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Investment Professionals' Compensation on the Rebound According to CFA Institute and Russell Reynolds Associates' Survey

*Fourth Biennial Survey of CFA Institute Members Shows Compensation Levels Have
Increased, but Still Below 2001 Peak*

*Hedge Fund Professionals Are Still Industry's Leading Earners, but Mutual Fund
Managers Have Narrowed – and in Some Cases Eliminated - the Gap*

New York, May 6, 2005 – Compensation for U.S. investment professionals is on the rebound, according to a survey released today by CFA Institute and Russell Reynolds Associates. Overall 2005 median total compensation for U.S.-based professionals has risen by 17 percent since 2003. The compensation can be attributed to a modest three percent rise in base salaries and a more substantial 17 percent increase in bonuses. Senior investment professionals have seen even more accelerated rates of growth. Compensation for professionals with 10 or more years of experience has risen by 20 percent (from \$200,000 in 2003 to \$240,000 in 2005), with the top 10 percent of earners in this group earning more than \$750,000 annually.

While the growth is significant, overall compensation is seven percent off from its 2001 peak. Two-year growth rates are, however, in line with market trends. Specifically, for the year-ended March 31, 2003 to March 31, 2005, the Dow Jones Industrial Average has risen by 31 percent, the S&P 500 Index is up by 39 percent and the NASDAQ composite has gained an even more substantial 49 percent.

“The compensation findings are consistent with the growing demand for senior investment professionals that we have seen in our business over the past two years,” said Debra Brown, a Managing Director in the Investment Management practice of Russell Reynolds Associates. “Nowhere is that demand more robust than with respect to Chief Operating/Administrative Officers. Driven by increased regulatory pressures and an industry emphasis on compliance, the quality CAO/COO is on this year’s ‘most wanted’ list, particularly in the hedge fund community. While the spike in demand for the COO is relatively new, we’ve also seen a continuation of many of the trends that first surfaced in

2003 – most notably, the interest in fixed income professionals who remain heavily recruited and, as a result, continue to outpace and out-earn their equity colleagues.”

Impact of the Chartered Financial Analyst (CFA) Designation on Compensation

The 2005 study once again illustrated that employers are willing to pay a premium for investment professionals who have earned the coveted Chartered Financial Analyst™ (CFA®) designation. Among those with 10 years experience or more, those with the CFA designation out-earn their peers without the charter by 24 percent (median of \$248,000 vs. \$200,000). The gap is even wider among all respondents, regardless of levels of experience; those with the CFA designation command compensation levels 54 percent higher than those without it (\$180,000 vs. \$116,850). As for the value of the CFA designation compared to an M.B.A., the study shows that for professionals with 10 years experience or more, those with the CFA designation out-earn those with only an M.B.A. by 18 percent (median of \$236,510 vs. \$200,000); however, the combination of the charter and an M.B.A. ultimately proves to be the most lucrative educational mix (median of \$255,000).

“Employers recognize the value of the CFA charter because it’s a measure of both competence and integrity,” said Bob Johnson, PhD, CFA, managing director at CFA Institute. “Those are difficult qualities to measure, but when investment professionals have voluntarily subjected themselves to the profession’s most rigorous examination process, and succeeded, that obviously sends an important message to employers.”

Employer Type and Scale

Survey findings indicated varying compensation practices according to the type and scale of employer. As with 2003, those professionals employed by hedge funds and mutual fund management firms out-earned their investment peers by wide margins. Those employed by hedge funds, in particular, earned 47 percent more than overall median compensation. While that still represents a sizeable gap, it is notably less than the 69 percent margin such hedge fund professionals earned in 2003. Moreover, the gap between hedge fund employees and mutual fund employees has also narrowed significantly.

When just looking at senior investment professionals (10-plus years of experience) who are responsible for asset management and/or research, the gap between hedge funds and mutual funds disappears entirely, with each earning a total median compensation of \$400,000. Even more interesting, when looking only at portfolio managers with 10-plus years of experience, the compensation pendulum swings in favor of mutual fund managers. Overall, senior portfolio managers employed by mutual funds earn \$482,000 - 12 percent more than their peers at hedge funds (\$430,000).

These findings are part of the 2005 Investment Management Compensation Survey, an extensive global survey of investment professionals conducted jointly by the CFA Institute and global executive recruiting and assessment firm Russell Reynolds Associates. The survey examines the compensation of portfolio managers, securities analysts, pension officers and other senior-level investment professionals at an array of

investment management and financial service organizations. The 2005 survey compares compensation data with the 1999, 2001 and 2003 studies.

Job Function

The survey revealed a rise in compensation across almost all investment sectors and functions. Investment professionals responsible for operational, international and fixed income functions experienced the sharpest increase in compensation. Chief Operating/Administrative Officers, in particular, saw their median compensation increase by 60 percent, from \$200,000 in 2003 to \$320,500 in 2005 – the greatest single increase among all job categories. Continuing a trend that surfaced in 2001, fixed income professionals continued to outpace and out-earn their equity colleagues. This year, it was professionals responsible for global/international fixed income who fared particularly well, with portfolio managers and securities analysts responsible for that asset class realizing an earnings increase of 44 percent and 37 percent, respectively.

More specific functional changes of note include the sizeable year-over-year growth of portfolio managers of domestic equities employed by mutual funds. Mirroring NASDAQ growth rates, compensation for these stock mutual-fund managers grew by 48 percent, (from \$310,000 in 2003 to \$460,000 in 2005).

Gender Gap

Other compensation gaps remained noteworthy, particularly as they relate to gender-based pay. Overall pay inequity decreased from a gender gap of 15 percent in 2003 to 13 percent in 2005. Continuing a trend that surfaced in 2003, compensation gaps shrank as tenure grew. The trend was even more pronounced in 2005, as the gap between male and female investment professionals who have worked in the industry for over 20 years, more than halved, from 13 percent to just six percent. While there is no single explanation for the overall pay disparity, there are several factors that may impact compensation inequity, among them, female investment professionals are less likely to manage assets which tends to be a more lucrative career track.

Other factors affecting compensation include type of assets managed, geographic location, CFA designation and M.B.A.

Aggregate U.S. Findings

- Overall 2005 median total compensation for U.S.-based professionals is \$170,000, representing a significant 17 percent increase from 2003 (\$145,000).
- The increase in compensation can be attributed to a modest three percent rise in base salaries (from \$109,550 in 2003 to \$113,000 in 2005) and a more substantial 17 percent increase in bonuses (from \$30,000 in 2003 to \$35,000 in 2005).
- However, findings reveal that overall median compensation for investment professionals is still well off its 2001 peak (\$182,000).

Employer Type and Size

- Investment professionals employed by hedge funds are the most highly compensated, earning \$250,000 total median compensation. They are followed closely by those employed by mutual funds who earn \$240,000.
- Those employed by investment counseling/investment management firms, securities broker/dealers and insurance firms are also near the upper end of the earnings range. Compensation continues to be lowest at pension/investment consulting firms, banks and pension plan sponsors/endowment/foundations.
- Incentive compensation is most significant at hedge funds and mutual funds, accounting for between 30 and 40 percent of their total median compensation.
- Larger organizations (\$5 billion or more in assets under management) continue to pay better than small firms.

Types of Assets Managed

- Investment professionals managing mutual fund assets continue to earn the highest compensation. With median compensation of \$245,000, they earn 44 percent more than the industry median.
- Investment professionals who manage institutional or insurance accounts are also well compensated and earn 26 and 22 percent more than the median, respectively. They both significantly outpace those responsible for high net worth accounts.
- Those who do not manage assets (marketing and client service executives, pension consultants, etc.) earn far less than their peers (15 percent less than median compensation).

Job Responsibility

- Chief Operating/Administrative Officers and Portfolio Managers of Global/International Fixed Income are among the most highly compensated.
- The top 10 percent of CEOs earn compensation packages in excess of \$1.5 million. The top 10 percent of Heads of Equities and Heads of Fixed Income also fared well with compensation packages that top the \$1 million mark.
- The only job functions to experience a drop in earnings were Strategists and Heads of Equities and who saw their compensation decline by one and two percent, respectively.

Regional U.S. Differences

- Compensation varies widely by geography. U.S. cities reviewed in the 2005 survey included: Atlanta, Boston, Chicago, Denver, Dallas, Houston, Los Angeles, Minneapolis/St. Paul, New York, San Francisco and San Jose/Menlo Park.
- Investment professionals living and working in New York City are the most highly compensated, earning 38 percent more than the median total compensation.

- Those employed in Boston, Minneapolis/St. Paul and San Francisco earn about 15 percent more than the median. Compensation for those in Chicago, Atlanta and Los Angeles also exceeds the median by five, four and one percent, respectively.
- Compensation for investment professionals in San Jose/Menlo Park is at the median, while those in Denver, Dallas and Houston earn less than the median. In fact, those in Denver and Dallas earn about 20 percent less than the overall median.

Drivers of Incentive Bonus Compensation

- Consistent with 2003, the 2005 survey revealed that overall business performance of an organization is the single greatest determinant of an investment professional's bonus. Seventy percent of those surveyed pointed to firm profitability as the major driver of incentive compensation.
- Organizational investment performance is cited by 44 percent of those surveyed as a key determinant of incentive compensation. Among this group, 41 percent say that both relative and absolute performance impacts their bonus, while 34 percent say only relative performance is considered.

The 2005 survey also examined global compensation variations. Findings indicated notable differences in compensation levels by country. With a total median compensation of US\$217,048, investment professionals in the U.K. out-earn their peers in all other countries surveyed by a wide margin (this can be largely attributed to the concentration of U.K. investment professionals in the London metropolitan area). Industry professionals in Japan, Switzerland and the U.S. form the compensation second-tier, while those in Australia, Germany and South Africa form a third. Investment professionals in Singapore, Canada and Hong Kong earn far less than their peers in the other countries surveyed.

Survey Methodology

The results of the 2005 Investment Management Compensation Survey are based on survey responses from more than 16,000 CFA Institute members (10,655 in the U.S.), compiled by Harris Interactive, a global market research firm. Surveys were conducted during February and March 2005.

About Russell Reynolds Associates

Russell Reynolds Associates is the most trusted name in global executive recruiting and assessment. The firm's global Investment Management practice is among the most highly regarded in the industry, serving institutional, retail and private wealth management clients as well as plan sponsors, endowments and foundations. With expertise across a wide array of traditional and alternative vehicles and an equally broad spectrum of functions, the Investment Management practice resembles a boutique, with the reach of a larger firm. The firm's Web site is <http://www.russellreynolds.com/>

About CFA Institute

CFA Institute is the global, non-profit professional association that administers the Chartered Financial Analyst® curriculum and examination program worldwide and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has 76,000 members in 119 countries. Its membership includes the world's 64,000 CFA charter holders, as well as 131 affiliated professional societies and chapters in 52 countries and territories. CFA Institute is headquartered in Charlottesville, Va., USA, with additional offices in London and Hong Kong. CFA Institute was known as AIMR (Association for Investment Management and Research) from 1990 to early 2004, and before that was two separate organizations whose roots go back to 1947. More information may be found at www.cfainstitute.org or by calling 1-800-247-8132 or 1-434-951-5499 in the U.S., 44-207-712-1719 in London or 852-2868-2700 in Hong Kong.