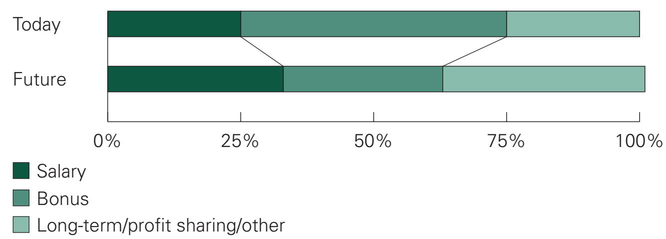
U.S. Asset Management: 2010 Compensation Benchmarks

November 2010

Asset management compensation is rebounding after two difficult years characterized by decreases in assets under management, stock market volatility, job/cost cutting, and other challenges. The significant levels of asset depreciation and investor redemptions that persisted into 2009 have given way, and U.S. investment management firms show signs of recovery in both overall company performance and compensation levels for 2010 and 2011.

Illustration of Evolving Landscape

Asset Management Senior Professionals



Source: Johnson Associates

Volatility and changes in the market environment will continue to have an unusually large impact on compensation magnitude and structure over the next 12 months. As the asset management space evolves from a business perspective, so must the industry's compensation approach. To understand and benchmark these unprecedented changes, Greenwich Associates and Johnson Associates collaborated on a review of the relevant asset management compensation trends and projected changes.

This report summarizes the key findings from Greenwich Associates' and Johnson Associates' review of Greenwich Associates compensation data of investment professionals and is supplemented with proprietary client information and industry intelligence to identify trends and projections for compensation in 2010 and beyond.

Historical Pay Volatility and Relationship of Pay Between Traditional Institutions and Hedge Funds

The most recent study benchmarking average compensation levels in the asset management industry demonstrates the extent to which market volatility, since the onset of the global market crisis, has been reflected in compensation. Dramatic asset depreciation, investor redemptions and attrition among asset managers led to widespread job losses, as well as reductions in bonuses and other forms of compensation.

As the markets imploded 2007–2008, average total compensation for senior hedge fund fixed-income investment professionals declined more than 40% according to study respondents. Investment professionals at traditional asset management organizations reported much less volatility, with decreases of less than 10% from the prior year.

While compensation levels for fixed-income professionals working at hedge funds have recovered to pre-crisis levels through 2009, hedge fund equity professionals are earning about half what they took home in the boom days of 2007 — and less than their counterparts at traditional asset management organizations. "Throughout this period, as one would expect, there was wide variation in average compensation on a firm-to-firm basis, based on strength of investment performance and returns and the magnitude of any declines in AUM and management fees," explains Greenwich Associates Director of Institutional Marketing Jennifer Litwin.

Although the crisis reduced average compensation levels throughout the industry, investment professionals at hedge funds experienced by far the largest declines. Hedge fund investment professionals entered into the crisis period with much higher compensation levels on average following a run-up from 2004 to 2007. As a result, the overall pay differential between fixed-income hedge funds and traditional management firms narrowed to approximately 1.5 times in 2008 and 2.0 times in 2009 from roughly 3.0 times in 2007. This differential is more prevalent among fixed-income professionals, where average compensation averaged $1 million at hedge funds versus $325,000 at traditional firms in 2007 and $1 million versus $475,000 in 2009. With equity professionals, the pay differential between hedge funds and traditional firms in 2007 was roughly 2.7 times, which narrowed to near parity in 2009.

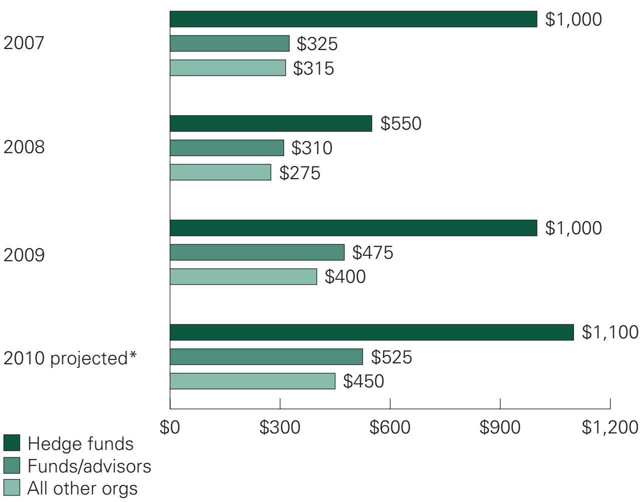
The dramatically higher level of volatility in the compensation of hedge fund professionals throughout that period was due to the fact that product structures and pay mechanics vary significantly between hedge funds and traditional institutions. Hedge funds use more leverage, base performance on absolute returns and take longer to recover management fees and compensation levels after a period of poor investment performance due to high water marks. Traditional managers use little or no leverage, judge performance on the basis of relative returns and have no high water marks with which to contend. "It is also important to bear in mind that there is much greater variation in compensation levels from hedge fund to hedge fund than among traditional managers due to vast differences in hedge fund investment strategies, risk profiles and their positions relative to 'high-water' marks," explains Greenwich Associates Product Manager Kevin Kozlowski.

Softening Expectations for 2010

Moderate improvement in the business environment and year-on-year growth in AUM is expected to push compensation levels higher across the investment management industry. At traditional asset management organizations, average incentives are expected to increase by approximately 10% for fixed income and 15% for equity professionals in 2010. Hedge fund changes from 2009 will be more moderate, ranging from flat to up 10% on incentives. In addition, the current pay difference between traditional managers and hedge fund equity professionals is projected to widen slightly in 2010, with total compensation for senior equity professionals at traditional management organizations increasing above the top levels achieved before the market crash.

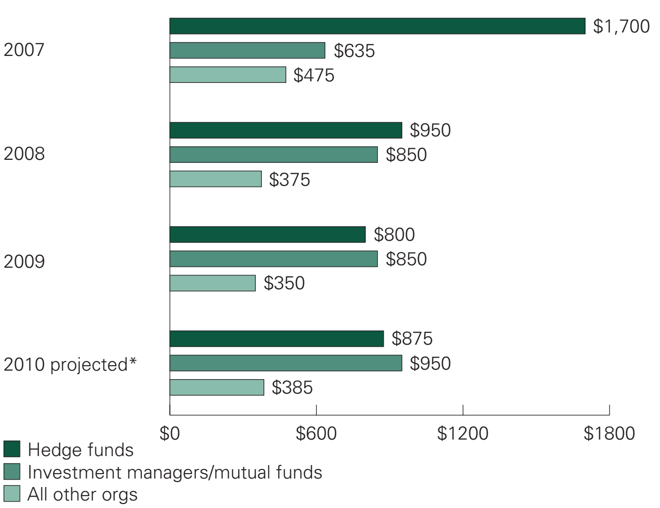
"While the rebound in average compensation levels in this industry has been impressively fast, projections for 2010 are softer now than they were just three-to-four months ago," says Johnson Associates Managing Director Francine McKenzie. "Uncertainty about market direction, the strength of the global recovery and near-term prospects for asset management growth and profitability is dampening expectations that earlier in the year were quite strong."

Average Senior Professional Total Compensation
Fixed Income



Note: Rounded data in $000s. "All other orgs" data includes weighted average results from banks, insurance companies, government agencies and other.
Sources: 2010 U.S. Fixed-Income Investors Compensation Benchmarks Study;
*Johnson Associates projections on changes from Greenwich Associates 2009 data.

Average Senior Professional Total Compensation
Equity

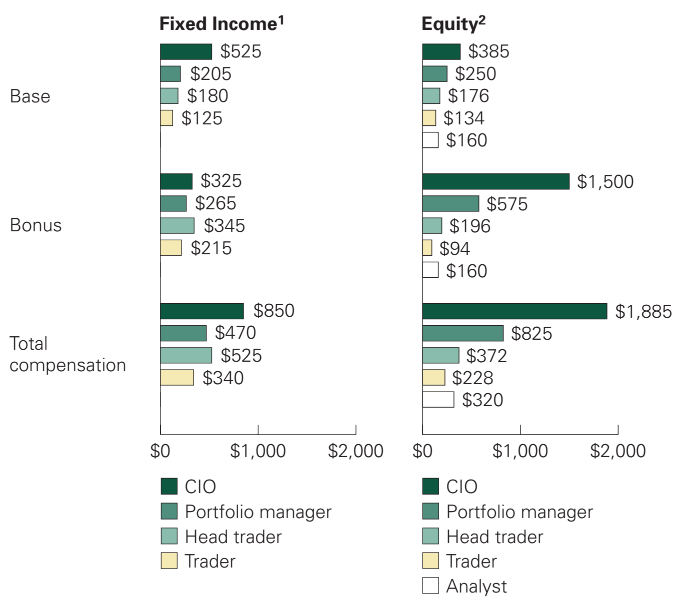


Note: Rounded data in $000s. Investment managers/mutual funds reflects weighted average results from each institution grouping. "All other orgs" data includes weighted average results from banks and pension and endowments. Sources: 2010 U.S. Equity Investors Compensation Benchmarks Study (Portfolio Managers); *Johnson Associates projections on changes from Greenwich Associates 2009 data.

Job Differences on Role/Responsibility

As expected, study respondents indicate that compensation varies significantly among investment roles, job scope and responsibilities. For example, the expanding influence of the Chief Investment Officer (CIO) position is reflected in the growing disparity in total compensation between CIOs and other investment professionals. Average 2009 total compensation for CIOs in equities was approximately $1.80 million, compared to $825,000 for equity portfolio managers, $540,000 for directors of research and $320,000 for analysts. In fixed income, CIOs earned approximately $850,000 on average compared to a range of $340,000–$525,000 for other investment professionals.

Compensation Comparison — 2009



Note: Rounded data in $000s.
Source: [1]2010 U.S. Fixed-Income Investors Compensation Benchmarks Study;
[2]2010 U.S. Equity Investors Compensation Benchmarks Study

Equity market pay levels are generally higher than those in fixed income for the same or similar positions, recognizing product and fee differences. Regardless of changes in absolute compensation over time, this ongoing relationship between fixed income and equity portfolio manager pay is likely to be maintained.

Mix of Pay (Cash Compensation)

In 2009, bonuses accounted for approximately 70% of cash compensation among equity portfolio managers and 50–60% among equity analysts and traders, with the remainder salary. For fixed-income portfolio managers, salary makes up a bigger portion of cash compensation. Bonuses for fixed-income investment professionals ranged from approximately 65% for traders and 55% for portfolio managers to roughly 25% for analysts. The information provided by study respondents on cash compensation is consistent with broader market data. As discussed below, however, the perceptions of investment professionals participating in the study differ from general market practice in the area of long-term compensation.

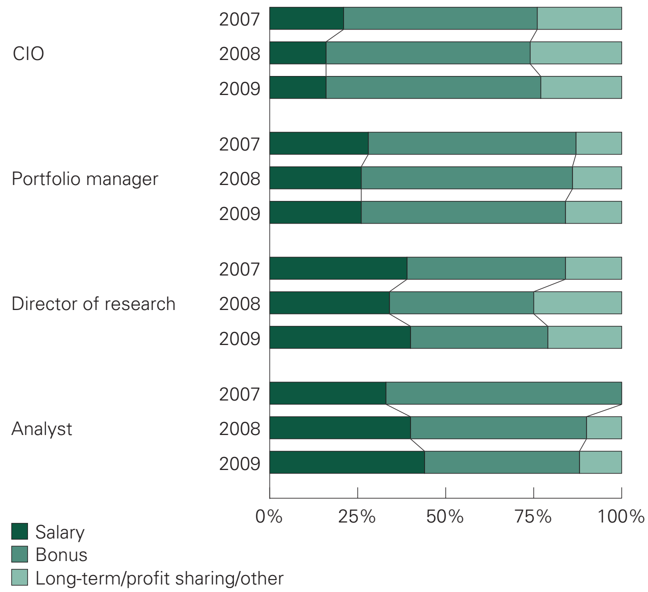
Deferred Compensation

Although most asset management organizations are moving in line with other financial service companies by altering compensation structures in favor of long-term incentives, these changes have yet to be reflected in the actual compensation packages reported by asset management professionals. Outside of senior positions such as CIO, cash salary and bonus continue to be perceived as the most significant portion of asset management compensation.

Fixed Income Mix of Pay

Note: Estimated split of cash compensation between salary and bonus. Incorporated retirement across salary, bonus and long-term/profit sharing/other.
Source: 2010 U.S. Fixed-Income Investors Compensation Benchmark Studies

Equity Mix of Pay



Note: Estimated split of cash compensation between salary and bonus. Incorporated retirement across salary, bonus and long-term/profit sharing/other.
Source: 2010 U.S. Equity Investors Compensation Benchmark Studies

Beyond 2010, the consultants at Greenwich Associates and Johnson Associates project a significant expansion in the use of deferred/long-term incentives by asset management firms. This growth will in all likelihood come at the expense of bonuses, which are expected to decline as a share of overall compensation while both deferred/long term compensation and cash compensation increase.

"Among lower-paid positions, asset management firms are actually moving away from equity compensation after finding that these awards have little impact on employee behavior and that firms generally get more bang for their buck with cash," says Johnson Associates Vice President Andria Cardillo. "But for senior level positions, asset management firms are already experimenting with a broad and creative range of deferral designs utilizing both equity and deferral of compensation into investment funds."

Performance Incentives

Individual performance drives incentive compensation for equity professionals in the asset management industry while incentive compensation in fixed income is generally more closely tied to company performance. As one would expect, incentive compensation for senior-level management positions is tied most closely to company performance. "Management is expected to drive firm performance through both investment and strategy execution, and there is clear line of sight between business results of the firm and the activities of employees reporting into senior-level managers," says Greenwich Associates Fixed-Income Product Manager Jason DeMasi.

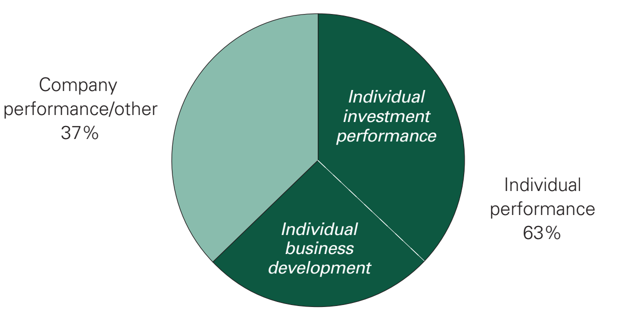
Overall, asset management firms are placing a growing emphasis on businesses development as a driver of individual incentive compensation. This increased weighting to business development reflects the increasingly competitive nature of the U.S. asset management market and is generally geared towards more senior investment professionals and/or management. Surprisingly, study respondents indicated a strong focus on business development for more junior roles (i.e., Analyst) where there is typically less of an emphasis in the market due to limited job scope.

The challenging market environment is prompting many asset managers to create incentive programs that encourage business development skills and activities that distinguish products and firms' overall value propositions. As a result, equity asset management firms are increasing the weighting of business development in the incentive compensation structures. "This development shows just how focused firms are on strengthening their ability to raise assets, but it might also demonstrate a lack of clarity concerning how individual performance is and should be assessed in certain positions," says Francine McKenzie.

Fixed-Income Performance Metrics Across All AUM

Note: Reflects weighted average split across all AUM groupings
Source: 2010 U.S. Fixed-Income Investors Compensation Benchmarks Study

Equity Performance Metrics Across All AUM



Note: Reflects weighted average split across all AUM groupings
Source: 2010 U.S. Equity Investors Compensation Benchmarks Study (Portfolio Managers)

Typically for investment professionals, business development is emphasized to the greatest extent in the individual incentive structures of firms lacking strong distribution channels and among hedge funds in which portfolio managers play a key role in the asset gathering process.

Conclusion

Asset management remains a dynamic sector with a competitive environment poised to become even more competitive given the high emphasis now being placed on less capital-intensive businesses. In 2011, we expect improvements in AUM and sector performance to drive higher incentive compensation. We will continue to monitor developments across the asset management space.

Contributors are Jennifer Litwin, Kevin Kozlowski and Jason DeMasi from Greenwich Associates and Francine McKenzie and Andria Cardillo from Johnson Associates.

Methodology

Every year, Greenwich Associates collects data on buy-side compensation levels and practices through interviews with more than 1,000 financial professionals in equity and fixed-income investor groups. The data is based on the individual responses of study participants and is self-reported. Interviews are conducted by telephone and in-person.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and review for presentation purposes in order to produce the final results.

About Greenwich Associates

Greenwich Associates is the leading international research-based consulting firm in institutional financial services. Greenwich Associates' studies provide benefits to the buyers and sellers of financial services in the form of benchmark information on best practices and market intelligence on overall trends. Based in Stamford, Connecticut, with additional offices in London, Toronto, Tokyo, and Singapore, the firm offers over 100 research-based consulting programs to more than 250 global financial-services companies. Please visit www.greenwich.com for more information.

About Johnson Associates

Johnson Associates is a boutique compensation consulting firm specializing in financial services. The firm has extensive experience advising high-end global and regional financial clients on an extensive range of compensation issues and practices. For additional information or background, please visit www.johnsonassociates.com.

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