

PerTrac Solutions

Volume 2, Issue 4
Fourth Quarter
2003

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- How much should you be earning?
- How can you construct a pro forma portfolio that incorporates leverage?
- Get discounts at selected IQ2004 conferences.
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Paying Now vs. Paying Later: A Financial Recruiter's Perspective on Compensation Packages

By Jonathan Stadin, JR Stadin, LLC

Periodically throughout the year, I am asked by my hedge fund, fund of fund and investment management clients about the pricing of candidates who come from a variety of functional backgrounds. Questions range from "how much will it take to bring a particular individual on board" to "how much will it take to retain employees once they have been brought on board." These are easy (and important) questions to ask, yet they are somewhat difficult to answer for a variety of reasons, including the wide range of job descriptions and years of experience.

Perhaps the most appropriate approach in addressing these questions is to provide general ranges on compensation packages including base, bonus and equity participation (if applicable). The best way to give an explanation regarding the compensation ranges within the hedge fund and fund of fund environment is to do the following: 1) determine the functional areas of responsibility and 2) determine years of experience. From there, one can get a general understanding of the overall marketplace.

In general, within the single manager hedge fund environment, there are 6 functional areas including research, trading / quantitative analysis, marketing / client services, operations / fund administration, compliance and information technology. The chart on the next page shows each functional area with general salary ranges. Keep in mind that the estimated ranges are the results of an extensive amount of interviews with candidates from all of the different functional areas and do not necessarily represent the industry as a whole. There are hedge fund professionals who earn either more or less than the following ranges for their respective years of experience.

In general, within the fund of funds environment, there are also six functional areas including investment analysis, quantitative / risk analysis, marketing / client services, finance / accounting, compliance and information technology. The chart on page three shows these areas with estimated salary ranges. Again, keep in mind that the estimated ranges are the results of extensive amount of interviews with candidates from all of the following functional areas and do not represent the industry as a whole. There are fund of fund professionals who earn either more or less than the following ranges for their respective years of experience.

In 2003, a survey was conducted by Infovest21 which documented the compensation packages of executive level professionals within the fund of funds environment and the results were interesting. 62 funds were included in the survey and they spanned the spectrum of AUM: under \$100 million – 19% of respondents, \$100 million to \$1 billion – 51% of respondents, over \$1 billion – 30% of respondents. Over 50% of the funds of funds interviewed had less than 10 employees, 20% had between 10-19 employees, 10% had 20-29 employees, 7% had 30-39 employees and 3% had 40-49 employees. The average total compensation for executive level professionals included: Chief Executive Officer – \$1,306,786; CIO / Director of Research - \$808,652; Chief Operating Officer - \$673,919; General Counsel - \$651,714. One must take into account that these figures are averages meaning that within the fund of fund industry, there are CEOs, CIO / Directors of Research, COOs and General Counsels who earn more than the aforementioned figures while others earn less.

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Compensation for Hedge Fund Professionals

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A similar Infovest21 survey in 2002 also showed the average equity components for a variety of positions within the hedge fund and fund of fund environments. At hedge funds, based on a sample of 71 respondents, the Portfolio Manager received 9.7%, Research Analyst received 4%, Head of Sales received 18.2%, Chief Operating Officer received 6.3%, and General Counsel received 5%. At funds of funds, based on a sample of 48 respondents, the Chief Executive Officer received

Robert Picard, formerly a Managing Director / Fund of Fund Portfolio Manager at Carlyle Asset Management Group, had the following to say about the importance of equity. “In general, I am a big proponent of the extension of equity in compensation packages at hedge funds. Emerging funds in particular need stability and can not grow without a long term plan in place which includes an equity component. One must understand that it is impossible to run a business without a clearly defined plan to compensate and retain what is

Single Manager Hedge Fund Compensation Packages

	Research	Trading / Quantitative Analysis	Marketing / Client Servicing	Operations / Fund Administration	Compliance	Information Technology
1-5 years of financial industry experience	40k – 90k base plus bonus which can be a percentage of base	40k – 100k base plus bonus which can be a percentage of base	40k – 75k base plus bonus which can be a percentage of base	40k – 80k base plus bonus which can be a percentage of base	40k – 80k base plus bonus which can be a percentage of base	40k – 95k base plus bonus which can be a percentage of base
6-10 years of financial industry experience	90k – 150k base plus bonus which can reach a multiple of base	100k – 175k base plus bonus which can reach a multiple of base	75k – 125k base plus bonus which can reach a multiple of base	80k – 150k base plus bonus which can reach a multiple of base	80k – 125k base plus bonus which can reach a multiple of base	95k – 130k base plus bonus which can be a percentage of base
10+ years of financial industry experience	150k+ base plus bonus / equity	175k+ base plus bonus / equity	125k+ base plus bonus / equity	150k+ base plus bonus / equity	125k+ base plus bonus / equity	130k+ base plus bonus / equity

“Emerging funds in particular need stability and can not grow without a long term plan in place which includes an equity component.”

39.1%, Chief Information Officer received 20.6%, Chief Operating Officer received 6.4%, Senior Analyst received 6.6%, VP or Director of Sales received 4.5%, and Head of Sales / Marketing received 3.0%.

So what do all of these data points mean for hedge funds and funds of funds which are looking to hire the best and brightest talent on the street and, just as importantly, retain their intellectual capital year after year? Or taking the discussion a step further, how important is equity in bringing (and keeping) people on board? The people who are most equipped to answer these questions are those who either understand or oversee compensation packages for hedge fund and fund of fund groups. After listening to the feedback from some senior level executives within these groups, one is able to get a better sense of the overall importance of equity in compensation packages.

known as the “brain train” of intellectual capital. This can be done in a variety of ways including the awarding of equity and / or compensation based upon the P&L of an individual, group or fund as a whole.” Picard went on to say that many of the hedge funds which he has seen over the years have remained in business in part because they have shared equity in addition to generating strong performance.

On the flip side of the coin, a fund of funds executive who requested anonymity had a much different opinion about the extension of equity. “We have been in business for many years and have never extended equity to anyone outside of the founders of the fund. However, we have always been successful in retaining employees through other incentives which are unrelated to equity.”

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Compensation for Hedge Fund Professionals

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Another hedge fund industry insider brought up an example of a sizable fund of funds which had high turnover due to the fact that equity was not being awarded to senior level executives. Although it was possible

perience. As much as there are wide varieties of strategies within the hedge fund and fund of fund industries, there is also a dispersion of opinions regarding the importance of equity in compensation

Fund of Funds Compensation Packages

	Investment Analysis	Quantitative / Risk Analysis	Marketing / Client Servicing	Operations / Fund Administration	Compliance	Information Technology
1-5 years of financial industry experience	40k – 100k base plus bonus which can be a percentage of base	50k – 140k base plus bonus which can be a percentage of base	40k – 75k base plus bonus which can be a percentage of base	40k – 80k base plus bonus which can be a percentage of base	40k – 80k base plus bonus which can be a percentage of base	40k – 100k base plus bonus which can be a percentage of base
6-10 years of financial industry experience	100k – 150k base plus bonus which can reach a multiple of base	140k – 175k base plus bonus which can reach a multiple of base	75k – 125k base plus bonus which can reach a multiple of base	80k – 150k base plus bonus which can reach a multiple of base	80k – 125k base plus bonus which can reach a multiple of base	100k - 125k base plus bonus which can be a percentage of base
10+ years of financial industry experience	150k+ base plus bonus / equity	175k+ base plus bonus / equity	125k+ base plus bonus / equity	150k+ base plus bonus / equity	125k+ base plus bonus / equity	125k+ base plus bonus / equity

that other issues were at hand, the common thread at the aforementioned fund was the absence of equity in compensation packages.

In summary, one can draw the conclusion that there are varying bands of compensation within the hedge fund and fund of fund industries. The existing stratification exists due to a number of factors including functional responsibilities, years of experience and compensation components of individual funds. Some firms pay a higher base salary with bonus paid as a percentage of the base. Others pay a lower base salary with bonuses paid as a multiple of the base. And of course, some firms will pay base, bonus and equity or profit sharing as a part of the overall package depending upon an individual's responsibilities and ex-

packages. Perhaps time will tell as to whether or not the extensions of equity will increase, decrease or remain the same. Until then, we will all need to observe and gather data points which can provide more clarity as the hedge fund, fund of fund, and investment management industries continue to evolve.

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