

Compensation Structures to Recruit and Retain Talent

2017 Survey of Institutional Sales in European Asset Management

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MARKET OVERVIEW

Studying the management and compensation of European institutional distribution professionals can be an effective way to gauge the health of and pinpoint trends shaping an industry. Working as they do on the front lines, competing directly for the attention of clients, the livelihoods of sales and marketing personnel directly reflect forces at play on both the supply and demand sides. After systematically examining trends in the European market now for a decade, it is hard to escape the feeling that these forces are coming to a head.

Results from this year's survey show incremental change as firms adjust to changing dynamics vis-à-vis clients, regulators, shareholders, and employees. One-on-one interviews with survey participants, on the other hand, painted a somewhat starker picture. The institutional market in particular is problematic due to slow growth, heavy-handed regulators, fee pressure, and shifting asset allocations. A number of survey participants describe the institutional business as "dead" or "dying." Even those who disagree point out that allocations are getting smaller. There is also the fact that the number of pension funds in Europe is shrinking and many asset owners are "insourcing" investments. One interviewee claimed their firm saw a 75% reduction in their opportunity set over the past five years.

Some industry participants are convinced that current compensation levels are unsustainable, with one positing that we are currently seeing the end of a 50-year long period of high profitability. Another interviewee described the current state of the industry as a slow moving train crash.

There is no denying that fee compression is very real. Some of this is driven by the trend toward passive strategies. Insourcing is also posing a challenge to many firms. Institutional investors are also more sophisticated and have become more assertive in recent years, and tough negotiations

on fees are often the price paid to win business. The low yield environment and constant regulatory changes are also putting pressure on bonuses, making it more difficult to recruit talent.

There are risk factors that are difficult to evaluate despite being in plain sight. Brexit, for example, will have profound implications for some asset management firms, but many of them are resigned to postponing any decisions until there is greater clarity. There has already been some movement of jobs from the UK to places like Ireland and Germany, but it is likely little more than a taste of what is to come. Local offices and expertise may prove to be a differentiating factor.

Not all challenges are exogenous. Sometimes opportunity is simply left on the table. North American firms that fail to repackage strategies as UCITS, for example, make it difficult for their European arms to compete effectively. Non-European firms make other unforced errors as well, often choosing to make key decisions from a distant home office, where market intelligence and cultural nuance may be unappreciated or ignored. Product development efforts can also miss the mark if they take place on another continent with little input from local operators. Structural issues can also prove to be unexpected roadblocks. One new entrant in the Dutch market found that ownership concentration suggested a succession issue with which pension plans were uncomfortable.

More firms are acknowledging the fact that they will have to find ways to either increase revenues or lower costs in order to achieve the margins necessary to pay competitive bonuses. Organic growth may simply not be in the cards for some firms, which may instead be forced to acquire or merge with other firms to meet growth objectives—as happened with several major players in 2017. Either way, relationships and

products are no longer enough. Firms that are able to evolve and stay creative are more likely to find success going forward.

How are industry executives responding to these myriad challenges? Some are frozen by inertia. Others are enthusiastically embracing change. Many are adapting incrementally. Everywhere along this continuum, firms are competing to attract and retain clients as well as talent by:

1. Offering the best, most relevant strategies in the correct vehicle(s)
2. Participating in the most attractive segments and geographies
3. Harnessing the power of technology, data analytics, and machine learning to empower employees and clients
4. Promoting a culture that is appealing to all stakeholders

All of these themes are explored in the following pages as we review how firms are recruiting, training, and compensating institutional distribution professionals throughout Europe. We want to thank everyone who took the time to complete this year's survey as well as those who agreed to be interviewed. It is our sincere hope that you will find the resulting insights helpful as you steer your organization through the coming year.

SURVEY METHODOLOGY

This is the tenth year that this survey has been conducted by The European Institutional Investor Institute (EIII). As in previous years, data collected via questionnaires was supplemented with interviews of Institute members. These wide-ranging exchanges covered topics ranging from the regional variations in the business climate to recruiting challenges and the quest for a more creative and diverse workforce. Interview findings provided invaluable colour and context to the formal survey results given how often these themes impact and drive revenue opportunities, and therefore profitability and bonus pool funding.

Survey responses were gathered from participating money management firms and aggregated on an anonymous basis throughout the second half of 2017. Actual compensation data for 2016 was analysed in this paper; however projections for 2017 compensation are also

included. Heads of sales and marketing and human resources, as well as managing directors and other senior executives provided data. All participation was on a strictly confidential basis and results are only shown in aggregated form. 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. Responses to questions concerning assets under management (AUM), spending, and compensation were allowed in multiple currencies. For purposes of this paper, all responses were converted to Euros at rates current as of 29 December 2017. Pound Sterling were converted at a rate of 1 GBP = 1.13 EUR. U.S. Dollars were converted at a rate of 1 USD = 0.83 EUR. Swiss Francs were converted at a rate of 1 CHF = 0.86 EUR.

PROFILE OF RESPONDENTS

Nineteen asset management firms participated in this year's survey, with many taking the time to be interviewed in addition to completing the survey. A wide range of organisations are represented, from smaller independent boutiques to global firms offering a comprehensive array of investment strategies packaged in a variety of vehicles. Most firms in the survey manage a mix of institutional and retail money, but institutional assets account for an average 53% of total assets, a lower number than we've seen in recent years.

Large firms still account for a large proportion of participants, with those with more than €100 billion under management account for 70% of this year's participants (Figure 1). Nevertheless, smaller firms with less than €100 billion under management comprised the remaining 30%, meaning the overall average among all firms in the survey declined to €231 billion from €278 billion a year earlier. Independent employee-owned firms participated alongside subsidiaries of banks, insurance companies, and financial services firms. Reflecting the global nature of the European Institute's membership, participating firms are

headquartered around the world (Figure 2). Looking toward the United Kingdom's upcoming Brexit negotiations, we are now tracking UK firms separately from their continental European brethren. Just under one third of all respondents hail from the UK while another 22% call mainland Europe home, closely approximating last year's universe of firms.

Product convergence continues, and only 30% of this year's firms are long only, down from an already low 39% last year (Figure 3). Purely alternative firms (i.e. hedge funds) were not included in the survey (as a separate institute has been formed for these firms), but seven out of ten firms now offer at least some alternative strategies as part of the product offering.

Alternative products were often marketed by dedicated personnel in the past, but those days are largely over. As these strategies enter the mainstream, they are increasingly being handled by the same sales teams selling long-only strategies. Only 6% of firms report having separate and dedicated sales forces, compared to 40% just three years ago (Figure 4).

Figure 1. Respondent AUM

% of firms

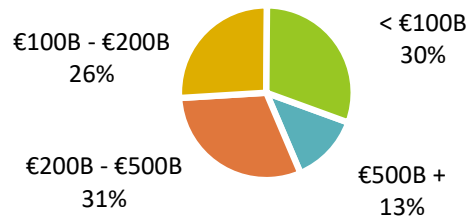


Figure 2. Location of Headquarters

% of firms

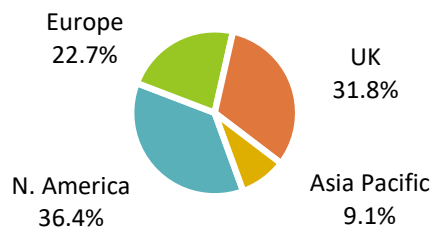


Figure 3. Types of Investments Managed

% of firms



Figure 4. Separate Sales Force for Long-Only and Non-Traditional Products?

% of firms



FINDINGS

Fee Revenue

Asset gathering remains challenging for many firms, both incumbents and newcomers alike. Median fees generated per institutional sales professionals fell significantly to only €700,000 from a year earlier, underscoring these widespread struggles (Figure 5). Some managers, it should be pointed out, are managing to not only raise new assets, but also do it efficiently. Highlighting this “feast or famine” environment, average new fees per professional actually rose to €2.6 million from €2.2 million (Figure 6).

We noted the growing gap between average and median fee generation last year, speculating that it might signal the end of a relatively benign environment that afforded many firms some degree of success. This year’s results offer additional evidence that this is no longer the case. Growing disparity is not necessarily bad news. This year produced the highest proportion of firms reporting €5 million in fees per sales professional since 2011—clear evidence that some firms (and individuals) are thriving.

The most successful firms in terms of revenue per sales professional do not necessarily fit a single mould, but they do share some characteristics.

They tend to be large firms based in the UK or US that offer a range of product and (perhaps most importantly) are run relatively lean when it comes to overall headcount as well as sales teams. All of them employ less than the median number of sales professionals. The least successful firms are also not from the continent, but they tend to be hobbled by product limitations or the fact that they are relatively new to the market. Meanwhile, European firms tend to fall in the middle between these two groups.

We have typically seen about one quarter of gross fee revenue being used to compensate distribution professionals in recent years. This ticked upward in 2017 as firms reported using an average 30% of revenues for compensation (Figure 7). Until recently, fee pressure was not yet widely seen to be affecting recruitment and compensation, but this result hints at the fact that current pay and/or staffing levels may not be sustainable for all firms. This is corroborated by the fact that two out of three participants (up from 29% last year) now say that fee compression is having a negative impact on their ability to hire talent (Figure 8).

Figure 5. New Fee Revenue

	25th Percentile	Median	75th Percentile	Average
€ millions	4.1	0.7	0.4	2.6

Figure 6. Average Annual Fee Revenue per Institutional Sales Professional

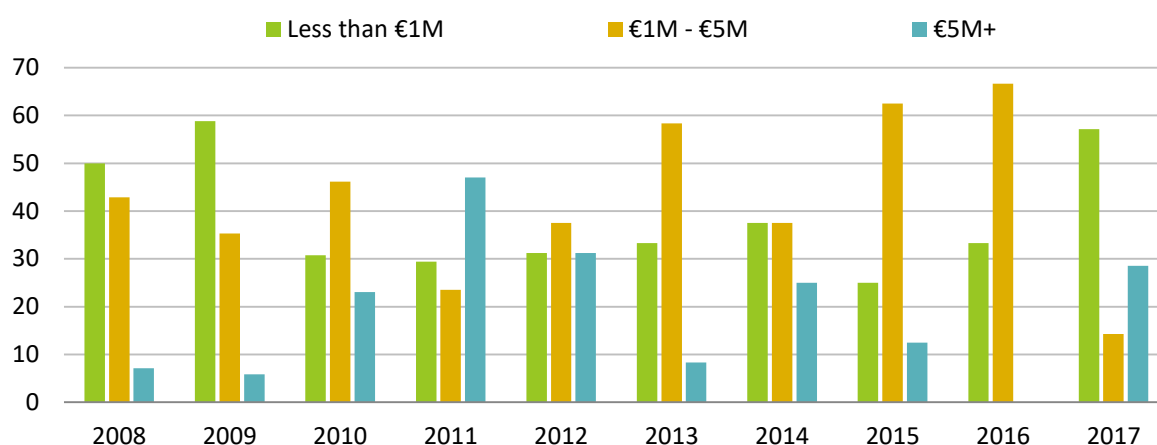


Figure 7. Percentage of Fee Revenue Used to Compensate Sales, Marketing, and CS Professionals

	25th Percentile	Median	75th Percentile	Average
% of Gross Fee Revenue	42.5%	27.5%	14.8%	29.8%

Figure 8. Is fee pressure having a negative impact on your ability to recruit and hire talent?

% of firms



Sales Compensation Structure

Compensation for distribution professionals continues to become more discretionary, with almost 45% of firms relying exclusively on a qualitative approach (Figure 9). This compares to 38% a year earlier and means that solely discretionary methodologies are (for the first time) used as often as ones that integrate more quantitative performance metrics. Much of this change is being driven by regulation, with one interviewee stating that MIFID II was the “final nail in the coffin” for commissions.

Yet formulaic incentive pay is not quite dead. At firms where performance-based metrics play a part in determining compensation, individual performance continues to be the primary consideration. In an interesting twist, however, individual contribution to asset growth eclipsed the contribution to revenues as the most common metric used in 2017 (Figure 10). Firm-wide growth metrics are being used by fewer firms than last year, although 35% still track overall asset growth. Comprising the bulk of “other” responses, team contributions are also considered by some firms, albeit in smaller numbers.

Metrics are not necessarily reflective of the past year’s activity alone. Flows, pipelines, conversion

rates, and other metrics are sometimes observed over three or even five year periods. Evaluations are also not necessarily centralized within a compensation committee. Quantified satisfaction scores from clients and co-workers are sometimes fed into the annual review process.

Revenue generation also remains a key consideration when awarding discretionary bonuses, but challenging market dynamics mean it has been supplanted as the most important factor by the perceived contribution of an individual to the firm’s strategic goals (Figure 11). In other words, finding new ways to drive growth that may lead to new revenue has never been more critical. Overall dedication and effort remains the third most commonly considered factor and team attitude once again comes in at number four. Leadership is less likely to be given much weight among this year’s group as it is replaced in the fifth spot by the expectation of future contribution.

In line with responses over the past two years, only 15% of survey participants report performance fees (when available) being shared with sales professionals (Figure 12) in their annual compensation.

Figure 9. How does your firm determine bonuses for its institutional sales professionals?

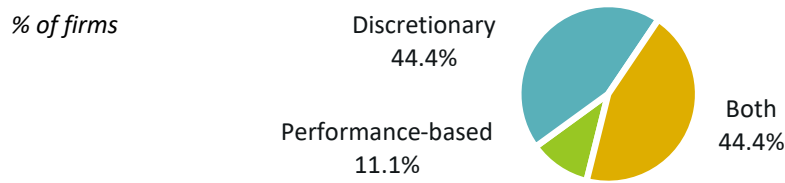


Figure 10. Metrics Used to Determine Performance-Based Bonuses

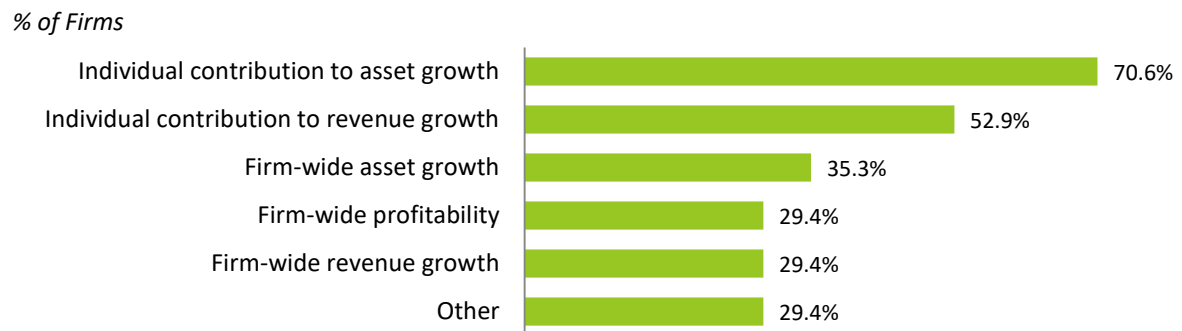


Figure 11. Factors Rated by Importance When Determining Discretionary Awards

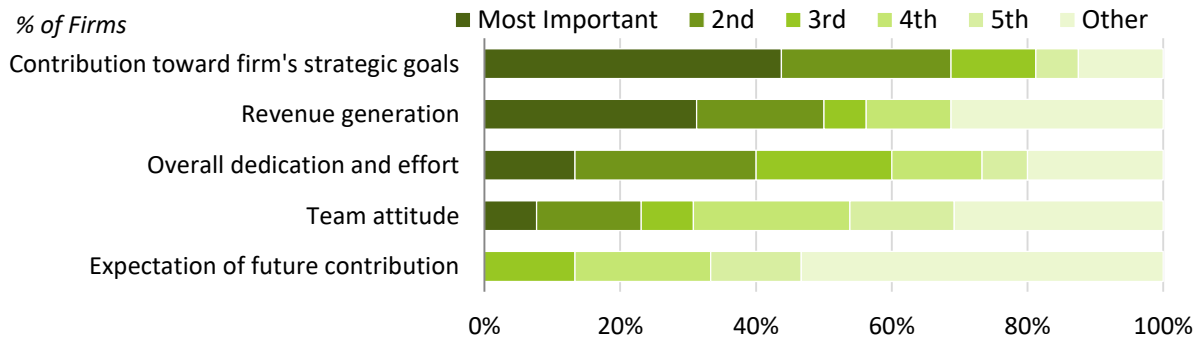
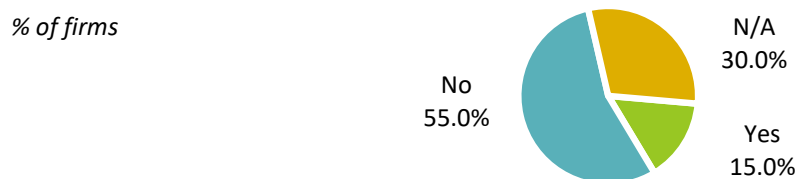


Figure 12. Are Performance-Based Fees Ever Shared With Sales Team?



Long-Term Incentives

More than seven out of ten firms in the survey now use long-term incentives as part of their compensation plans for distribution professionals (Figure 13). This marks a notable increase from last year's 62% and can largely be attributed to the continued trend toward deferred compensation. Driven by regulation and client pressure, deferred compensation plans can now be found at 57% of firms, up from 50% a year earlier (Figure 14). The trend does not just stop at the number of firms participating. We continue to see upward movement on overall % of how much compensation is being deferred. In some cases,

this number is as high as 60% of bonuses deferred over a three year vesting period, effectively lowering employee turnover. The fact that deferrals are almost universally invested in-house is also comforting to clients.

Company shares and phantom shares remain popular ways to incentivise senior sales professionals in particular, and they play an even more prominent role in the pay of top producers, where the use of LTIPs is ubiquitous. Equity awards for top quartile earners accounted for a median 29% of total compensation, which is up significantly from last year's 20%.

Figure 13. Are Equity or Equity-like Incentives Granted to Sales Professionals?

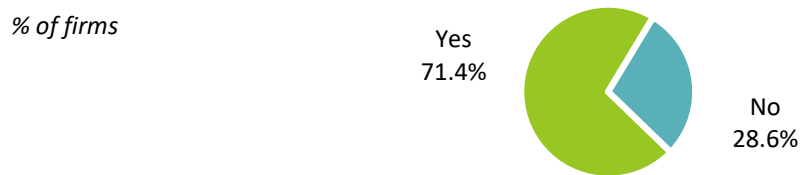
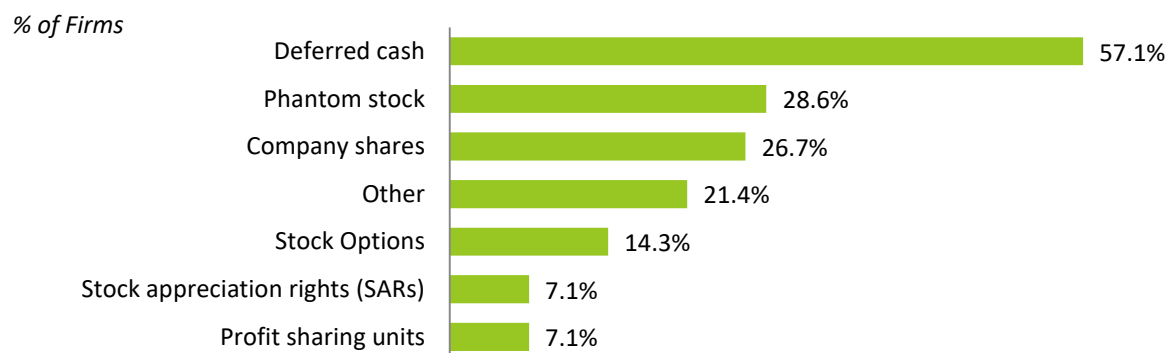


Figure 14. Types of Long-Term Incentives Granted to Sales Professionals

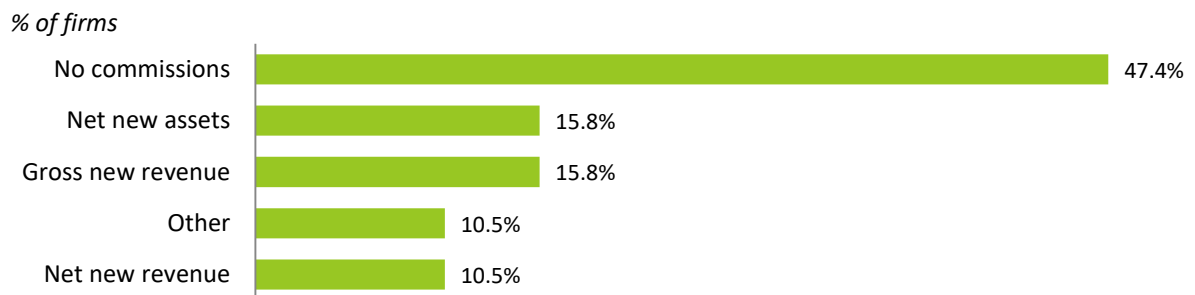


Commissions

Commissions are less common than they once were, but they have not yet gone extinct. Just over half of this year's participants say they incorporate commissions into their compensation plans, down from 57% last year (Figure 15). There is no

consensus among these firms on how commissions should be determined. Net new assets are equally as popular as gross new revenue. Some firms use a combination of metrics, while others pool revenues across teams.

Figure 15. Basis for Determining Commissions



Recruiting

After slowing down last year, hiring has continued at a muted pace, often not rising above replacement levels. Like last year, an average of less than one full time employee (FTE) was added to European sales teams, compared with two and a half a year earlier (Figure 16). This corroborates what participating firms told us last year when sharing their hiring plans.

This year's group, on the other hand, is more likely to hire in the coming year, with 55% reporting plans to add institutional sales professionals over the coming 12 months (Figure 17). Based on our interviews, hiring is likely to be a mix of bright graduates and senior talent, sometimes from other industries. There are benefits to each approach. Inexperienced hires are seen as more trainable, but experienced professionals are more likely to be more nimble, make a more immediate impact on revenues and can sell through objections.

Additional competition for talent means more guarantees. More than six out of ten firms offer guarantees to new recruits, versus only 50% of last year's group (Figure 18). Other incentives being used include promotions, leadership development, and various training programmes.

Every firm has a unique set of characteristics that are prioritised when recruiting prospective distribution professionals, but certain themes are relatively consistent from one year to the next. Personal relationships with clients, for example, are the most highly valued factor, with industry experience and product expertise following close behind (Figure 19). The latter has become especially critical in recent years as products become increasingly complex. Our interviews corroborated that there is a growing expectation of deeper investment knowledge, and technological acumen is being prioritized. Meanwhile, academic pedigree remains an important consideration but has taken a back seat

as more firms attempt to diversify their hiring base.

The growing demand for technical expertise is also manifested in the unmissable impact of product specialists. More than nine out of ten firms already employ product specialists and they are overwhelmingly seen as having a positive impact on their ability to raise assets (Figure 20).

Not all firms have chosen (or been able) to invest in country specific sales teams, but local expertise is generally prized. Centralized decision-making (especially from overseas) is commonly blamed for confusion and inefficiency. Despite the Union, Europe is a complex place to do business. Regardless of whether it is a global firm with abundant resources or a smaller organization with limited staff, the ability to effectively navigate specific markets is invaluable. Furthermore, brand strength can vary dramatically from one country to another. Local professionals can step into the vacuum and effectively make the case for an allocation to an otherwise ambivalent prospect.

As hiring heats up once again, firms are faced with the question of where they can find the best candidates. Greater pressure to identify talent is evident in the fact that this year's survey participants were much more likely to characterize various sources of talent as "very" or "extremely" important. Recruiters topped the list this year as a way to identify talent, closely followed by internal hires and poaching directly from competitors. While valued by some, consulting firms and investment banks are generally considered less important as sources of talent. Despite occasional complaints about the dearth of talent, others in the industry say they are convinced that they "can always find quality people."

The search for cultural fit and technical expertise has caused many firms to return time and again to the same sources of talent, whether junior or

experienced. This has inevitably produced relatively homogenous teams, which are increasingly viewed as a liability rather than an asset, hindering a firm's ability to gather assets and dulling its competitive edge. As a result, more than two out of three firms are actively aiming to become more diverse through their hiring (Figure 22). Diversity most often refers to gender and race/ethnicity, but it is also not uncommon for it to encompass other characteristics like sexual orientation, age, and education. Some firms take a more expansive view than others, choosing to include religion, gender identity, disability status, and other factors as types of diversity.

Reasons for the growing focus on diversity vary, but most often include the need to attract the best available talent, diversity of thought and creativity (getting away from "group think"), the desire to better understand and reflect the needs of clients, and the desire to generate shareholder value.

Among firms focusing on diversifying their workforces, an average 36% of all employees are currently said to contribute to diversity. Efforts to further diversify personnel include a variety of initiatives driving inclusion of these diverse hires (without inclusion—diversity initiatives generally fall flat or fail outright). These initiatives encompass processes, policies, and culture. Training and workshops feature prominently, and hiring, promotion and succession practices are being tweaked. Women are proactively being included on lists of prospective hires and some firms are promoting opportunities to a wide range of groups at career events and other venues. CVs are being anonymized and recruiters are being scrutinized to ensure they are complying with diversity standards. Partnerships are being established with a variety of organizations to help engage with a wider pool of talent. Diversity metrics are increasingly being tracked and monitored, and at least one firm has gone as far as hiring a Chief Diversity Officer.

Figure 16. Institutional Sales Headcount and Hiring

	25th Percentile	Median	75th Percentile	Average
Current number of sales professionals	19.8	9.0	4.3	15.6
Change from a year earlier	1.0	0.0	0.0	0.9

Figure 17. Is Your Firm Hiring Institutional Sales Professionals in the Coming 12 Months?

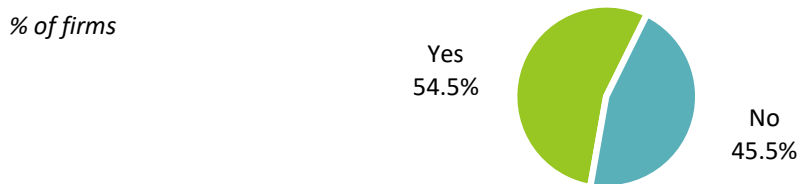


Figure 18. Guarantees Offered to New Sales Team Recruits?

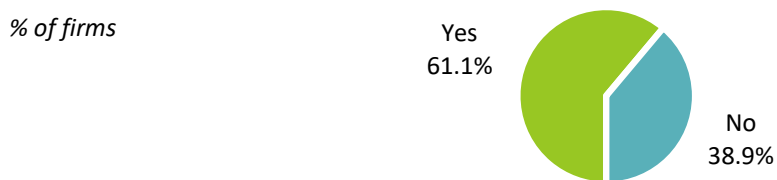


Figure 19. Rate each factor on its importance when your firm hires sales professionals.

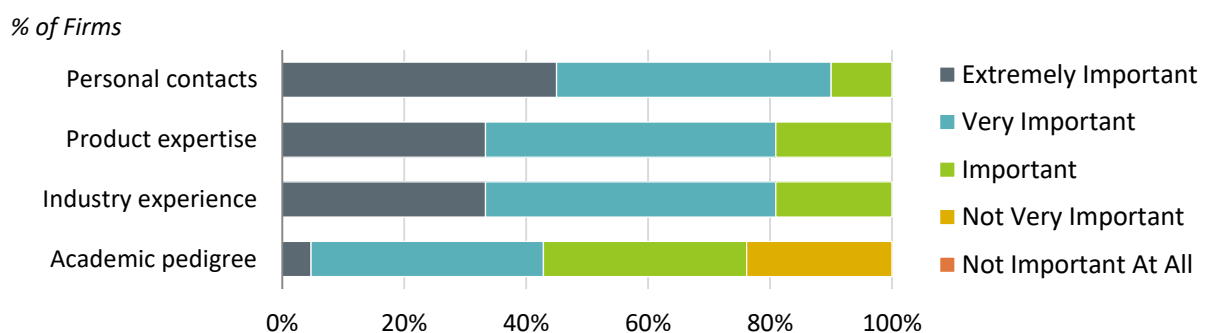


Figure 20. How much impact do product specialists have on institutional sales at your firm?

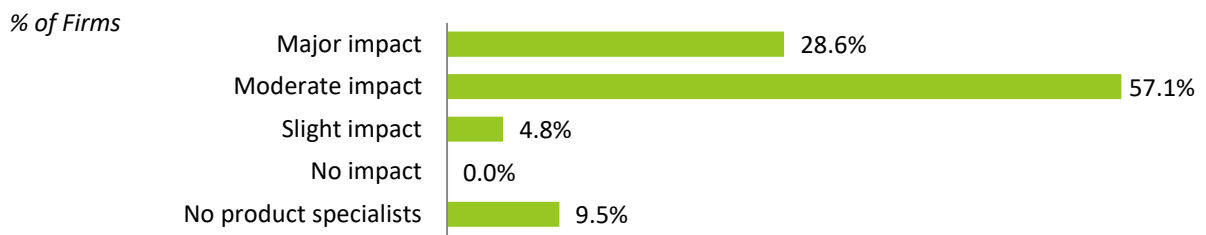


Figure 21. Rank the following by how important they are as sources of talent for your firm

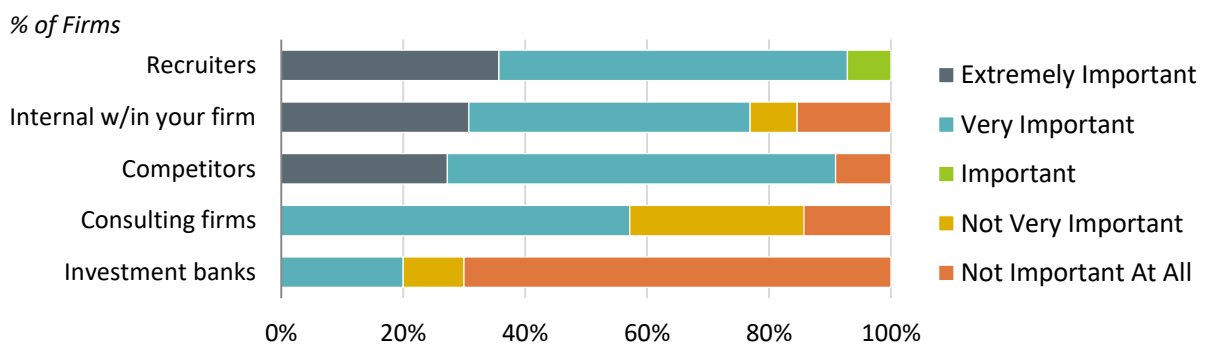


Figure 22. Is your firm actively aiming to become more diverse through hiring?

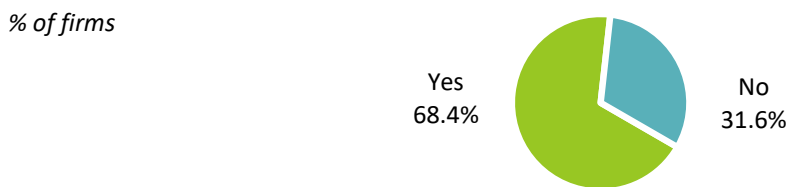


Figure 23. What does diversity mean in your recruiting and hiring efforts? (Select all that apply)



Compensation Data – Senior Institutional Sales

The vast majority of firms continue to employ a head of institutional sales for Europe or EMEA (Figure 24). Firms without this position get by with senior sales professionals in one or more key country markets. Country heads are most common in the UK and Germany, where 77% of firms employ senior sales professionals. More than half of the firms in the survey also have a dedicated head of sales for Switzerland (some based elsewhere), while country heads are somewhat less common in other markets.

Not all firms structure distribution efforts by country. Some have centralized sales teams that may or may not reflect channel specialties.

Overall pay for senior professionals was generally lower among this year's group than what was seen last year. The highest paid Heads of European sales earned more than last year, but the reported range of total compensation was significantly wider than last year, meaning median total compensation in this group slipped for the second consecutive year to €593,000. Average total compensation also declined to €680,000 from €723,000 a year earlier (Figure 25).

Base salaries predictably account for a relatively small slice of overall compensation for European sales heads, usually ringing in around €200,000. Annual bonuses typically account for approximately half of overall compensation, but there is considerably more variability when it comes to LTIPs. While equity or other long-term vehicles account for 12% of the median total compensation for sales heads, this figure rose to 26% for top quartile earners (Figure 26).

One of the hottest markets in Europe continues to be in the Benelux. Senior sales professionals covering the Benelux region continue to earn more than their counterparts in other regions. Average

and median total compensation were virtually unchanged from a year ago at €526,000 and €510,000 respectively (Figure 27). Top quartile earners earn €719,000 or more, placing them above average heads of European sales.

Compensation for senior sales professionals in Germany, Switzerland, and the UK falls into a relatively narrow band. Median total compensation is between €400,000 and €415,000. Average total compensation is between €440,000 and €450,000. These similarities mask some structural nuances. Senior personnel in Germany, for example, tend to get less long-term incentives, resulting in a less upside than their UK and Swiss colleagues (Figures 28, 29 & 30).

After falling last year, compensation for senior Nordic sales professionals stabilized. At approximately €445,000, average total compensation is on par with their continental cousins. Median compensation is meaningfully lower, at only €331,000 (Figure 31).

Senior sales leaders are least common in France. They are also paid the least. Median total compensation of €312,000 is only 61% of that earned by Benelux sales heads. Average total compensation of €351,000 is higher, but still less than all other country heads (Figure 32). This may be changing (albeit slowly): Senior sales professionals in France are slated to see their compensation rise faster than any of country heads (Figure 34)—possibly driven by expectations of a post-Brexit world.

Total compensation among top quartile earners across all senior sales professionals averaged €1,075,000, a 16% increase from a last year (Figure 33). Of this, €227,000 came in the form of base salary, €529,000 as bonuses, and another €317,000 as equity or other long-term incentives.

Figure 24. Country/Regional Sales Heads Currently Employed

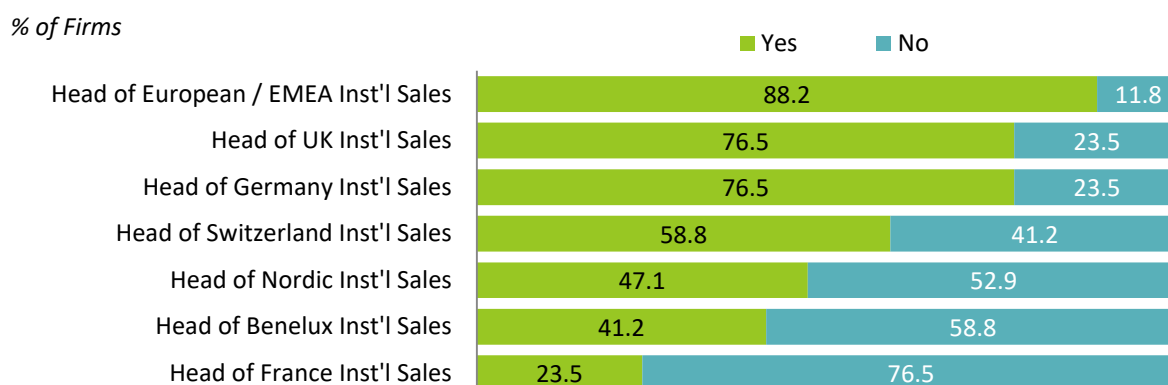


Figure 25. 3-Year Compensation Trends for Country/Regional Heads of Institutional Sales

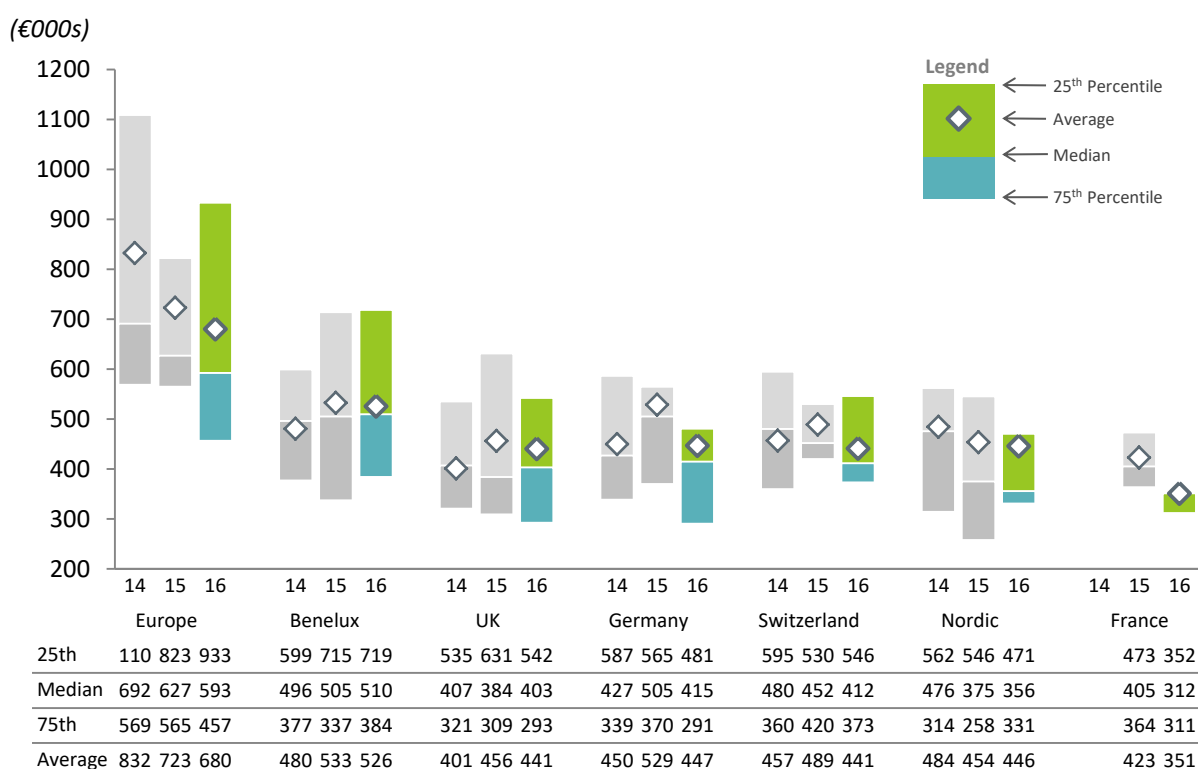


Figure 26. Compensation for Head of Institutional Sales – Europe

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	235	0	439	243	933	57% Higher
Median	205	0	315	72	593	14% Lower
75th Percentile	188	0	228	0	457	7% Unchanged
Average	206	0	349	125	680	21% New Hire

Figure 27. Compensation for Head of Institutional Sales – Benelux

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	250	180	192	90	719	40% Higher
Median	194	0	95	10	510	40% Lower
75th Percentile	192	0	20	0	384	0% Unchanged
Average	207	129	122	54	526	20% New Hire

Figure 28. Compensation for Head of Institutional Sales – Germany

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	191	0	208	70	481	64% Higher
Median	166	0	192	0	415	9% Lower
75th Percentile	126	0	148	0	291	9% Unchanged
Average	165	2	240	36	447	18% New Hire

Figure 29. Compensation for Head of Institutional Sales – Switzerland

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	241	0	219	112	546	44% Higher
Median	205	0	195	40	412	22% Lower
75th Percentile	176	0	75	0	373	11% Unchanged
Average	204	0	157	59	441	22% New Hire

Figure 30. Compensation for Head of Institutional Sales – United Kingdom

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	192	0	229	102	542	38% Higher
Median	165	0	193	40	403	31% Lower
75th Percentile	147	0	127	19	293	15% Unchanged
Average	170	0	194	67	441	15% New Hire

Figure 31. Compensation for Head of Institutional Sales – Nordic Region

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	198	0	245	73	471	63% Higher
Median	161	0	181	34	356	25% Lower
75th Percentile	141	0	157	0	331	0% Unchanged
Average	170	0	209	65	446	13% New Hire

Figure 32. Compensation for Head of Institutional Sales – France

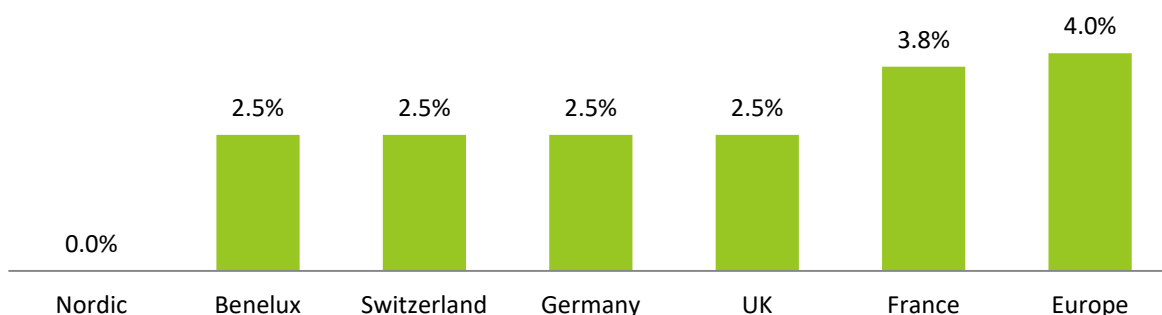
	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	165	0	186	27	352	25% Higher
Median	141	0	162	8	312	25% Lower
75th Percentile	139	0	146	0	311	0% Unchanged
Average	163	0	169	19	351	50% New Hire

Figure 33. Compensation for Heads of Institutional Sales – Top Quartile Earners

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	257	0	538	332	1,132	75% Higher
Median	228	0	448	296	1,045	0% Lower
75th Percentile	198	0	439	282	988	0% Unchanged
Average	227	0	529	317	1,075	25% New Hire

Figure 34. Projected % Change to Compensation for Regional Sales Heads in 2017

Median projected % change



Compensation Data – Institutional Sales

In addition to senior sales professionals with overall responsibility for specific markets, compensation data is also collected for other sales staff. These tend to be less experienced professionals (Most have less than 10 years of experience), but experience levels range from those who are clearly identified as “junior” staff to those with enough experience to qualify as veterans without management responsibilities.

Average compensation was down across most markets, and we may be seeing signs of oversupply in the bigger markets, where median compensation has fallen off. Meanwhile, there appears to be growing parity across regions.

Average total compensation in this group fell slightly to €302,000, falling between the totals recorded in each of the past two years (Figure 35). Median compensation also drifted downward as the overall range moved back in line with values seen two years ago. Equity or LTIP participation is relatively common but typically does not account for a significant piece of overall compensation. Long-term incentives account for 11% of average compensation for this group, while base salary and bonuses account for 50% and 39% respectively.

Median compensation of €314,000 for sales professionals covering the Nordic region is down from last year but remains the highest among all regions surveyed (Figure 37). Compensation levels for sales professionals in the Swiss market are close behind, but the range of compensation paid to this group remains unusually tight. Median total compensation is €307,000 with an interquartile range of only €25,000 (from €299,000 to €324,000) (Figure 38).

Pay levels for sales professionals in “other” regions (i.e. those not addressed directly by the survey)

exhibit significantly more range (Figure 39). The group includes people with coverage of Italy, Austria, Spain, Middle Eastern markets, and others. Average total compensation of €310,000 amongst this group falls in the middle of the broader cohort. What makes this group particularly notable is the fact that it exhibits the most upside, with those in the top quartile making €384,000 or more. Nevertheless, one interviewee observed that the talent pool was relatively stagnant in Southern Europe, as there was very little turnover. As a result compensation packages (and expectations) tended to be lower than those found in other markets.

Median compensation comes in below €300,000 for sales personnel in the Benelux, UK, and Germany. Maximum earning potential, on the other hand, is on par with other markets, meaning top earners pull overall averages up (Figures 40, 41, 42).

Top quartile earners took home a minimum of €342,000, but most pay packages were significantly larger. Median total compensation for this group was €451,000 while the average was €496,000 (Figure 43). Base salaries were similar to others, while average bonuses and LTIP awards were both at least twice as large as those paid to the overall group. As a result, bonuses count for almost half of the average total compensation for top quartile earners, and LTIPs count for 17% of their total package.

Expectations for the coming year are muted. Non-management sales professionals are generally expected to see their compensation rise, but change is likely to be in the single digit percentages. The one exception is Germany, where a median increase of 10% is projected (Figure 44).

Figure 35. 3- Year Compensation Trends for Sales Professionals (Ex-Country Heads)

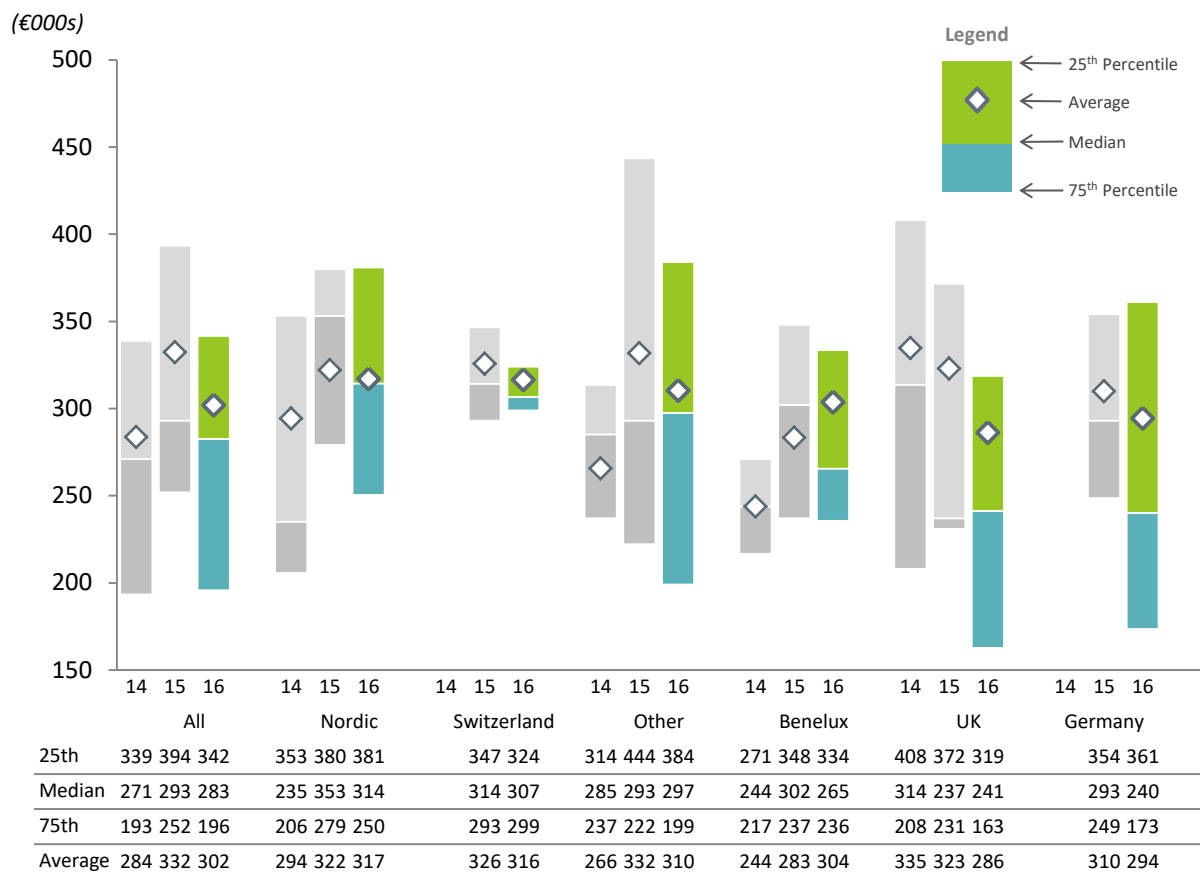


Figure 36. Compensation for All Institutional Sales Professionals (Ex-Country Heads)

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	170	0	155	57	342	59% Higher
Median	144	0	95	16	283	5% Lower
75th Percentile	121	0	55	0	196	16% Unchanged
Average	148	0	117	34	302	19% New Hire

Figure 37. Compensation for Institutional Sales Professionals – Nordic Region

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	171	0	117	95	381	75% Higher
Median	161	0	90	62	314	0% Lower
75th Percentile	145	0	79	23	250	0% Unchanged
Average	155	0	106	56	317	25% New Hire

Figure 38. Compensation for Institutional Sales Professionals – Switzerland

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	182	0	142	30	324	33% Higher
Median	176	0	117	15	307	0% Lower
75th Percentile	168	0	100	0	299	33% Unchanged
Average	174	0	125	15	316	33% New Hire

Figure 39. Compensation for Institutional Sales Professionals – Other

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	170	0	162	57	384	54% Higher
Median	142	0	118	8	297	15% Lower
75th Percentile	121	0	39	0	199	15% Unchanged
Average	153	0	128	30	310	15% New Hire

Figure 40. Compensation for Institutional Sales Professionals – Benelux Region

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	161	0	118	78	334	67% Higher
Median	145	0	97	39	265	0% Lower
75th Percentile	140	0	85	0	236	0% Unchanged
Average	156	0	106	39	304	33% New Hire

Figure 41. Compensation for Institutional Sales Professionals – United Kingdom

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	133	0	124	41	319	78% Higher
Median	119	0	68	34	241	0% Lower
75th Percentile	87	0	52	14	163	11% Unchanged
Average	117	0	112	46	286	11% New Hire

Figure 42. Compensation for Institutional Sales Professionals – Germany

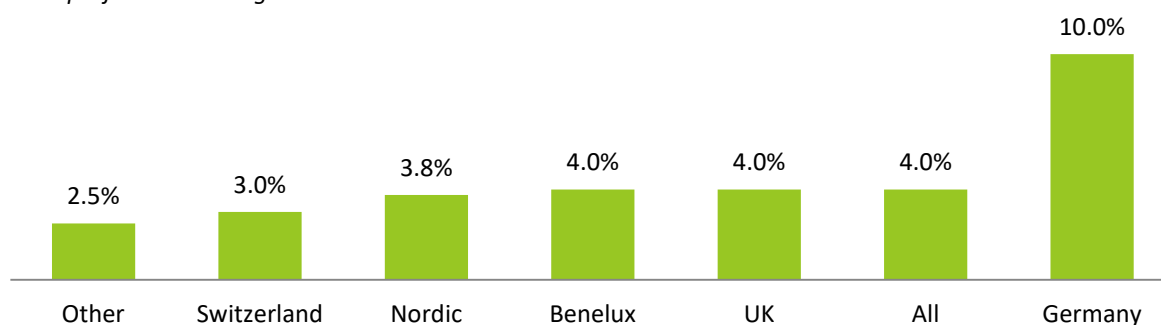
	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	193	0	142	18	361	25% Higher
Median	146	0	42	0	240	0% Lower
75th Percentile	118	0	11	0	173	50% Unchanged
Average	165	0	111	18	294	25% New Hire

Figure 43. Compensation for Institutional Sales Professionals – Top Quartile Earners

	€000s					% of Firms
	Salary	Commission	Bonus	Equity	Total	Change from Prior Year
25th Percentile	186	0	356	96	597	70% Higher
Median	172	0	189	77	451	0% Lower
75th Percentile	164	0	171	64	387	30% Unchanged
Average	179	0	233	83	496	0% New Hire

Figure 44. Projected % Change to Compensation for Institutional Sales Professionals in 2017

Median projected % change



CONCLUSIONS

Compensation benchmarks are impacted by a multitude of complex macro trends shaping the European institutional market. While benchmarks are useful, they must be observed in conjunction with these macro themes to be fully appreciated. Distribution professionals in particular want to work where they can be successful (financially and career-wise) and this depends on far more than simple benchmarks. The competition for client assets as well as the hearts and minds of employees is a battle fought on multiple fronts. As noted in our introduction, we see four key areas where the fight is being waged: Products, markets, technology, and culture.

As asset allocations shift, many firms are left feeling vulnerable. Some opt for restraint, preferring to stick close to their existing areas of expertise. Others are proactively developing new products or exploring ways to acquire them. Much of this activity is driven by client needs, but some of it is being done as a way to stay relevant and differentiated as more assets continue to be steered toward passive and/or alternative strategies.

A lot of product development is happening in response to the widespread shift toward real assets. Sometimes driven by government mandates, demand is particularly concentrated in private debt, real estate debt and infrastructure debt. Another key development is the trend toward liability matching. ESG is also fuelling growth, while the popularity of alternative strategies adds yet another element to the product development initiatives. Some firms have opted to move beyond benchmarked strategies and fully embraced unconstrained vehicles. Others are committing their entire investment organization to the incorporation of ESG processes throughout every strategy managed.

Assuming that the necessary products and performance are in place, strong relationships or branding can win the day. Other times, it may be a less common factor like the ability of a firm to use its balance sheet to co-invest alongside clients.

In addition to growing their stable of products, more firms are looking beyond their traditional client base to expand into new geographic markets and investor segments. Widespread ambivalence about the institutional market is counterbalanced by enthusiasm for the individual and advisor markets. Regional dynamics can be even more complex in this segment, but dedicated resources, technology (e.g. Robo-advisors) and targeted marketing can potentially reap significant benefits. The most ambitious firms analyse the relative attractiveness of all segments and channels by country and region. Several participating firms, for example, pointed out that retail markets in Spain and Italy appeared to be gaining steam—and have been bulking up staff in these markets.

Technology is enhancing the ability of some firms to engage with their clients and empower their employees while also managing their businesses better. Analytics are becoming embedded in more processes and boosting sales effectiveness, efficiency and transparency in various ways. This can be a double edged sword, allowing clients to be better informed and sales production to be scrutinized more effectively. Activity metrics are being used more widely; and often reveal the struggle sales professionals face when attempting to meet basic monthly client touchpoint goals. This is particularly acute in an environment where clients are becoming more “arms-length” making it difficult to get meetings or calls. It is not inconceivable to think that better business intelligence/analytics will ultimately result in fewer sales professionals industry-wide. In the meantime, an aptitude for data is increasingly

valued in roles (such as distribution) where it was typically overshadowed by interpersonal skills. How this trend will be priced into compensation packages is still anyone's guess.

The growing role of technology is leaving its mark on many organizations, but some firms are going much further by proactively diversifying their workforce in an effort to rejuvenate their culture and expand their opportunities. Culture is widely seen as playing a vital role in attracting clients as well as employees. Tampering with it could be risky, but some choose to accept that risk as a price for achieving something greater. Greater diversity, flexibility, and mobility are all powerful agents of change, and balancing these elements with compensation structures that reinforce these values will be critical to the sales teams of the future. If a more committed, creative and technologically-driven workforce has a better chance of establishing meaningful relationships with clients is the outcome, we can expect these approaches to quickly move into the mainstream.

It is clear that the role of sales and marketing professionals in the asset management industry throughout Europe continues to morph. How will compensation be affected? Despite the death of commissions, it seems unlikely that incentive pay will be completely decoupled from asset raising or revenue production. As company cultures and sales processes continue to evolve, the question will be how to best measure contributions to support these evolving values. Analytical expertise is sure to be valued, as is creativity. Engagement will be as critical as ever, but it may happen in ways that have not even been imagined yet.

The last ten years have been a formative period for European asset managers faced with a multitude of challenges and opportunities. If anything, the next ten years are likely to be even more volatile. We look forward to guiding and advising institute members as they navigate talent trends and compensation best practices in an ever-evolving and dynamic industry.

ABOUT THE SPONSORS

European Institutional Investor Institute

The European Institutional Investor Institute is a private-membership organisation for financial institutions. The Institute meets five times a year in different European countries. The first meeting of the year is the Senior Delegates' Meeting, attended by members only, and focuses on market and operational issues. The following four meetings are regional investor roundtables where we look at the issues facing in particular regions. These four meetings are attended by the appropriate III representative and a guest group of institutional investors from the region. The four regions covered are Benelux pension funds; Nordic pension funds; UK & Ireland pension funds; and German, Austrian & Swiss pension funds. EIII provides its members with research, data and information regarding institutional investors and asset management firms.

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ABOUT THE AUTHORS

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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.

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Paige is a member of the Advisory Board of 100 Women in Hedge Funds. 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) and the European Institute (EI) and is a regular speaker at all three annual senior delegate conferences for EIII, 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

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