



2009 Institutional Investment Manager Compensation Survey

KEY FINDINGS

- 27% decline in small to mid managers' assets under management
- 85% of small to mid managers reduced staff
- 72% of mid to large managers adjusted compensation
- 16% average reduction in mid to large managers' staff

June 2009

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2009
INSTITUTIONAL INVESTMENT MANAGER
COMPENSATION SURVEY

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Introduction

Investment markets are dynamic, ebbing and flowing with changing economic factors. Today's markets are weathering a prolonged period of severe conditions, including a housing market meltdown, an extreme credit crisis, staggering unemployment and the collapse of several high-profile investment management firms. Amidst the turmoil, the Federal Reserve and the U.S. Treasury have taken dramatic action – implementing rate cuts, introducing lending facilities and providing corporate bail-out packages – in an attempt to help restore the economy and boost consumer confidence.

Preston & Company Executive Search polled 25 institutional investment managers to gauge the impact of this challenging environment on their businesses, specifically assets under management, personnel and compensation. The managers were divided into two categories based on assets under management (AUM) as of first quarter 2009:

- **Small to Mid Institutional Investment Managers**
 - < \$200 billion AUM
 - 14 managers

- **Mid to Large Institutional Investment Managers**
 - > \$200 billion AUM
 - 11 managers

Small to Mid Institutional Investment Managers

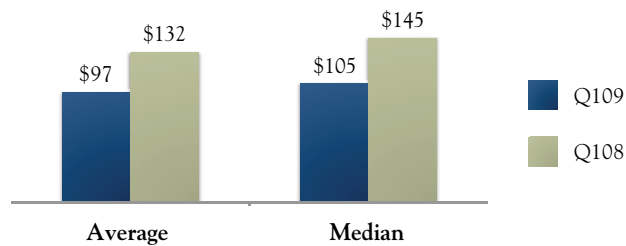
ASSETS UNDER MANAGEMENT

The small to mid institutional investment managers reported less than \$200 billion in institutional assets under management at the end of the first quarter 2009 including noteworthy points:

- Total managers: 14
- Highest AUM: \$198 billion
- Lowest AUM: \$750 million
- Average % change in AUM during past year: -27%

The following chart illustrates the decline in assets during the past year.

ASSETS UNDER MANAGEMENT (\$billions)



PERSONNEL

Headcount

Times of economic difficulty force organizations to evaluate expenses to ensure efficient operations and budgeting, which typically includes analysis of personnel. The survey revealed the following personnel data:

- Largest staff: 125
- Smallest staff: 5
- Average staff: 40
- Median staff: 31

Staff Reductions

Not surprising, the majority of managers – 12 of 14 – reported reducing staff as a cost-saving measure, with an average 34% elimination of total positions.

One manager with no staff reductions indicated that it had, in fact, selectively hired and upgraded certain positions throughout the past year. Meanwhile, the majority of managers reported cutting primarily non-client facing employees in marketing, administration and operations. Client-facing employees weren't exempt from cuts, however, with 29% of managers reducing the sales staff, 14% decreasing client service and 7% cutting consultant relations.

Staff Rebuilding

Broadly speaking, the managers have instituted a hiring freeze in response to the economic uncertainty. While each manager revealed a slightly different metric for determining when to resume hiring, most are closely monitoring both the economic environment and their bottom-lines.

One manager indicated that it continued to hire selectively on a global basis, while waiting on an increase in client and prospective client activity, an uptick in RFP requests and additional client funding to begin rebuilding its overall workforce.

The remaining 13 managers reported various conditions – specific to general – that will prompt hiring. All eyes appear to be on the market at large, with one manager tracking specific market conditions and movements in an attempt to secure a three- to four-month lead time to resume hiring. Specifically, this manager is watching for the implementation of the government's stress testing and other regulatory changes, improved transparency, increased bank lending, and greater consumer purchasing on credit cards and in the housing market.

Following are three specific conditions that will spur hiring:

- 30 new clients will warrant one new client service person
- Improvement in the euro market will call for additional sales people
- 20% to 30% increase in fees

Several managers reported waiting on at least one of the following conditions to begin rebuilding staff:

- New clients
- Increase in client requests, such as funding and rebalancing
- Additional RFPs and search activity
- Better EBITDA and P&I

Finally, one manager plans to take its hiring cue from the existing staff stating, "When the consultant relations people start making too much money, we will consider hiring additional ones. And when the retail intermediaries start complaining about a lack of coverage, we will consider adding to the force."

Asked how the current staff will change when rehiring begins, we learned that managers are carefully analyzing the existing structure, with a focus on moving forward in a prudent manner. 23% of managers indicated plans to keep the current structure in place, as it's lean and efficient. The remaining managers revealed these hiring plans in response to market improvements:

- Add consultant relations staff in global locations, as well as higher caliber salespeople in domestic offices
- Hire a junior analyst to assist with presentations
- Rebuild wholesale field team and marketing, and hire three to four institutional salespeople
- Restaff client service
- Increase staff in the public funds and endowment/foundation area

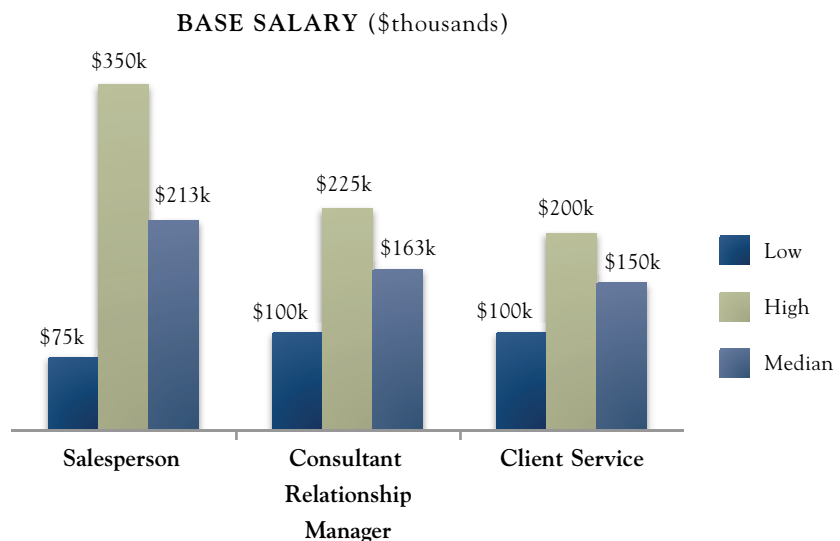
One manager is proactively assessing candidates in order to be able to fill positions quickly, while another manager is currently refilling positions. Finally, one manager is experimenting with charging the intermediary salesforce with servicing smaller institutional clients. If this model proves successful, the manager may consider hiring in the intermediary space.

COMPENSATION

Current Compensation

Faced with a challenging market environment, managers have evaluated employee compensation in an effort to retain key employees, while considering the firm's profits. Our survey revealed that 46% of managers have adjusted compensation, with 67% of those managers indicating a plan to reinstate original compensation packages when the market improves.

Following are the low, high and median base salaries for three positions:



According to our survey, the managers utilize a wide range of commission schedules, as outlined below:

■ Salespeople

- \$75k-175k (base); 25%, 10%, 5% (commission)
- \$100k-\$125k (base); 20%, 10%, 5% on-going (commission)
- \$100k-\$250k (base); 30%, 5% for new clients; 25%, 5% for new product with existing client (commission)
- \$125k average (base); 18%, 10% (commission); \$500k-\$600k average (total compensation)
- \$125k-\$200k (base); 20% year 1 increasing by 5% based on goals with a maximum of 40% back to \$1; 25% trail for year 2 on anything beyond the year 1 payout (commission); subjective bonus based on performance, tenure and seniority paid in restrictive stock with 3-year vesting (bonus)
- \$140k-\$190k (base); 35% paid – 20% in year 1, 15% in year 2 plus override based on goals that could reach 15% with 7.5% paid in year 1 and 7.5% paid in year 2 plus discretionary bonus that could pay up to 40% of base salary, which is paid in restrictive stock with 3-year vesting (commission/bonus)
- \$150k (base); 20%, 10% for direct sales with consultant; 20%, 15% for direct sales without consultant (commission)
- \$150k-\$175k (base); 15% in year 1 with 5% into pool, 10% in year 2, 5% in year 3, 5% in year 4 forward goes directly into bonus pool for consultant involved with transaction (commission)
- \$150k-\$200k (base); 15%, 7.5%, 7.5% with 1/3 held back to be a qualitative subjective payment (commission)
- \$150k-\$350k (base); Quarterly bonus based on goals, product, activity level and subjective component, paid in 10-30 basis points (bp) with a suggested cap of one times salary (bonus)
- \$170k-\$200k (base); 15%, 5% and 5% additional override on year 1 new revenue, which is a subjective bonus (commission/bonus)
- \$175k-\$180k (base); 15%-40% tiered commission annually, increasing every \$500mm in revenue with all going back to \$1 (commission)
- \$225k (base); \$150k (bonus)

■ Consultant Relationship Manager

- \$100k-\$150k (base); 20%, 10%, 5% (commission) plus discretionary bonus based on activity goals, typically 50%-100% of salary (bonus)
- \$125k-\$200k (base); 20% year 1 increasing by 5% based on goals with a maximum of 40% back to \$1; 25% trail for year 2 on anything beyond the year 1 payout (commission); subjective bonus based on performance, tenure and seniority paid in restrictive stock with 3-year vesting (bonus)
- \$125k-\$215k (base); incentive targeted at 90%-120% of salary based on scores and goals, qualitative and quantitative (incentive)
- \$135k-\$225k (base); \$75k-\$350k bonus based on capital raised, activity level, etc. (bonus)

- Consultant Relationship Manager (continued)
 - \$150k-\$190k (base); \$100k-\$250k bonus based on quantitative and qualitative goals, such as revenue target and territory management, respectively (bonus)
 - \$150k-\$200k (base); 5% subjective bonus funded through consultant referred business (bonus)
 - \$150k-\$200k (base); 100%-300% of base based on net sales goal achievement, field consultant execution, consultant presentation quality and a subjective component (bonus)
 - \$160k average (base); \$250k-\$350k bonus funded by commissions from consultant business (bonus)
 - \$175k (base); year-end bonus with target of 75%-100% of salary (bonus)
 - \$175k-\$180k (base); bonus with a target of \$250k-\$275k based on qualitative and quantitative goals, such as percent of revenue, RFPs, etc. (bonus)

- Client Service
 - \$100k-\$125k (base); 20%, 10%, 5% on-going (commission)
 - \$100k-\$150k (base); 50%-150% of base depending on client retention, cross-selling success and a subjective component (bonus)
 - \$100k-\$175k (base); subjective bonus based on maintenance, retention, growth and 15% year 1 commissions on additions to existing accounts (bonus/commission)
 - \$100k-\$200k (base); 10%, 5% for new mandates (commission); subjective bonus (bonus)
 - \$125k-\$200k (base); up to \$200k bonus based on quantitative goals, such as retention, revenue growth, client satisfaction and qualitative goals, including overall demeanor around clients, call frequency, corporate citizen (bonus)
 - \$125k-\$200k (base); 20% year 1 increasing by 5% based on goals with a maximum of 40% back to \$1; 25% trail for year 2 on anything beyond the year 1 payout (commission); subjective bonus based on performance, tenure and seniority paid in restrictive stock with 3-year vesting (bonus)
 - \$140k-\$175k (base); incentive targeted at 80% of salary plus cross-sales commissions to existing clients to equate to 10% of year 1 fee, which is paid after 12 months (incentive)
 - \$150k-\$200k (base); \$75k-\$150k (bonus)
 - \$175k average (base); \$100k-\$150k qualitative bonus (bonus)
 - \$175k-\$180k (base); \$175k-\$275k bonus based on activity metrics and overall client satisfaction (bonus)

Compensation Adjustments

As indicated, 46% of managers adjusted compensation plans, with close to 70% planning to revert to original compensation as the market becomes more stable. One manager implemented budgetary goals for management and activity metrics as a method of more closely monitoring compensation. Additional adjustments to compensation include:

- Eliminated 1/3 of qualitative payment, lowering commissions to 10%, 5% and 5%
- Changed discretionary bonus for salespeople from restrictive stock to cash in 2009
- Exchanged portion of cash bonus for equity
- Altered payments: qualitative bonus paid in cash quarterly averaging \$50k-\$75k annually (consultant relations); commission exchanged for qualitative quarterly

bonus averaging \$25k-\$75k (client service); 50% of commissions withheld for 12 months based on subjective instead of qualitative metrics (sales).

Sales Force Protection

Balancing the loss of assets and profits, and retaining key salespeople has exerted pressure on investment managers. Our poll indicated that most managers have instituted measures to protect their salespeople. Following are examples of specific programs, along with the anticipated timeframe for keeping them in place:

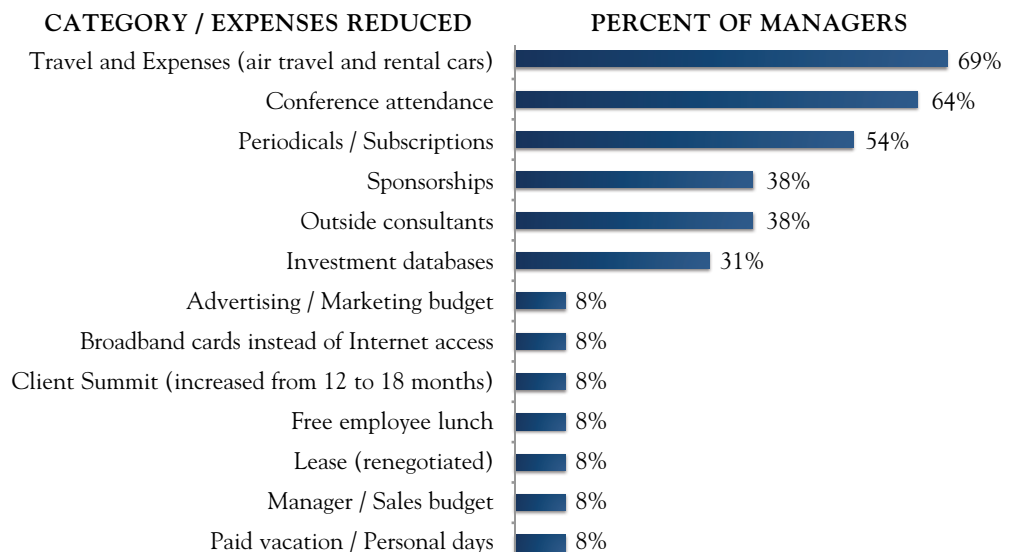
- Additional equity issued in exchange for a percentage of bonus with 4-year vesting. Over \$800k in total compensation – 35% paid in equity; over \$500k – 25% paid in equity; and over \$250 – 15% paid in equity. Timeframe: Undetermined
- Stock and deferred compensation package, with goals adjusted to reflect an equal focus on activity and volume. Timeframe: Undetermined
- Quarterly quantitative guarantee based on 75% of prior eight quarters of production. Timeframe: Through 2009, with an evaluation in 2010.
- Quarterly qualitative payments and restricted stock for select employees. Timeframe: Evaluate at end of fiscal year.

One manager noted that it has an ongoing program whereby a 20% decline in an individual's compensation from the prior year's compensation triggers a review between the individual, management and human resources to determine the reason for the drop and to make appropriate adjustments. Another manager reported extending retention payments to senior management and portfolio managers, which will remain in place until the market improves.

EXPENSE REDUCTIONS

Cost-saving Measures

In light of the drastic market downturn, investment managers seriously evaluated, and in most cases, reduced expenses across the board. Managers reported cutting expenses in the following categories (excluding personnel):



T&E ranked as the most significantly and consistently reduced category, with close to 70% of managers cutting costs in this area. One manager switched global travel to video conferencing, while another manager restricted travel for junior employees. Conversely, 23% of managers reported no reduction to T&E, as they have routinely maximized efficiency in travel-related expense.

One manager reported retiring clients for more cost-effective servicing, meaning smaller clients will receive a lesser degree of service.

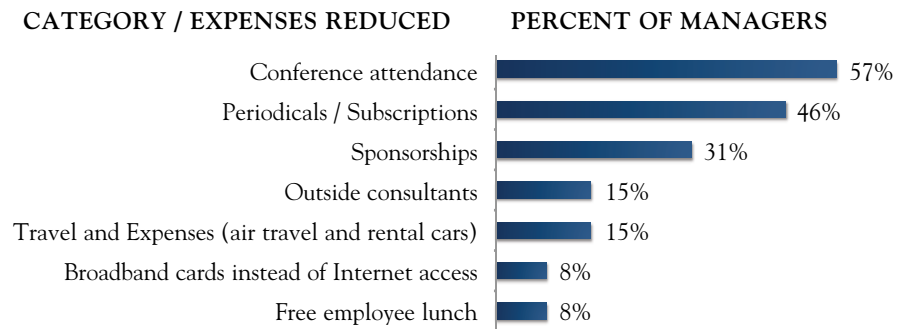
Generally speaking, most managers are closely monitoring expenses in tandem with market conditions to determine necessary adjustments.

MOVING FORWARD

Organizational Changes: Temporary or Permanent?

According to our survey, all managers have implemented firm-wide budget cuts – to varying degrees – in response to the market turbulence. Will these managers revert to “business as usual” as the market stabilizes?

Managers indicated maintaining the following changes for the foreseeable future:



One manager put it this way: “The days of buffet junkies at conferences are over.”

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Mid to Large Institutional Investment Managers

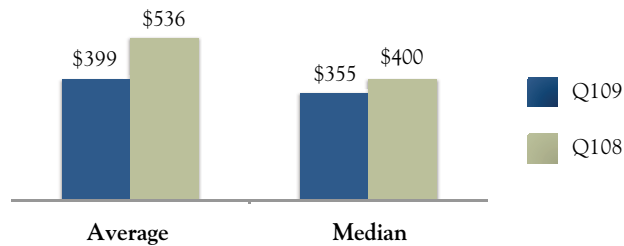
ASSETS UNDER MANAGEMENT

The mid to large institutional investment managers reported more than \$200 billion in institutional assets under management at the end of the first quarter 2009 including noteworthy points:

- Total managers: 11
- Highest AUM: \$780 billion
- Lowest AUM: \$200 billion
- Average % change in AUM during past year: -18%

The following chart illustrates the decline in assets during the past year.

ASSETS UNDER MANAGEMENT (\$billions)



PERSONNEL

Headcount

Difficult economic times exert pressure on organizations to operate efficiently and effectively, which typically involves analysis of personnel. Our survey revealed the following personnel data:

- Largest staff: 100
- Smallest staff: 14
- Average staff: 49
- Median staff: 45

Staff Reductions

A majority of managers – 7 of 11 – reduced staff as a cost-cutting measure, with an average 16% reduction in total positions.

Two managers reported decreasing staff in some departments, while hiring in others, with one manager replacing junior staff and with senior professionals. To streamline operations, another manager reorganized departments into focused teams and consolidated sales teams to cover specific channels.

Staff Rebuilding

Generally speaking, the managers are closely watching both the markets and the organization's profitability to inform staffing decisions.

Two managers continue to selectively hire. One manager reported upgrading its salesforce saying, "These are strategic investments, and we will continue to build the business the right way." The other manager is improving and expanding staff, with the intention of hiring three people this year and five more over the next two years adding, "We are actively and aggressively building our group. We want to hire the best people we can before others can get back into the market."

The remaining nine managers reported various conditions necessary to initiate hiring, with an emphasis on market conditions. One manager encouragingly reported experiencing an uptick both in performance and inflows for the year.

Several managers indicated that at least one of the following conditions would prompt restaffing:

- Increased plan sponsor activity
- Inflows from clients
- Additional RFP submissions and prospective client inquiries
- Movement in client activity, including calls for meetings and requests requiring additional staff time

According to one manager, "Cost reductions are currently keeping pace with asset declines. If that becomes more positive, we'll initiate hiring more people."

Asked how the current staff will change when rehiring begins, the majority of managers revealed that they are strategically preparing to move forward with the right conditions. One manager is utilizing a monthly forecasting method to assess market conditions and staff to determine the appropriate time to resume hiring.

Our survey revealed specific staff changes and areas of focus once rebuilding begins, including:

- Expand offshore personnel
- Hire more experienced and technically competent sales and client service personnel

"We want to hire the best people we can before others can get back into the market."

- Build the retail area
- Rehire sales support

Finally, one manager indicated that due to earlier acquisitions, the staff is lean and well-positioned to move forward, with no need for extensive hires.

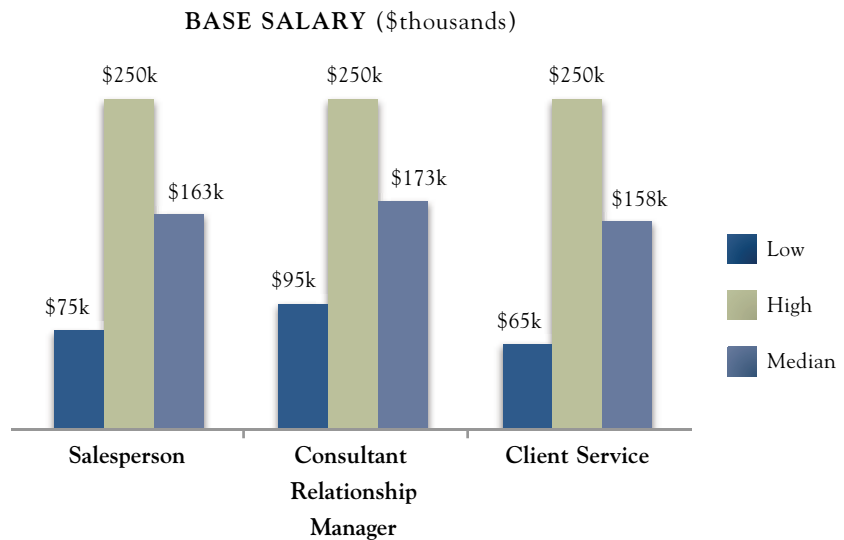
COMPENSATION

Current Compensation

In light of the turbulent market conditions, managers have analyzed compensation in an effort to balance retention of key employees and the organization's profits.

According to our survey, 72% of managers have adjusted compensation, with 27% of managers freezing salaries.

Following are the low, high and median base salaries for three positions:



The managers polled use a wide range of base salary and commission schedules, as outlined below:

- Salespeople
 - \$75k-\$125k (base); 25%, 10%, 5% with the possibility of doubling commissions based on special product emphasis (commission)
 - \$100k-\$150k (base); variable compensation of 80% commissions, which are basis points based on channel and product, and 20% subjective bonus with the goal of rewarding exemplary performance and protecting select individuals (commission/ bonus)
 - \$100k-\$200k (base); discretionary bonus averaging 100% of base (bonus)
 - 125k-\$150k (base); 50% quantitative and 50% qualitative bonus based on high impact performance, presentations and overall value added (bonus)
 - \$125k-\$200k (base); 8%-15% bonus on new revenue based on individual and firmwide goals, and subjective, no trail (bonus)

- Salespeople (continued)
 - \$125k-\$225k (base); subjective bonus based on revenue, assets and overall contribution as team player, typically ranging from \$200k-\$800k – individual responsible for sales and client service (bonus)
 - \$125k-\$250k (base); 20%, 10%, 5% (commission); funds pay 5 bp on gross revenue plus 1 bp on net plus 1 bp on asset growth in perpetuity (commission)
 - \$150k-\$175k (base); *Equity*: 20% year 1 (commission); bonus based on quantitative and qualitative goals targeted between \$500k-\$1.5mm (bonus); *Fixed Income*: Either 20% year 1 commission or similar bonus structure based on manager's discretion (commission or bonus); *Real Estate*: 6%, 3%, 1% (commission)
 - \$150k-\$175k (base); 20%, 15%, 3% with 30% of commissions held back for a bonus pool for subjective year-end bonus – focus on tier 1 clients, both sales and service (commission/bonus)
 - \$150k-\$250k (base); 20%, 10%, 5% (commission)
 - \$175k-\$200k (base); 20%, 10%, 5% plus 1% shared client service payout (commission)

- Consultant Relationship Manager
 - \$95k-\$150k (base); 50%-100% bonus on new revenue based on individual and firmwide goals, and subjective, no trail (bonus)
 - \$125k-\$225k (base); bonus based on RFPs, presentations and wins, typically ranging from \$150k-\$350k (bonus)
 - \$150k-\$200k (base); bonus based on target, which can total up to twice base (bonus)
 - \$175k (base); bonus ranging from \$175-\$225k (bonus)
 - \$200k-\$225k (base); qualitative bonus based on finals, meetings, etc. ranging from \$200k-\$275k (bonus)
 - \$200k-\$250k (base); score-based bonus ranging from \$100k-\$250k (bonus)

- Client Service
 - \$65k-\$80k (base); bonus up to 25% of base – focus on tier 3 clients (bonus)
 - \$125k (base); 20%, 15%, 3% with 30% of commissions held back for a bonus pool for subjective year-end bonus – focus on tier 2 clients (commission/bonus)
 - \$175k-\$250k (base); subjective bonus based on retention and cross-sales up to an additional \$200k-\$225k (bonus)

Compensation Adjustments

In an effort to closely manage compensation, managers reported the following adjustments:

- Reduced executive management salaries by 10%
- Implemented a metric-based bonus structure
- Capped mid and senior level personnel bonuses
- Introduced a new commission schedule and cut select bonuses by 50%
- Decreased discretionary and management bonuses; new baseline for first-year commission. Raised deferred compensation level: over \$600 and less than \$600 in total compensation raised to 40% and 25%, respectively.

- Altered first-year commissions to pay 15% until a new \$1mm baseline is achieved then reverts to 20%, back to \$1. Additionally, 7%-12% of consultant relationship manager’s commissions are paid by salesperson (funded by a pool of commissions from sales) instead of bonus, with amount based on whether the consultant relationship manager leads or advises sale.

On a positive note, one manager increased first-year commissions from 15% to 20% in 2008.

Sales Force Protection

In an attempt to retain key salespeople, three managers initiated specific compensation programs, along with the anticipated timeframe for keeping them in place:

- Guaranteed commission for select high-performance individuals, which is subjective based on an established commission schedule. Timeframe: Undetermined
- 70% guarantee based on prior year’s commission. Timeframe: Undetermined
- Modified short-term equity plan to retain select individuals. Timeframe: Changes annually

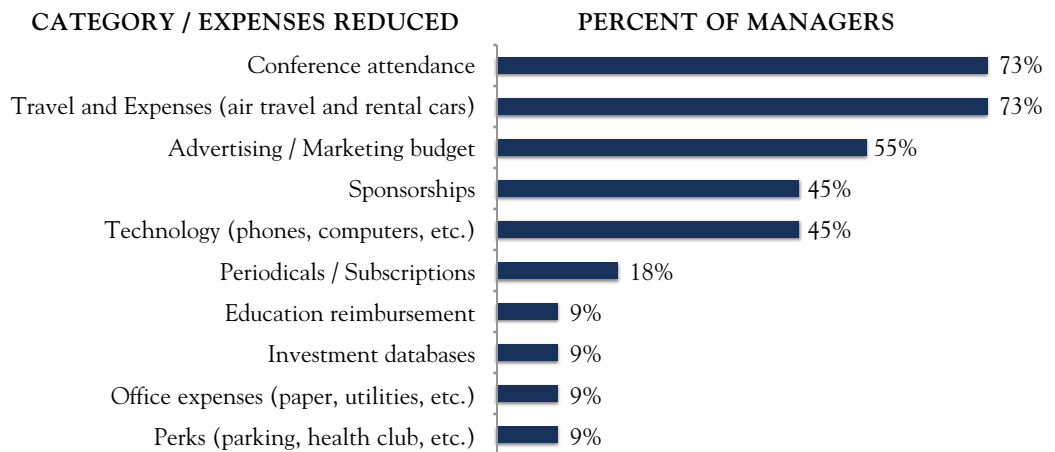
Meanwhile, three managers have considered implementing the following salesforce protection mechanisms:

- Utilize newly developed commission structure to add protection
- Initiate a program whereby salespeople are paid for a set period of time if they are terminated from the organization by no fault of their own
- Institute protection for top producers

EXPENSE REDUCTIONS

Cost-saving Measures

The market’s downward spiral has forced managers to evaluate, and in most cases, reduce expenses firmwide. Managers reported cutting expenses in the following categories (excluding personnel):

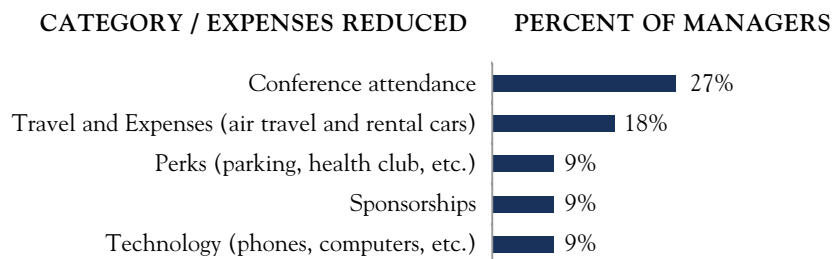


T&E and conference attendance shared the top ranking as the category most impacted by budget cuts. In terms of T&E, three managers are using video conferencing for meetings in lieu of ground or air travel, to the extent possible. Conversely, a manager operating on a relatively lean budget before the market downturn was able to boost T&E to allow client service personnel to travel more frequently.

MOVING FORWARD

Organizational Changes: Temporary or Permanent?

Our survey revealed that all managers have cut expenses, to varying degrees, in light of recent economic challenges. When asked which organizational and budgetary changes will remain in place when the market rebounds to favorable levels, we learned that some changes are here for the foreseeable future, as indicated in the chart below:



In terms of personnel, one firm indicated that the consultant relationship manager position has evolved into a product specialist/analyst role to service and cross-sell products to existing clients, while providing necessary analytical support – a position the manager expects to maintain.

Broadly speaking, managers are carefully balancing external forces and internal conditions. Looking ahead, one manager aptly stated, “Most times once you start cutting expenses people get used to it, and they learn how to work under these circumstances.”

“Most times once you start cutting expenses people get used to it, and they learn how to work under these circumstances.”



ABOUT PRESTON & COMPANY

Since 1985, Preston & Company Executive Search has exclusively served the financial services industry. Preston & Company has built a reputation for attracting high caliber talent that surpasses our clients' expectations. Through successful completion of assignments for investment management firms, banks, mutual fund companies, broker/dealers, insurance companies and other clients in the industry, we have developed a current, comprehensive and impressive database of the industry's best talent.

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