



Hedge Fund Pay Practices

2010 Survey & Research Report



Hedge Fund Human Capital Practices

Business, People, and Reward Strategy and Compensation Levels

Price: \$2,400 USD

The Series

U. S. Private Equity

European Private Equity

U.S. Hedge Funds

About Grahall

An Intellectual Capital Firm

Grahall is a cutting edge intellectual capital organization that collects and translates business, human resources, and investment information into useful forms for organizations seeking to convert knowledge assets into financial, personal, and business success.

As a thought leader with a profound understanding of the important role of knowledge assets in successful businesses, Grahall communicates its collective insights to clients/users through multiple channels. This report is a joint effort between the Grahall Survey and Data Services, Grahall Research Institute, and Grahall Consulting Partners. It is marketed through Grahall Omni Media.

These channels have been organized into groups of services to better support our clients. The following service channels allow us to most effectively interact with our client/user groups:

Grahall Survey and Data Services. Engages in substantive survey projects regarding critical business, human resource, and investment issues to help clients establish, refine, and improve their business, compensation and investment practices.

Grahall Research Institute. Conducts in-depth research in an effort to maintain a digital library of resources. These resources are available to assist clients with their research needs and to support Grahall's regulatory, consulting, investment, staffing, training and publishing efforts with relevant market research.

Grahall Regulatory Services. Provides clients with insightful legal, accounting, tax, actuarial and similar technical services, directly to clients or in conjunction with other Grahall business units.

Grahall Consulting Partners. Provides market leading compensation and total rewards consulting services to executives, Boards of Directors, Compensation Committees, and other management. Our methodologies are targeted to better align clients' business and people strategies with comprehensive rewards strategies through the use of advanced proprietary solutions including concepts, processes, diagnostic and analytical tools, research, and statistical and other analysis.

Grahall Workforce Solutions. Provides a reliable and flexible source of compensation, benefits and total rewards contract professionals to help our clients develop and administer effective total rewards programs.

Grahall Online Solutions. A distinctive suite of web-based rewards tools targeted to human resource professionals, executives, and directors. These tools assist the user to obtain, calculate and analyze information necessary to execute key business, people and reward strategy work.

Grahall Omni Media Center. Manages the flow of Grahall's intellectual capital to our clients/users through the publication of research reports, books, articles, press releases, investor alerts, presentations, and other mediums.

The Grahall Learning Institute. Provides advanced total rewards learning experiences to directors, executives, and senior human resource professionals interested in expanding their total rewards knowledge beyond the scope of introductory or intermediate courses.

Grahall Investment Services. A unique and independent investment company, provides human capital research, portfolio design, and investment funds for institutional, high net worth and individual investors.

Grahall Properties. A conference and training center used by Grahall consultants, partners, and client/users seeking to create or exchange significant insights and to identify and resolve current issues affecting their respective businesses.

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Background

Position Descriptions

Job Family	Position Title	
Investment	Chief Executive Officer	One or more top level partners that provide overall firm leadership, focusing on investment activities. Typically serves as Chief Investment Officer. Initiates and manages hedge business activities, from business strategy to product origination.
Investment	Chief Investment Officer	One or more top level partners that provide overall firm leadership, focusing on investment activities. Typically serves as Chief Investment Officer. Initiates and manages hedge business activities, from business strategy to product origination.
Investment	Senior Portfolio Manager	Manages smaller hedge fund or provides support to a Senior Fund Manager. Responsible for implementing policies and procedures approved by senior management. May be involved in identifying appropriate investments in line with fund strategy. Typically has around 10 years experience in asset management with 2 to 5 years experience in hedge funds.
Investment	Junior Portfolio Manager	Provides support to more senior fund managers, assisting with investment activities and producing research for the hedge fund team.
Investment	Senior Trader	Manages smaller hedge fund or provides support to a Senior Portfolio Manager. May be involved in identifying appropriate investments in line with fund strategy. Typically has around 10 years experience in asset management with 2 to 5 years experience in hedge funds.
Investment	Junior Trader	Provides support to more senior traders, assisting with investment activities and producing research for the hedge fund team.
Investment	Senior Analyst	Perform basic investment and/or research to support Fund Managers. Typically has around 10 years experience in asset management with 2 to 5 years experience in hedge funds. They have a college degree or equivalent business experience.
Investment	Junior Analyst	Provides support to senior analysts, assisting with investment activities and producing research for the hedge fund team.
Finance	Chief Financial Officer	This senior level professional heads up finance/accounting for the firm and its limited partnerships. The position also may have responsibility for the business operations of the firm, such as human resources, compliance and technology. At larger firms, the CFO may report to the COO.
Finance	Controller	This professional performs accounting, financial monitoring, reporting and similar services. Reports to the Managing General Partner or COO or CFO, depending on the size of the firm.
Finance	Financial Officer / Manager	This position assists the Controller and/or CFO with their various duties and responsibilities.

Background

Position Descriptions

Job Family	Position Title	
Finance	Fund Accountant	Predominantly an administrative position, responsible for maintaining administrative records and working on reconciliation statements for funds. Assists in preparation of fund portfolio statements and profit & loss reporting on funds.
Finance	Senior Accountant	Performs at least two accounting functions, such as accounts payable, accounts receivable, or bookkeeping.
Finance	Junior Accountant	Junior member of the finance team, typically would not be qualified, responsible for day-to-day maintenance of accounts records.
Legal	Chief Compliance Officer	Responsible for ensuring that the firm is in compliance with all relevant regulations. Ensures adequate monitoring of investment activities, undertakes audits of investment procedures and advises CEO/ Managing Partner and Legal team on all compliance related issues.
Legal	Legal/General Counsel	This professional is responsible for coordinating legal work by outside counsel. It also may provide legal advice on fund formation, entering and exiting portfolio companies, and assisting portfolio companies.
Risk Management	Risk Management Officer	Responsible for ensuring that the firm is in compliance with all relevant regulations. Ensures adequate monitoring of investment activities, undertakes audits of investment procedures and advises CEO/ Managing Partner and Legal team on all compliance related issues.
Risk Management	Risk Manager	Responsible for ensuring that the firm is in compliance with all relevant regulations. Ensures adequate monitoring of investment activities, undertakes audits of investment procedures and advises CEO/ Managing Partner and Legal team on all compliance related issues.
Information Technology	Chief Technology Officer	This position is responsible for purchasing and operating computer networks and various software and hardware. It also is responsible for communications systems (phones, etc).
Information Technology	IT Manager / Professional	Works with Head of IT or outsourced IT support to manage the firm's IT applications and infrastructure. In smaller firms may be the most senior IT position.

Background

Position Descriptions

Job Family	Position Title	
Marketing	Marketing Director / Manager	This professional is responsible for fund-raising and other limited partner relations, including quarterly reports and regularly scheduled meetings.
Marketing	Business Development Officer	Lead role in communications with both investors and press, communicating group's strategy , fund performance and messages as agreed by the CEO/ Managing Partner and senior management team. Role may be taken by a senior partner in the business and may also incorporate the marketing function.
Marketing	Investor Relations Officer	Provides support and assistance to the Investor Relations Director in communicating with fund investors, both regular and ad hoc.
Marketing	Marketing Associate	Supports the Head of Marketing in fund-raising and other limited partner relations, including quarterly reports and regularly scheduled meetings. In smaller firms may be the only marketing role.
Administration / Support	Chief Operating Officer	This position normally exists at the larger private equity firms; the COO is responsible for the non-deal-making aspects of the organization, including internal business operations such as human resources, finance/accounting, compliance, and technology. The position also may oversee fund raising, marketing, and communications.
Administration / Support	Executive Secretary	This position provides full secretarial and administrative support to the CEO/ Managing Partner and other Senior Partners including setting up of meetings and conference calls; ordering and receiving supplies for the office; putting together numerous reports; sending out mailings; and responding to various other requests.
Administration / Support	Administrative Assistant	This position supervises support staff and oversees routine administrative functions of the firm. Reports to the Managing General Partner or COO or CFO, depending on the size of the firm.
Administration / Support	Receptionist	Responsible for reception duties for the firm.

Background

Profile of Research Study Participants

Firm Size by Assets Under Management

Size in AUM \$Millions	Pct
62.5	2%
125	4%
250	10%
500	26%
1,500	10%
3,000	33%
6,000	10%
12,000	5%

Firm Size by Number of Employees

Size	Average # of Employees	Pct
62.5	5	4%
125	7	18%
250	15	14%
500	26	25%
1,500	57	20%
3,000	130	6%
6,000	205	7%
12,000	530	6%

Firm Size by Maturity

Size	Average Age	Pct
Start Up	1 year	4%
Emerging	2 years	22%
Growth	4 years	5%
Established	6 years	14%
Mature	10years	55%

The “short-hand” references above – for AUM are midpoints of our bracket definitions for size and the maturity definitions (start-up, emerging, growth, established and mature) for identification of the stage of the hedge fund are used repeatedly in this survey. They are defined in the separate chapters.

A significant majority of participants have their headquarters in the U.S.; 64% are located in New York City, followed in order of frequency of response by San Francisco, Boston, Dallas and Greenwich/Fairfield County CT

44% of participants have international offices; the U.K. is the predominant international location, followed in order by frequency of response by Hong Kong, Japan and Switzerland

These groupings were done to insure confidentiality in the all-participant report. We can offer customized drill-down on the data as long as confidentiality is preserved.

We believe that the participants are a representative valid sample, but do not hold out any guarantees of statistical validity since we have no control over who becomes a Grahall Consulting Partner client or who chooses to participate in the surveys. Much of the study is based on our 25 years in the human capital and compensation profession and our 15+ years of consulting to this profession including 7 of the top 50 firms.

Key Stakeholders

Firm Ownership

Firm Ownership Changes Since Founding

Originally organization had one owner, which has not changed	40%
Ownership has changed/expanded since the firm was founded; no individual is the majority owner	23%
Ownership has changed/expanded since the firm was founded; one individual is the majority owner	19%
Originally organization had multiple owners without a majority owner, which has not changed	14%
Originally organization had multiple owners but one majority owner, which has not changed	4%

The tables below provide detail by AUM and maturity for the most frequent response in the chart above: “Originally organization had one owner, which has not changed” Small and mature firms were more likely to respond “Original organization had one owner, which has not changed”

AUM	
Small	47%
Medium	35%
Large	18%

Maturity	
Start-up	18%
Growth	23%
Mature	59%

Small and mature firms were more likely to respond “Original organization had one owner, which has not changed”

A point of advice from Grahall:

42% of participants have changed ownership since the firm was founded

70% make changes on a discretionary basis

Grahall has done complex engagements devoted to restructuring partner equity granted on a discretionary basis – these are complex situations that do not always end well for the firm

While this approach is often good for consulting opportunities, and point is that there are ways to work through ownership expansion that are not discretionary

The Business Strategies

The Five Phases of Hedge Fund Development

The following outlines a general classification for hedge fund business models that impact people and reward strategies based on size and sophistication.

These (size and sophistication) are not the only factors impacting people and reward strategies (people and rewards). The usual general, value chain and specific business strategies are also of a critical nature when it comes to determining success or failure of the organization.

Phase One – Start Up (\$10M to \$50M AUM) - Organizational model is generally a function of the history of the General Partners. To the extent a single or small group of founding partners establish the hedge fund, the fund is typically simple: it is a direct function of business requirements

Phase Two – Emerging (\$25M to \$500M AUM) - Emerging funds are generally single strategy funds and normally have one fund and one investment team, with possibly a separate trading desk. Also, it is at this point where the increased AUM requires more differentiation into specific managerial roles, which in turn generates the need for alternative forms of compensation vis-à-vis partners and others with rewards driven by the performance and size of the fund

Phase three - Growth (\$250M to \$1B AUM) - The growth phase is signaled when the fund attracts additional assets based directly on its track record -- the effectiveness of its past performance, and the readiness of institutions and funds of hedge funds to invest. This additional and slightly more stable source of funds parallels significant additional managerial and infrastructure requirements. The result is the establishment of more specific roles for individuals, and/or additional staffing of experienced specialists to perform these roles

Phase four - Established (\$500M – \$3B AUM) - In Phase Four – at established hedge funds -- we begin to see a greater diversity of organization designs; some of these designs are very much a function of how and how quickly the hedge fund grew to its present size. To the extent that the hedge fund grew its own talent from within, we see a more conservative approach to its business strategies.

Phase Five – Mature (\$2B to \$10B) - These funds are generally international in scope, diverse or multi-strategy, and have access to significant resources, while at the same time are subject to all of the maturity constraints of a much larger institution

The People Strategies

Competencies of Asset Managers



We are often asked for competencies for asset managers in hedge funds. In the following pages we have provided a series of competencies for an asset management position. These competencies can be used for a wide range of people strategy applications such as selection, training & development, performance review, mentoring, and career pathing.

- Analytical Thinking
- Building Alliances
- Business Acumen
- Customer Service Orientation
- Developing Others
- Driving for Results
- Flexibility
- Impact and Influence
- Initiative
- Integrity
- Organizational Commitment
- Project Management
- Self-Confidence
- Self Control
- Strategic Orientation
- Team Leadership
- Teamwork
- Technical Expertise

Reward Architecture and Program Components

Compensation Policy

Compensation Sources for Salary and Bonus

Non-Partner Investment Staff¹

	Management Fee	Performance Fee	Fund Expense
Salary	88%	22%	10%
Bonus	32%	84%	10%

Non-investment Staff¹

	Management Fee	Performance Fee	Fund Expense
Salary	92%	21%	15%
Bonus	83%	23%	17%

¹ Multiple responses to these questions were permitted. Percentages may exceed 100%.

- Non-Partner investment and non-investment staff salaries are significantly more likely to be paid from management fees. That being said, we were somewhat surprised that 20%+ use performance fees to “fund” salary – this seems high from our experience
- Investment staff bonuses are more likely to be paid from performance fees, and non-investment staff bonuses are more likely to be paid from management fees. But 23% are using performance fees for non-investment staff
- The responses did not show a meaningful relationship to AUM and maturity for management and performance fees as sources of compensation for investment and non-investment staff

Reward Architecture and Program Components

Compensation Policy

Employee Benefits

What types of benefits does your firm provide to its employees?

Answer Options	
Medical	98%
Dental	91%
401(k) Plan	89%
Short-term Disability	57%
Life Insurance	57%
Long-term Disability	48%
Gym membership (reimbursement or paid)	35%

What portion of benefits are paid by your firm?

Benefit	Portion of the Benefits Paid for by the Firm			
	100%	≥ 90% but < 100%	≥ 75% but < 90%	< 75%
Medical	74%	5%	10%	11%
Dental	75%	3%	7%	15%
Short-term Disability	78%	8%	4%	10%
Long-term Disability	95%	0%	0%	5%
Life Insurance	92%	0%	0%	8%

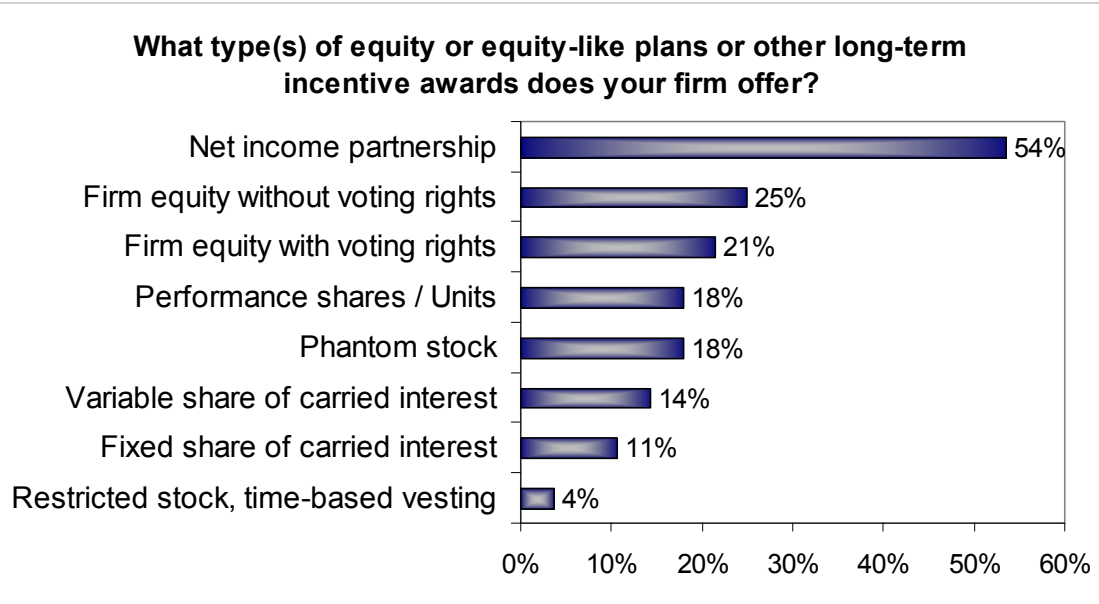
If your firm provides a 401(k) match, what is the percentage of match provided?

No Match	≤ 1%	> 1% and ≤ 3%	> 3% and < 5%	5% +
33%	3%	10%	17%	37%

Reward Architecture and Program Components

Compensation Policy

Types of Equity (or Equity-Like) Plans



Multiple responses to this question were permitted. Percentages may exceed 100%.

Within a diverse range of responses:

- 54% of participant firms report the use of a net income partnership approach, sometimes in combination with other approaches
- 25% of participant firms offer firm equity without voting rights
- 21% offer firm equity with voting rights

Competitive Pay Level

By Job Family

Administration / Support

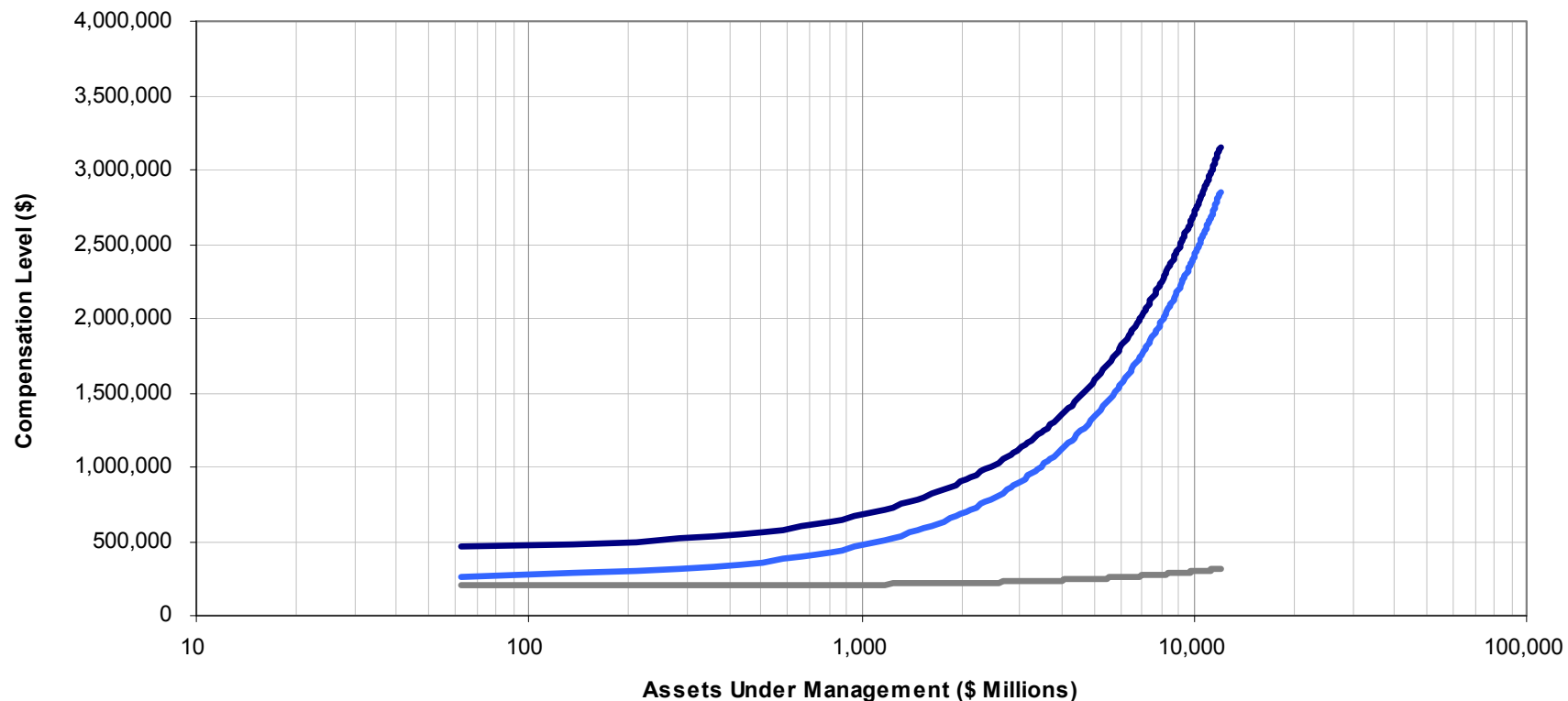
Position	Pay Component	Assets Under Management (\$ Millions)							
		62.5	125	250	500	1,500	3,000	6,000	12,000
Chief Operating Officer	Base Salary	201,326	201,927	203,127	205,527	215,129	229,531	258,336	315,945
	Annual Bonus	266,597	280,121	307,168	361,263	577,643	902,213	1,551,353	2,849,633
	Total Cash Compensation	464,587	478,670	506,835	563,166	788,489	1,126,474	1,802,443	3,154,382
Executive Secretary	Base Salary	78,375	78,647	79,190	80,277	84,624	91,144	104,185	130,266
	Annual Bonus	13,755	14,055	14,654	15,852	20,645	27,834	42,213	70,971
	Total Cash Compensation	85,667	86,262	87,451	89,829	99,341	113,610	142,147	199,222
Administrative Assistant	Base Salary	61,172	61,421	61,918	62,912	66,890	72,856	84,789	108,654
	Annual Bonus	10,463	10,586	10,832	11,325	13,296	16,253	22,167	33,994
	Total Cash Compensation	70,480	70,822	71,506	72,874	78,346	86,553	102,969	135,799
Receptionist	Base Salary	46,279	46,449	46,789	47,469	50,189	54,269	62,430	78,750
	Annual Bonus	3,764	3,829	3,959	4,219	5,259	6,819	9,939	16,179
	Total Cash Compensation	50,811	50,985	51,332	52,025	54,800	58,961	67,285	83,932

Competitive Pay Level

By Position

Chief Operating Officer

Pay Component by Firm Size



Pay Component	Assets Under Management (\$ Millions)								
	Legend	62.5	125	250	500	1,500	3,000	6,000	12,000
Base Salary		201,326	201,927	203,127	205,527	215,129	229,531	258,336	315,945
Annual Bonus		266,597	280,121	307,168	361,263	577,643	902,213	1,551,353	2,849,633
Total Cash Compensation		464,587	478,670	506,835	563,166	788,489	1,126,474	1,802,443	3,154,382

Competitive Pay Level

By Position

Chief Operating Officer

Total Cash Compensation by Firm Size and Pay Percentile

