Results from the 2017 Global Fixed Income Institute Compensation & Best Practices Survey

Recruiting & Rewarding Talent

By Paige C. Scott and Steven Unzicker

GLOBAL FIXED INCOME INSTITUTE
CONNECTING INVESTMENT LEADERS

Kingsley Gate Partners

INTRODUCING THE SURVEY

The Global Fixed Income Institute (GFII) is pleased to present the results of our third annual compensation survey designed exclusively for executives managing global fixed income teams based in Europe. The GFII partnered with Kingsley Gate Partners – a global retained search firm – in order to leverage their expertise, track record, and experience in conducting similar surveys.

Unlike most other compensation surveys, this endeavour goes beyond pay levels to provide business context that explains the rationale, evolution, and variance of these numbers. In short, this survey has been designed as a strategic management tool. In addition to hard compensation data that can be used as another set of benchmarks, these results aim to provide market intelligence and guidance around compensation structure and talent management.

Participating firms provided detailed compensation data for 245 fixed income investment professionals. Survey responses[1] were collected from March to July of 2017. Heads of fixed income and human resources as well as managing directors and other senior executives provided data. Participation is strictly confidential and results are only shown in aggregated form[2]. In addition to this paper, survey participants will receive a full set of tabulated results.

Data collected via the extensive online questionnaire was in many cases supplemented with telephone interviews. These wide-ranging conversations provided valuable context, touching on topics ranging from the business climate and regulatory environment to hiring trends and compensation challenges. The end result is a comprehensive snapshot of the forces at work in the European asset management industry and their impact on the compensation of fixed income investment professionals.

Going forward, we hope to globalize the survey to include compensation trends in North America in order to better reflect a talent pool with increasingly global mobility as well as firms that are keen to search worldwide for the best way to reward and incentivize their investment teams.

We would like to sincerely thank everyone who contributed their time and data. We hope these results provide you with valuable and actionable insights and look forward to working with you to build on this survey in years to come.

Scott Anderson
Executive Director
Global Fixed Income Institute

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[1] Responses to questions concerning assets under management and compensation were allowed in EUR, GBP, or USD. All responses were converted to Euros at September 30, 2016 rates of 1 GBP = 1.3011 EUR and 1 USD = 0.8985 EUR.

[2] In an effort to maximise utility and data anonymity, a minimum of three data points is required to produce a result. Results for questions resulting in fewer than three responses are shown as N/A.

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PROFILE OF RESPONDENTS

Ownership & Assets

The survey universe represents a cross section of the European asset management industry, and all firms in the survey are headquartered in either the UK or mainland Europe. Independent firms have dominated the survey universe in the past, but this year's group is considerably more diversified. Independent firms are represented in equal numbers alongside bank and insurance subsidiaries. Subsidiaries of financial services firms account for almost one out of four survey participants, while a variety of other managers (including those owned by governments or pension funds) make up the rest (Figure 1).

The average size of the firms participating in the survey continues to rise and average assets under management topped €220 billion this year, compared to €170 billion in 2016 and €120 billion a year earlier (Figure 2). Most firms manage a mix of institutional and retail assets. Accounting an average 70% of fixed income assets, institutional clients represent the core business of most firms participating in the survey (Figure 3).

Figure 1. Company ownership

% of firms

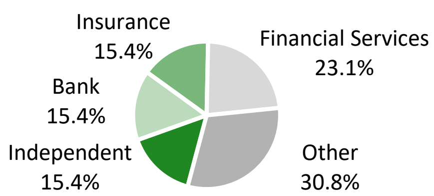


Figure 2. Assets under management (AUM) as of 1 January, 2017

EUR (billion)

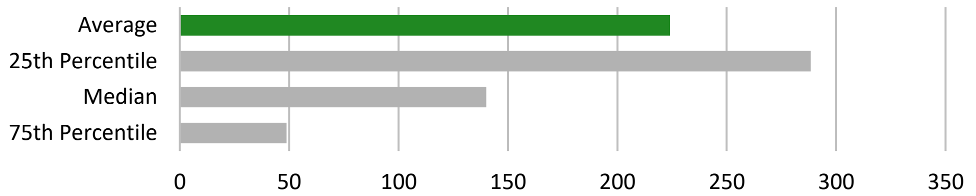
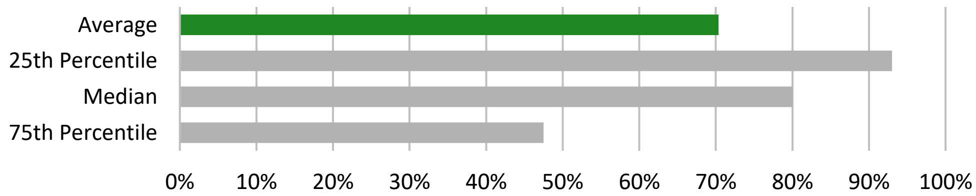


Figure 3. Percentage of fixed income assets managed for institutions

% of fixed income assets



Fixed Income Asset Types

Fixed income assets account for an average of €73 billion, or 38% of overall assets (Figures 4 and 5). This is on par with last year but much lower than 2015, largely due to the prevalence of more diversified firms participating in the survey this year. There were no firms in this year's survey reporting themselves as a fixed income specialist with 100% of their assets in bond strategies.

Product mixes continue to evolve, with areas of increased focus including unconstrained strategies, short duration, private credit, and quantitative strategies (Figure 6). High yield and investment grade bond strategies are managed by all firms in the survey, but short duration and unconstrained strategies proved more popular than in previous years, displacing sovereign and EM debt as the next most common products managed.

ESG methodology is becoming more valued and pervasive as managers who can demonstrate success are increasingly in demand with asset owners. With the significant rise in ESG investing, more firms are building the capability to embed ESG capability in everything they do. Some interviewees went as far as to say that the majority of search activity involves ESG investing skill and demonstrated track record.

However, the biggest change is the rise of unconstrained and absolute return strategies. Roughly 84% of firms now report offering these types of products, making them more popular than many more traditional strategies. This shift is having an effect on compensation. Many product heads are responsible for multiple strategies, but those who oversee unconstrained or absolute return products earn almost 60% more than other product heads. The sheer number of strategies can also have an effect on compensation. Like the last two years, Fixed Income Heads responsible for 6 or more strategies earned considerably more than those who oversee 1-5 strategies.

Figure 4. Fixed income AUM as of 1 January, 2017

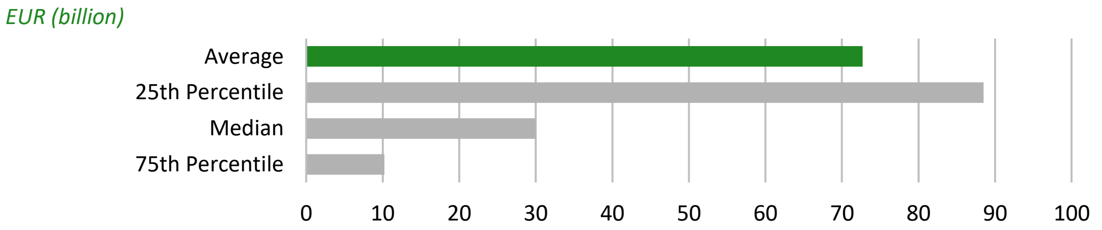


Figure 5. Fixed income assets as a percentage of total AUM

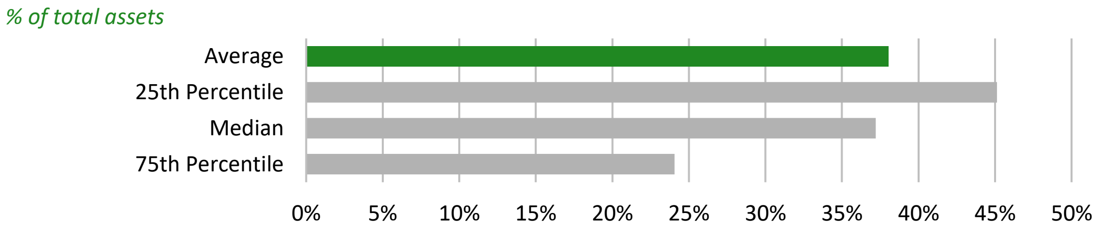
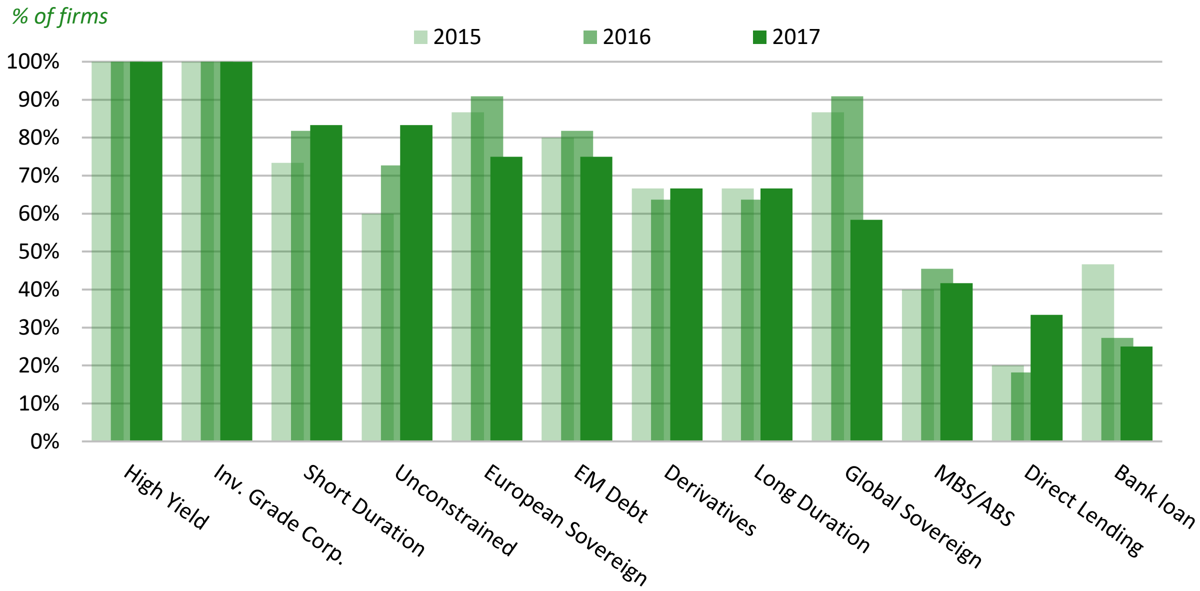


Figure 6. Fixed income portfolios managed



Headcount & Hiring

Headcount can vary significantly, not only because of assets under management, but also because some business models may share or outsource various functions. Interviews also reveal a recent emphasis on productivity, meaning that more firms are keeping headcount lean even as they grow assets. This year, the size of fixed income investment teams ranged from less than 20 to almost 100 individuals. On average, firms in the survey employ about 36 fixed income professionals, well below last year's 49.

Fewer employees mean considerably more efficiency. Average fixed income AUM per investment professional comes in at just under €2.1 billion, compared to €1.3 billion last year (Figure 8). The jump in productivity is consistent with the notion that firms are streamlining talent. Rather than replacing headcount, some firms are asking teams to do more with less or consolidating functions, products and teams in general.

This doesn't mean that firms are not actively recruiting. A lot of hiring has happened over the last two years, but it is increasingly nuanced in light of productivity expectations (Figures 9 and 10). While there will be some hiring this year, it is projected to be more muted and it will be deliberate. Headcount is expected to grow by only 6% by the end of 2017, a considerably lower rate than the anticipated growth seen in each of the previous two years (Figures 11 and 12).

Figure 7. Fixed income investment professional employed globally as of 1 January, 2017

Number of fixed income professionals

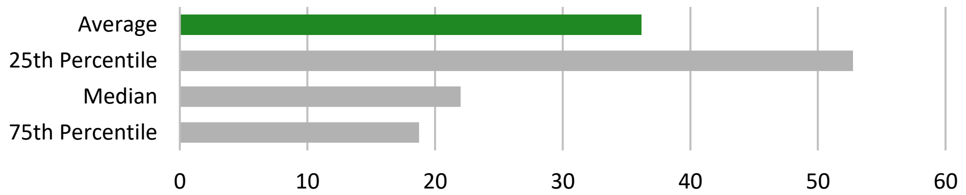


Figure 8. Average fixed income assets per investment professional

EUR (billion)

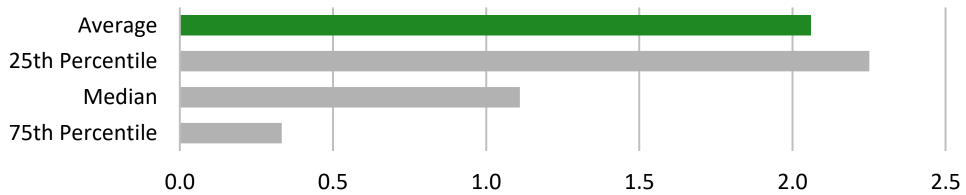


Figure 9. Increase (or decrease) in number of fixed income investment professionals in 2016

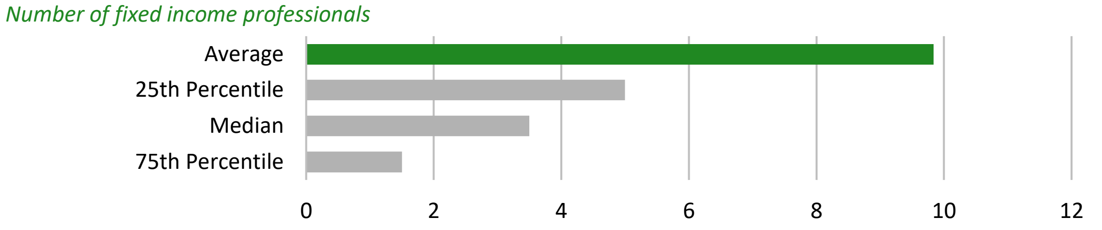


Figure 10. Percent change in number of fixed income investment professionals in 2016

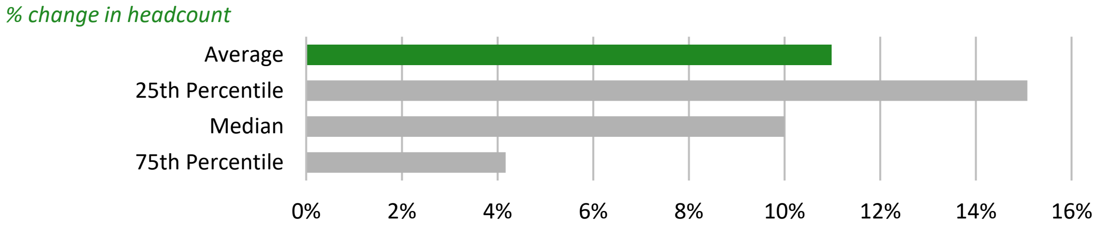


Figure 11. Planned increase (or decrease) in number of fixed income investment professionals in 2017

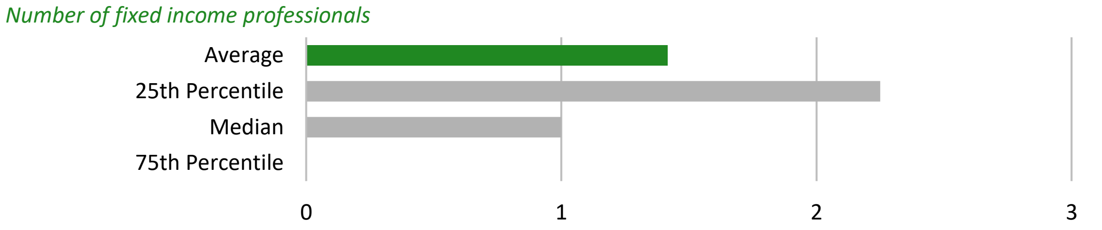
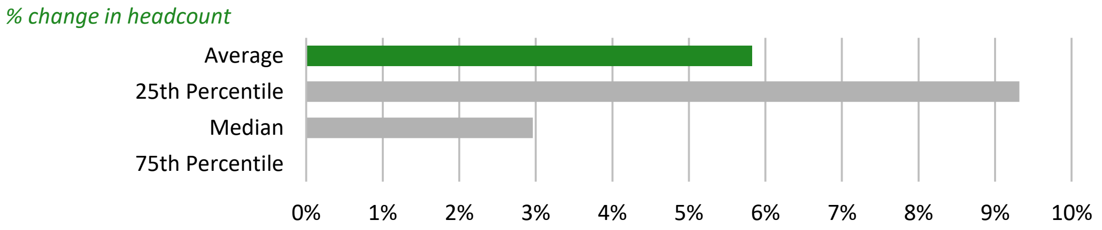


Figure 12. Planned percent change in number of fixed income investment professionals in 2017

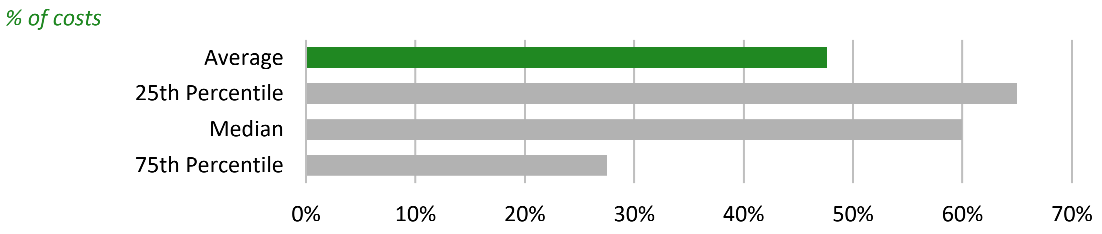


COMPENSATION PLAN STRUCTURE

Financial Impact

Compensating investment staff accounts for an average of 48% of the overall cost of running a fixed income business (Figure 13). Despite the fact that this is virtually unchanged from the previous year, it does not mean that there is little variation. The interquartile range goes from 28% at the low end to 65% at the other end, leaving a full half of survey participants falling either above or below this range.

Figure 13. Percentage of fixed income business costs accounted for by investment team compensation



Bonus Methodology

Most firms continue to indicate that they use a hybrid approach to awarding bonuses, taking objective criteria into account alongside discretionary approaches (Figure 14). The three most commonly used metrics are relative investment performance, personal performance, and firm profitability (Figure 15).

When asked to rate the importance of performance metrics on a scale of one to five, the same three metrics emerged at the top (Figure 16). Relative investment performance is the top choice for the third consecutive year, but after that priorities shift. Firm profitability, for example, is now the third most important factor, after placing 6th a year earlier. It is little wonder that firm profitability is much higher on the list, given margin and fee pressure. It may ultimately become the top factor as most firms have to start with a funded bonus pool before they calculate or consider relative performance.

In general, we continue to see more variety and creativity when it comes to metrics used across the industry. Going forward, we may need to add options that cover activities like the marketing of funds, launching new strategies, managing multiple strategies, and other factors.

Figure 14. How bonuses for fixed income investment teams are determined

% of firms

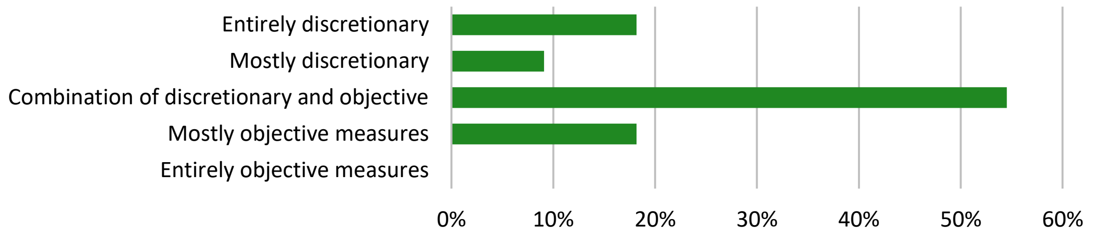


Figure 15. Most important factors in determining bonuses for investment teams

% of firms

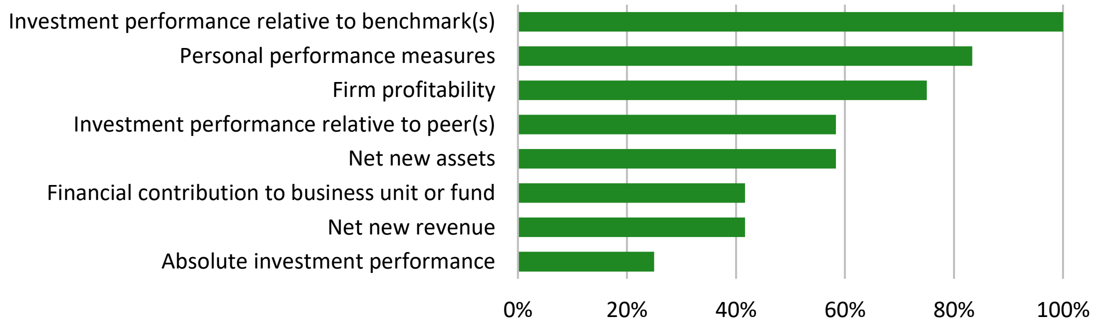
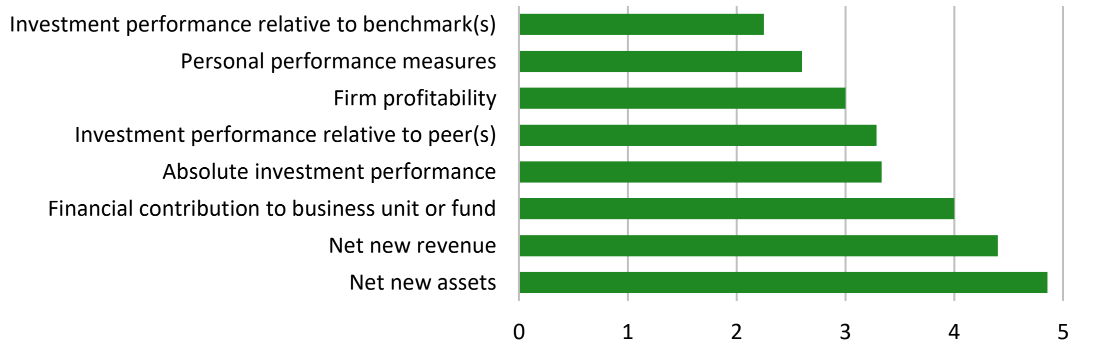


Figure 16. Most important factors in determining bonuses for investment team

Average rating (1=most important)



Deferred Compensation

There has been a distinct trend in recent years toward a more widespread use of deferred compensation, and three out of every four firms in the survey now say they use it (Figure 17). All subsidiaries of banks and financial services firms defer some compensation, while independent firms are split. Firms that don't defer cash compensation simply pay bonuses as a lump sum at the end of the compensation cycle.

At firms that defer bonuses, three-year vesting schedules are now standard (Figure 18). Longer vesting schedules have occasionally been seen in the past, but all firms in this year's survey report using three-year plans. We continue to see both graduated and cliff schedules used.

Half of the firms with deferred compensation plans allow deferrals to be self-directed (Figure 19). Deferred compensation is most often directed to funds managed by the individual, team, or company (Figure 20). Company shares are another popular option.

Figure 17. Does your firm use deferred compensation?

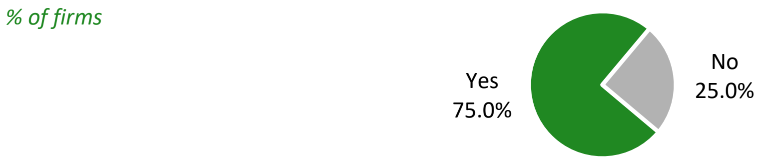


Figure 18. If yes, percentage of bonus paid out each year

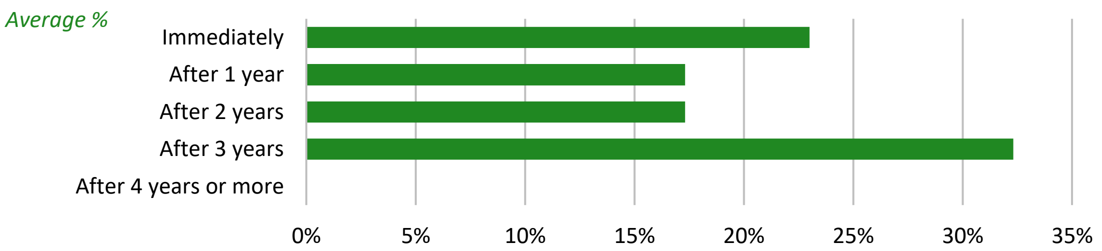


Figure 19. Are deferrals self-directed?

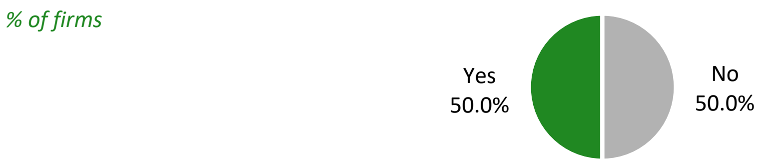
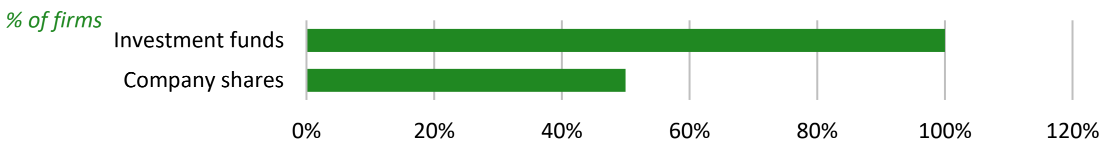


Figure 20. If yes, what options are available?



Long-Term Incentives

Long-term incentive plans (LTIPs) are commonly used alongside deferred compensation to incentivize employees over longer periods of time. Two out of three firms in this year's survey grant equity or equity-like incentives to their investment professionals (Figure 21). Phantom equity has been the most commonly seen type of long-term incentive over the past two years, but it was eclipsed by company shares in this most recent iteration of the survey (Figure 22). Phantom stock nevertheless remains relatively popular, while profit sharing units play a far smaller role than they did among last year's survey participants.

Figure 21. Does your firm grant equity or equity-like long-term incentives to its investment professionals?

% of firms

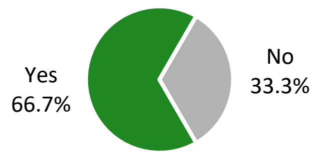
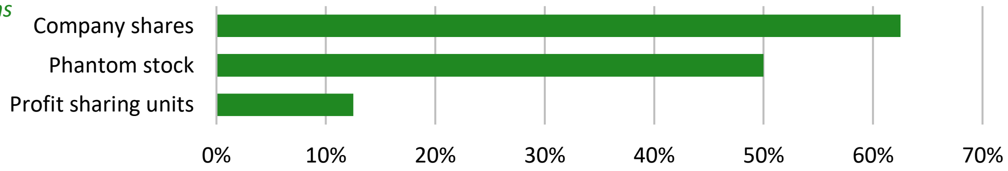


Figure 22. If yes, what types of long-term incentives are used?

% of firms



Benefits & Perquisites

Benefits and perquisites are another increasingly critical component of remuneration, especially for firms that are limited for one reason or another from paying competitive bonuses. Benefits and perks account for an average 15% of total compensation among firms in this year's survey, compared to just over 11% last year (Figure 23).

Expectations can be heavily influenced by cultural and regional norms, meaning that the value associated with certain benefits and perks can valued very differently from one country to another. Retirement plans were chosen by this year's group as the most important benefit, followed closely by vacation time and healthcare (Figure 24). Other types of perks like gym memberships and car allowances are less likely to be seen as important, but it is increasingly clear that benefits and perks (not to mention culture and stability) are being emphasized more at firms that have a harder time competing for talent on a pure cash compensation basis

Figure 23. Percentage of compensation for which benefits and perquisites typically account

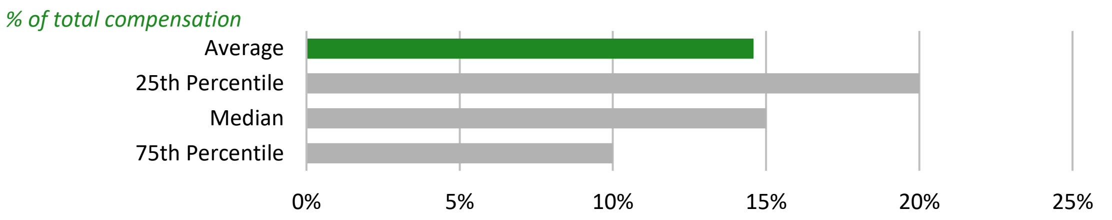
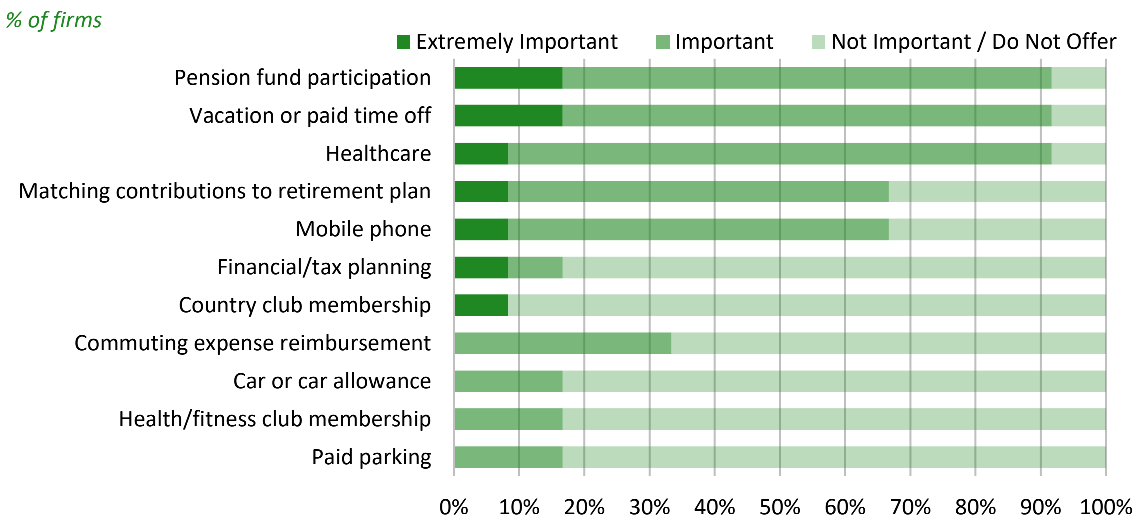


Figure 24. Rate the importance of these benefits and perquisites to members of your fixed income team

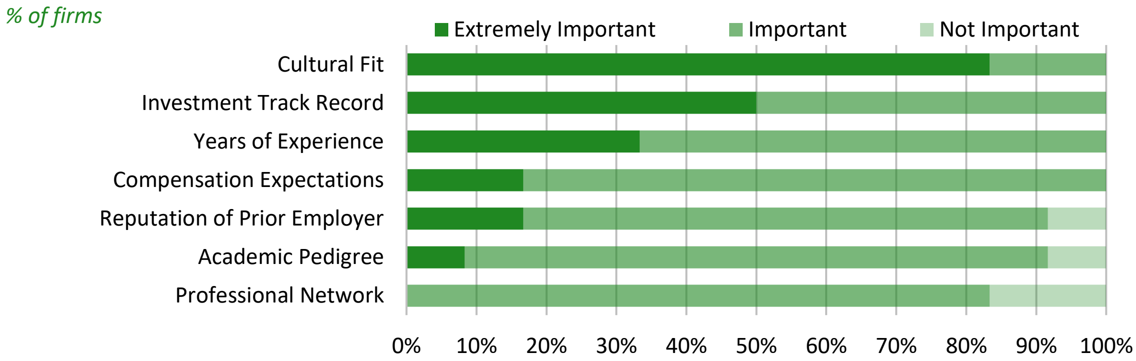


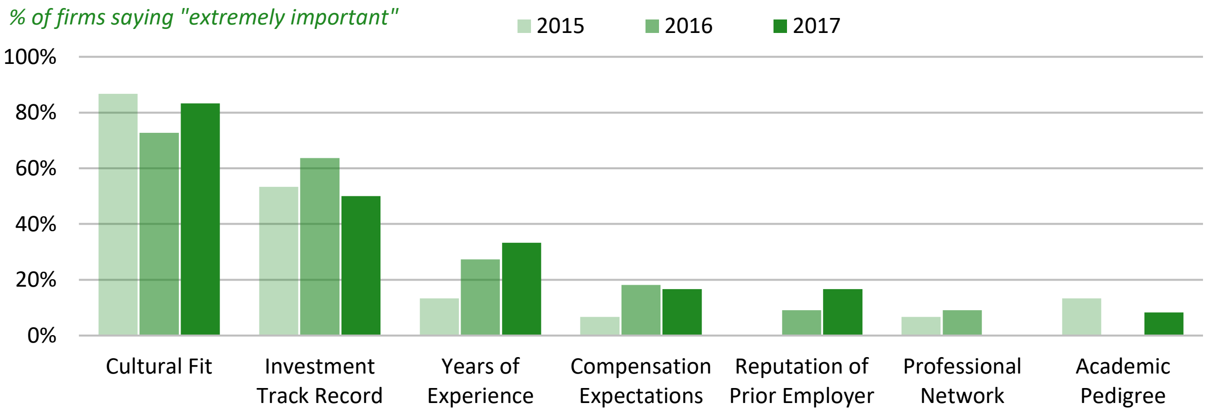
Hiring Criteria

Culture is king when it comes to recruiting talent. Most firms have distinct approaches to culture that they want to maintain, and go to great lengths to ensure they get it by hiring the right people. 83% of the firms in this year's survey say cultural fit is "extremely important," placing it first among a variety of other factors (Figure 25). Interviewees often spoke of culture as a key part of their hiring process. Candidates' motivations and values, for example, are emphasized over technical topics in interviews. Freely sharing ideas was highlighted as an important cultural attribute at another firm. Much of it boils down to the desire to create and maintain a collegial, stimulating, and productive team environment—where sharing best ideas benefits the greater good vs. the individual performer.

The relative importance of other factors ebbs and flows. Investment track records, for example, are once again being de-emphasized. Experienced hires, on the other hand, are once again becoming a hot commodity, with one out of three firms saying experienced hires are a top priority. Alongside growing interest in the hiring of experienced investment professionals, more firms are paying close attention to the reputation of former employers. Compensation expectations are also becoming more important due to the regulatory impact on compensation structures. This is particularly true at SWF's, pension funds and bank-owned asset managers.

Figure 25. Rate the importance of the following when hiring new investment professionals





Guarantees, Non-Competes & Non-Solicits

Two out of three firms in the survey use guarantees, but it is no longer a common practice. The vast majority qualified their replies, affirming that their firms only use guarantees rarely (Figure 26). Half of all firms surveyed use non-compete and non-solicit clauses (Figure 27).

Figure 26. Does your firm use guarantees for new hires?

% of firms

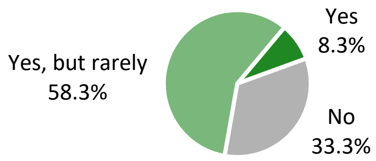
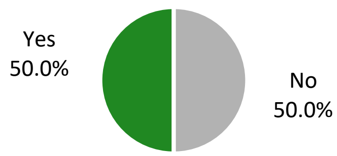


Figure 27. Does your firm use non-compete and non-solicit clauses?

% of firms



Regulatory Environment

Regulation continues to be an important driver of change. MiFID II continues to keep a lot of people up at night, including potential inconsistencies in how proposed rules are viewed by the ESMA and the SEC. More than four out of ten survey participants named regulators as major influences on their compensation policies (Figure 28).

Shareholders also exert considerable influence, but it is clients who have played a bigger role recently. Their influence may have subsided slightly from a year ago, but one out of every four firms still lists them as a major influence on compensation policy - in other words, asset managers care a lot more about aligning compensation incentives with their clients

Political pressure is also rising, even amid declining media coverage. Compensation has become something of a political hot potato, and rising fixed compensation costs are reducing the ability of management to influence the behavior of their own employees—perhaps an unintended consequence of the regulators who wrote the policies

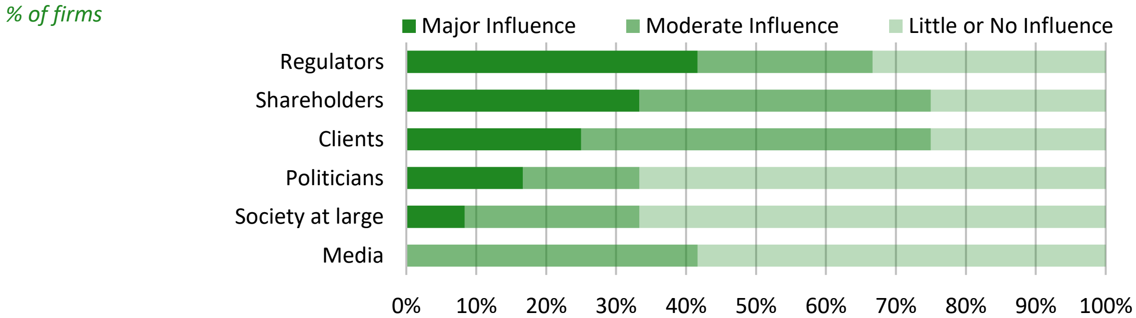
Clients may be gaining influence, but regulators still play a key role in shaping competitive dynamics. This year, we made a concerted effort to pin down the advantage gained by firms who have not been subjected to mandated bonus caps. We asked survey participants how they perceived the advantage of firms without mandated bonus caps in three specific areas: the recruitment process, the ability to generation investment performance, and business results.

How will regulation affect compensation moving forward? Only one of four firms in the survey are currently subject to bonus caps, but the majority think it is likely that caps will be extended beyond bank-owned firms in 2017 (Figures 29 and 30).

We learned last year that eight out of ten bank-owned firms thought bonus caps made it more difficult to compensate their senior executives competitively. This year we find that the vast majority of firms agree that firms without caps have either an "enormous" or "significant" advantage in attracting talent to their firms. Business results (e.g. growth, margin, etc.) are also affected, although there is less consensus here. Investment performance is not immune. Eight out of ten firms said the presence of bonus caps affected investment performance at least modestly. Several firms expressed concern about the future of attracting "next generation" talent into such a highly regulated environment. They fear future talent may opt to pursue careers in other industries with fewer regulations that allow them more freedom and creativity over such specific constraints.

While there is widespread agreement that mandated bonus caps leave firms (who must comply) at a disadvantage, overall compensation levels themselves appear to have equalized across both types of firms as fixed salaries rise to maintain overall compensation levels. Indeed, this is seen by some bank-owned firms as being a competitive advantage (stability of fixed compensation being an attractive recruitment advantage), revealing the whole issue of bonus caps to be a double-edged sword.

Figure 28. How much has each of these groups influenced your compensation policies in recent years?



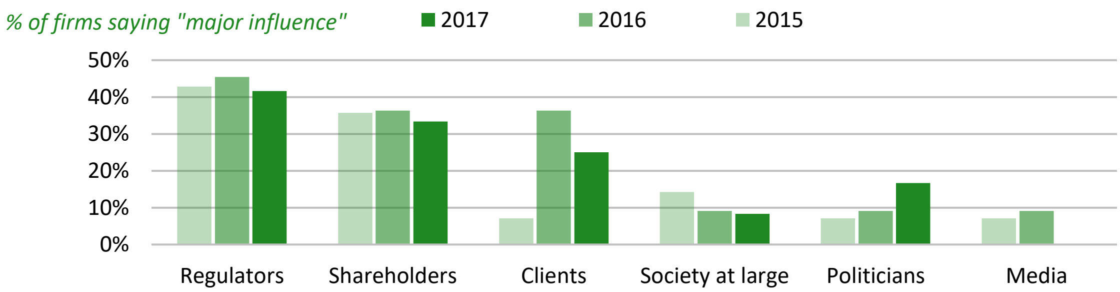


Figure 29. Are bonuses at your firm currently subject to regulatory caps?

% of firms

Figure 30. The European Commission has proposed that bonus caps be extended beyond banks in 2017 to include all firms falling under CRD IV. How likely do you think this is to happen?

% of firms

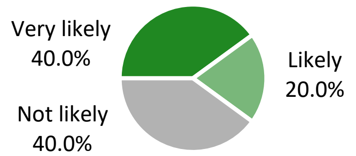
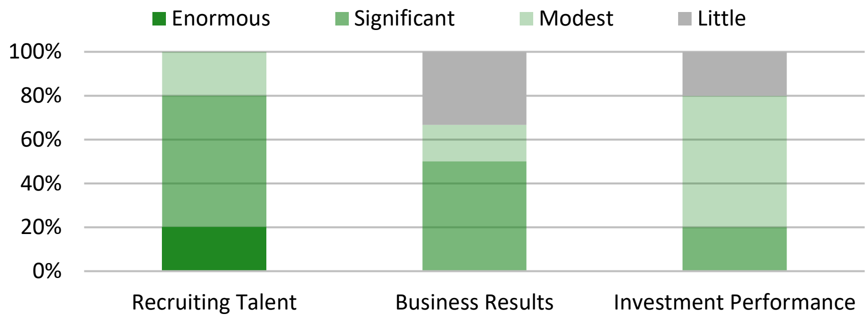


Figure 31. How much of a competitive advantage do firms without mandated bonus caps have?

% of firms



COMPENSATION DATA

Data Overview

Compensation data for 245 investment professionals was collected in the 2017 survey. Due to the fact that some of the individuals are members of more than one product team, compensation data was effectively collected for more than 1,000 separate investment positions. Portfolio managers accounted for the single largest group, followed by analysts, while heads of specific products or strategies comprise the third largest group. The abundance of data for these various positions allowed us to tabulate and study the data in myriad ways (Figure 32).

Employees for whom compensation data was provided are almost all located in northern Europe (Figure 33). Almost two out of three are based in either the United Kingdom or the Nordic countries. Those based in France and the Benelux region account for an additional 19%, while individuals in Germany, Switzerland, and Austria account for approximately 6% of the total.

All experience levels are well represented in the survey data. Individuals with 11 to 15 years of experience comprise 32%, followed by 6 to 10 years (28%) and 16 to 20 years (19%). The most senior employees (with more than 20 years of experience) represent 13% of the total, while their junior counterparts (with less than five years of experience) account for 9% of all individuals surveyed (Figure 34). With one exception, heads of fixed income are all industry veterans with at least 15 years of experience. Product heads also tend to be more experienced. Portfolio managers span the entire range, but almost two out of three have 5 to 15 years of experience. Analysts are often seen as entry level employees, but some firms have career analysts with considerable experience (and the compensation to match).

Many investment professionals are involved with multiple products or strategies. Heads of fixed income naturally oversee a number of different products, but it is not unusual for portfolio managers or analysts to also work on multiple strategies (Figure 35). At firms with centralized research teams, analysts may be tasked with work on a wide number of products. Firms with discrete product teams will typically assign individuals to only one or two strategies (Figure 36).

The majority of portfolio managers and analysts are focused entirely on the investment process, but it is not unusual for some to have additional responsibilities, particularly in client-facing activities (Figure 37). It is much more common for product heads and heads of fixed income to report additional responsibilities, often in business management or distribution activities.

Just over half (55%) of investment professionals in the survey saw their compensation rise in 2017 (Figure 38). Rising compensation was correlated to seniority, with 100% of Fixed Income Heads reporting higher overall compensation versus 49% of analysts. Approximately one out of four investment professionals reported lower compensation than the previous year.

Half of all the individuals covered by our survey received between 70% and 95% of their maximum potential bonus (Figure 40). Averages generally exceed 80%, with Fixed Income Heads receiving slightly less.

Figure 32. Types of compensation data available

	All	Top Quartile	Products	Location	Experience	Roles
Fixed Income Heads	✓	✓	✓	✓	✓	
Product/Strategy Heads	✓	✓	✓	✓	✓	
Portfolio Managers	✓	✓	✓	✓	✓	✓
Analysts	✓	✓	✓	✓	✓	

Figure 33. Employee locations

% of total

	All	Head of F.I.	Product Head	Portfolio Manager	Analyst
The Nordics	34.3%	20.0%	60.0%	32.0%	35.7%
United Kingdom	31.8%	40.0%	40.0%	31.3%	30.0%
France & Benelux	19.2%	20.0%	0.0%	20.7%	20.0%
Other	9.0%	20.0%	0.0%	10.7%	5.7%
Germany, Switzerland & Austria	5.7%	0.0%	0.0%	5.3%	8.6%

Figure 34. Industry experience

% of total

	All	Head of F.I.	Product Head	Portfolio Manager	Analyst
0 - 5 years	8.8%	0.0%	0.0%	6.1%	18.2%
6 - 10 years	28.0%	0.0%	6.7%	32.4%	27.3%
11 - 15 years	32.2%	10.0%	33.3%	33.1%	33.3%
16 - 20 years	18.8%	50.0%	13.3%	14.2%	21.2%
21 - 25 years	7.9%	40.0%	26.7%	7.4%	0.0%
26+ years	5.4%	0.0%	20.0%	6.8%	0.0%

Figure 35. Product/strategy teams to which individuals belong

% of total

	All	Head of F.I.	Product Head	Portfolio Manager	Analyst
Investment Grade Corporates	62.4%	100.0%	40.0%	55.3%	77.1%
Short Duration	51.4%	50.0%	40.0%	51.3%	54.3%
Emerging Market Debt	51.0%	50.0%	40.0%	50.0%	55.7%
European Sovereign	48.6%	60.0%	40.0%	48.7%	48.6%
Long Duration	48.6%	30.0%	26.7%	51.3%	50.0%
High Yield	41.6%	90.0%	33.3%	35.3%	50.0%
Derivatives	41.2%	40.0%	13.3%	40.0%	50.0%
Bank loan/Floating Rate	40.8%	30.0%	13.3%	40.0%	50.0%
Distressed	38.0%	0.0%	13.3%	38.7%	47.1%
Global Sovereign	35.5%	40.0%	26.7%	36.0%	35.7%
Unconstrained/Absolute Return	32.7%	20.0%	20.0%	32.0%	38.6%
MBS/ABS	9.4%	70.0%	13.3%	5.3%	8.6%
Direct Lending/Private Placement	2.9%	30.0%	0.0%	1.3%	2.9%
Other	0.0%	0.0%	0.0%	0.0%	0.0%

Figure 36. Number of product/strategy teams to which individuals belong

Number of teams

	All	Head of F.I.	Product Head	Portfolio Manager	Analyst
25th Percentile	9.0	8.0	4.5	7.8	11.0
Median	3.0	7.0	3.0	3.0	5.0
75th Percentile	1.0	4.0	1.0	1.0	1.0
Average	5.0	6.1	3.2	4.9	5.7

Figure 37. Additional responsibilities beyond investments

% of total

	All	Head of F.I.	Product Head	Portfolio Manager	Analyst
None	53.1%	0.0%	6.7%	57.3%	61.4%
Relationship Management	38.4%	100.0%	73.3%	30.7%	38.6%
Business Management	18.0%	100.0%	93.3%	13.3%	0.0%
Marketing & Sales	4.1%	60.0%	0.0%	1.3%	2.9%
Other	0.0%	0.0%	0.0%	0.0%	0.0%

Figure 38. 2016 vs. 2015 compensation

% of total

	All	Head of F.I.	Product Head	Portfolio Manager	Analyst
Higher	55.8%	100.0%	66.7%	55.3%	49.3%
Unchanged	11.6%	0.0%	20.0%	10.7%	13.0%
Lower	25.6%	0.0%	13.3%	30.0%	21.7%
New hire	7.0%	0.0%	0.0%	4.0%	15.9%

Figure 39. Total compensation compared to previous year (2017 vs. 2016 survey results)

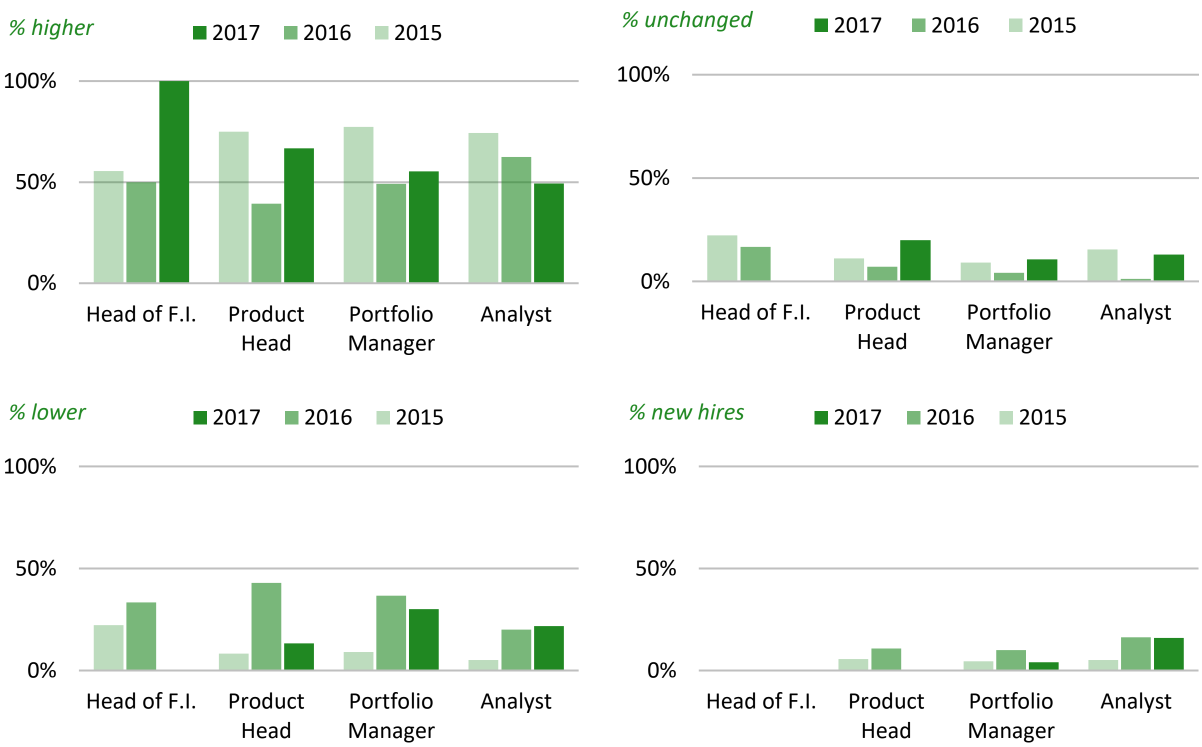


Figure 40. Percentage of maximum potential bonus paid in 2016

% of maximum bonus

	All	Head of F.I.	Product Head	Portfolio Manager	Analyst
25th Percentile	95.0%	95.0%	90.0%	90.0%	100.0%
Median	87.5%	72.5%	80.0%	90.0%	80.0%
75th Percentile	70.0%	50.0%	70.0%	70.0%	70.0%
Average	81.9%	72.5%	81.4%	82.8%	82.5%

Compensation by Position

With responsibilities spanning regional (and in some cases, global) investment operations, heads of fixed income naturally reported the highest compensation levels. Top earners benefited from larger compensation packages than last year's group, pulling the average up for a second straight year to €764,000 (Figure 41). The upward trend was not universal. Smaller packages among a larger group of fixed income heads caused median total compensation to slip slightly from a year ago. The relatively stable median accompanied by a more volatile average is not an unusual phenomenon at the senior level, where any number of factors could contribute to a few outliers pulling the entire range upward given the relatively small number of data points.

The trend among product heads was reversed. Average total compensation slipped slightly from €560,000 to €499,000 as the overall range of compensation paid to this position narrowed. Meanwhile, median compensation continued to climb, reaching €430,000. With fewer outliers on the upper end, most individuals can be found within a relatively small range of values. Compensation can nevertheless vary considerably depending on product responsibility. Product heads overseeing unconstrained and high yield strategies, for example, are more likely to earn more than those involved with other fixed income strategies (Figure 42).

Changes were relatively minor for portfolio managers. Average total compensation of €225,000 is virtually unchanged from last year, as is median total compensation of €190,000. Total compensation is strongly correlated to experience, and it is also dependent on the types of strategies managed. One of the most important drivers of higher compensation among PMs, however, is a role that involves some degree of responsibility for business management. Average total compensation of €318,000 for this group far exceeds the average compensation of €205,000 paid to PMs with no additional responsibilities beyond their investment portfolio(s).

Analyst compensation is more nuanced than it may appear at first glance. This is due to the fact that responsibilities and expectations can vary dramatically. Analysts are commonly viewed as entry level investment professionals with little experience, but the title is also used to describe seasoned veterans who have made a career in research, earning as much or more than many PMs. As a result, compensation is strongly correlated to experience levels and senior analysts are paid comparably to other investment professionals. Average and median analyst compensation slipped from a year ago, but this reflects changes to the peer group rather than a downward trend. Average compensation among all analysts is now €168,000, while the average among top quartile earners is €264,000.

Figure 41. Total compensation quartiles

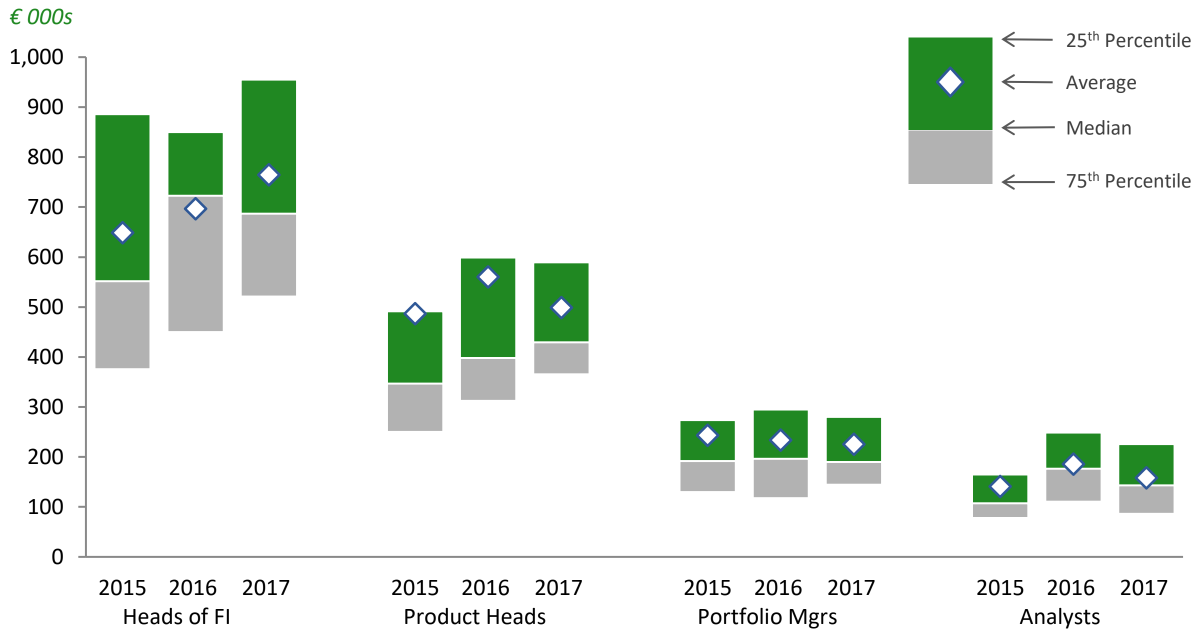


Figure 42. Average Total Compensation per Position by Product/Strategy

€ 000s

	Product Heads	Portfolio Managers	Analysts
Unconstrained/Absolute Return	708.4	245.2	204.7
High Yield	547.6	201.8	197.9
Investment Grade Corporates	499.6	202.8	163.3
Emerging Market Debt	471.2	232.0	181.4
Global Sovereign	442.7	246.1	211.3
European Sovereign	424.1	247.8	194.4
Short Duration	376.2	229.5	178.9
Long Duration	354.1	231.0	181.1
MBS/ABS	N/A	300.5	121.7
Bank loan/Floating Rate	N/A	185.7	181.1
Distressed	N/A	181.7	180.6
Derivatives	N/A	180.8	175.3

Figure 43. Total compensation: Heads of fixed income

€ 000s

	Average	25th Percentile	Median	75th Percentile
Overall				
All	764.0	954.9	686.6	521.0
Top Quartile	1,280.9	1,432.9	1,396.1	1,186.6
By Location				
United Kingdom	900.3	1,081.8	823.0	641.5
Continental Europe	706.5	1,033.6	564.1	237.0
By Industry Experience				
11 - 20 years	689.7	695.4	614.0	521.0
20+ years	875.4	1,081.8	932.7	726.2
By Product/Strategy				
1 - 5 products overseen	506.3	723.8	454.5	237.0
6+ products overseen	935.7	1,291.4	840.6	595.4

Figure 44. Total compensation: Product heads

€ 000s

	Average	25th Percentile	Median	75th Percentile
Overall				
All	498.6	589.2	429.5	365.3
Top Quartile	798.0	861.8	786.1	722.3
By Location				
United Kingdom	552.7	737.9	410.0	375.8
The Nordics	462.5	483.5	437.6	358.2
By Industry Experience				
11 - 20 Years	444.8	495.8	380.7	343.6
21+ Years	560.0	662.1	459.3	426.7
By Product/Strategy				
Unconstrained/Absolute Return	708.4	882.8	840.8	600.2
High Yield	547.6	694.9	483.5	437.6
Investment Grade Corporates	499.6	630.6	426.7	373.7
Emerging Market Debt	471.2	477.5	448.5	431.5
Global Sovereign	442.7	465.4	448.5	425.8
European Sovereign	424.1	453.9	426.7	396.8
Short Duration	376.2	409.4	375.1	358.6
Long Duration	354.1	375.8	365.3	343.6

Figure 45. Total compensation: Portfolio managers

€ 000s

	Average	25th Percentile	Median	75th Percentile
Overall				
All	224.9	280.0	190.1	144.1
Top Quartile	380.4	439.2	346.7	315.4
By Location				
United Kingdom	251.8	313.2	233.7	159.1
Germany, Switzerland & Austria	367.8	441.6	336.1	284.7
The Nordics	237.6	261.4	236.3	165.5
France & Benelux	131.1	153.8	136.8	110.2
Other	217.7	283.5	186.2	163.5
By Industry Experience				
0 - 5 Years	117.0	144.8	107.3	84.0
6 - 10 Years	186.7	218.0	172.9	138.5
11 - 15 Years	233.7	307.8	227.0	144.0
16 - 20 Years	294.6	369.0	275.3	241.1
21+ Years	273.2	329.0	249.5	174.3
By Product/Strategy				
MBS/ABS	300.5	331.1	314.3	279.6
European Sovereign	247.8	303.2	241.2	165.5
Global Sovereign	246.1	304.5	194.5	158.8
Unconstrained/Absolute Return	245.2	303.7	186.2	157.1
Emerging Market Debt	232.0	271.6	182.4	157.8
Long Duration	231.0	303.2	184.1	140.0
Short Duration	229.5	303.2	182.8	137.2
Investment Grade Corporates	202.8	254.1	173.3	138.8
High Yield	201.8	261.6	182.4	137.5
Bank loan/Floating Rate	185.7	253.9	164.7	132.5
Distressed	181.7	239.2	162.5	128.8
Derivatives	180.8	235.5	160.5	132.5
By Additional Responsibility				
None	204.5	253.3	167.7	136.2
Business Management	318.2	447.0	313.2	167.5
Relationship Management	241.3	262.2	240.2	171.9

Figure 46. Total compensation: Analysts

€ 000s

	Average	25th Percentile	Median	75th Percentile
Overall				
All	157.6	225.7	143.2	86.2
Top Quartile	264.0	272.8	263.4	254.3
By Location				
United Kingdom	180.2	248.0	193.0	139.7
Germany, Switzerland & Austria	272.7	276.3	271.3	265.6
The Nordics	150.8	214.9	132.4	85.6
France & Benelux	87.6	93.8	83.8	74.8
Other	152.8	186.5	151.9	118.2
By Industry Experience				
0 - 5 Years	73.6	88.4	72.5	59.6
6 - 10 Years	137.8	157.8	116.2	90.0
11 - 15 Years	189.1	246.9	196.7	132.4
16 - 20 Years	223.9	263.9	248.6	165.4
By Product/Strategy				
Global Sovereign	211.3	264.5	227.5	152.0
Unconstrained/Absolute Return	204.7	262.8	216.1	145.7
High Yield	197.9	258.4	199.5	145.7
European Sovereign	194.4	260.8	209.5	140.9
Emerging Market Debt	181.4	260.5	189.5	100.0
Bank loan/Floating Rate	181.1	258.4	193.0	108.2
Long Duration	181.1	258.4	193.0	108.2
Distressed	180.6	259.9	193.0	102.6
Short Duration	178.9	256.0	193.4	105.4
Derivatives	175.3	258.4	189.5	93.7
Investment Grade Corporates	163.3	244.0	149.5	86.1
MBS/ABS	121.7	167.9	116.2	74.4

Figure 47. Compensation Detail – All Heads of Fixed Income

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	248.2	375.6	200.0	117.4
Variable	515.7	625.3	529.4	421.9
Total	764.0	954.9	686.6	521.0

Figure 48. Compensation Detail – Top Quartile Heads of Fixed Income

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	428.0	472.9	402.6	370.4
Variable	852.9	960.0	926.4	782.6
Total	1,280.9	1,432.9	1,396.1	1,186.6

Figure 49. Compensation Detail – All Product/Strategy Heads

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	179.7	206.2	172.2	130.5
Variable	318.9	370.9	265.5	217.3
Total	498.6	589.2	429.5	365.3

Figure 50. Compensation Detail – Top Quartile Product/Strategy Heads

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	250.2	272.9	232.0	209.4
Variable	547.8	652.4	535.8	431.2
Total	798.0	861.8	786.1	722.3

Figure 51. Compensation Detail – All Portfolio Managers

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	107.7	126.3	100.9	78.0
Variable	117.2	167.6	95.9	49.3
Total	224.9	280.0	190.1	144.1

Figure 52. Compensation Detail – Top Quartile Portfolio Managers

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	147.3	177.8	139.1	121.1
Variable	233.2	278.8	223.4	193.1
Total	380.4	439.2	346.7	315.4

Figure 53. Compensation Detail – All Analysts

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	79.1	105.5	73.7	48.6
Variable	78.5	114.8	66.3	29.2
Total	157.6	225.7	143.2	86.2

Figure 54. Compensation Detail – Top Quartile Analysts

€ 000s

	Average	25th Percentile	Median	75th Percentile
Salary	119.1	151.1	117.1	92.8
Variable	144.9	170.6	142.3	120.1
Total	264.0	272.8	263.4	254.3

CONCLUSIONS

The competitive landscape for European fixed income continues to evolve and develop on a number of fronts. Product mixes, for example, are shifting to accommodate client needs. More firms are rolling out unconstrained strategies, and we are seeing additional attention being paid to private credit and quant strategies. ESG methodology is also becoming more valued and pervasive. All of these developments have implications for compensation.

There is also a growing emphasis on efficiency and productivity. Many firms are keeping headcount lean even as they grow assets, rationalize and optimize strategies with a resultant boost to productivity and margins. When they do hire, culture continues to be emphasized above all other factors when it comes to recruiting talent, in addition to being very deliberate about the skills they want to hire from the outside. Highly specialized skills often warrant seeking and attracting talent from the outside—particularly if the skill set is not already resident within the asset manager. Some managers have expressed concern that more expensive, senior-level talent may eventually be replaced by less experienced, less expensive options. While we have not seen this trend reflected in the data, it would not be surprising to see it appear in future surveys, particularly if pressure and performance challenges continue. Other considerations come and go, but most firms have distinct approaches to culture that they want to maintain and go to great lengths to ensure they get it by hiring the right people, often with very personalized interviews rather than highly technical ones. Aligning longer term motivations with culture is seen as preferable to hiring or retaining an investor with the best track record but the wrong cultural or style fit.

When it comes to evaluating existing talent, investment results continue to be the primary gauge by which performance is measured, but firm profitability is being featured more prominently in the decision making as bonuses are awarded considering industry headwinds pressuring overall profits and margins.

Clients and shareholders have an important voice when it comes to compensation planning, but it is regulation that continues to be a key driver of policy. Deferred compensation has already become a much more common feature across the industry, and bonus caps are resulting in some competitive mismatches. With the impending implementation of MiFID II, the cost of implementation, reporting and compliance will further weigh down company resources and margin, undoubtedly having an impact on compensation and bonus pools. Many firms have been able to keep overall compensation levels neutral by shifting the composition of compensation structure, but these additional regulatory pressures have yet to manifest in compensation pools and are therefore of great concern to business leaders throughout the European asset management community. We intend to keep a sharp eye on these evolving business challenges and report how managers intend to tackle, defend and retain hard-won talent.

Against this backdrop, the upward momentum of compensation appears to be in danger of stalling. While true that most investment professionals continue to see their bonuses increase in size, the number of those seeing smaller awards is also rising. Alongside more muted hiring plans, it is safe to say that the European fixed income sector is not at its most robust. Next comes MiFID II followed by the implications of Brexit, which promises to shake things up even more and will surely leave its mark on compensation levels and recruiting plans.

ABOUT THE SPONSORS

The Global Fixed Income Institute

The Global Fixed Income Institute is an exclusive membership group comprised entirely of buy-side Heads of Fixed Income at asset management firms, pension funds, central banks and other official institutions. Between them, they manage in excess of €3 trillion in fixed income assets alone. The Institute was founded in 2000 and holds 3 roundtables a year (Investment in March, Strategy in June and Management in October) at various European locations, with delegates limited to members and select buy-side invitees. In addition, members are entitled to attend other events, like our OTC Derivatives Summit in July, as well as regional lunches and dinners. The Institute also produces a number of proprietary research reports each year. Meetings are private and closed to the media. The group is best understood as an 'A List' think-tank, in which member firms, largely one another's competitors, compare notes in a highly frank and open fashion on common challenges and opportunities in global fixed income investing. The Institute is not a sales forum of any kind. We average a 90% attendance of member firms at the meetings. Our programmes are driven entirely by our buy-side members. The networking opportunities and business benefits are enormous.

Kingsley Gate Partners

Kingsley Gate Partners is a global search firm that is reshaping the future of executive search. Owned and operated by our partners, we are intrinsically motivated to have delighted clients. We measure success by quick placements made with the best candidate for the role. Additionally, our digital tools allow full transparency, via our proprietary client portal ClientSuite™, to securely view details of the search at any time. Discover the Kingsley Gate Partner approach to Executive Search.

Every single business process at Kingsley Gate Partners is focused on the Client. Our research teams are not back office resources, but rather are trained to focus on our Clients' needs from day one by being part of Client interaction. Our executive assistants are trained to ensure that they make life easy for our Clients by going above and beyond normal administrative support. Our business philosophy is to think of solving every single business problem through the eyes of our Clients. Every discussion about change begins with one question: "How will this benefit our Client?"

We measure everything. We believe that anything that needs to be improved should be measured and adjusted periodically. We are completely transparent both externally and internally. We believe in direct and honest communication between us and with our Clients. We are trained to be professional in our communication, but we do not sugar coat either advice or news. We believe that trust and confidence are treasured resources and we work hard to retain them. Ours is a performance culture, and our partners are obsessed with high quality performance and Client satisfaction.

At Kingsley Gate Partners, we understand that although positions may have similar sounding titles, they mean different things in different parts of the globe. That's why we have assembled a team of experienced partners who have lived and worked in the specific areas of the world. They understand the local languages, the local culture and most importantly, the local nuances of the executive talent market in which they operate. We think globally but we act locally.

ABOUT THE AUTHORS

Paige C. Scott

Paige Scott is a Senior Partner and leads the Kingsley Gate Partners' asset management practice. With over 20 years of asset management search experience, Paige has led and completed "front office" searches across the globe for Global Heads of Institutional Sales & Marketing, Business Development, Consultant Relations, Product Specialists; to Heads of Active and Passive Strategies including team "lift outs" within fixed income, equities and alternative asset classes. Paige is actively involved in advising asset managers on global expansion activities and has developed specialized knowledge within Pension Risk Transfer (de-risking) build outs.

Paige started her retained search career with Pearson, Caldwell & Farnsworth (San Francisco) in 1998. The firm was acquired by Korn/Ferry International a year later. Paige became Senior Client Partner at Korn/Ferry (Boston) before joining Sextant Search Partners, a specialty boutique financial services search firm dedicated to alternative asset classes. In 2009, Paige joined Sheffield Haworth and subsequently opened both the firm's Boston and San Francisco offices while leading the North American Asset Management Practice and serving as a member of the U.S. Executive Committee.

Paige is a member of the Global Advisory Board of 100 Women in Finance. Paige currently leads the publication/production of compensation/"Best Practices" white papers for the Global Fixed Income Institute (GFII); the European Institutional Investor Institute (EIII), the European Alternatives Investor Institute (AII) and the European Institute (EI) and is a regular speaker at all three annual senior delegate conferences for EIII, EAII, EI and GFII. She earned a Bachelor of Arts in French and Russian Literature from Wheaton College in Norton, Massachusetts. Paige is based in San Francisco. She can be contacted by phone at (628)333-2319 or by email at pscott@kingsleygate.com.

Steven Unzicker

Steven Unzicker is the founder of ANZU, a research and consulting company specializing in the asset management industry. ANZU provides industry executives with strategic advice as well as tactical guidance on product development, marketing plans, and thought leadership initiatives. Steve is a recognized expert on asset management industry trends and metrics. Over the past 15 years, he has designed and conducted numerous surveys of money managers and investors on topics including compensation plans, operation best practices, leveraging technology, compliance, research management, collateral management, liquid alternatives, and the perspectives of institutional investors. Prior to launching ANZU, Steve was the Director of Research for the Business Strategy Group at CRA RogersCasey. Previously, he managed the strategy consulting group at Investment Counseling, a boutique consultancy. He has an MBA from London Business School and a BA from the University of Chicago.

TABLE OF FIGURES

Cover photograph by Remko van Dokkum