



BONUS TIME

Salaries were flat and bonuses down in 2005.
But some had plenty of cause to celebrate.
Credit surveyed the top recruitment consultants
to find out who got paid what this year

Base salaries were flat on last year while **bonuses** in general were down up to **25%** on last year. Exceptions included those working in **structured credit**, with **huge increases** reported for CDO specialists and ABS analysts.

European high-yield analysts were also very well rewarded, as banks continue to build businesses. But the poor old **investment-grade analysts** came off the worst.

Guaranteed bonuses are now in place for about **50–75%** of moves, although two-year guarantees are now extremely rare.

While the champagne corks have been popping for a few lucky individuals, bonus time was a more sober experience for most in the credit markets this year.

Recruitment consultants, who make it their business to monitor the pulse of the bonus market, estimate year-on-year downturns of between 7% (Napier Scott) and 25% (Jared James) for those working in credit and associated markets.

‘Cost-cutting’, the catch-all explanation for any retrenchment in the financial markets, is of course to blame. And in research and analysis, compensation has been hit by ongoing debate over the value of providing freebie research to clients. That discussion has only intensified as regulators such as the Financial Services Authority up the compliance stakes with new rules on conflicts of interest in investment research.

Yet there was plenty to smile about this year – for some. In line with revenue potential, the biggest awards were made in structured finance, with asset-backed securities analysts and CDO specialists seeing “huge increases”, according to one headhunter. Demand for structured and hybrid traders continues to outstrip supply, agrees Shaun Springer, chief executive of Napier Scott Executive Search, though the imbalance is less pronounced than in 2004, he adds.

In our survey of salaries and bonuses paid out this year, which was compiled by aggregating average numbers seen in placements provided by five recruitment consultancies, it was certainly the structurers and derivatives experts that fared the best. Average total compensation (base salary plus bonus) stood at £816,000 and £931,000 respectively in these categories. Perhaps more tellingly, these were also the areas which saw the widest spread of responses. One consultant’s average numbers seen for senior structurers ranged from £363,000 to £1.3 million for a top-tier bank, and £779,000 to £1.6 million for the same level in derivatives.

These are also the areas in which there is the starkest divide between the top tier and banks lower down the pecking order. Similar roles in third-tier banks (ranked 20+) pay on average only 39% of the

top tier’s rates in structuring and 34% in derivatives. The ratio of tier three earning power compared with tier one in *Credit’s* survey stands at around 50% in other categories.

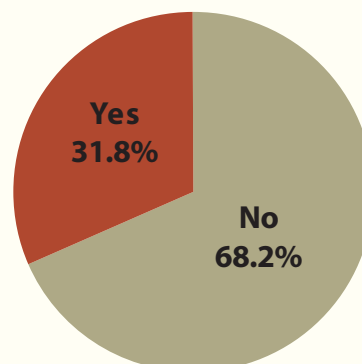
In research and analysis, bonuses mirrored the performance of their sector. Compensation was “robust”, for example, for insurance, autos and high-yield analysts, says Robin Keck, at The Rose Partnership, in line with market volatility in those sectors. In high yield in particular, which has suffered most from the brain drain to hedge funds, an insufficient supply of good analysts is propping up pay levels for those that remain on the sell side.

Senior high-yield analysts at a top-tier bank, for example, earn an average of £555,000 in total compensation in our survey, some 37% more than their investment-grade counterparts. Unfortunately for high-yield analysts at the rating agencies, this increased earnings power is not replicated there. “Where analysts on the sell side have made money, it’s in bonuses,” explains one recruiter. “Although rating agencies’ salaries have now caught up with the sell side, on bonuses they’re still well below.”

Another consultancy, Robert Walters, points to growing demand for analysts with local market knowledge and specific language skills for the

Are you happy with your bonus?

We polled our readers in March to ask whether they were happy with their bonus this year. The response? A resounding ‘no’.



Sell-side total salaries (base salary plus bonus: £ '000s)

Trading, sales and derivatives

	Head of desk	Senior trader	Senior sales dealer	Senior structurer	Senior derivatives dealer	Junior trader derivatives	Junior sales dealer
Top-tier (top-10 banks)	824	722	479	816	931	300	200
Second tier (10-20)	564	532	329	486	495	200	150
Third tier (20+)	419	415	199	319	315	150	100

Research and analysis

	Head of desk	Senior strategist	Senior analyst investment grade	Senior analyst high yield	Junior analyst
Top-tier (top-10 banks)	906	589	406	555	125
Second tier (10-20)	660	401	218	356	90
Third tier (20+)	475	267	217	281	77

European markets. But, warns Napier Scott, this will not necessarily lead to an associated increase of pay. “The influx of comparatively cheaper skills from the eastern, Russian and CIS centres has kept supply and demand in balance,” says Springer.

There is of course some cynicism over the usefulness of salary surveys but it can be helpful to provide benchmarks for the industry as a starting point for consideration. While polling individuals within banks opens up a survey to imprecision, as firms may wish to exaggerate, or even play down, their pay awards for various reasons, the respondents in our survey – the top recruitment firms in credit – have answered according to the numbers they have *actually seen* in placing people over the past year. Aggregating their average numbers gives what we believe is as solid a set of benchmarks as possible for compensation in the industry this year.

Uncovering the trends governing pay and bonuses in this market, however, requires some deeper digging.

The most notable feature that is hidden among the aggregated numbers is a much steeper “bonus curve”, according to one recruitment consultant. “The people who have done well have been very well remunerated,” he says, with many seeing 200% increases on bonus payouts, compared with last year, says another. “There is now a much bigger gap between those who earned the highest and the lowest total salaries.”

Secondly, the waters have been muddied by the continuing trend for banks to merge departments – particularly across debt and equity – making the partition of the bonus pool more complicated. The 200-strong equities trading, sales and structuring group at one European bank, for example, reportedly lost out when it was merged with the cash equities business with six times as many employees – but which made a fraction of the revenues. “Banks are bringing businesses together to create a bigger bonus pool for more people,” says one consultant. This creates a smoother revenue stream to those outside the bank, but it’s tough on desks which have to share bonus pools with less profitable businesses.

A third trend is the guaranteed bonus, which is now “the norm” in the majority of senior moves, says one consultant. Some 50% of the people he placed in the first six months of the year were given a guarantee, as were 75% of those who moved in the last six months. This has had a detrimental impact on those who didn’t have guarantees in place, however, as they wait for the scraps left in the pot after the guarantees have been paid. “A lot of the bonus pool this year went to the people who got guaranteed bonuses when banks were hiring aggressively,” says one consultant.

However two-year guarantees, which were more common about two years ago, are now “unbelievably rare”, says Keck, “except for stellar candidates”.

Increasingly, banks are putting in place deferred bonus payments. An extreme example of that trend is Henry Paulson, chief executive of Goldman Sachs, who took home only \$600,000 in salary, with no cash bonus, but who will receive over \$29 million – over

Buy-side total salaries (£ '000s)

	Head of fixed income	Senior portfolio manager	Head of credit research	Senior analyst
Pension fund manager	375	250	303	153
Investment/asset manager	375	250	325	197
Hedge fund manager			263	195

Rating agency total salaries (£ '000s)

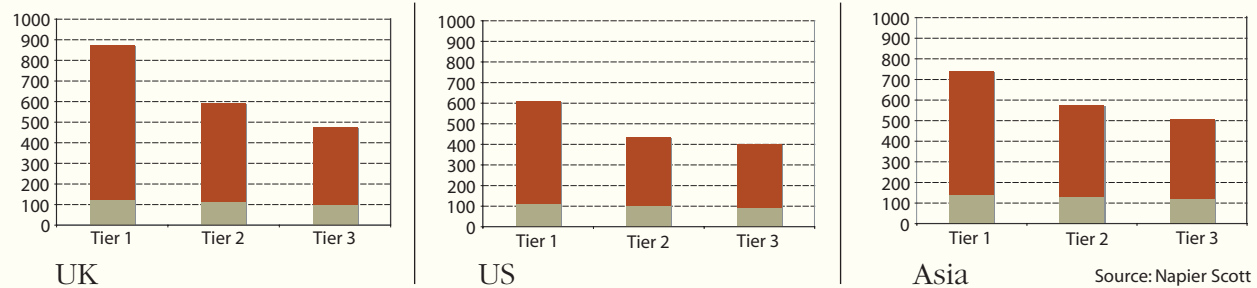
	Senior analyst investment grade	Senior analyst high yield	Junior analyst
Rating agency	182	198	48

Methodology

Credit magazine polled five major consultancies that recruit for the credit markets. We asked them to fill in *average* numbers for base salaries plus bonuses they have seen when placing candidates over the past year. These numbers were aggregated, using the midpoint where bands were given, to give a mean number for each category. Tier one banks were categorised as the top 10; tier two as banks ranked 10–20; and tier three banks 20+.

London still top for salaries

Pay scales for managing directors in CDS trading (£ '000s)



98% of his salary for 2004 – in deferred stock awards, which will not be delivered until January 2008.

But perhaps the most intriguing feature of compensation packages this year can be summed up by what hasn't changed, suggests Keck at The Rose Partnership. "What we haven't yet seen is a significant drop-off in compensation because banks are not valuing analysts," he says. Banks such as Deutsche Bank and ABN Amro have cut back in credit analysis for clients this year, and many in the market have predicted an onward march towards a 'desk research' approach in credit: tying an analyst's performance to a proprietary trading desk, where their 'value-added' is clearer.

"My expectation was that compensation for investment-grade analysts would really fall off this year – say for people who got £250,000 last year to now get £175,000 to £200,000. But that hasn't happened," says Keck. He and some other consultants still expect compensation in general for analysts to drop off. But that is more likely to happen

through natural attrition than for those currently in jobs to see their earnings decline. One UK bank, for example, set up a more junior credit analysis team after its veteran staff opted to leave.

In terms of geographical variations, the good news for credit teams in London is that it remains the highest-paid centre. Napier Scott's proprietary salary research revealed top-tier London-based managing directors in CDS trading, for example, earn 43% more than their counterparts in the US, and 18% more than their Asia-based colleagues. ■

Credit magazine would like to thank the following consultancies for their help in compiling the 2005 salary survey:

- Alexander Mann Group
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- Napier Scott Executive Search
- The Rose Partnership

The big league

As ever, cost-cutting does not apply to the big league. Chief executives of the top-performing banks have not gone short this year. Below are some of the biggest winners.



Henry Paulson, 58
 Chairman and chief executive officer, Goldman Sachs
\$29,789,359

Including:
 base salary \$600,000
 stock \$29,150,028
 other \$39,331



Richard Fuld, 58
 Chairman and chief executive officer, Lehman Brothers
\$26,307,143

Including:
 base salary \$750,000
 bonus \$10,250,000
 stock \$10,357,143
 options \$4,950,000



James Cayne, 70
 Chairman and chief executive, Bear Stearns
\$24,721,875

Including:
 base salary \$200,000
 bonus \$10,081,291
 stock \$9,496,209;
 options \$4,944,375



Ken Lewis, 57
 Chairman, CEO and president, Bank of America
\$19,250,496

Including:
 base salary \$1,500,000
 bonus \$5,712,500
 stock \$11,842,884
 other \$195,112



Josef Ackermann, 56
 Chief executive, Deutsche Bank
€10,081,000 (\$13,750,484)

Including:
 base salary €1,150,000
 bonus €5,016,000
 stock €3,915,000