2011 Hedge Fund Compensation Report

PRESS VERSION

NOTE FOR PRESS VERSION:

This version of the report is a subset of the data available in the full report. You are welcome to publish excerpts from this report, including up to 2 graphs with attribution and a link to:

www.HedgeFundCompensationReport.com

Also, as you read this summary, you will see that we have highlighted (for quick reference) topics that your readers may find interesting.

HedgeFundCompensationReport.com

TABLE OF CONTENTS FOR FULL VERSION

CONTENTS

Introduction

Once again, we are pleased to present our annual Hedge Fund Compensation Report. This is our fourth year producing the report and, given the magnitude of changes during that time, we know that there is an increasing need for a reliable and affordable compensation resource.

This year's report includes actual data from 2009 plus projected compensation numbers for 2010. As we collected the data in October and November of 2010 and did not see significant market events since that time, we feel comfortable presenting the 2010 numbers as final. We found this year's projections to be somewhat higher than what we expected and represent a bit of an inflection point in hedge fund compensation practices.

The report analyzes data related to compensation earned, levels of equity sharing , work satisfaction and much more. We also aim to understand how these professionals perceive their work and what they expect from their employers.

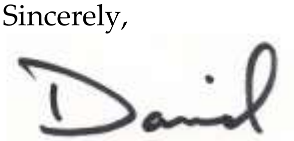
Although the discussion includes insights from industry analysts, understand that the data in this Report is based solely on data collected directly from hedge fund professionals.

Some of the questions answered in this report include:

- Compensation average and ranges?
- Base vs. bonus payouts?
- Which titles earn the most?
- Who shares in the upside?
- How does fund size affect pay?
- Impact of hours worked on compensation?
- Vacation earned vs. taken?

We hope you will find this report helpful whether you are negotiating your compensation package or setting benchmarks for your firm's compensation policies.

Sincerely,



David Kochanek, Publisher

List of Figures

Executive Summary

Although the broader economy is recovering at a much slower rate, the hedge fund industry roared back in 2010. Survey respondents, mostly experienced, mid-career professionals, report that they expect their funds to outperform 2009's returns – and they anticipate much higher bonuses as a result.

In contrast with 2009 compensation that was essentially flat when compared to the year earlier, projected 2010 compensation is expected to be 10 percent higher. Fifty-three percent expect to a raise in total compensation for 2010, compared to 46 percent in 2009. Top earners expect an even larger proportion of their 2010 remuneration to come from bonus payments.

Risk managers, who had been more highly valued in Europe than in North America, saw surprising gains in 2010 as Americans in that job role achieved parity with their European counterparts.

There has been quite a bit of press regarding bonuses in the hedge fund industry, however, they are by no means a sure thing. Fewer than one in five hedge fund employees have any portion of their bonus guaranteed. To increase the "skin in the game" factor that investors are looking for, 12 percent reported that they were required to invest some of their bonus back into the fund.

Some of the highlights from this year's report include:

- The annual average compensation for hedge fund professionals was $326,000 USD.
- Americans and Canadians take 70 percent of the 3.3 weeks of vacation they earn on average; Europeans and Australians take 79 percent of their 4.4 weeks.
- In prior years, when the market improved, the desire for higher earnings trumps job security, but that trend has not caught up with the current recovery.

The report should help job seekers better manage their pay expectations and fund managers establish compensation package benchmarks.

Methodology

We surveyed hundreds of portfolio managers, partners, principals and employees during October and November 2010 to benchmark compensation practices. Respondents represented firms from around the globe, with a strong concentration in North America. Included are some of the largest and most recognized hedge fund firms.

Some of the participating firms include (listed with permission):

BRIGHTPOINT CAPITAL

HSBC

LA FAYETTE

PEAK6

CARLSON

OAK STREET CAPITAL MANAGEMENT

BLACK RIVER

Bank of America Merrill Lynch

MorganStanley SmithBarney

Deutsche Bank Group DB Advisors

Global Institutional Asset Management

CITADEL

Phoenix

SEGALL BRYANT & HAMILL

Timely Investments... Timeless Dependability

Pay Levels

The hedge fund industry weathered the pressures on investment firm compensation practices last year and the survivors expect an unprecedented payday in 2010.

The industry's labor force was rudely awakened at the end of 2009. According to last year's edition of this report, the average respondent from North America, Europe or Australia expected to earn around $336,000 in 2009. This year's report, though, shows they actually pulled in a little less than $282,000 on average.

The vast majority of the difference between expectation and reality came in the form of lower-than-projected bonuses. Instead of the anticipated $203,000 bonus, the mean was closer to $145,000. Filtering out respondents who do not reside in Europe, North America or Australia, the figure rises to $150,000.

It is unclear what hedge fund managers might have learned from that experience. Their hope is that they will end the year with an average of almost $326,000 in total cash compensation. Still, there may be some science behind their projections.

They no longer expect their bonuses to be 60 percent of total pay, considering last year's disappointing 51 percent. Now they anticipate that their bonuses will be a reasonable 54 percent of the all-in figure.

One thing to keep in mind, common titles such as Analyst, Director, or Risk Manager can (and do) mean very different things to different firms. This is especially true at smaller firms, where each person tends to wear more hats than their larger firm counterparts.

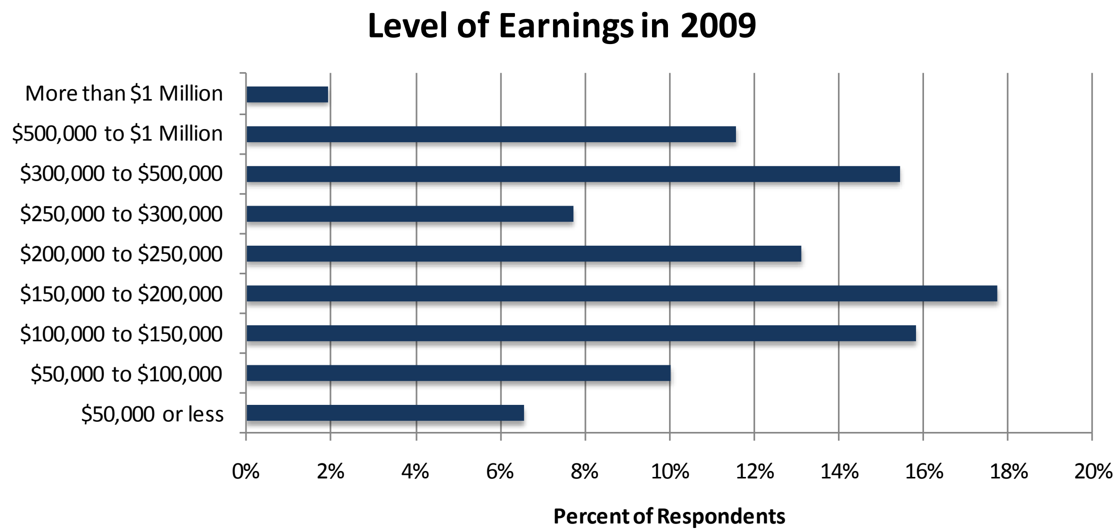


Figure: 2009 Level of Earnings

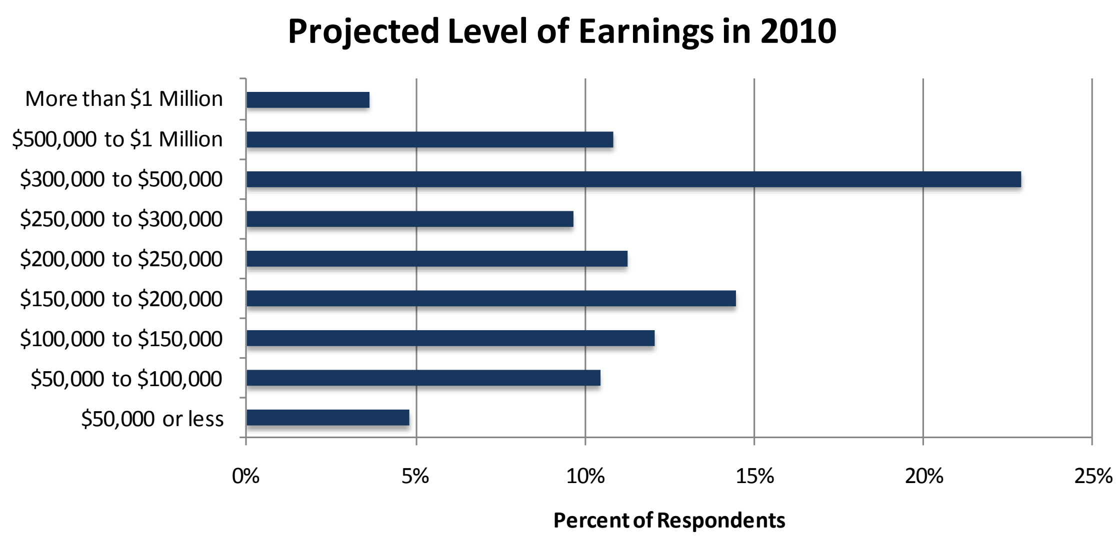


Figure: 2010 Expected Earnings

In historical context, there appears to be a gathering to the middle this year. In all previous surveys, more than half of all respondents garnered less than $200,000. This year, only 41 percent expect to earn below that threshold. Those expecting to make more than $1 million surged from 1 percent in 2007 to 5 percent in 2008 and 8 percent in 2009, but that figure is now dialed back to 4 percent. Almost one quarter of all 2010 respondents expect to make between $300,000 and $500,000, the highest percentage of any pay range.

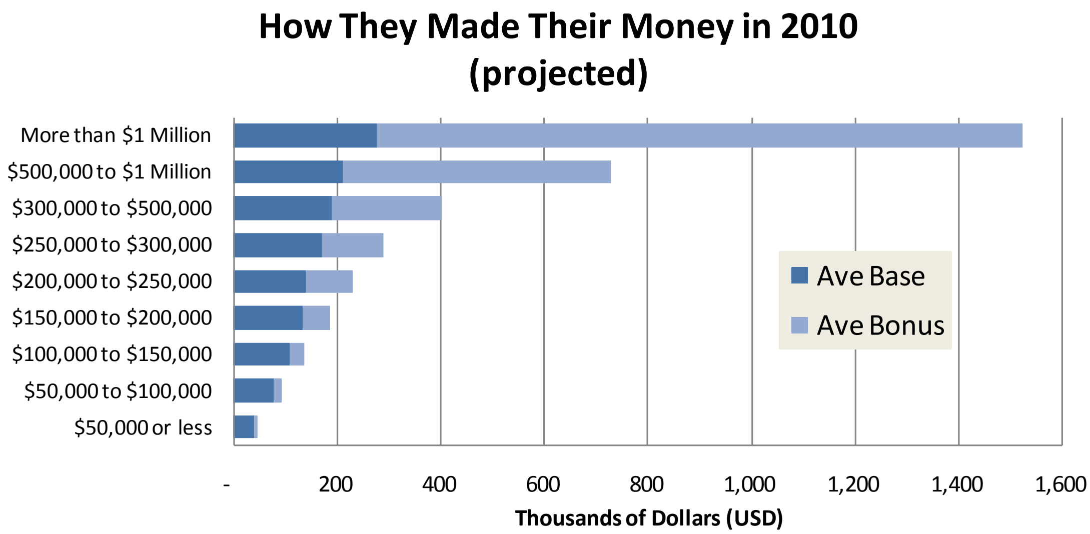


Figure: 2010 Base vs. Bonus Pay

Last year we reported that only 46 percent expected a raise. This year, the hedge fund industry is a little more bullish about prospects for higher pay; 53 percent expect at least a token raise. The number expecting pay cuts has dropped from 19 percent last year to 12 percent this year. The proportion expecting pay to be precisely flat remains at 35 percent.

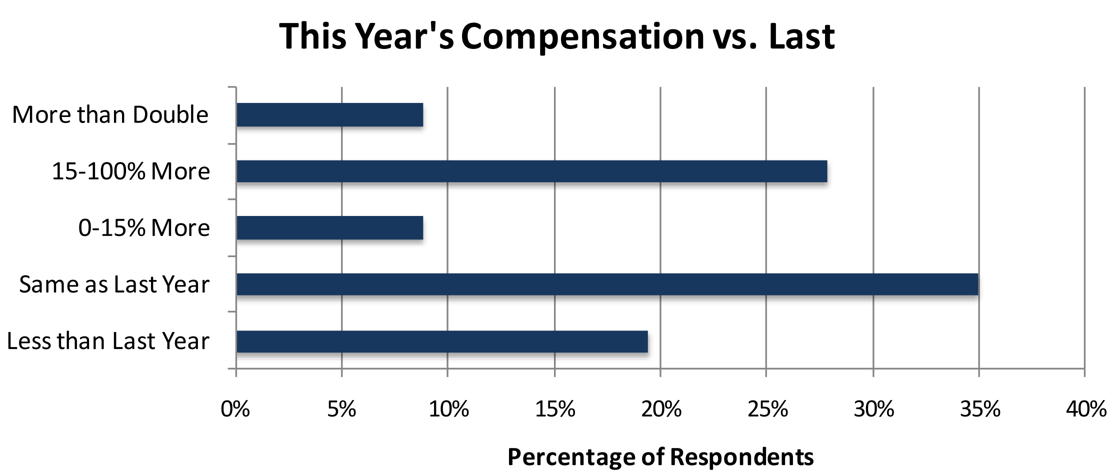


Figure: Year Over Year Changes

As significant as bonuses are in the hedge fund industry, they are by no means a sure thing. Fewer than one in five hedge fund employees have any portion of their bonus guaranteed. Twelve percent were required to invest some of their bonus back into the fund.

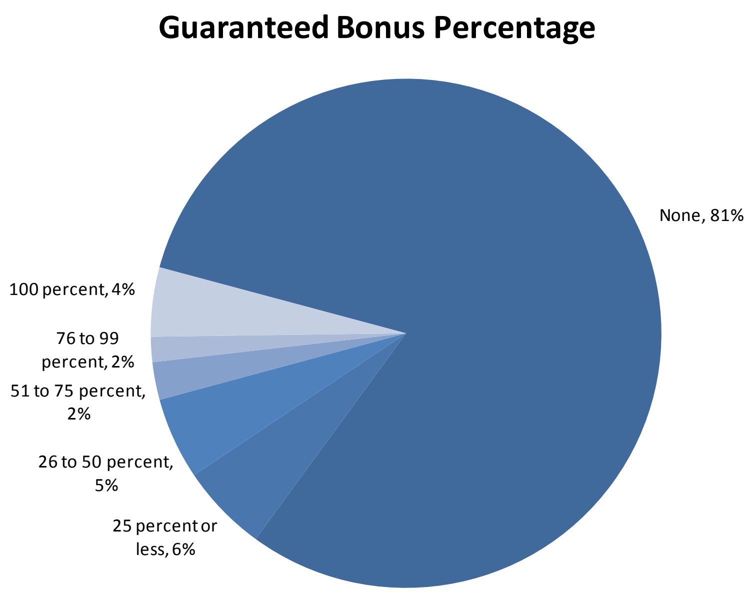


Figure: Guaranteed Bonus Percentage

In contrast to 2009's shortfalls, 2010 looks like it could shape up to be a very good year for hedge fund performance, which would drive the optimism on compensation. A year ago, only 40 percent of respondents believed that their fund would do better than it did the previous year; 28 percent expected double-digit declines.

This year not a single respondent said they believed their funds' performance would be down 25 percent or more over the previous year – even though 8 percent told us that last year. In fact, only 3 percent expect negative returns at all.

About 90 percent of respondents expected their funds to perform better than they did in 2009; nearly half expected a double-digit improvement.

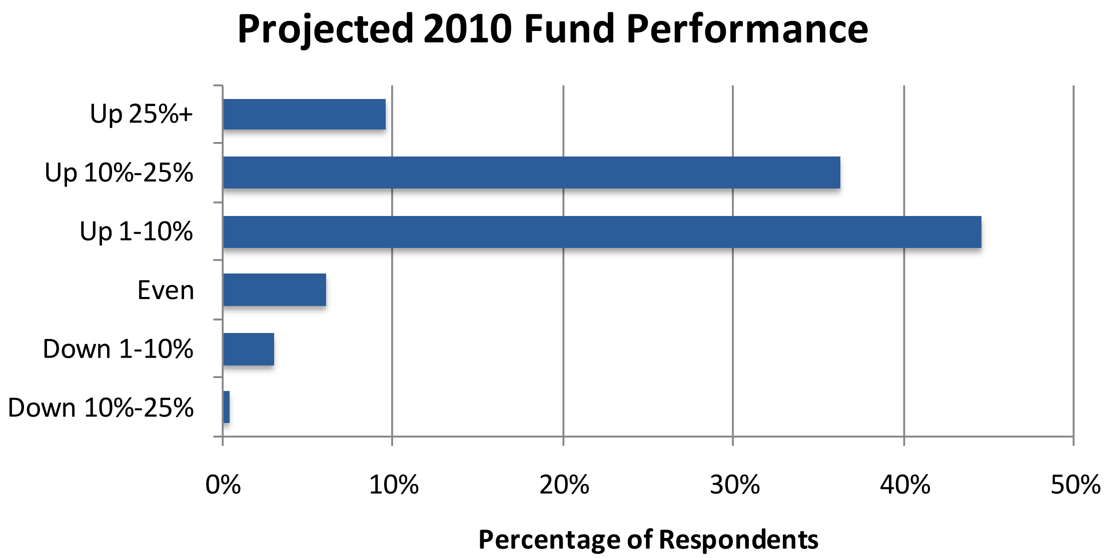


Figure: 2010 Fund Performance

It is largely believed that compensation is tied to fund size and performance and, most of the time, this tends to be a true statement. Given 54 percent of hedge fund employees' total cash compensation is bonus related, performance and increases in assets under management are key. If a fund performs well, bonuses will naturally be higher as hedge funds charge a performance fee which is passed on to the employees.

Hedge fund performance has less of a bearing on overall compensation that one might think. Those participants that projected stellar performance of returns over 25 percent, actually expect bonuses about one quarter smaller than those projecting positive returns of 10 percent or less. So, again this year, we see a disconnect between performance and bonus compensation.

Those expecting a down year believe they will have an average bonus of around $122,000, or $4,000 less than those who believe their 2010 performance will match 2009. Compare that with the $214,000 average bonus anticipated by those projecting single-digit growth. Those expecting double-digit growth in fund performance expect more modest bonuses on average.

The takeaway is this -- compensation policies are not based on purely objective criteria and do not always align with current performance levels. In some cases, it could be a function of talent retention because the most talented team members are open to taking their talent elsewhere in search of higher pay. Some firms may break the connection between current fund performance and bonuses in order to keep these players happy.

Finally, guaranteed bonus programs, although sparingly used, may also contribute to the disconnect. (See the bonus section detail for more on guaranteed bonus levels.)

Despite the small size of most hedge fund groups in terms of staffing, the survey's respondents showed that they are very much in the middle market in terms of assets under management. One-third was between $100 million and $500 million in size, and another 38 percent was larger than that.

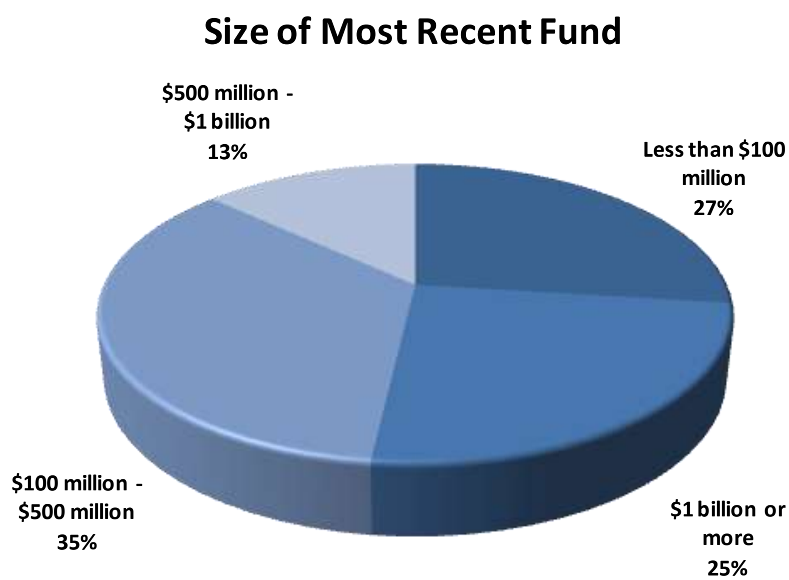


Figure: Size of Most Recent Fund

In the search for higher compensation, hedge fund employees may assume that the larger the fund, the higher the rewards. The results of the survey, however, show this not to be the case for all roles.

Hours Worked and Compensation

It is true that the hedge fund industry is among the most highly remunerative niches of the global economy, but much is expected of those who make their living in it. While it is generally true that the more hours one works the more money one makes, this is not universally true.

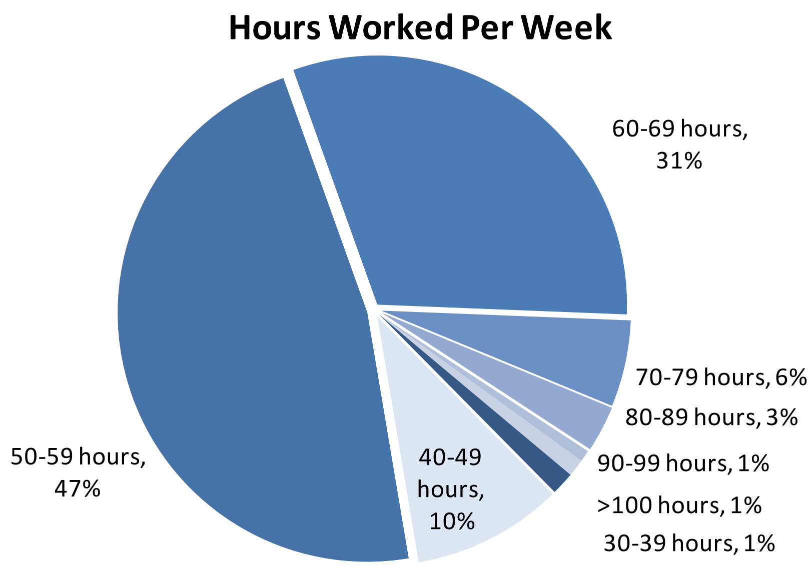


Figure: Hours Worked per Week

That one percent who put in 90 hours each week is by far the best paid. The survey also revealed that is a small number of hedge fund employees putting in more than 100 hours – and these extreme workers are not paid significantly more than those working 70, who in turn are not paid significantly more than those working 60.

One might expect that those working 100 hours for 70 hours' wage to be junior-level go-getters eager to be there before the boss arrives and deferring the commute home until after the boss leaves. Such is not the case. We found C-level executives putting in as many hours as their indirect reports, and most entry-level employees working long but not interminable hours.

Unless one has the time to enjoy the money, of course, all this is mere score-keeping. The hedge fund industry is actually quite generous with awarding time off. More than half of all respondents say they earned at least four weeks of vacation this year.

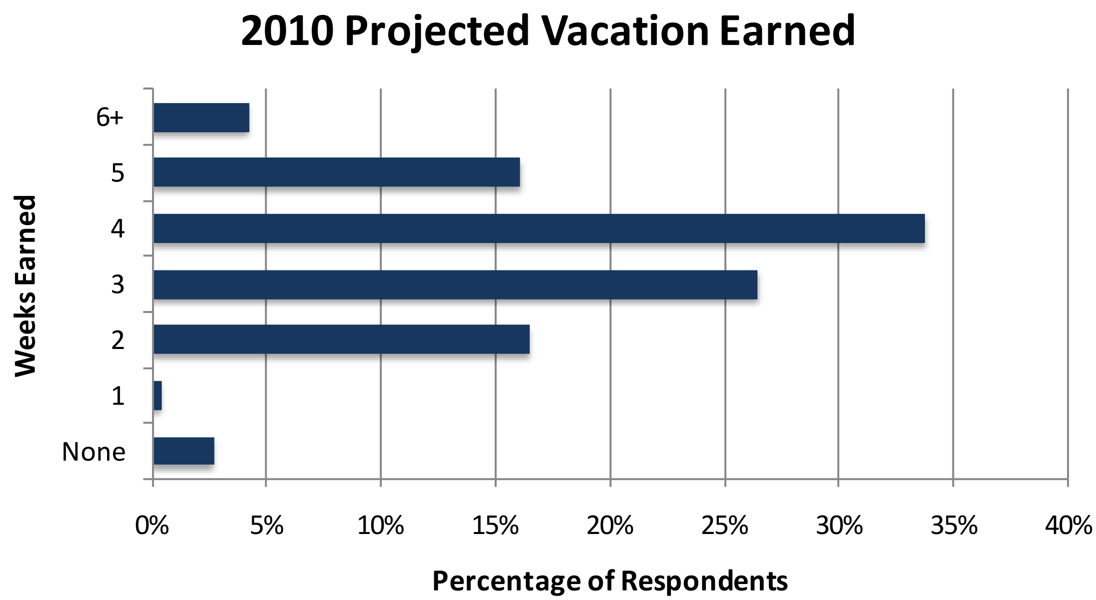


Figure: Vacation Earned

Filtering for only those hedge fund employees working out of U.S. or Canadian offices, only 46 percent have four weeks or more of time away. In Europe and Australia, half of all respondents expect five weeks of vacation. The rest of the world is actually similar to North America in this regard.

But, just as not all money earned is money kept, not all vacation time allotted is actually spent on the beach. According to the survey, hedge fund employees enjoyed only 73 percent of the time off to which they were entitled.

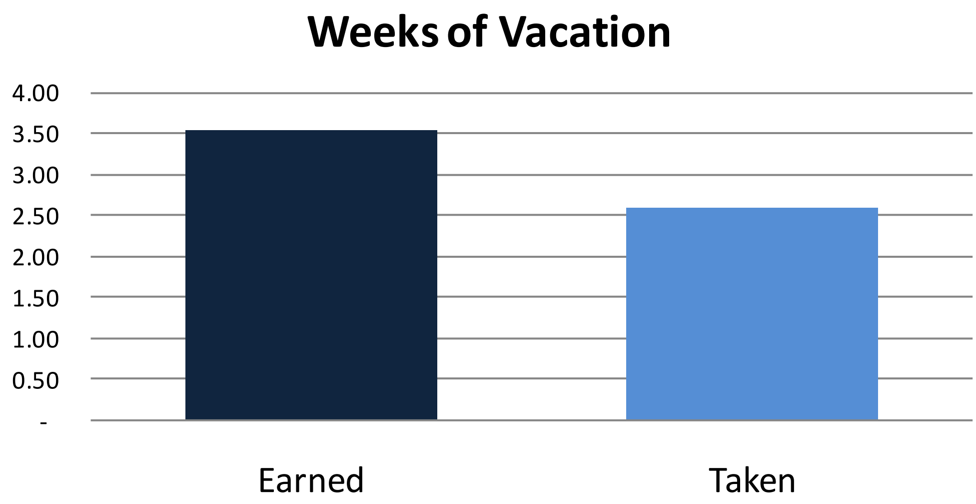


Figure: Vacation Taken

Again, this bifurcates between North American and European/Australian respondents. Americans and Canadians take only 70 percent of the 3.3 weeks of vacation they earn on average; Europeans and Australians take 79 percent of their 4.4 weeks.

What are the implications, then, for the individual's personal life? There is no easy answer to that. We asked respondents to rate their balance between work and personal life.

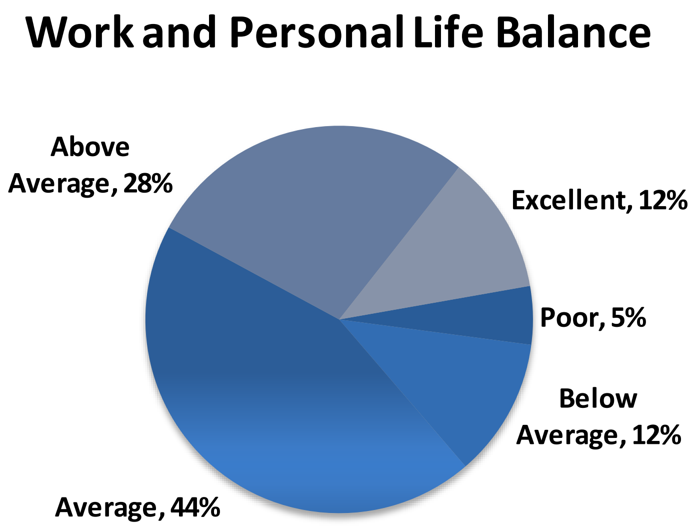


Figure: Work & Personal Life Balance

Hedge funds apparently have done a solid job of managing their employees' expectations. Despite the long hours and foregone vacation time, 44 percent describe their work-life balance as "average" and almost as many rated it "above average" or "excellent". Not surprisingly, the more time one spends at the office, the less satisfied they are with their work-life balance.

As many hours as hedge fund employees are working and as well as the funds have been performing through 2010, most firms still are not likely to add to payrolls. Two out of three are not hiring - a similar finding to those in the private equity industry as well.

Figure: Is Your Firm Hiring Now?

Job Security and Balance

Hedge fund management may be a highly competitive field, but job security does not seem to be an undue concern. Perhaps, with the economy picking up and all the expected financial services staff reductions behind us, hedge fund employees are breathing a little easier.

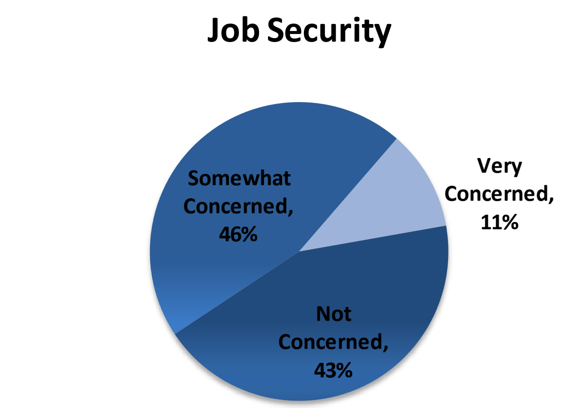


Figure: Job Security Concern

It is worth noting how much angst about job security is directed at government. For instance, this response, "I have no faith in Obama, Bernanke or Geithner. The coming backlash against Financial firms is disturbing."

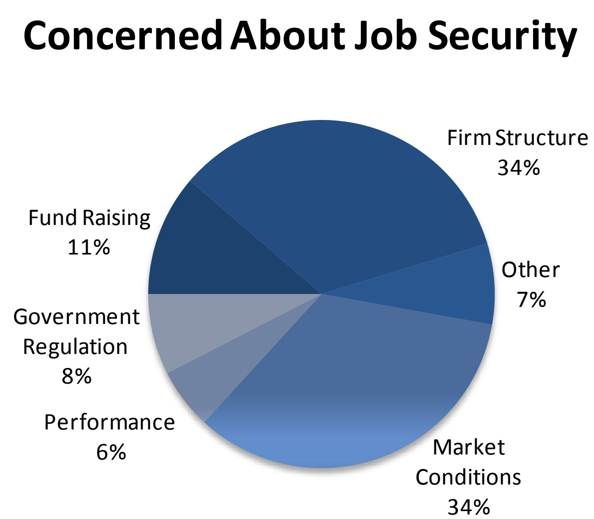


Figure: Why Concerned About Job Security

Upside Sharing

There is no better incentive, of course, than a share of the profits. Even so, the majority of people working for hedge funds have no ownership stake at all in their funds.

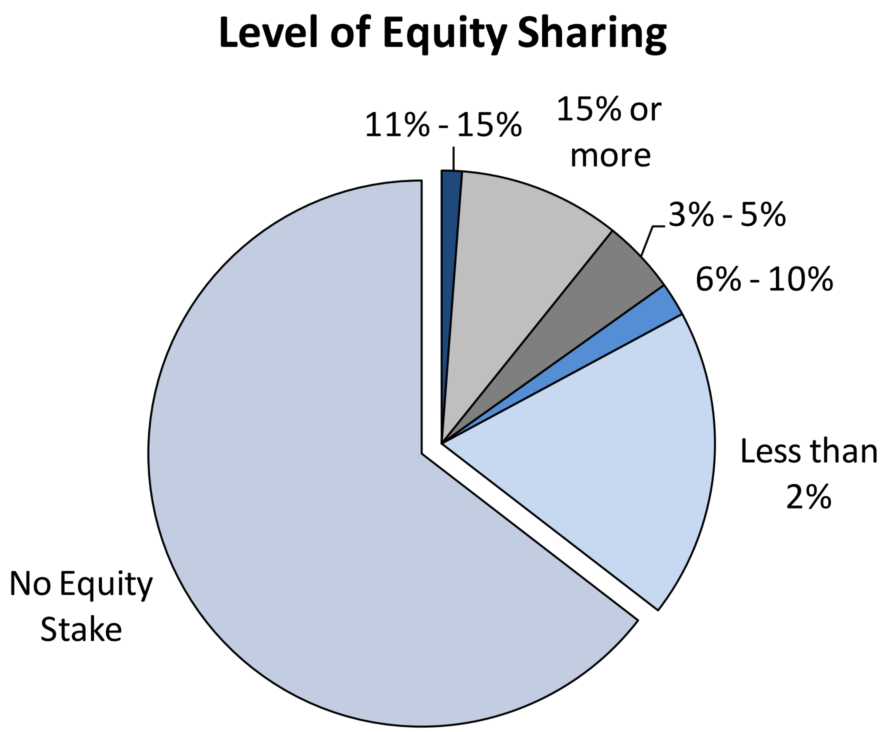


Figure: Level of Equity Sharing

Equity is becoming more common in the hedge fund industry. Although only 35 percent of employees profess to have an equity stake, that is up from the 30 percent of 2009 respondents and signals a move toward longer term performance incentives.

> "I believe that we are in for another massive downturn that will roil global markets and overall financial stability."

As would be expected, it is the senior roles that are most likely to have equity in the firm. More than half of managing directors, portfolio managers, CFOs and Risk Managers have equity.

In terms of work experience, it continues to hold true that the longer a professional has been in the work force, the more likely that person will obtain equity participation.

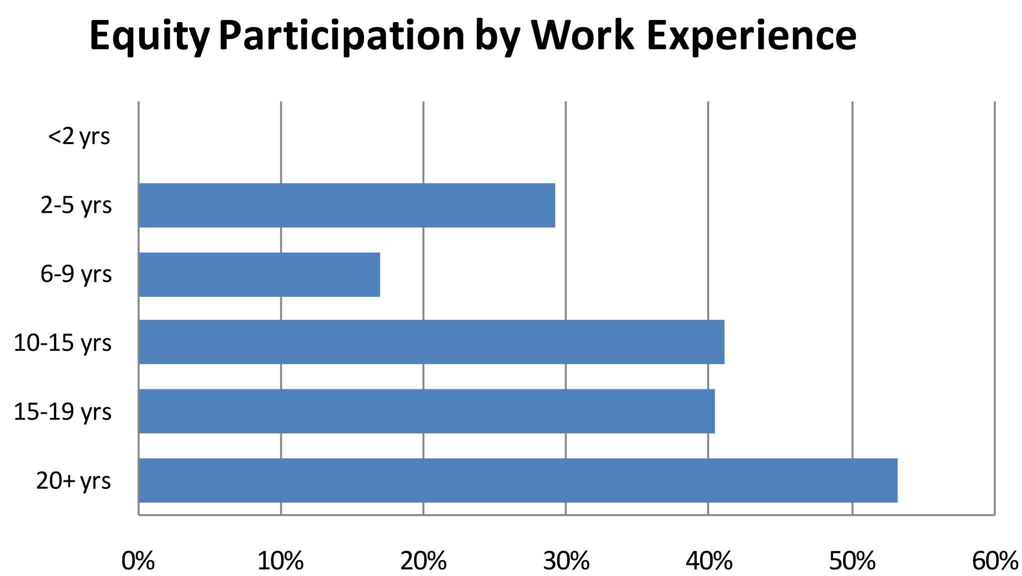


Figure: Equity Participation by Work Experience

There is a sharp distinction between work experience at hedge funds and work experience more broadly. More than half surveyed have more than 10 years of work experience but only 20 percent have more than 10 years of hedge fund industry experience.

Education and Experience

MBAs in the hedge fund industry reported making 34 percent more than their non-MBA colleagues, doubling the 16 percent edge they had a year ago. Although they are earning higher base salaries, the majority of this difference came in the form of bonus. This difference is much higher than in previous years and we believe this is somewhat of an anomaly and expect it to decrease next year.

There is no doubt that an MBA provides a jumping off point for a hedge fund career; 30 percent of this year's respondents have MBA's. Those who completed a graduate course in business are represented throughout all levels of responsibility in the industry.

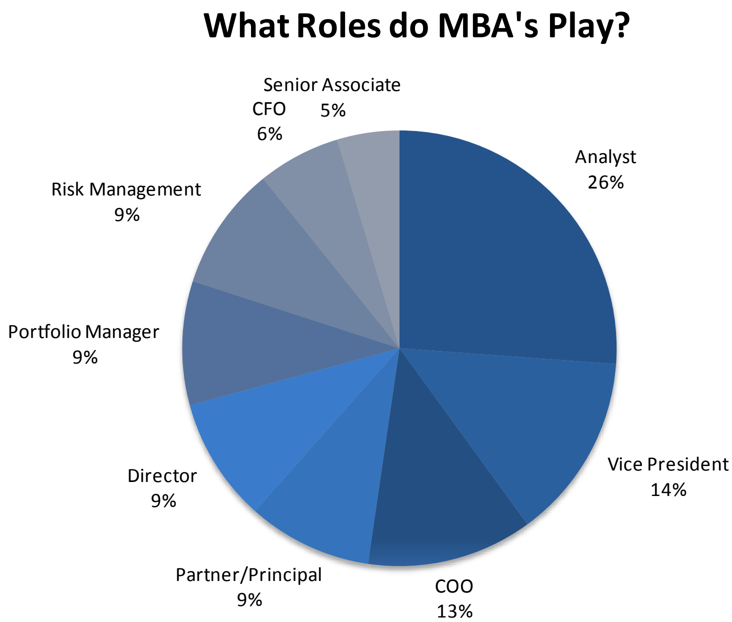


Figure: What Roles do MBAs Play?

Regardless of your educational background, it would be a mistake to assume that your firm will provide any substantive training toward your professional development.

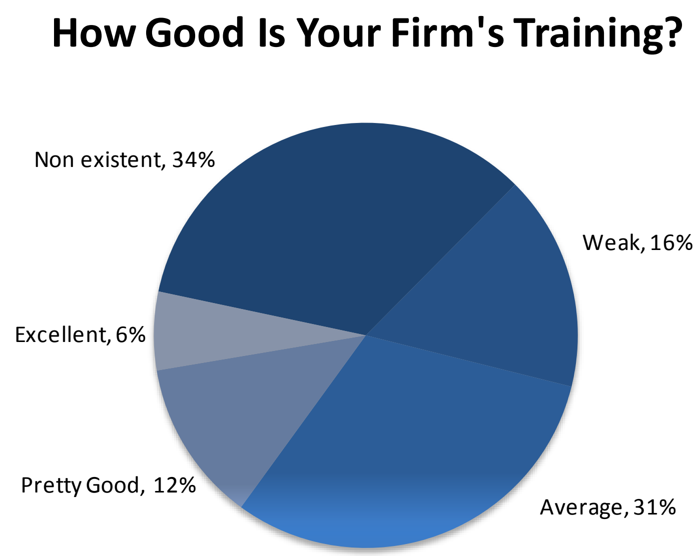


Figure: How Good is Your Firm's Training?

Half of respondents rated their firm's training program as "non-existent" or "weak". Fewer than one in five considered their training program above average. This is a function of the fact that most hedge fund firms are small businesses with informal employee-related processes and functions, such as hiring and training.

Hedge fund employees are a diverse lot. While private equity professionals tend to come from either investment banking or the industry in which their firms invest, there are many more paths into the hedge fund ranks.

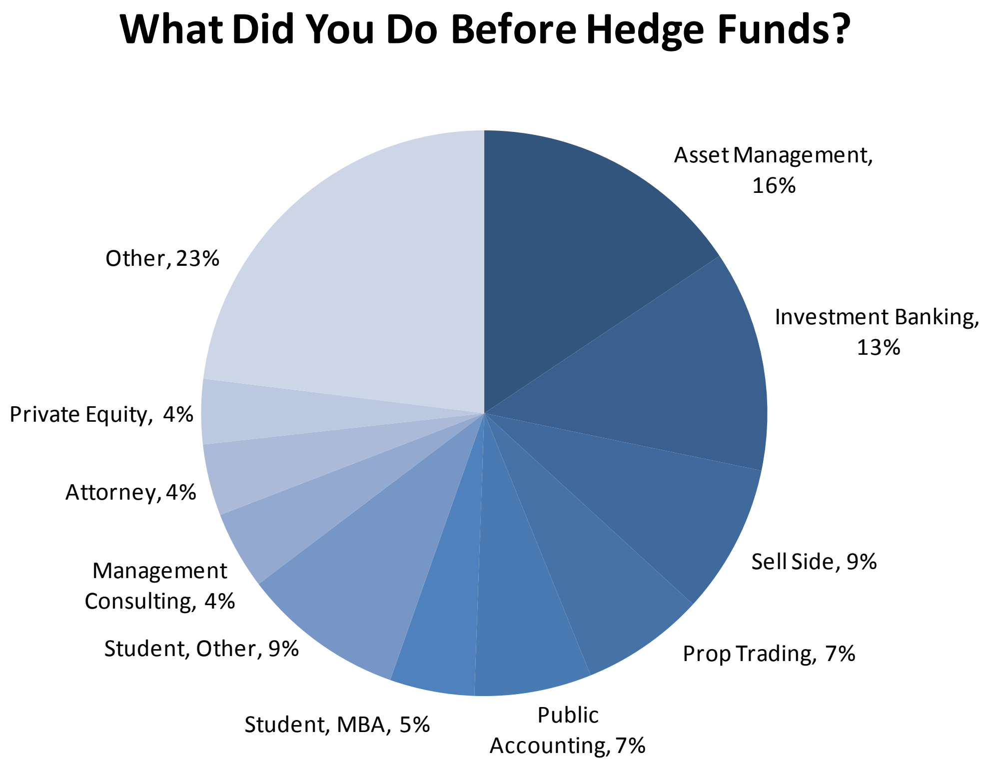


Figure: What Did You Do Before Hedge Funds?

Investment banking is certainly one key source of talent, but no more so than asset management or school. The sell side is also an important training ground, and hedge funds attract their share of attorneys, accountants and management consultants.

When it comes to employees' loyalty to their firm – and vice versa – the only constant is change. Just as in previous years, a decade with one employer is a rarity in the hedge fund industry.

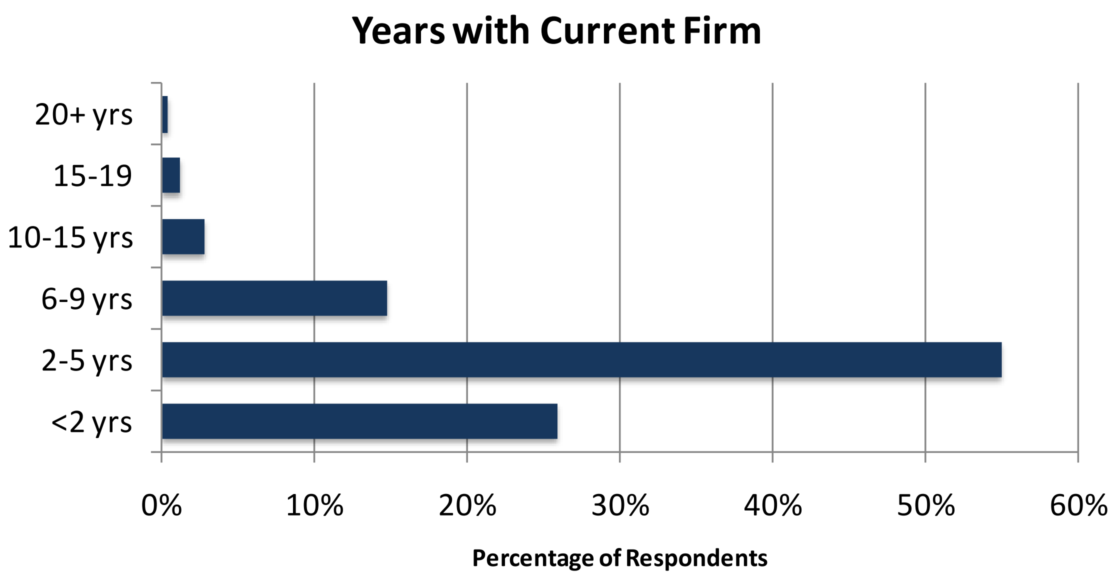


Figure: Years with Current Firm

Pay Satisfaction

In past years, satisfaction with compensation was inversely related to market conditions. When the market improved, the desire for higher earnings trumps job security.

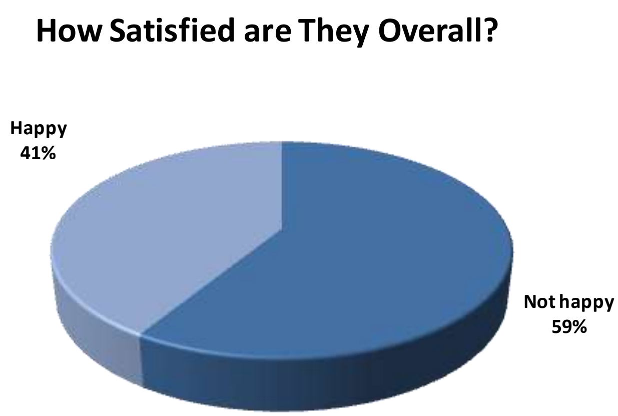


Figure: Happy with Compensation?

If that trend continues to hold, it has not as yet caught up with the current recovery. There is no significant difference from last year on hedge fund employees' satisfaction with their pay.

Despite what would appear to most workers in most fields as enviable level of compensation, and despite the heightened expectations of this year's resurgent bonus season, hedge fund employees remain bleak about their pay overall.

Hedge Fund Careers Blog

For more information on hedge fund careers and compensation practices, visit the blog www.AlphaCalling.com


HOME ABOUT COMPENSATION JOB INTERVIEW QUESTIONS CONTACT US SUBSCRIBE

Alpha Calling

Career Insights from the Hedge Fund Industry

To search, type and hit enter

Our Sponsor

Hedge Fund JOBS DIGEST

Hedge Fund Jobs database of all the current opportunities on the web. Hedge Fund Jobs Digest gives you a competitive advantage in this tough job market.

Latest Hedge Fund Jobs

- Quant - Transaction Cost Analysis
- Quantitative Strategist
- Software Engineers - C++
- Fund Administrator
- Jr. Software Engineer - C++
- Sr. Compliance Associate
- Transactional Counsel
- Accountant - Fund Forecasting

Hedge Fund Compensation

Do Hedge Fund Analysts Cross the Line?

Wall Street depends on research, and analysts at hedge fund jobs and big pension funds get paid big bucks to uncover information about companies. But just how far is too far when it comes to "research"?

That was the question posed to Stephen Bainbridge, who teaches law at the University of California, Los Angeles, in a recent article from American Public Media. It all comes in the wake of FBI agents bursting into the offices of at least three hedge funds in the past week as part of a probe into possible illegal trading.

The case involves "expert networks" who are hired by large institutional investors, including hedge funds, to brief their traders on information and analysis about companies. Top expert networks include firms such as Primary Global Research and Broadband Research.

These expert networks uncover information that obviously goes beyond the technical and fundamental analysis that a hedge fund's own analysts would do, and that's the sticking point. There's no clear line of demarcation between legitimate market analysis and illegal insider trading. The legal line, according to Bainbridge, isn't established by a statute. It's simply the result of 30-plus years of legal precedent, and there are many grey areas.

The SEC has apparently been deliberately vague about how they define insider trading, because they did not want to give people a "blueprint" for doing it.

Bainbridge also reveals that the reason for cracking down on insider trading isn't what you