preferred MEP structure was a loan-funded share plan.

While this may be the most common MEP structure, it is also the most technically complex. Given complexity and ambiguity tend to erode the value participants attribute to a reward, it's critical that the value of an MEP is clearly communicated—regardless of its structure.

Our research showed that just 17% of MEP participants strongly agreed that MEPs were easy to follow and understand. Meanwhile, an overwhelming 91% of PE fund personnel acknowledged challenges in drafting and administering MEPs, particularly when trying to gain understanding and buy-in from the participants.

PE funds can take some of the complexity out of MEP structures through more effective communication—beyond the provision of documentation. There is an opportunity for PE funds to engage communication experts who specialise in translating technical or legal information into plain English for anyone unfamiliar with the subject matter (and including the use of visuals and examples). Our survey showed that most PE funds engaged lawyers (87%) or accountants (65%) to deliver MEP advice. Based on our survey results, a communication specialist should be considered to potentially be added to this list of important advisers.

If we look at what happens in listed companies, there has been a successful shift from sole reliance on paper documentation towards broader employee engagement, including dedicated sessions on MEPs. Employee forums provide excellent opportunities for funds to demonstrate the value an MEP can deliver, and to highlight areas that are typically less understood, including how the loan mechanism works, what happens with leavers, how the shares become vested and how the value is calculated and realised on exit.

Armed with a better understanding of how the plan operates throughout its lifecycle—including what happens at key milestones along the way—MEP participants are more likely to buy in to the MEP and the associated opportunities for value creation.

Importantly, communication should continue throughout the life of the MEP to maintain transparency about company performance and how it links back to the award. Without regular communication, participants can lose sight of the shared goals and objectives of the MEP.

At the same time, the exit event can be a wonderful opportunity for the PE fund to promote the realised value of the MEP, and share the case study across their portfolio, driving buy-in from future participants.





IV. Consider extending equity incentives to key personnel, not just the C-Suite

Unsurprisingly, our survey results confirmed that the preferred target for MEPs was the C-suite. While senior executives have historically been the sole beneficiaries of equity incentive plans, that trend is beginning to shift.

One reason is that broad-based employee equity plans used to be difficult to administer in Australia. However, recent legal changes have made them simpler to implement. While broad-based plans are structured differently to the common MEP, they tend to be more straightforward, reflecting smaller allocations. Their objective is also simpler: to create a shared ownership structure.

By extending equity participation to mid-level managers and a broader set of key employees, funds can align incentives across a wider team, encouraging a culture of accountability and collaboration that supports long-term value creation. Broader-based plans also help attract and retain talent at all levels, addressing turnover risks and ensuring that critical contributors are motivated to work towards the fund's goals.



“ The MEP got our whole management team (20+ participants) to think as owners.”

MEP participant

“ MEP participants appreciate alignment with investors. The psychological impact of the MEP (i.e. seeing themselves as an owner) is perhaps more important than the monetary impact.”

Private Equity GP

Research into employee equity plans also shows that a culture of shared employee ownership creates more resilient organisations in times of economic downturn.²

It's no wonder that broad-based employee share plans are gaining popularity in Australia and worldwide, to the point where employee equity has become a standard component of reward frameworks in both listed and unlisted organisations.

Globally, the movement towards broad share ownership has included the establishment of a not-for-profit organisation to help public and private companies develop, implement, and evaluate holistic broad-based employee ownership programs.



V. Define where incentives start and stop

While our survey respondents found MEPs to be an effective way to incentivise participants, they also cited challenges in dealing with ‘good’ and ‘bad’ leavers and rolling over participants at exit. This suggests more consideration needs to be given to the life of the MEP when the plan is first drafted and presented.

While most MEPs include flexibility as to how rewards can be treated on exit, this is not always advantageous. In our view, MEP design should consider upfront how the reward will be treated on exit (see ‘Develop a house view’ above). For example, how much of the reward can be realised versus how much can—or will be required to be—rolled over? What happens if the exit is delayed? What impact does this have on retention and motivation?

Funds may need to think about a form of artificial liquidity; for example, creating a sell-down opportunity at a point in future if a transaction does not occur. If this route is chosen, consideration should be given to determining the triggers, as well as how much may be liquidated or sold. To the extent artificial liquidity is not included, could the MEP be made more attractive in another way? Or is it best to place more emphasis on other remuneration elements; for example, a well-designed cash bonus plan to better provide a bridge to future exit?

Either way, having clarity upfront around exit (or extension) rules will help manage expectations at the outset and ensure there are no surprises that could upset the end goal.

03

Optimising equity incentive plans

Equity incentives can be one of the most effective ways to align interests between investors and management teams, boost performance, and create shareholder value over time.

However, care needs to be taken when drafting and implementing MEPs. Inherent design complexity, together with limited management understanding of MEP structures and provisions, can frustrate alignment, drive up costs, and limit success.

PE funds can improve their equity incentive offering by thinking holistically about how MEPs fit within their broader reward frameworks, including whether they should be offered to employees outside of the C-suite.

Developing a ‘house view’ on key elements that govern the MEP, and having clear rules about what happens at exit, will ensure all parties are pulling in the same direction. And as this paper shows, MEPs can only be effective if they are well understood—so taking the time to engage participants and explain the value of the terms should pay off in the long run.

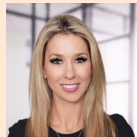
By following these principles, PE funds will be better positioned to embed a positive culture, motivate and retain key talent, and keep their investments profitable.



Contact us



Troy Porter
Partner,
Private Capital Industry Leader
troy.porter@au.pwc.com



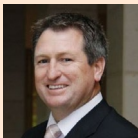
Julia Richards
Partner, Financial Sponsors
Group Leader, PwC Australia
julia.clair.richards@au.pwc.com



Norah Seddon
Partner,
Workforce
norah.seddon@au.pwc.com



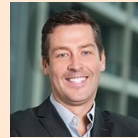
Adam Pascoe
Partner, Private Equity,
PwC Australia
adam.pascoe@au.pwc.com



Mark O'Reilly
Partner, Private Equity,
PwC Australia
mark.oreilly@au.pwc.com



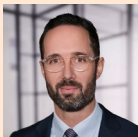
Michelle Kassis
Partner,
Reward Advisory Services
michelle.kassis@au.pwc.com



Josh Day
Partner, Private Clients,
PwC Australia
josh.day@au.pwc.com



Daryl O'Callaghan
Managing Director,
Reward Advisory Services,
PwC Australia
daryl.ocallaghan@au.pwc.com



Aidan Douglas
Partner,
Legal,
PwC Australia
aidan.douglas@au.pwc.com



Sonia Kew
Director,
Reward Advisory Services,
PwC Australia
sonia.kew@au.pwc.com

Footnotes (for easy reference)

1. www.pwc.co.uk/human-resource-services/assets/pdfs/psychology-of-incentives-2024.pdf
2. www.pwc.com/gx/en/issues/workforce/pwcs-global-workforce-sustainability-study.html



© 2026 PricewaterhouseCoopers. All rights reserved. PwC refers to the Australian member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. Liability limited by a scheme approved under Professional Standards Legislation. At PwC Australia, we help clients build trust and reinvent so they can turn complexity into competitive advantage. We're a tech-forward, people-empowered network with more than 364,000 people in 136 countries and 137 territories. Across audit and assurance, tax and legal, deals and consulting, we help clients build, accelerate, and sustain momentum. Find out more at [pwc.com.au](https://www.pwc.com.au)