

Performance Pay In Asset Management

**U.S. Institutional Forum for
Chief Investment Officers**

Institutional Investor

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January 25, 2005

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Investment Management

- More objective overall
 - Schedules linked to returns vs. benchmarks/ratings
 - AUM schedule
 - Balance needed sophistication without being overly complex
 - Results increasingly drive compensation
- Degree of subjectivity to recognize other contributions
- Mixed practice for research
 - Discretionary
 - Formal scoring of recommendations
- Avoid entitlement driven contracts/agreements

Investment Management Plan Drivers

- Heavily weighted towards superior returns
 - Usually 1 and 3-year returns
 - Encourage management of greater assets/funds
 - Where appropriate reward teamwork
 - Enough flexibility to motivate other behaviors
 - Moderate sales assistance is a good thing
- ∴ Do not overact to political correctness (i.e., no sales assistance, AUMS don't count, not enough encouragement for superior returns, etc.)

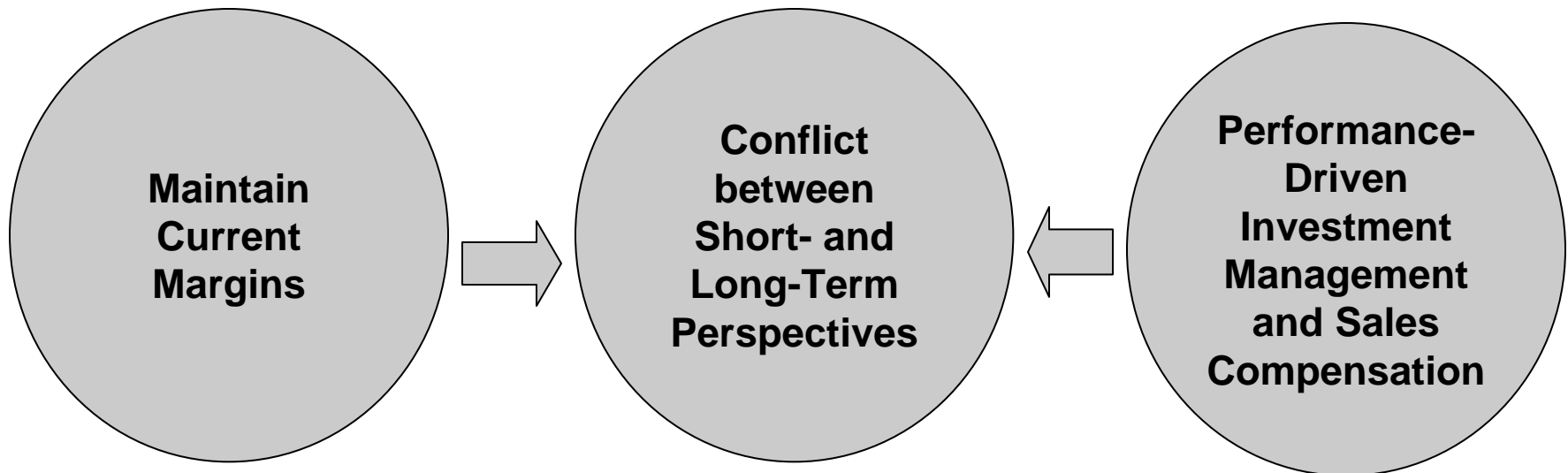
Sales Compensation

- Clients having increasing difficulty realizing sales objectives through Institutional and high-net worth channels
 - Sales professional turnover significant problem
- Several different industry models
 - Aggressive compensation leverage with low base/less support
 - Moderate compensation leverage with market base/greater support
- Trailers consistent practice
- Inconsistent application of expectations
 - Better linkages between sales levels, timeframes, and “product” attractiveness

Funding Metrics and Parent/Public Company

Parent/Public
Company Perspective

Asset Management
Perspective



∴ Many firms underinvesting in future to maintain current margins

Real Quote for the Ages...

“Thankfully we did not have outstanding investment returns or we would have had to shrink bonuses for other participants...”

Broad Check List of Pay for Performance Considerations

- Portion of compensation can be investment
 - Timing difference between results/sales momentum and revenues
- Fair degree of engineering needs to go into investment management programs
- Clarity surrounding sales expectations and compensation
 - Recognize hurdles/advantages in program
- Thoughtfully use market survey data
 - Have to calibrate levels for size and performance
- Develop coherent research focus
 - Often confusion on real role and metrics
- Structure firm ownership and equity deferrals
- Mix of financial and business building measures in bonus plan
- Increased transparency