# THE BUSINESS OF HEDGE FUNDS

Results of the Alpha Search Advisory Partners 2010 Marketer Survey

## Introduction & Survey Population

*We Targeted Veteran Hedge Fund Asset Gatherers*

*Median Respondent: 9.5 years experience at $4b AUM fund*

Consultants at Alpha Search Advisory Partners conducted a survey of marketing professionals at alternative asset management firms, primarily hedge funds. We focused on industry veterans for whom asset gathering for hedge funds or hedge-like products was their primary role. Our survey included only those at firms with assets under management of at least $1b AUM.

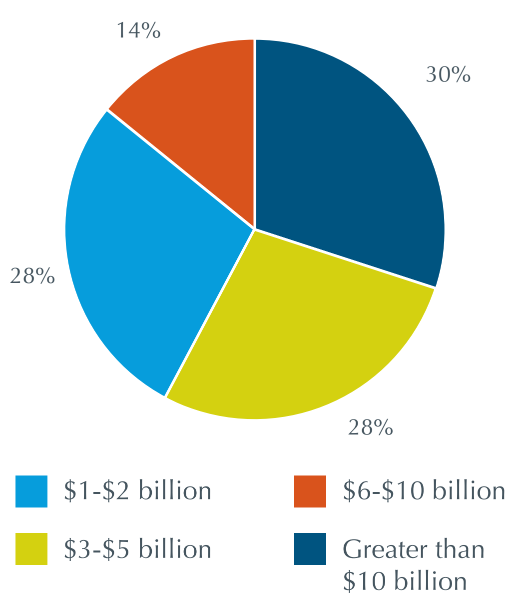
Our survey included firms whose primary funds comprised "hedge strategies," as well as CTAs and managed futures funds, whether or not their products were offered as hedge fund or private equity structures. In an effort to deliver targeted findings, we excluded complexes at broker-dealers, funds of funds and private equity real estate funds, as well as traditional and diversified asset managers where hedge fund offerings represented a small percentage of their overall product lines.

Forty-seven marketing professionals responded to the survey. All of the respondents are actively involved in marketing hedge products to institutional investors at either the staff level or in a more senior role. Client services and investor relations professionals were excluded from the survey.

Of the total survey respondents, thirty percent (30%) work for firms with over $10b in AUM, twenty-eight percent (28%) work for firms with $1-2b in AUM, another twenty-eight (28%) work for firms with $3-5b in AUM and the remaining fourteen percent (14%) of respondents are employed at firms with between $6-10b in AUM.

In terms of experience, sixty-six percent (66%) of respondents have seven or more years in buy-side marketing experience. A smaller percentage, twenty-eight percent (28%), have between three and six years of buy-side marketing experience and only six percent (6%) have less than two years in buy-side marketing experience.

## Respondent Employer AUM



## Methodology & Benefits

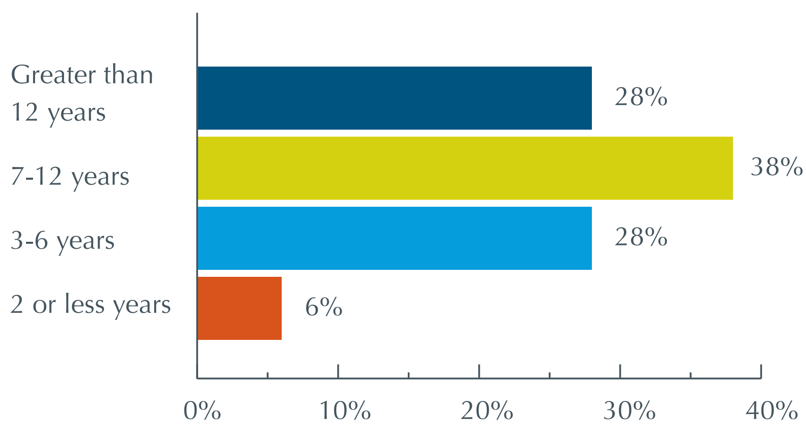
Respondents were surveyed in a one-on-one interview format with experienced Alpha Search Consultants. Marketers were engaged in dialogues following their responses in order to uncover the rationale behind their responses and to provide a forum for elaboration.

*One-on-one interviews greatly enhanced the quality and completeness of the responses*

This method provided Alpha Search with important insight into the dynamics and trends taking place in the hedge fund industry, as well as the drivers for talent acquisition and retention. Important qualitative discussions took place regarding compensation structures, organizational dynamics and corporate culture within the marketing departments. Finally, our relationships were deepened and access increased to tenured marketing professionals in the alternative investments industry.

**We would like to thank all respondents for the generous gift of their time and insight, trust and candor.**

### Years of Marketing Experience



## Department Structure

Respondents were asked if their marketing departments are organized to support asset gathering by team or by individual efforts. Recognizing that firms often promote both team and individual efforts, we structured our survey to differentiate between those which are **primarily** organized one way or the other.

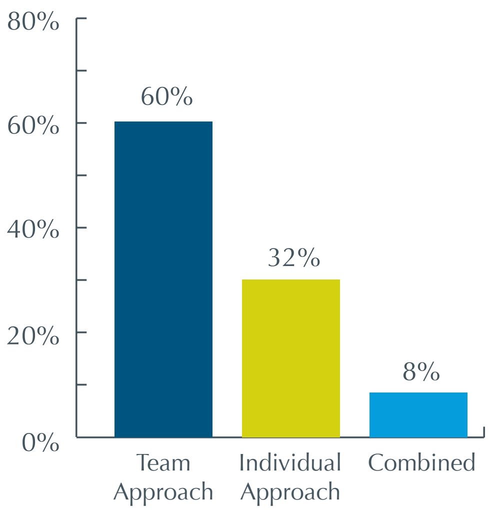
*60% of hedge fund marketing departments are organized by the team approach method.*

*70% indicated "No Change" to the structure of their marketing department structure.*

Not surprisingly, the majority of respondents indicated that their firm primarily takes a team approach to asset gathering. Sixty percent (60%) indicated that their marketing departments were primarily organized by team, while thirty-two percent (32%) were organized to promote individual efforts. Only eight percent (8%) indicated a true combination of team and individual approaches.

As a result of market turmoil of 2008, one would assume there have been substantial changes made to how hedge funds have organized marketing departments and staff. Our survey isolated team vs. individual approach to asset gathering, and a majority of respondents (70%) indicated that the organization had not changed its marketing structure within their firm over the last 2 years. Of the remaining respondents who indicated there had been a substantive change in their department structure since 2008, three times as many saw an increased emphasis towards supporting team approach to asset gathering.

### Approach to Asset Gathering




### Interesting Side Notes*

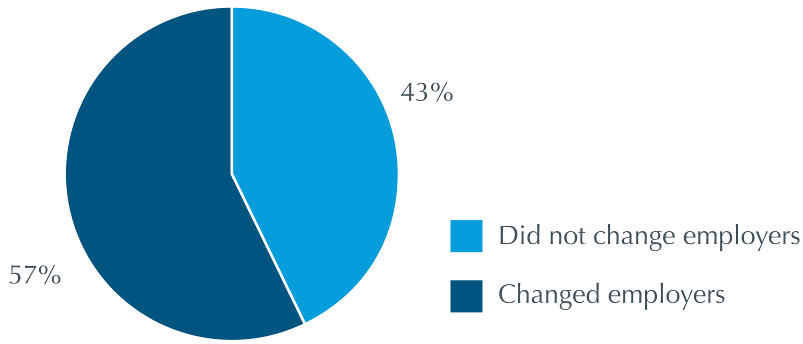
- Respondents at asset managers with $2-9b AUM were twice as likely to work at firms with a "combined approach" than respondents at asset managers with less than $2b or greater than $10b.
- Respondents with 7-12 years of buy-side marketing experience were the most likely to respond with "individual approach;" respondents with 3-6 years experience the least likely.
- Respondents working at firms with $10b+ AUM were least likely to have evidenced change in department organizational structure.
- Respondents working at firms with $2-9b AUM were most likely to have evidenced a change towards supporting team efforts to asset gathering.

## Turnover

The economic turmoil of 2008 not surprisingly led to substantial staff turnover among respondents.

*More than 50% of respondents have changed jobs since January 2008.*

### Turnover Since January 2008

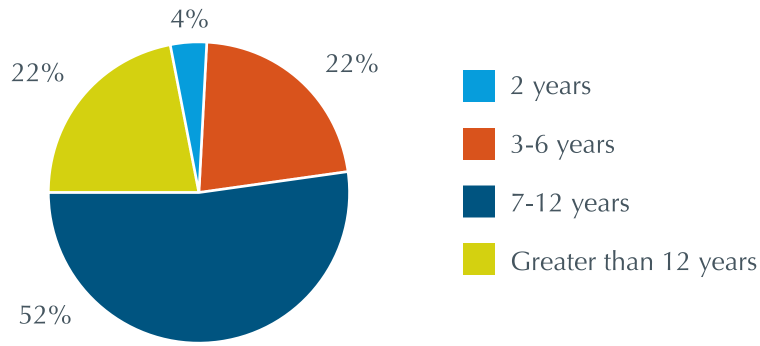



Our survey excluded a sizable portion of the overall asset management industry. We suspect fifty-seven percent (57%) under-represents the degree of job changing in the broader asset management industry.

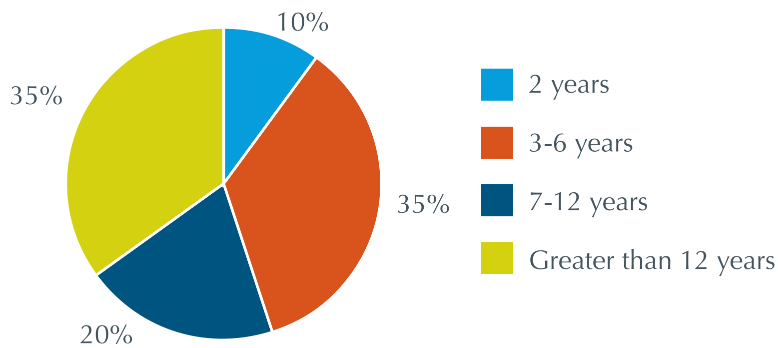
*Marketers with 7-12 years of experience are the sweet spot in terms of overall hiring as well as compensation guarantees.*

**Interesting Side Notes***

### Tenure of Marketers Who Changed Employers




### Tenure of Marketers Who Did Not Change Employers



## Bonus Guarantees

*50% of job offers since 2008 include written bonus guarantees.One-third of the guarantees were for a two-year period.*

For survey purposes, only WRITTEN bonus guarantees (floors) were counted as a guarantee; verbal agreements between employer and employee were noted as "no guarantee." A small minority of respondents declined to comment regarding terms of employment, due to non-disclosure agreements.

Fully one-half of those marketers who have joined new firms since 2008 had received bonus guarantees for their first year of employment.

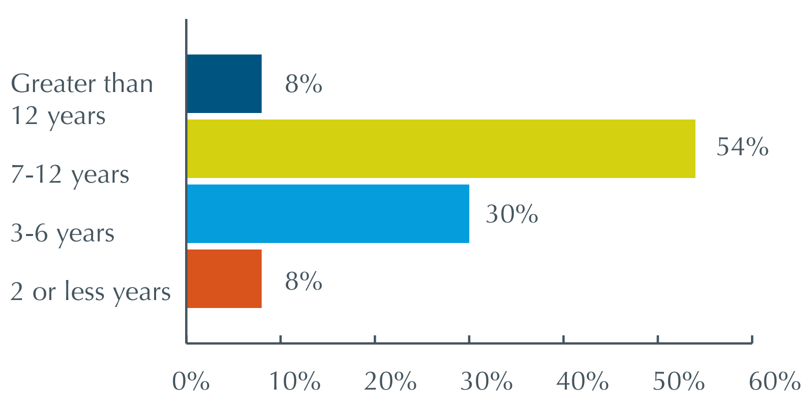
Eighteen percent (18%) of respondents who changed jobs since January 2008 also received bonus guarantees for their second year of employment. Thus, one-third of those with any guarantees received bonus guarantees two years.

Marketers with 7-12 years of buy-side experience are most likely to have changed employers since 2008 and twice as likely to have done so than any other tenure range.

Marketers with 7-12 years buy-side experience were also the most likely to have received bonus guarantees when joining a new employer.

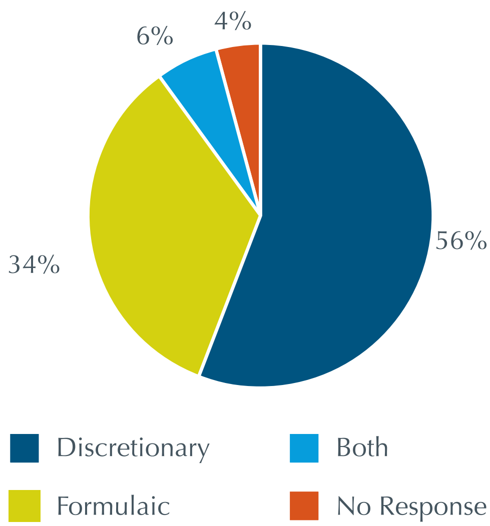
However, junior marketers were, by far, the 'stickiest' hires since 2008.

### Bonus Guarantee Distribution

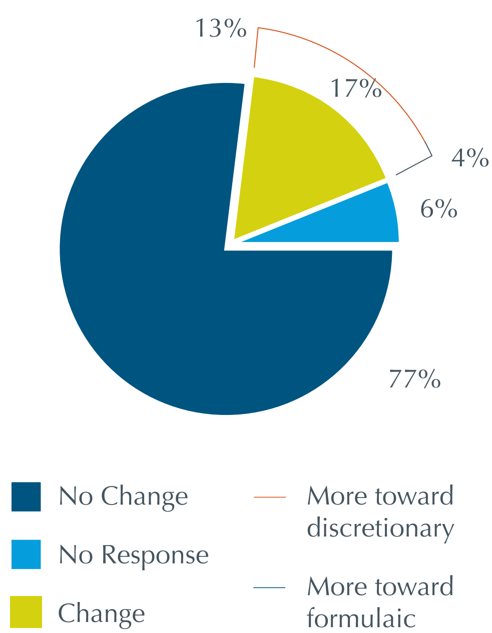


## Incentive Pay Plans

### Incentive Compensation Plan




### Change in Compensation Plan




Our survey sought to identify the prevalence of the various incentive compensation programs within the hedge fund community. Specifically, respondents were queried as to whether incentive pay was discretionary or formulaic—or a mix of the two. For compensation plans combining a discretionary component with a formulaic component, we explored the relative weighting within the plans.

Only **written, contractual agreements** stipulating pay-out formulas were considered to be formulaic in our survey; verbal agreements between employee and employer were noted as discretionary.

The largest group by far, fifty-six percent (56%), indicated that their incentive compensation is predominantly structured to be a discretionary bonus, with thirty-four percent (34%) indicating that incentive is based on a written formula. Surprisingly, just six percent (6%) have incentive pay structures with both a discretionary and a formulaic component. Four percent (4%) declined to respond due to non-disclosure restrictions.

*56% of incentive pay plans are single - component, discretionary*

*6% of respondents receive both discretionary and formulaic components*

*77% indicate "No Change" to incentive pay structure since 2008*

The great majority of respondents, seventy-seven percent (77%), indicated no substantive change in compensation structure. Of the other respondents who indicated there had been a substantive change in compensation structure since 2008, three times as many saw an increased weighting towards discretionary bonus.

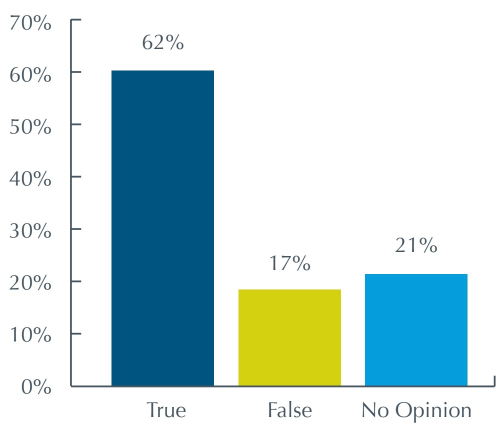
#### Interesting Side Notes*

- Respondents working at firms with $1-2b in AUM are most likely to have both formulaic and discretionary components to incentive pay.
- Respondents working at firms with $3-10b are most likely to have only a discretionary component for incentive pay.

## Perceptions

*62% believe formulaic bonus structures pay best in terms of overall compensation, with the remainder disagreeing or of no opinion*

### Perception that Formulaic Pays Better than Discretionary Bonus




Our client base knows that perceptions often drive behavior and investment decisions far more than facts do; there can be no greater truism evidenced from the market behavior of the last few years. Alpha Search consultants surveyed hedge fund marketers to identify perceptions of the differing incentive pay programs—as such data is key to any firm seeking to design a compensation plan that enables them to attract and retain top industry talent and effectively advance firm objectives.

We asked the question "How true is the following statement: formulaic bonus pays better than discretionary bonus?" and employed a Likert-type 4-point scale to quantify the intensity of the belief.

The majority, sixty-two percent (62%), cited a belief there is at least some level of truth to the statement. Less than fifteen percent (15%) of all respondents have a strong conviction that formulaic bonus pays best. Of those who felt there was at least some truth to the statement, only twenty percent (20%) have a strong conviction in their belief. Seventeen percent (17%) believe there is no truth at all to the statement and twenty-one percent (21%) have no opinion either way.

Over sixty percent (60%) of respondents have weak or no intensity of belief in either direction. We had high hopes for this portion of the survey, yet our conclusion is having (only) a formulaic incentive pay structure is not a primary driver in attracting and retaining top industry marketing talent. Supporting this, more than half of the respondents who do believe that formulaic bonus plans pay better than discretionary are receiving incentive pay in the form of a discretionary bonus.

## Conclusions & Predictions

*Leveraging compensation programs as a catalyst of change has not taken place.*

*Some degree of reorganization has already taken place to promote team efforts to asset gathering.*

*Perhaps introducing a pay component based on enterprise goals would promote change.*

Alpha Search Consultants have participated in numerous meetings, dialogues and conferences with hedge fund founders, marketing department heads and talent acquisition professionals since January 2008, where an increasing amount of interest and concern has been focused on the area of human capital. These sessions sought answers to questions surrounding how to strengthen corporate cultures, increase the long-term sustainability of firms and enhance the overall importance of firm-wide success among team members, as well as to re-align incentives between employers and employees.

For marketing staff, we have not yet seen the leveraging of group dynamics and compensation programs as a catalyst of change–in fact, a large majority of respondents saw little change in incentive pay programs and group dynamics.

Regardless, there is a significant, but not industry-wide, trend toward approaching asset gathering efforts more as a team effort. One out of five indicated some degree of reorganization would better promote team efforts.

Similarly, incentive pay programs for marketers have not changed on an industry-wide basis, yet there is an undercurrent flowing in the direction of discretionary bonus. The biggest surprise was that only six percent (6%) of respondents had both a discretionary and formulaic component to incentive pay.

In examining changes implemented since 2008, it is interesting to note the significant positive correlation between group dynamics in asset gathering efforts and incentive pay structure. Surely, the success of effecting change at the departmental, as well as individual, behavioral level is dependent upon designing new compensation plans with incentives that align to the new paradigm. With over twenty percent (20%) of respondents indicating that both compensation plans and departmental organization structures underwent change since 2008, it is clear those departments are actively engaged in realigning processes, structures and goals.

We feel confident that moving forward, more and more firms will implement multi-component incentive pay plans, introducing a discretionary component based entirely on enterprise goals and firm-wide success. Further, more asset managers are sure to introduce a deferred compensation component, as a tool to decrease turnover and increase the weighting of firm-wide profitability as a component of incentive pay.

Over one-half of the respondents have changed jobs since 2008. We predict turnover levels to continue at these heights for the first half of 2011. There is not a doubt that a battle for veteran marketers is brewing as alternative asset managers examine talent acquisition strategies to support 2011 global asset gathering efforts.

*High demand, high turnover in marketing will continue in 2010*

The sweet spot in hiring and in guaranteed compensation has been marketers with 7-12 years experience, with 3-6 years experienced marketers running a close second.

Relying on an incentive compensation plan that offers high formulaic pay-outs is not the panacea to attract and retain top industry marketing talent.

***Disclaimer:**

These are interesting analyses that we came across after reviewing the major results of our survey. However, these sections may contain error from too small sampling size compared to the rest of the survey.

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## Executive Search Consulting & Advisory Services

Alpha Search Advisory Partners in an executive search consultancy and advisory services firm serving the alternative asset management industry. With 11 years dedicated to hedge funds, and 26 years in more general capital markets, our relationships are very deep and broad.

Our core competencies in executive search include portfolio managers, senior analysts, chief risk officers and senior risk managers and marketers. Our practice includes team lift-outs and we also serve as advisors in hedge fund and asset management firm consolidations.

Alpha Search serves a broad range of clients who invest across all asset classes, strategies and sectors. From placing key positions at start-ups to partnering with clients to manage growth through their hiring agendas, Alpha Search is noted for quickly enabling firms to manage their human capital efficiently and for the long-term.

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