2011 Hedge Fund Compensation Report

SAMPLE REPORT

HedgeFundCompensationReport.com

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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

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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):

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. The difference is that they expect their current-year base pay to rise 9 percent compared to last year. This may sound like a stretch, but the respondents should be in a position to know what their draw is - they did forecast their 2009 base pay within 2 percent.

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.

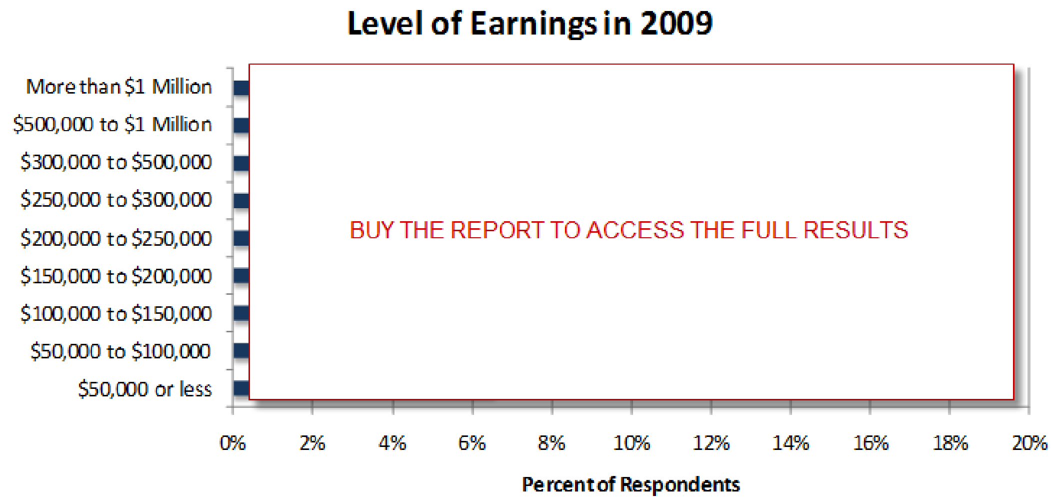

Figure 1: 2009 Level of Earnings

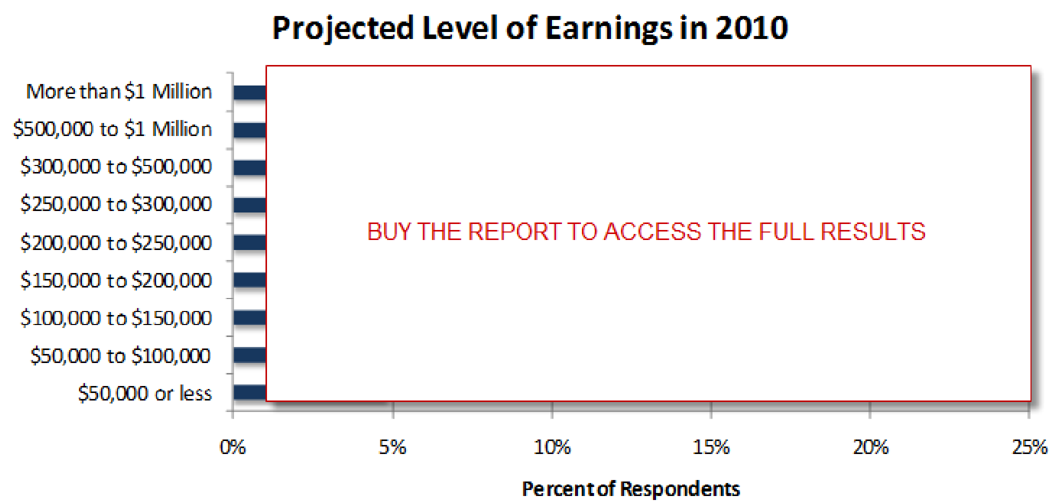

Figure 2: 2010 Expected Earnings

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 $XXX,000. This year, only XX percent expect to earn below that threshold. Those expecting to make more than $XXX,XXX surged from X percent in 20XX to X percent in 20XX and X percent in 20XX, but that figure is now dialed back to X percent. Almost one quarter of all 2010 respondents expect to make between $XXX,000 and $XXX,000, the highest percentage of any pay range.

Figure 4: 2009 Base vs. Bonus Pay

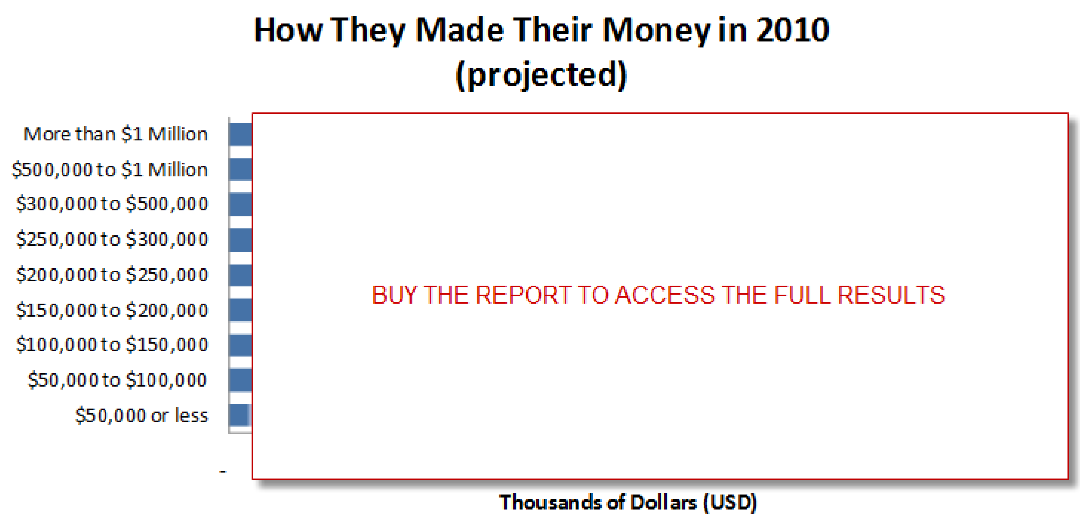

Figure 5: 2010 Base vs. Bonus Pay

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. Those expecting pay cuts have dropped from 19 percent last year to 12 percent this year. The proportion expecting pay to be precisely flat remains at 35 percent.

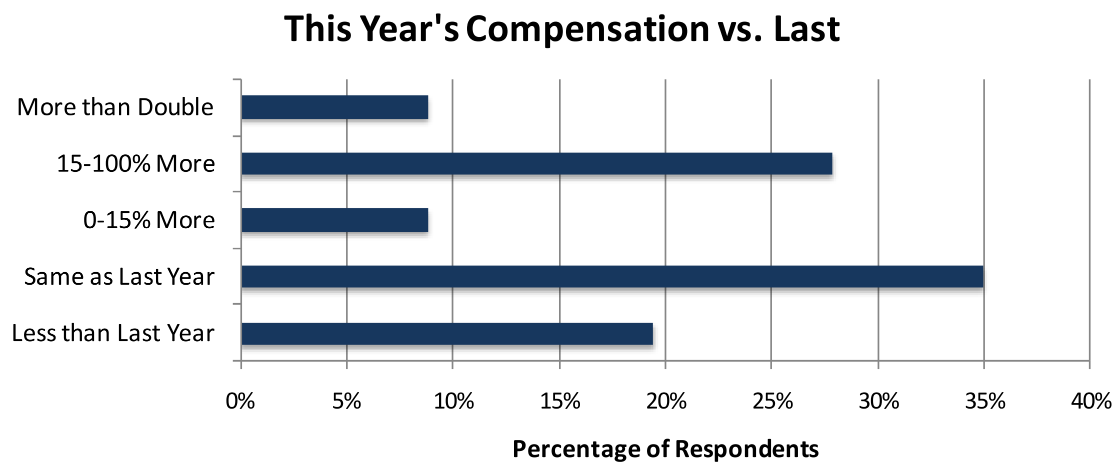

Figure 1: Year Over Year Changes

In these challenging times, it is not surprising to learn that _________ skills are increasingly valued by the hedge fund industry. ___________ last year were effectively peers with partners or principals but, while partners and principals expect a substantial XX percent raise this year, ________ are looking at a XX percent pay hike this year; their projected $XXX,000 payout is...

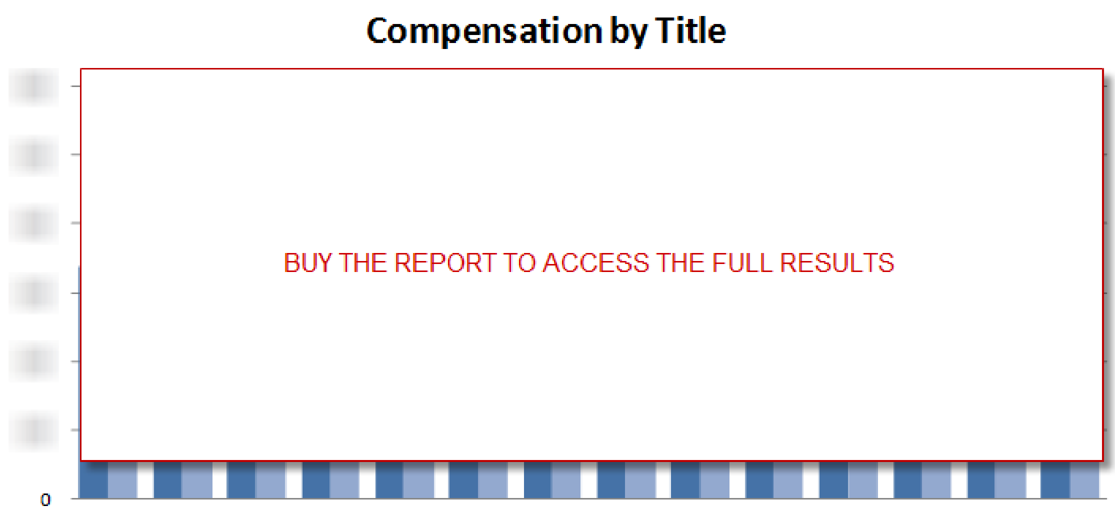

Figure 7: Compensation by Title

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. XX percent were required to invest some of their bonus back into the fund.

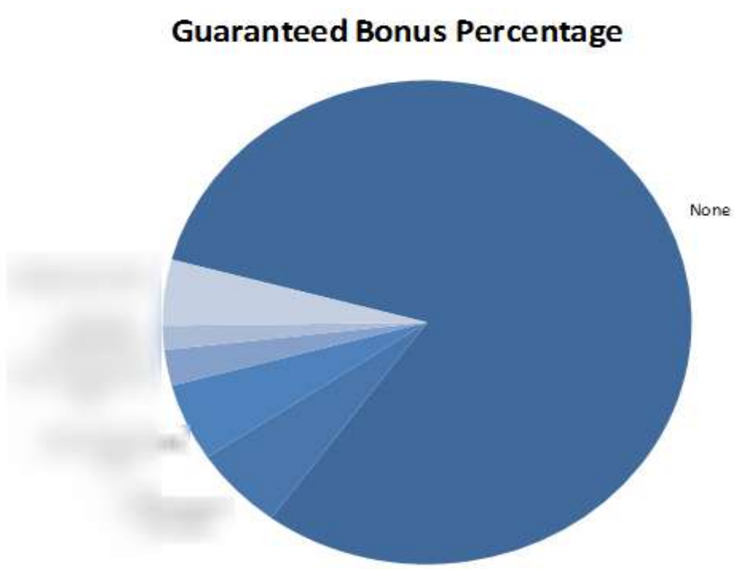

Figure 8: Guaranteed Bonus Percentage

Below is a summary chart of 2010 expected compensation averages and ranges by title. Respondents' responsibilities and compensation vary significantly depending on the size and investment objectives of the firm. Again, this analysis excludes countries where compensation practices vary significantly from the U.S., Canada and the U.K.

(All figures x$1,000)	Mean			Range	
Title	**Base ($)**	**Bonus ($)**	**Total ($)**	**Min ($)**	**Max ($)**
Risk Management	BUY THE REPORT TO ACCESS THE FULL RESULTS				
Managing Director					
CFO					
Portfolio Manager					
Marketing					
COO					
Partner/Principal					
Vice President					
Director					
Trader					
Analyst					
Controller/Accountant/Tax					
Senior Associate					
Investor Relations					

Figure 9: Compensation Ranges by Title

Each hedge fund interprets roles within the firm differently. Roles can have varied responsibilities and can require different skills and experience from fund to fund.

It is clear that benchmarking by title alone does not paint a clear picture of cash compensation. You must take into account responsibilities, fund size and performance in order to get a solid benchmark number.

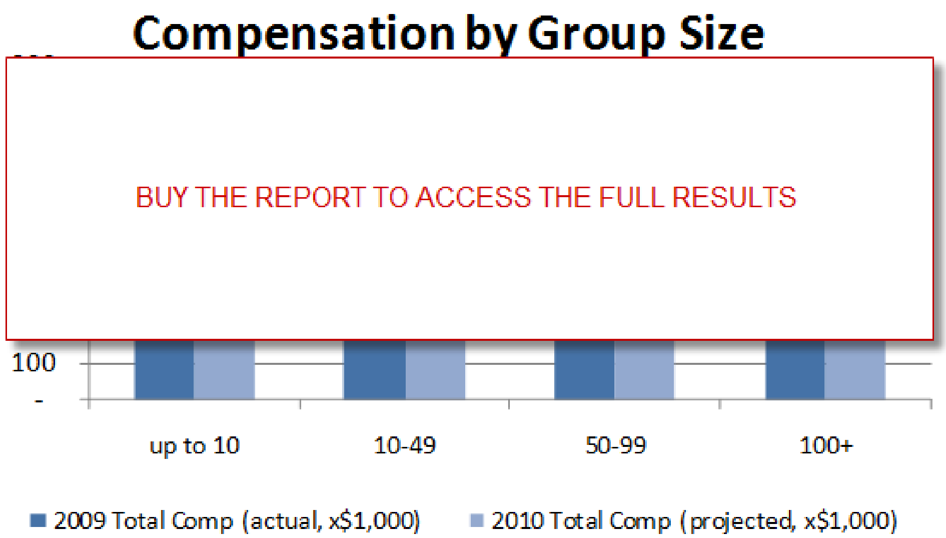

Figure 12: Compensation by Group Size

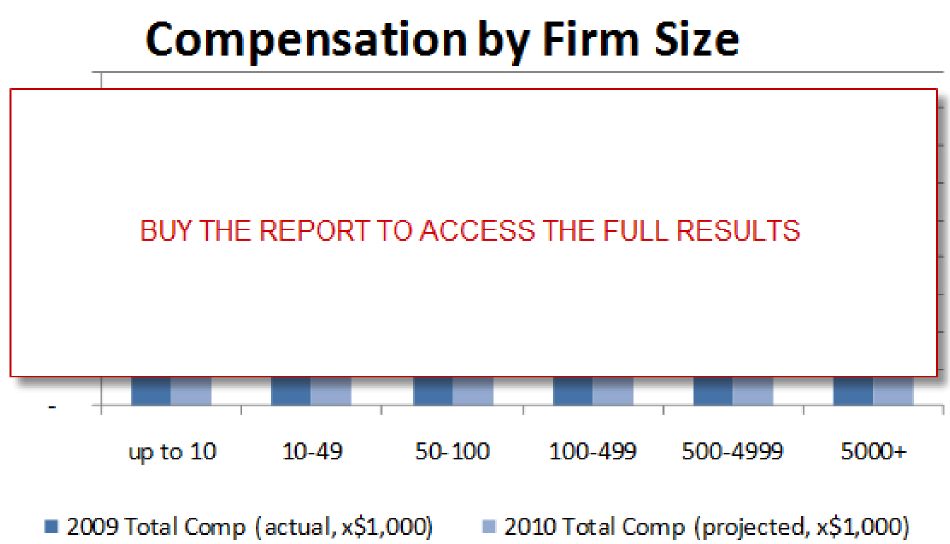

Figure 13: Compensation by Firm Size

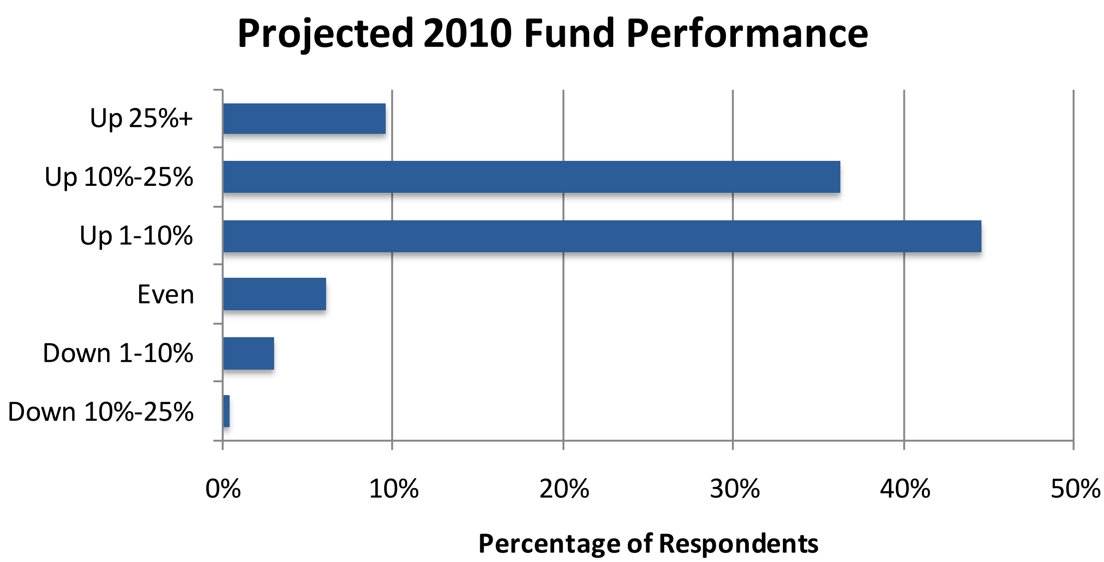

Figure 2: 2010 Fund Performance

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 XX 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. That is clearly how portfolio managers, traders and quant/programmers view it.

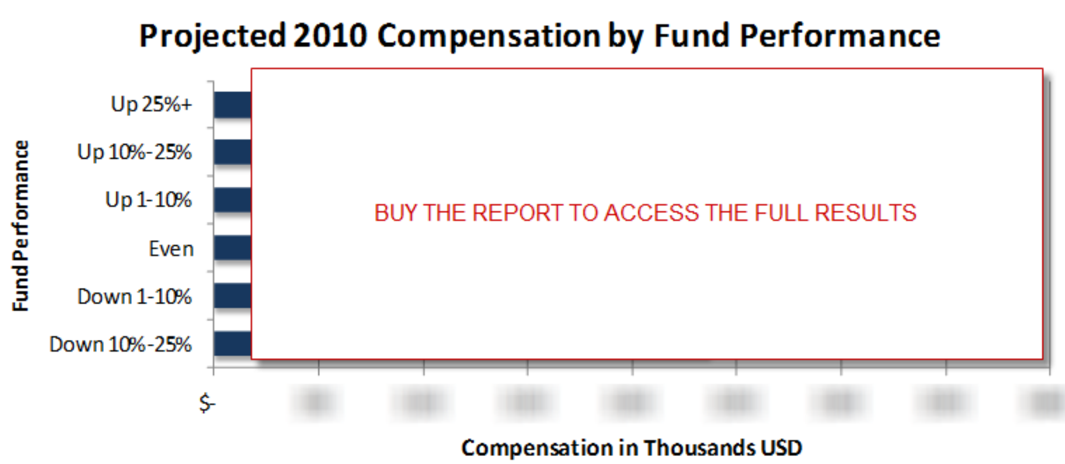

Figure 17: Total Compensation by Fund Performance

Hedge fund performance has less of a bearing on overall compensation that one might think. Those participants that projected stellar performance of returns, actually expect bonuses about _____________ than those projecting _______ percent or less.

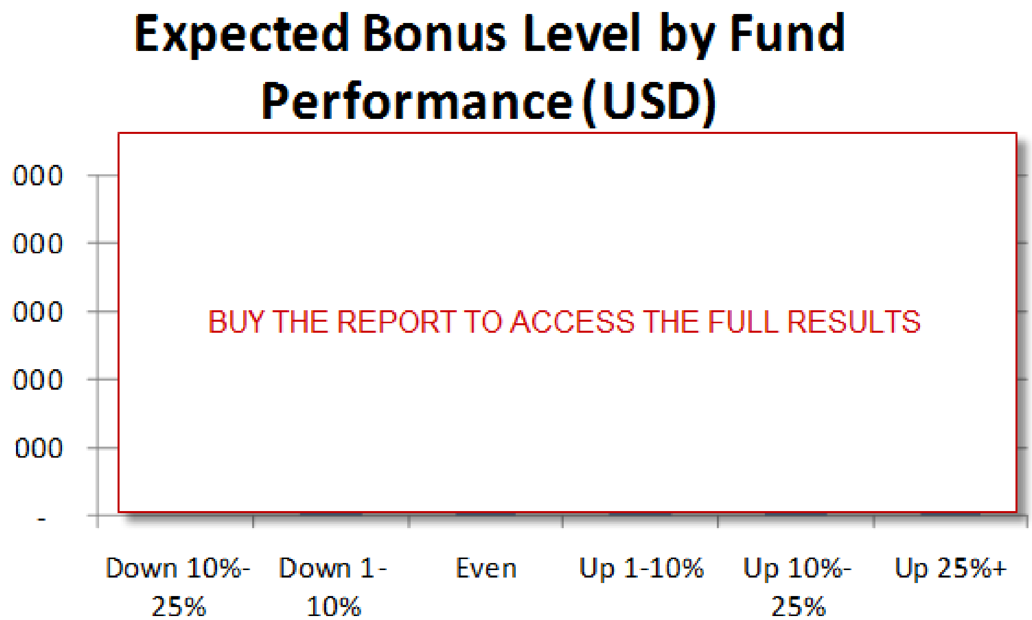

Figure 18: Bonus Level by Fund Performance

We saw even more of a disconnect last year, when …….

The takeaway is this -- compensation policies are not based on purely objective criteria and do not always align with current performance levels.

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.

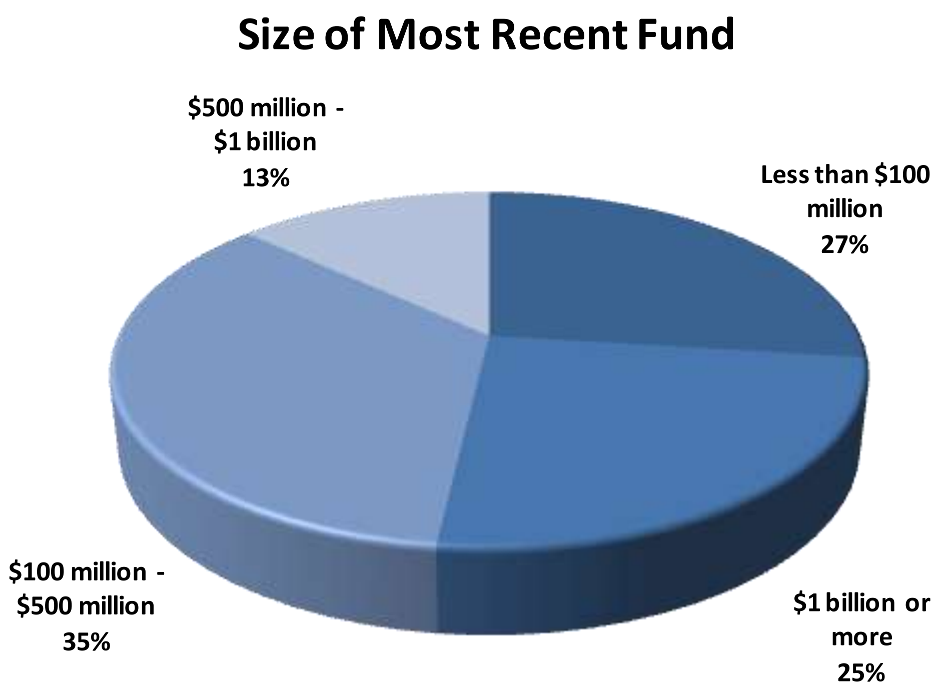

Figure 3: Size of Most Recent Fund

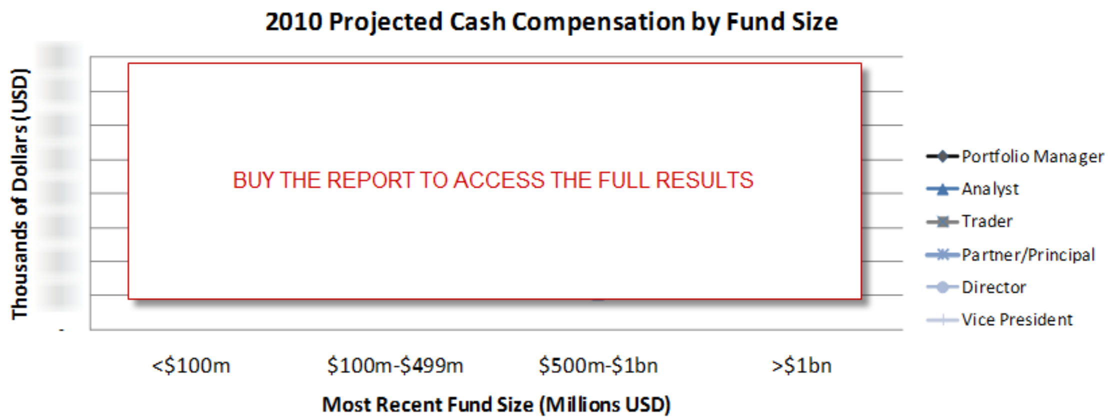

Figure 21: Cash Compensation by Fund Size, Functional View

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.

Below is a summary table showing projected base and bonus levels for 2010 by both fund size and title, in thousands of USD. The table excludes countries where compensation practices vary significantly from North America and western Europe.

	Size of Most Recent Fund			
Average Base Salary	**<$100 million**	**$100 million - $500 million**	**$500 million - $1 billion**	**>$1 billion**
Analyst				
COO				
CFO				
Controller/Accountant/Tax				
Director				
Investor Relations				
Managing Director				
Marketing				
Partner/Principal				
Portfolio Manager				
Risk Management				
Senior Associate				
Trader				
Vice President				

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Average Bonus				
Analyst				
COO				
CFO				
Controller/Accountant/Tax				
Director				
Investor Relations				
Managing Director				
Marketing				
Partner/Principal				
Portfolio Manager				
Risk Management				
Senior Associate				
Trader				
Vice President				

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Figure 22: Base and Bonus by Title and Fund Size

Below is a summary table showing projected base and bonus levels for 2010 by fund performance. The table excludes countries where compensation practices vary significantly from North America and western Europe.

	Projected 2010 Fund Performance			
Average Base Salary	**Even**	**Up 1-10%**	**Up 10%-25%**	**Up 25%+**
Analyst				
CFO				
Controller/Accountant/Tax				
COO				
Director				
Investor Relations				
Managing Director				
Marketing				
Partner/Principal				
Portfolio Manager				
Risk Manager				
Senior Associate				
Trader				
Vice President				

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Average Bonus				
Analyst				
CFO				
Controller/Accountant/Tax				
COO				
Director				
Investor Relations				
Managing Director				
Marketing				
Partner/Principal				
Portfolio Manager				
Risk Manager				
Senior Associate				
Trader				
Vice President				

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Figure 23: Base and Bonus by Title and Fund Performance

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.

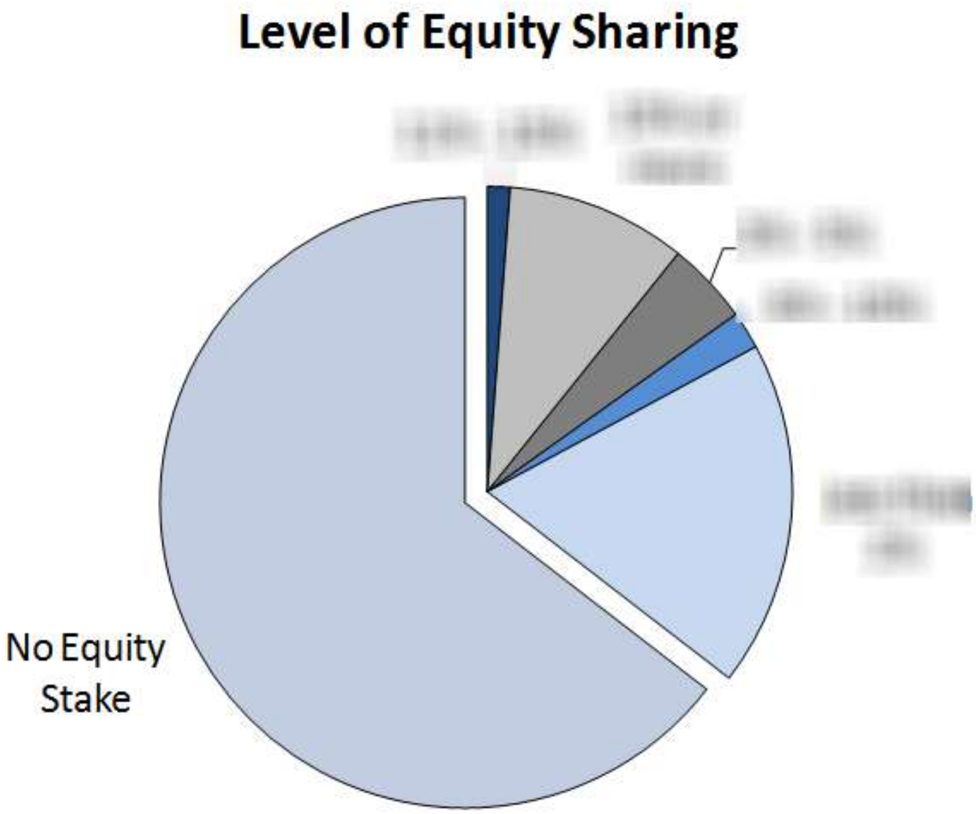

Figure 34: Level of Equity Sharing

Even so, equity is becoming more ubiquitous in the hedge fund industry. XX percent of employees profess to have an equity stake, that is up from the XX percent of 20XX respondents and signals a move toward longer term performance incentives.

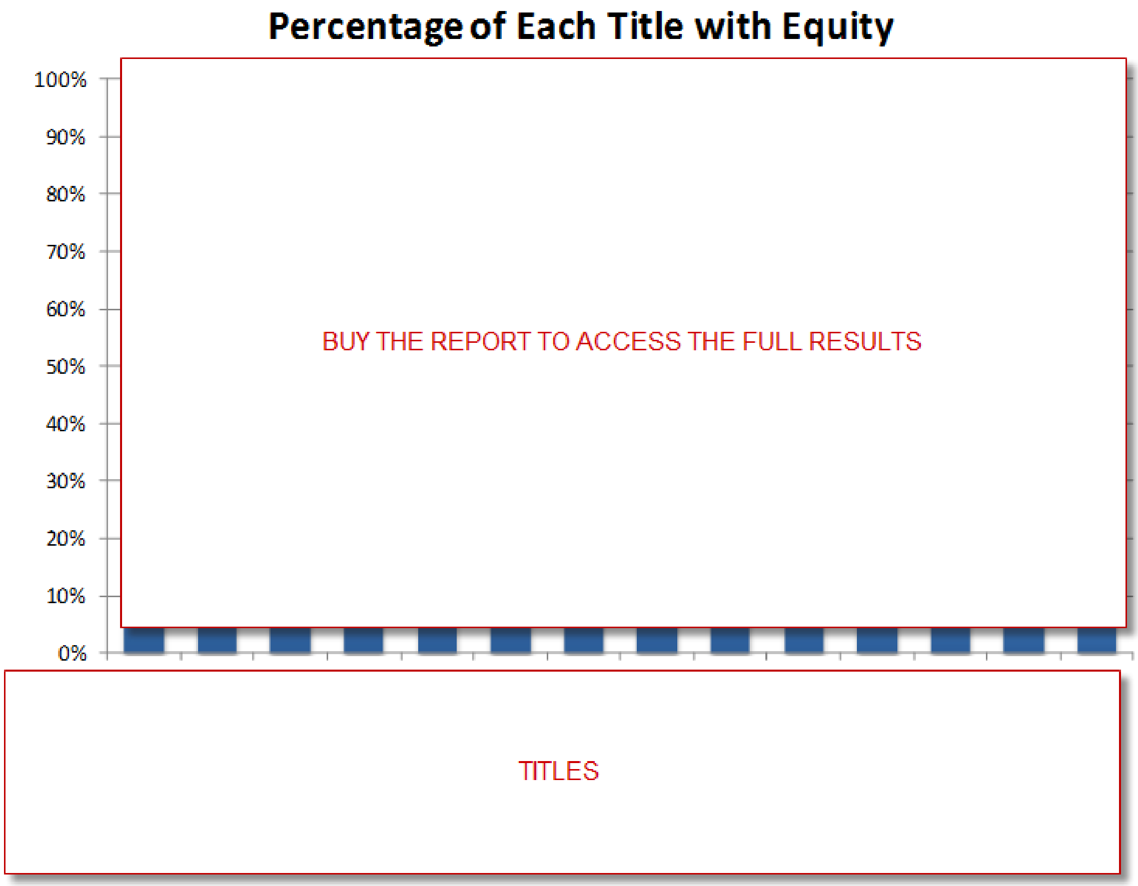

Figure 35: Percentage of Each Title with Equity