2012 Hedge Fund Compensation Report

HedgeFundCompensationReport.com

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Introduction

It is our pleasure to share with you, for the fifth time, our annual Hedge Fund Compensation Report. Over that time, the only constant has been change, so we take very seriously our mandate to provide you with a reliable and affordable analysis.

We feel a responsibility to present a compensation benchmark resource that is comprehensive, reliable and affordable. We know that we met that goal again this year and we hope, after reading the Report, that you feel we exceeded it as well.

This year's report includes actual data from 2010 plus projected compensation numbers for 2011. As we collected the data in October and November of 2011 and did not see significant market events since that time, we feel comfortable presenting the 2011 numbers as final.

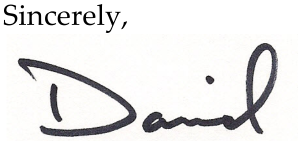
This report analyzes data related to compensation earned, levels of equity sharing , work satisfaction and much more. It also seeks to clarify how these professionals perceive their performance and how that relates to their pay expectations. This report is unique in that figures are based solely on data collected directly from a large number of 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, once again, find this report helpful as you negotiate your compensation package, establish benchmarks for your firm's compensation policies, or set goals for your own professional development.

Sincerely,



David Kochanek, Publisher

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Executive Summary

The sense pervading the broader financial sector that 2011 will be a difficult year for compensation appears to have spared the hedge fund industry. Half of this year's respondents believe that their cash compensation (base plus bonus) will either stay the same or go up by less than 15 percent; only one in five believe it will actually go down.

Managing directors, directors and senior associates saw the most substantial gains in 2011, a year when principals, portfolio managers and C-level executives actually saw their average total pay decrease. Those gains are mostly from bonuses and are supported by outstanding fund performance.

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

- The annual average compensation for hedge fund professionals worldwide was US$313,000, up from $310,000 last year.
- Hedge fund workers worldwide report their base pay went up by $11,000 in 2011, or 8 percent, and expect that their bonuses will actually go down by drop 5 percent.
- The median legal/compliance officer in the middle of the distribution – making $340,000 – is better paid than the portfolio manager, partner/principal, CFO or COO with similar standing; the median trader's total pay went up 29 percent on the strength of a 50 percent anticipated increase in bonus.
- The story of 2011 median hedge fund pay appears to be one of growing parity. Those at the bottom of the pay scale – the senior associates – saw a 28 percent increase in total median pay while the one at the top in 2010, the COO, experienced the steep drop described earlier.
- On average, funds that pursued strategies that focused on an event-driven strategy had the best-paid employees.
- MBAs surveyed expecting on average 26 percent more than non-MBAs. This represents a slight narrowing of what had been a growing gap.
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- In general, new jobs are scarce in the hedge fund industry but there are pockets of opportunity. One in four of those surveyed say that their funds are hiring for research positions.
- Most hedge fund employees are concerned about job security. Their concerns are mainly related to firm structure and market conditions.

- Forty-four percent of hedge fund employees are happy with their compensation, up from 40 percent in 2010.

Methodology

Job Search Digest surveyed hundreds of partners, principals and employees during October and November 2011 to benchmark compensation practices. No one firm had more than three participants in this year's survey, so firm centric bias is not concern in this analysis. 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 as well as the small firms, which make up the majority of this industry.

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

Accendo Capital
BrunnerInvest AG
Butler Investment Managers Limited
CarVal Investors
Catalpa Capital Advisors
Citi
Concordance Capital Management
Davis Capital Management
Deutsche Bank
Force Capital
Fuller & Thaler Asset Management
Gottex Fund Management
GWI Asset Management
Haidar Capital Management, LLC
Imperial Capital
JPMorgan Chase
Kershner Trading
La Compagnie Financière Rothschild
Lafitte Capital Management
M.D. Sass
NoHo Capital
Octavian Advisors
Orthogonal Partners
PCE Investors Limited
RBC
Reech AiM
Rogge Global Partners
Serendiv Capital Management, LLC
Skyline Capital Management
Trian Credit Partners
UBP Asset Management
UBS
Vegasoul Capital LLC
Wells Fargo Alternative Strategies

Pay Levels

Our analysis of this year's data does not support premature industry reports that suggest 2011 total hedge fund compensation dropped precipitously compared to 2010. The data suggest that the retrenchment hit last year, as 2011 earning expectations are positive. We find that, although bonuses are down about 4% on average, base pay has offset that shortfall and average total compensation actually increased by 1 percent year-over-year.

Perhaps hedge fund employees were more cautious about their prospects in 2011 after 2010 fell short of expectations. Their hope now is that they will end the year with an average of $311,000 in total cash compensation.

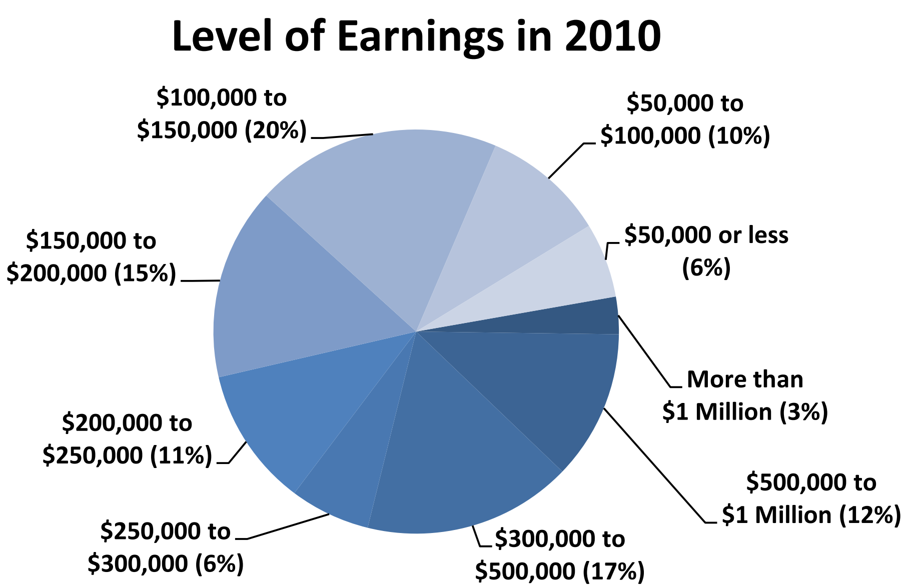

Figure 1: 2010 Level of Earnings

Thirty-eight percent of hedge fund employees reported total 2010 compensation in excess of $250,000, and there has been virtually no change in that number for 2011.

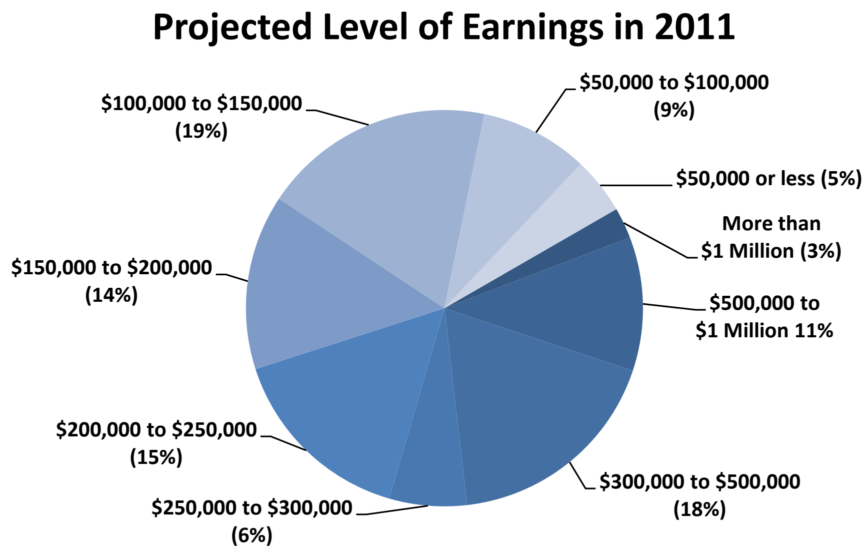

Figure 2: 2011 Expected Earnings

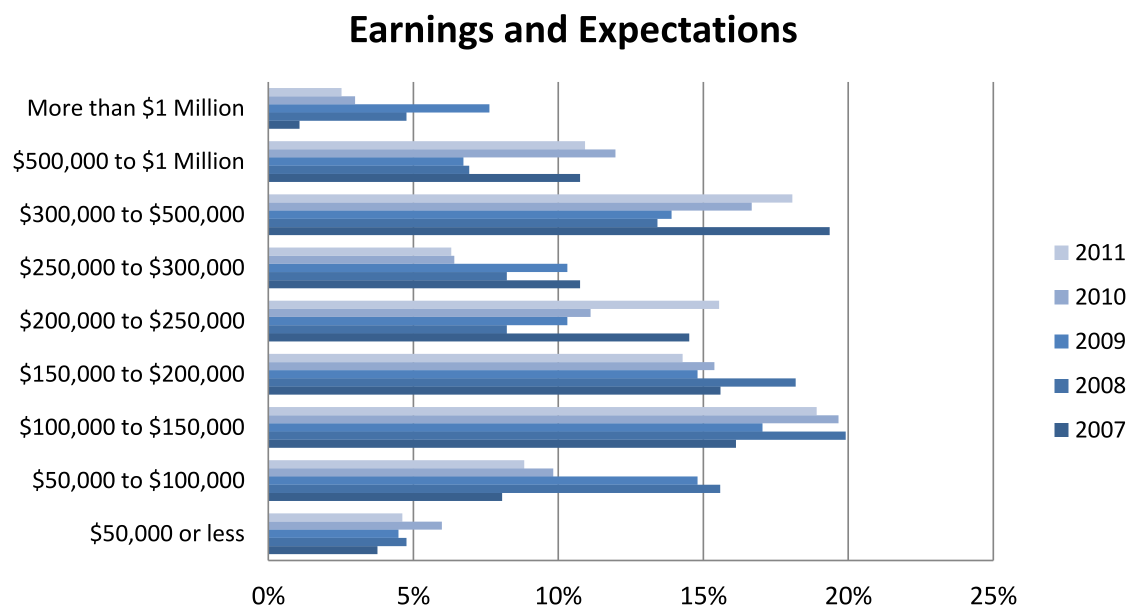

Figure 3: 2007-2010 Earnings and 2011 Expectations

The proportion of those earning less than $200,000 dropped from 51 percent in 2010 to a projected 47% in 2011. The $200,000-$250,000 band, though grew from 11 percent to 16 percent.

Delving into greater detail within these bands, it is clarifying to focus only on those respondents who work in North America and western Europe. These are where the compensation packages are most comparable to one another. Omitted are countries where differences in compensation structure would significantly influence detailed analysis.

As in previous years, at the higher earnings levels, the annual bonus is the greatest determinant of total pay. Generally speaking, the higher the pay range the larger percentage of its total income is expected to come from bonuses.

Last year, those making $1 million or more expected 87 percent of their earnings to come from bonuses; now that figure is 83 percent. Taken all together, hedge fund workers report their base pay went up by $11,000 in 2011, or 8 percent, even though their bonuses will decline by about 4 percent.

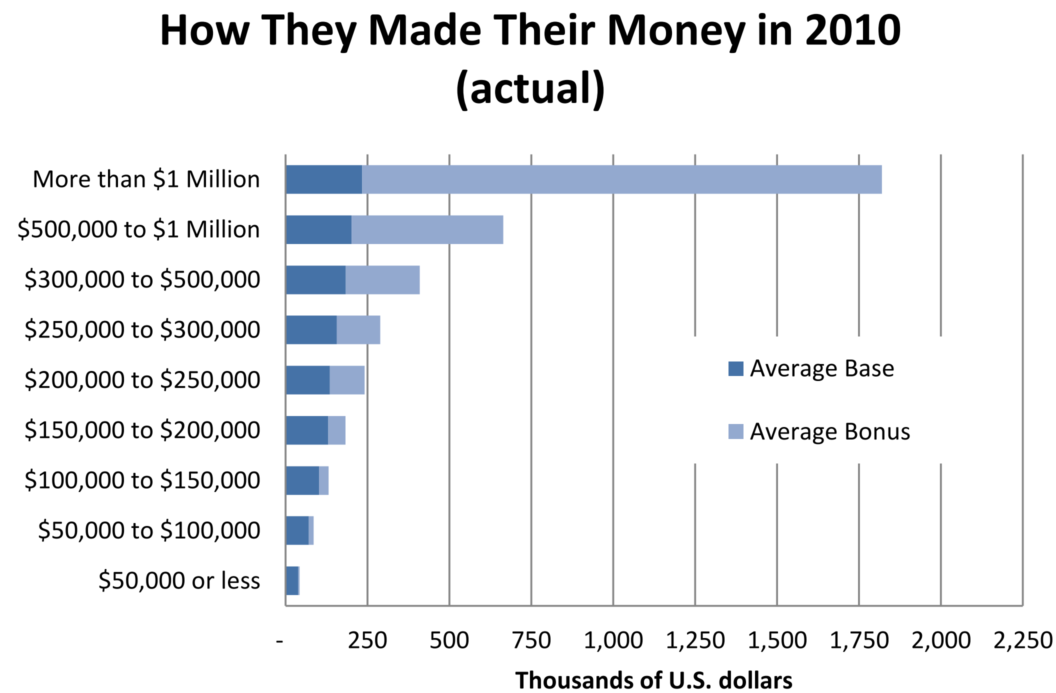

Figure 4: 2010 Base vs. Bonus Pay

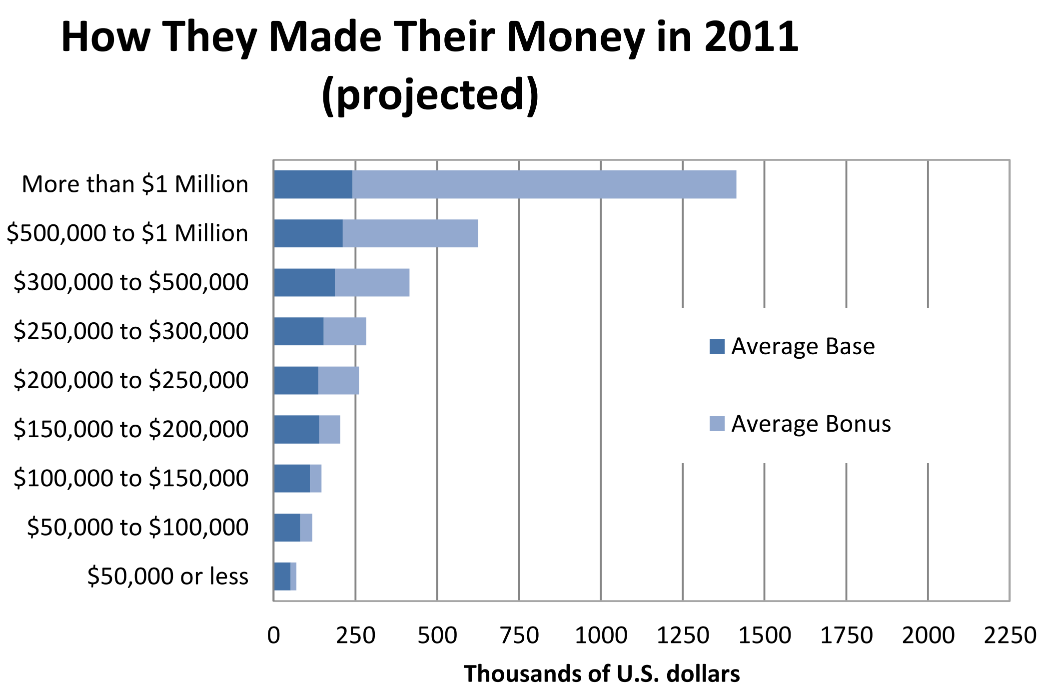

Figure 5: 2011 Base vs. Bonus Pay

Two years ago, we reported that, in a fairly pessimistic hedge fund industry, only 46 percent of respondents expected a higher income. Last year 53 percent of those surveyed expected at least a token improvement in their total pay. This year, pessimism is back; only 41 percent of hedge fund employees expect to make more money in 2011 than they received in 2010. Forty percent expect flat remuneration while almost one in five expect a pay cut.

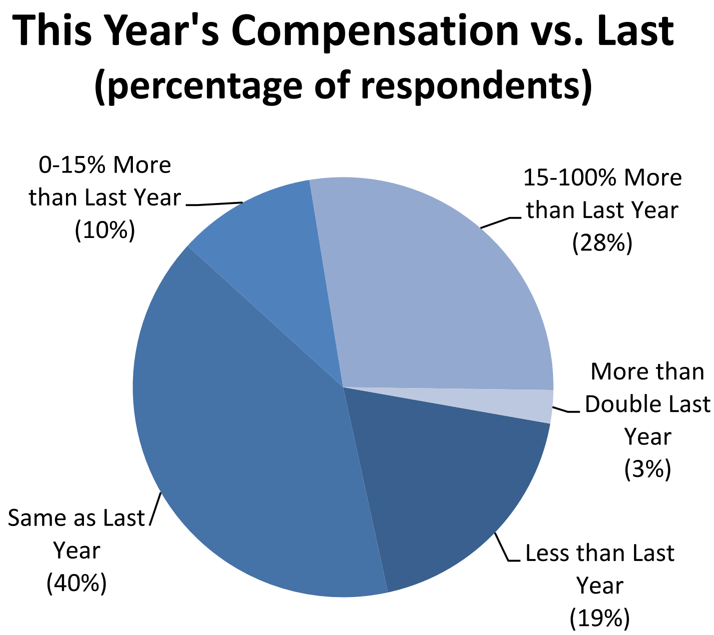

Figure 6: Year Over Year Changes

We view compensation by title in terms of medians rather than mean averages, revealing some surprises. For example, the legal/compliance officer in the middle of the distribution – making $340,000 – is better paid than the portfolio manager, partner/principal, CFO or COO with similar standing.

Each of those job roles made the same to slightly more median pay in 2011 than they did in 2010, with one exception: the COO, which saw a significant drop in cash compensation. The only other title experiencing a year-over-year total pay reduction was analyst, and that was only 5 percent, the result of an expected 20 percent bonus falloff.