

**Asset Management
Compensation:**

**A Difficult 2008
& Challenges for 2009**

Presentation and Discussion

February 16, 2009

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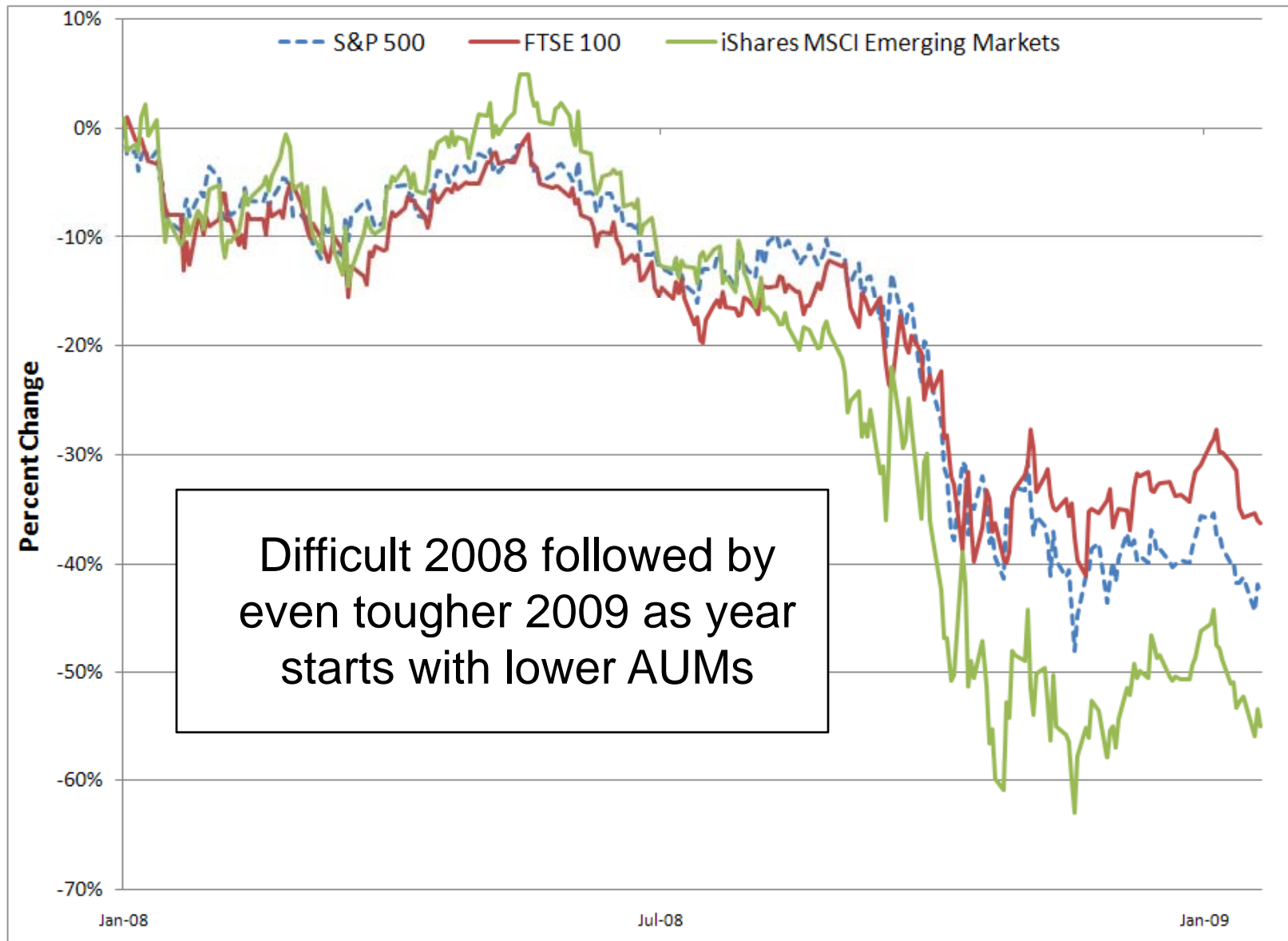
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JOHNSON ASSOCIATES, INC.

- Independent compensation consulting firm specializing in financial services. Provide pure advice, annual and long-term incentive designs, market levels, agreements, and goals/measures. Consult on equity and partnership considerations. Expertise and in-depth knowledge across comparator groups and labor markets
 - Experienced, opinionated, and informed

- Diverse Clients
 - Asset management firms
 - Hedge funds/Private equity/Fund-of-funds/Alternatives
 - Universal and major banks
 - Insurance companies
 - Brokerage firms and trading organizations

A Less Positive Outlook



2009 – Difficulties Continue in Asset Management

- Lower fees in 2009 on asset depreciation, investor redemptions, and poor investment results
- Several downbeat indicators
 - Little to no momentum entering year
 - AUM declines continue - for Equities & Fixed Income
- Related spaces down also
 - Alternatives fall out of favor – flight to safety
 - Hedge fund losses continue (perhaps ↓ 20%); many closing (up to half); high-water mark issues persist
 - Private equity losses from questionable transactions

On broad basis, estimate 2009 incentives
down \cong 25%-30% versus 2008

Base Salary Levels

- Industry base salary levels continue at low level
 - \cong 3.0% to 3.5% increases reflect downturn
- Low nominal base salaries do not mean reduced fixed compensation
 - Adage: a dollar low in base salary costs two dollars in bonus
- Philosophy around base salaries being discussed
 - Different norms across units often not adequately recognized
 - If typically provide \$100k total comp, is it sensible to continue \$60k base + \$40k bonus

Limited Bonuses

- Down another 25%-30% on top of significant decrease in 2008
- Amounts skewed to top performers to retain key professionals in difficult times

- Have to get your executives', your Board's, and your own thinking around this issue....
 - Down 25% in 2008
 - Down another 25%-30% in 2009
 - Compound effect results in half the pay for many

Dependence on Long-Term Equity Deferrals

- High probability 2009 long-term deferral rates above typical market norms
- Confidence in firm equity badly shaken
 - Equity granted will continue to be mostly in restricted stock
 - Options fall further out of favor due to high Black Scholes
 - Other choices: deferred cash, fund/product investment, etc.
- Firms reviewing all deferral terms: deferral rates, vesting, termination provisions, etc.

- Probable that professionals will continue to receive a significant proportion of compensation in paper

What To Do – Potential Ideas To Consider

- Higher base salaries proportionate to total pay
 - More sensible for those with less variable compensation
- Structured incentives for back office (T&O) professionals
 - Move away from 100% discretionary
 - In reality, will pay meaningful portion of bonus
- Less conventional deferral vehicles
 - Cash deferrals
 - Less traditional equity
 - Deferrals into investments/products
- Various choices for equity – depending on need
 - Restricted Stock
 - Premium/Hurdle Stock Options
 - Stock Options
 - SARs

What Not To Do - Avoiding Less Helpful Actions

- Salary freezes
 - Does not necessarily translate into lower comp
- Long multi-year performance awards
 - Difficult to forecast, especially in current environment
- Benefit cuts (e.g., ending 401(k) match)
 - With pay down, impact of company match inherently lower
- Stopping perks (e.g., no more coffee, soda, etc.)
 - Moderate actual cost savings

- Ultimately, do not run the business as a short-term venture. Asset management is a medium- to long-term business with extended sales and investment cycles. Compensation-related issues should be evaluated within that context

Compensation Planning

- With majority of firms down similarly, should not abandon opportunity to be innovative
- While firms expected to follow the same script (less cash, higher deferrals, all stock), real opportunity to be creative
- Less traditional vehicles can be a helpful alternative
 - Can send positive signals
 - May provide meaningful upside opportunity

- Note: actions taken this year do not have to set a precedent. Given the environment, what firms do for pay in 2009 may or may not continue going forward

Final Thoughts

- Difficult 2009 for asset management
- Incentives down considerably, for T&O and all professionals
- On top of other negative news:
 - Dramatic layoffs
 - Salary freezes
 - Benefit decreases

- Start compensation planning early
- Focus key parties (the Board, Management, HR/Comp) on 2009 compensation

“We paid a lot less in 2008, but what will we do in a tougher 2009?”