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Pay Survey of Human Capital and Compensation Practices of Hedge Fund and Private Equity Firms Predicts Consolidation in the Alternative Asset Management Industry.

New York, NY– (December 12, 2010) – Based on a 2010 survey and research series in the U.S. and Europe of human capital and pay practices in over 150 firms, three consultant firms MM&K (Europe Private Equity and Hedge Funds), Holt (U.S. Private Equity) and Grahall (U.S. Hedge Funds) predict consolidation in the alternative asset management industry. More firms are going big, institutional, and international in order to attain high returns while paying key talent such as portfolio managers more than ever before.

After a third tumultuous year for the Alternative Asset Management Industry (which consists of Hedge Funds and Private Equity firms), the industry faces unprecedented challenges, the impact from which will reverberate through 2011 and beyond.

Beginning in October 2007, total assets in this industry have declined by most estimates more than 20%. Certainly 2009 and 2010 have been more successful for the majority of firms as these challenges have been met by management companies updating their business strategies as well as addressing issues on how to structure their rewards programs to attract and retain talent.

Now that these relatively new industries have grown to more than \$3 trillion in assets under management, Grahall research indicates that human capital and compensation policies of individual firms are beginning to develop patterns similar to earlier pre-evolutionary asset management organizations such as banks, mutual funds, and other asset management firms.

While new and small firms are still quite casual in many regards, larger more mature firms are developing sophisticated managerial and reward policies. Indeed, many participant firms have no formal set of policies in place. With the pressure to hire top talent to combat lagging returns in a difficult market, companies are willing to pay top dollar for the best investment managers.

Pay levels for the alternative asset management industry both in the U.S. and Europe are similar but different. For the CEO of a private equity firm of similar size (\$1.5 billion), the Europeans pay lower base salaries (\$700,000 (US\$) versus \$850,000 by US firms) However, both U.S. and European private equity firms pay more in base salary than the U.S. hedge fund industry which averages \$275,000 for the CEO. With respect to total compensation, U.S. hedge funds were significantly higher (\$3,100,000) than both U.S. and European private equity firms which were remarkably close at \$2,326,000 (US \$) and \$2,477,000 (US \$) respectively. It also appears that while the industry is clearly one of the first to

“globalize” its investing expertise, some portions of the market are still regional – that being the price of talent.

Future changes in industry practices will likely include:

- **While the industry will undoubtedly continue to grow larger, the consolidation of assets among top performing firms will also be a consistent trend.** Enormous amounts of investment money will continue to be placed in the hands of a very small group of people who are the very best at what they do. The market will most likely see two inevitable results from this size and consolidation phenomenon. First, the industry will continue to fracture itself in its quest to attract and retain the very best talent while producing the very best returns. Second, some of the larger hedge and private equity funds may make a move towards institutionalization.
- **One notable trend is that of the combined hedge fund and private equity firms with long and short or liquid and illiquid investor money.** These firms that have both hedge and private equity like investment strategies are more and more common and appear to be a future wave of sorts.
- **These unique investment firms will focus their assets on their investments and attracting and retaining the best talent while outsourcing most or all other functions.** Many firms have become so successful because of their foray into the investment industry in order to grab the very best asset managers, which are then, in turn, paid far more money than they could acquire working anywhere else. The core of the industry’s success lies in these individuals. Because the industry has recognized this, hedge and private equity firms are focusing their Human Capital and Reward Programs on attracting and retaining the best talent. For the most part, the rest of the organizations’ needs are outsourced.
- **In a moment of rare blindness,** a significant number of firms (61%) indicated that they have no succession plans in place for their key investment talent. We guess that not only are the key investment professionals becoming wealthy at a very high rate, but either they expect to take the money with them or they are beginning to believe that they are immortal. We would guess that their investors continue to believe that this industry is still made up of a number of stars which should be ridden only so long as they are still shooting stars.

These and hundreds of other key findings can be found in the research reports available www.grahall.com.

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