

Attracting & Retaining Talent in the Asset Management Industry

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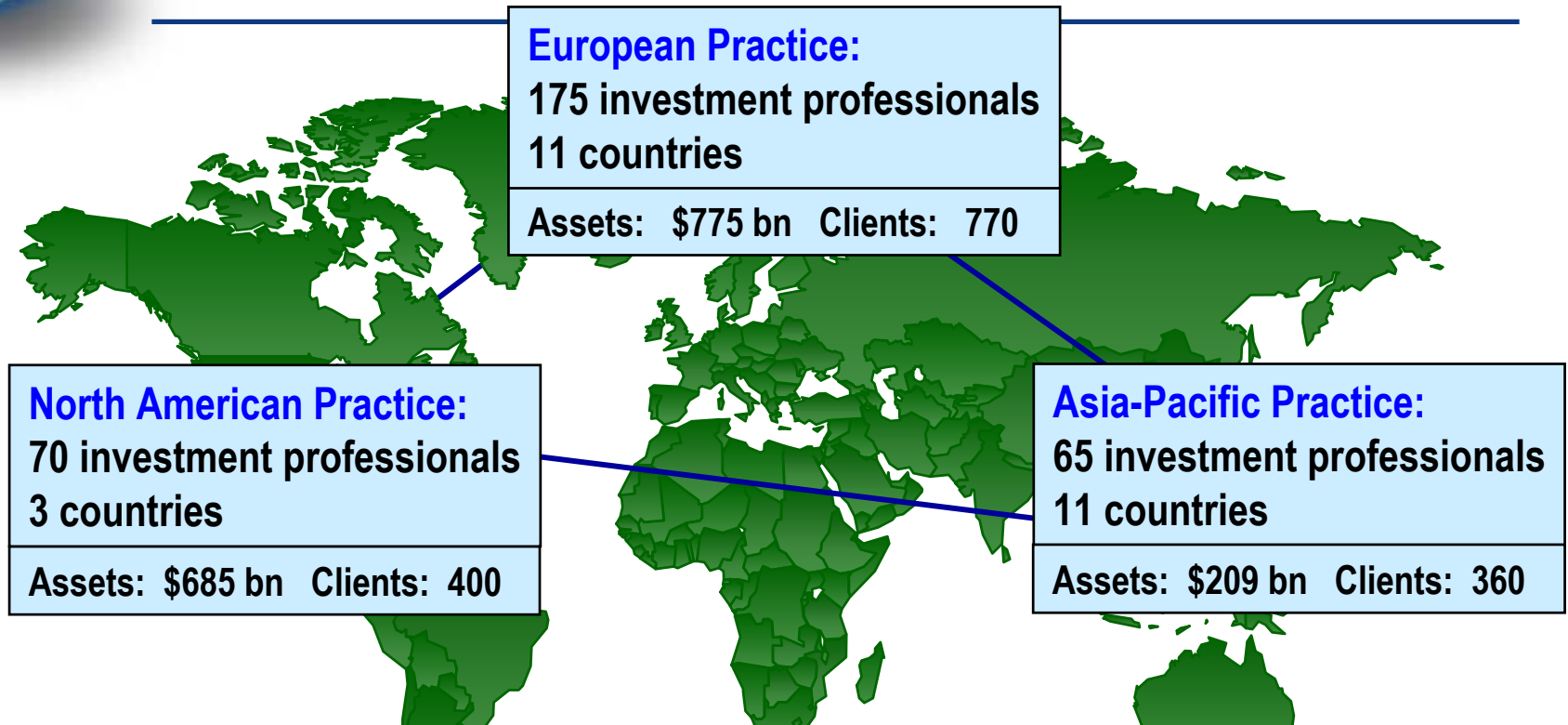
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Presentation Overview

- **Watson Wyatt's credentials in and approach to investment consulting**
- **Your issues/views**
- **What are fund managers worth in the market?**
- **Characteristics of successful fund management organisations**
- **The role of compensation and optimal design**
- **Discussion**

Global Presence of Watson Wyatt Investment Consulting



Worldwide

310 investment professionals

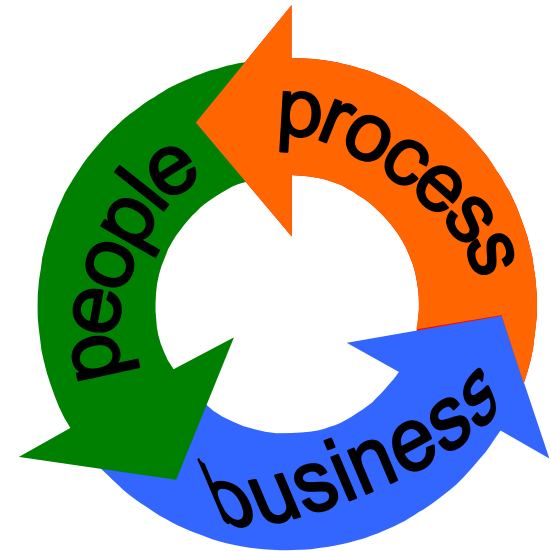
25 countries

Assets: Over US\$1.6 trillion Clients: Over 1,500



Our manager research philosophy

- Process advantage gets arbitrated out ever faster
 - greater access to information
 - hedge funds
- Business platform is often unstable
 - corporate activity
- **People** advantage is the principal battleground for success



Alignment of business, people and process strengths leads to sustainable competitive advantage

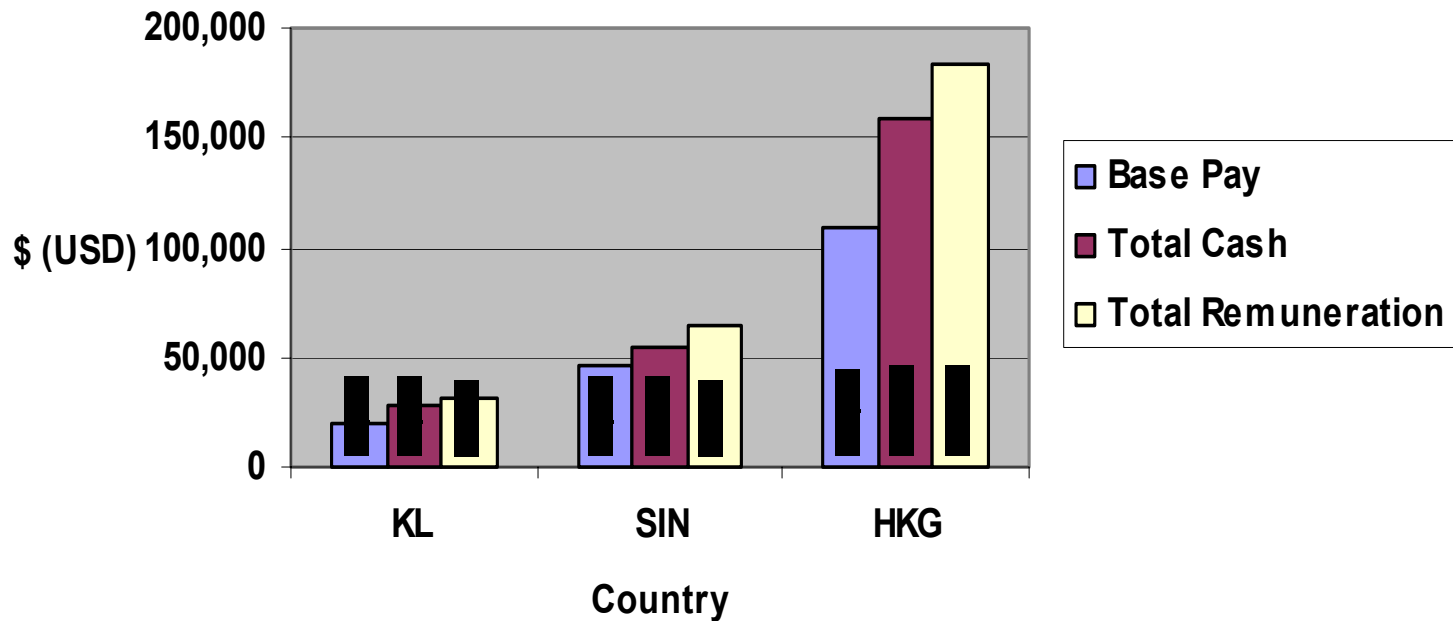


Attracting & Retaining Talent

- **Tell us about it!**
- **Your issues**
- **Your solutions!**
- **Your concerns**
- **What you want to know**

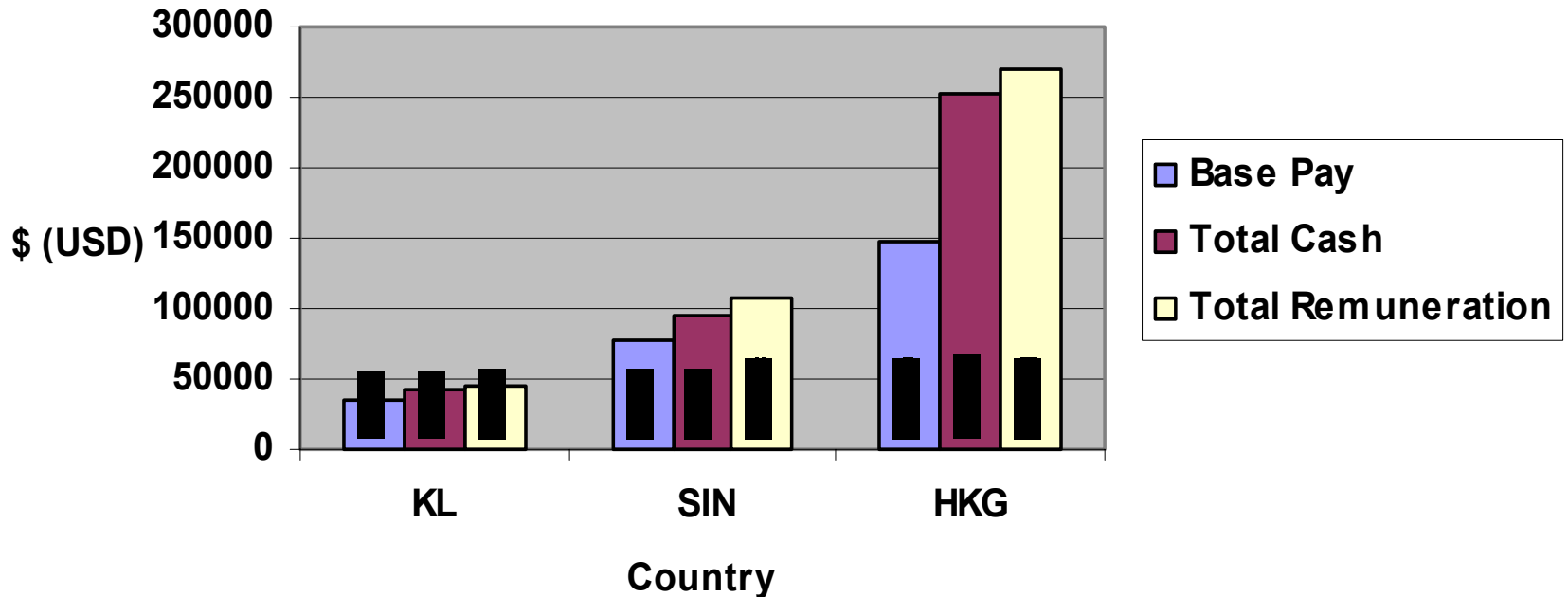
Market Values

Fund Manager (Equity)



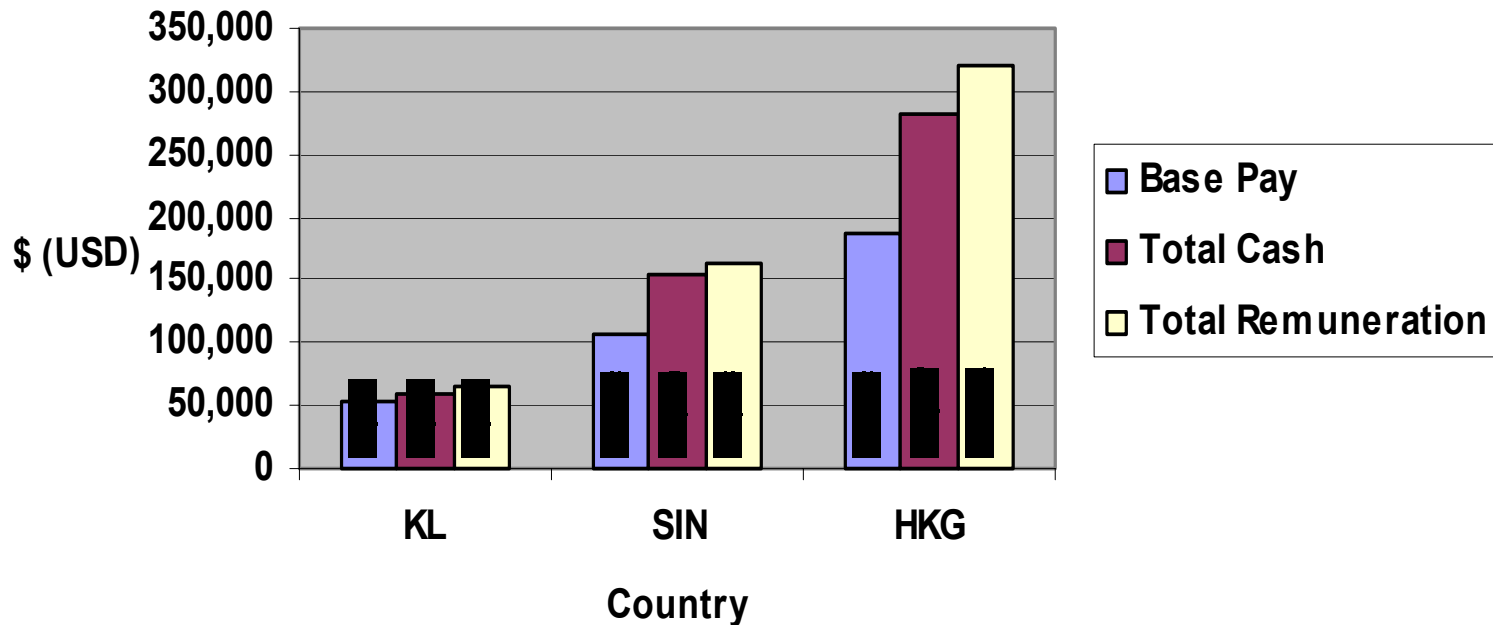
Market Values

Senior Fund Manager (Equity)



Market Values

Director Fund Management

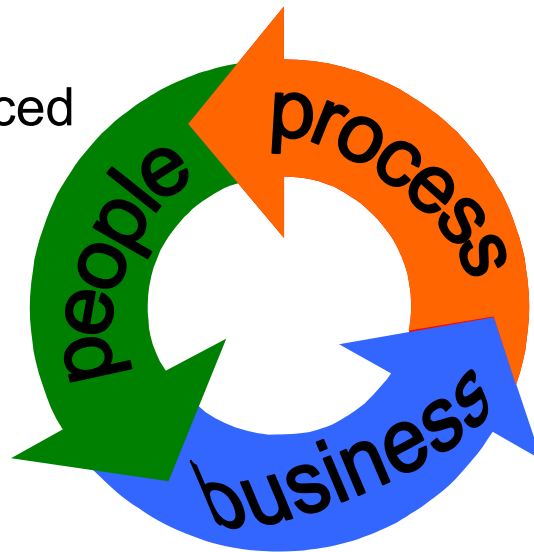


What makes a successful funds management organisation?

- The 18 qualities we look for

People

- Talented and experienced
- Small decision-making teams
- Depth of resources
- Cultural alignment
- Strong recruitment and training
- Healthy staff turnover



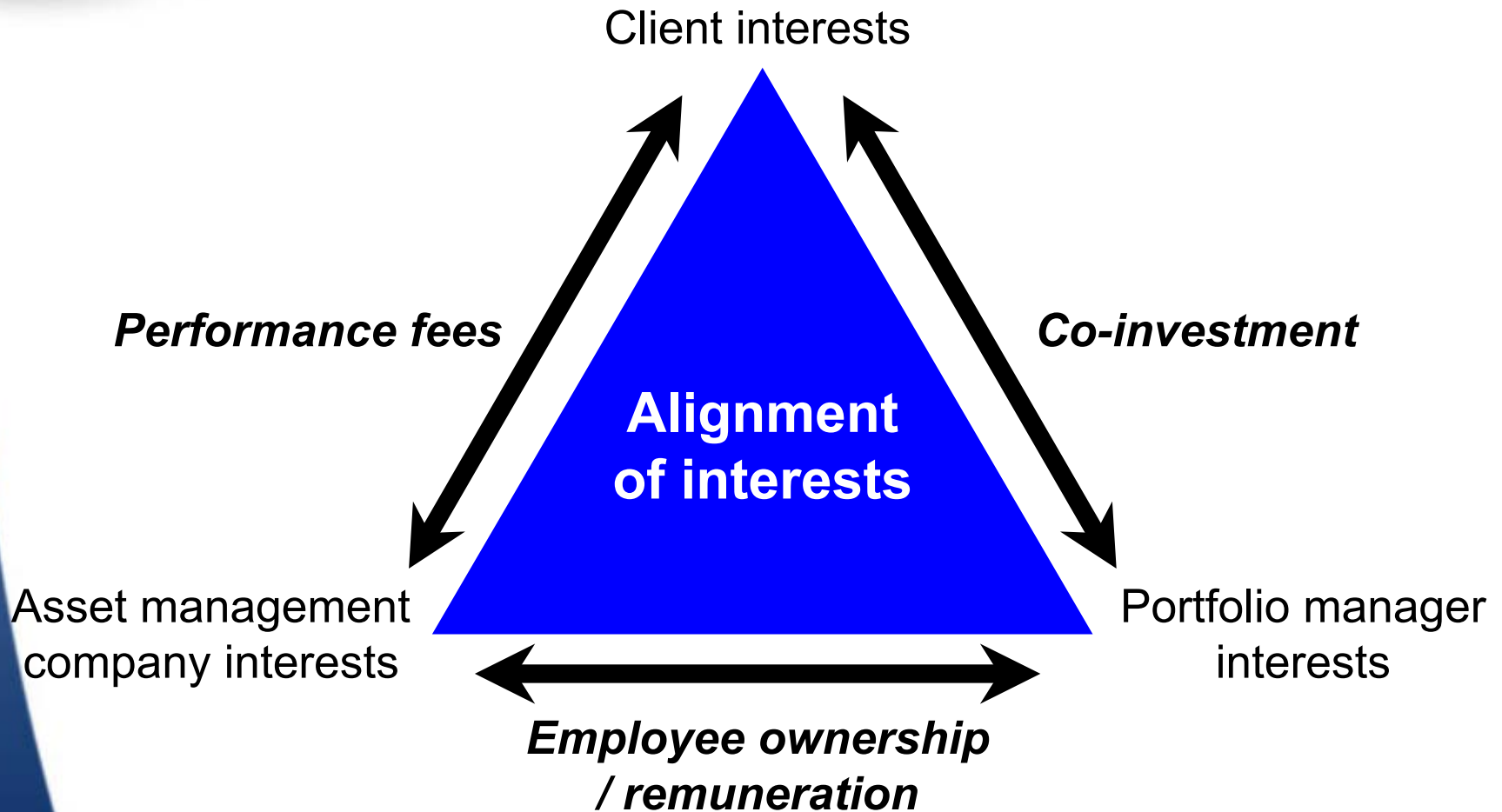
Process

- Clear competitive advantage
- Superior research
- Efficient communication
- Strong portfolio construction
- Transaction cost monitoring
- Evolution of process

Business

- AM core business area
- Long-term focus
- Stable corporate structure
- Employee ownership
- Strong technology platform
- Limitations to growth

So how can the 'business' and 'people' factors be aligned?





Alignment

- Ownership does not have to be actual equity in the business
 - can be phantom equity
 - can be share of profitability of team / business
 - Important that what is owned has a direct link with the effort of the individual
- Multiple aspect of remuneration
 - Base salary
 - Short term bonus component
 - Longer term incentive plan (deferred compensation)
- Remuneration should be highly transparent



Remuneration

- Base salary should be competitive (interestingly most managers say they target upper quartile)
- Annual bonus :
 - When linked to performance, should be linked to 3 and 5 year performance history (most are much shorter)
 - Qualitative aspects can be subjective
 - Innovative approaches include deferring a portion of the bonus and invest in own funds (alignment)



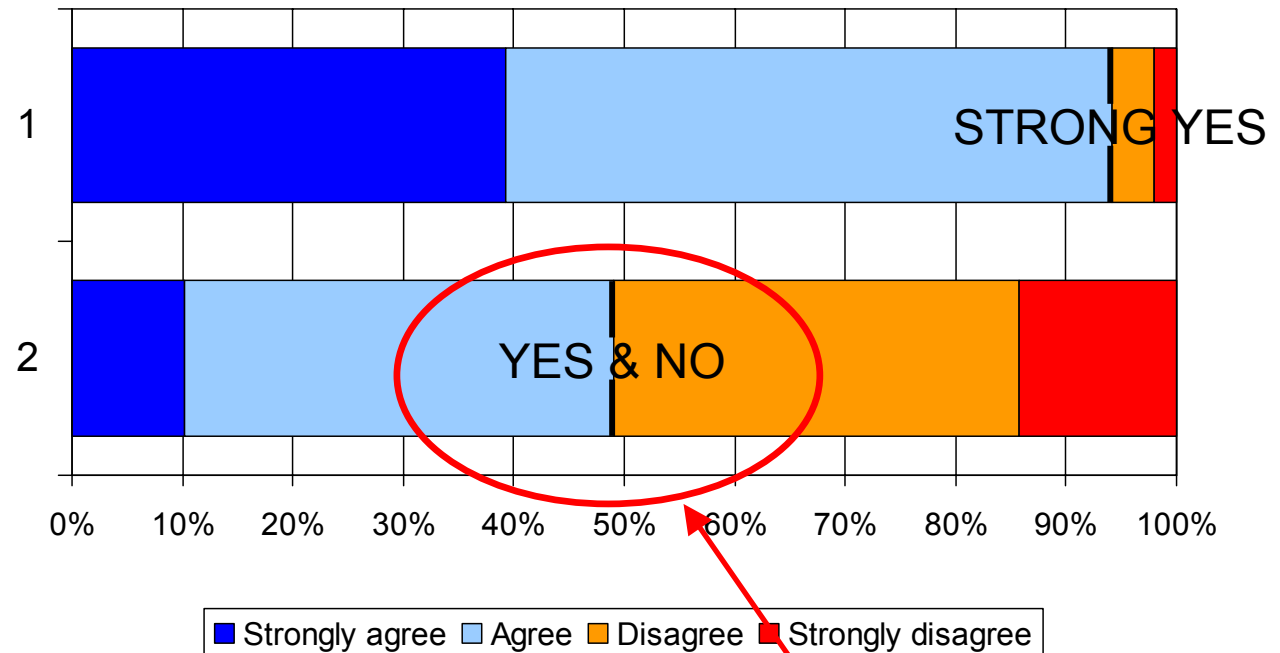
Remuneration

- Approaches to long term incentive plans (LTIP) vary considerably
- Structure needs to be well thought out to ensure payment is spread over time (single lump sum payments can encourage departures)
- LTIPs tend to vest over 3 to 5 years
- LTIPs include:
 - Deferred profit share / bonus
 - Options / equity in business
- Need to be careful that LTIP does not lock in dead-wood

There is no single correct formula, it is dependent on manager's structure and remuneration is multi-facet

Fund Manager Survey - Responses (1)

1. Performance fees can be used to increase client - manager alignment.
2. Should move to remunerating managers on a basis linked to the profitability of individual products.



You don't seem convinced

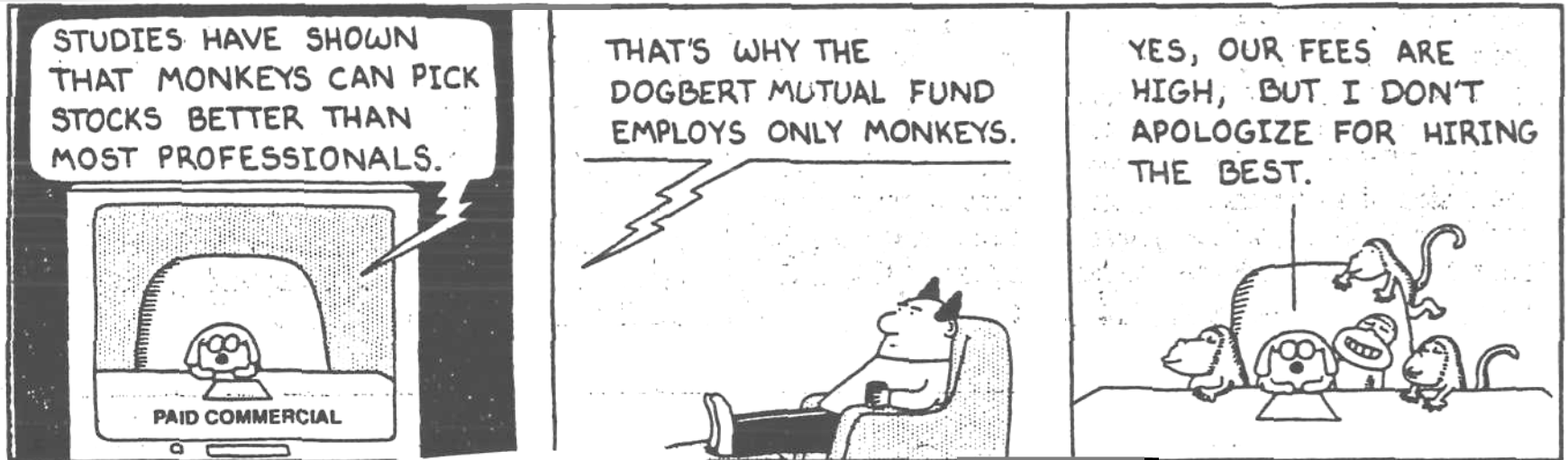




A better fee model

- Manager is paid a base (\$) fee to cover costs of doing business (does not include bonuses or profit margin)
- Annual performance fee which is linked to bonus component of remuneration plus profit component (comprises between 25 and 40% of total fee)
- Significant performance component creates alignment of interest with client
 - Manager focus become one of performance not growth
- Managers benefit because significant portion of revenue is fixed and not dependent on market

A final thought ...



Questions and Answers



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