A Geographic Shift in Wealth

Compensation for wealth managers mirrors a shift in demand to emerging markets

By Jon Jacobs, Staff Writer, eFinancialCareers.com

A **TRUISM ABOUT WEALTH MANAGEMENT** is that no two clients are alike. Likewise, the compensation of wealth managers exhibits great variety as well. Among other things, pay structures and trends differ based on client wealth levels, the employer's business model and even geography.

Indeed, geography is emerging as a key influence since the credit crisis dampened growth expectations in the U.S. and Europe, while private wealth accumulation continues apace in the Middle East, China and Asia ex-Japan. This divergence has spotlighted shortages of experienced local talent within the very regions where demand is booming. Naturally, in those parts of the world, compensation for wealth managers is soaring.

"In Asia, the percentage increases are highest and the demand for talent has led to more turnover than ever before," said Gene Shen, vice chairman of Options Group, a global executive search and consulting firm. One private banker in China who made $250,000 in base salary plus bonus received an offer of $400,000 from a competing bank, recounted Shen, who is situated in China himself.

"Asia and the Mideast are very hot," agreed Linda Mack, founder and president of Mack International, a Chicago-based retained search and consulting firm focused on the wealth management industry. "There's a tremendous amount of wealth being created, and there's high demand for people who have experience working with clients and advising them on how to manage their wealth."

In the mature markets of North America, Europe and Japan, the compensation outlook is subdued. Most of the global banks - whose private wealth divisions manage the lion's share of assets worldwide - have seen their profitability, capital positions and share prices shredded by fallout from the housing and mortgage market downturns. Although wealth management remains a robust profit center with solid growth prospects, it hasn't escaped corporate cost-cutting mandates.

Flat is the New Up

As a result, both private wealth boutiques and local institutions outside the U.S. and Europe are gaining ground on the big global banks in terms of compensation. For private bankers serving emerging markets and Asia ex-Japan, Options Group expects 2008 bonuses to be flat to slightly down from last year among bulge-bracket investment banks, but significantly higher at other institutions. "At U.S. and European banks, private banking pay will be flat," Shen said. "But since flat is the new up, that isn't too bad."

Within the mature markets, Options Group predicts private banking bonuses will be an average of 25% smaller than last year. "The little engine that could, wealth management, is contributing the same level of profit that it always did, yet they're suffering equally with other business units because of what befell the corporate finance and investment banking segments," observed Jamie McLaughlin, managing director at Convergent Wealth Advisors, an ultra high-net-worth boutique based in Rockville, Md. "Within the high-net-worth and ultra high-net-worth groups of bulge-bracket banks, hiring levels are down and awards for both incumbent bonuses and the new offers going out are more conservative. The reins have been pulled in."

That's the big picture. On the micro level, though, an individual private banker's compensation will reflect his or her specific contributions. Compensation structures vary widely among firms and can include a plethora of inputs, ranging from asset gathering to portfolio performance to ratings given by clients on satisfaction surveys. Some firms include a significant 'teamwork' component in their pay formulas. And, for the most experienced and successful practitioners, equity in their employer often accounts for a large portion of total compensation.

Depressed Equity Prompts Movement

With major banks' share prices tumbling 50% or more over the past year, equity compensation has lost some of its luster for private bankers at large institutions. "There's a crack in the vase of compensation now," McLaughlin remarked. As a result, professionals who might not have considered a move before are jumping to boutique firms like Convergent, where base and bonus could be 20 -40% less than what the big institutions had paid during bumper years earlier this decade.

"Because of the market dislocation that began last summer, there are large publicly owned banks that are losing people to

Average Global Investment Bank Pay *Middle Office* (US$)*		Base	Bonus
Associate	*1-2 Years*	80K	40-60K
	3rd Year	100K	70-90K
VP/Dir.		125-150K	150-250K
MD		200K	700-900K

Average Global Investment Bank Pay *Front Office** (US$)*		Base	Bonus
Associate	*1-2 Years*	80K	50-70K
	3rd Year	100K	80-100K
VP		125-150K	200-300K
MD		200K	1-1.4MM

Total Compensation	
Global Head of Investment Services, Middle Office	1.25-1.75MM
Global Head of Sales/Distribution***	2.5-3MM
Chief Investment Officer	2.5-3MM

* Includes accountants, legal, compliance and operational risk managers.
** Includes portfolio management, sales and trading.
*** Not including alternative investments

Source: Options Group

smaller, nimbler boutiques," said McLaughlin. "They're not having to pay up, but they are paying market rates for people that are moving laterally."

McLaughlin cited three reasons a mid-career wealth manager might move from a bulge-bracket firm to a boutique: better career growth prospects, greater emphasis on client service as opposed to pushing a bank's products and an opportunity to earn an ownership stake over the long term.

"Equity is hugely important to established private bankers," McLaughlin said. In a small privately-held firm, equity could take the form of partnership units, or a chance to invest one's own money alongside the firm's owners - and thereby gain rights to share in both dividends and the growth in business value over time.

However, it's not easy for a private client banker to transfer their business to a new employer. Rich people's portfolios tend to be more complex than run-of-the-mill brokerage accounts, so moving them to a new shop can bring delays, hassles and costs. More important, Mack said, clients might balk if they suspect the advisor is placing his or her interests above theirs. "You, the advisor, better have a very good reason for switching," she added.

Clients will understand when their advisor changes firms because there is a problem with the current platform or because the new one has superior service capabilities. But if the advisor's primary purpose is to better monetize his or her client base, they won't follow, Mack noted.

Pay Ranges and Qualifications

According to practitioners and headhunters, a private wealth advisor with strong client relationships and a decade or more of experience may earn between $500,000 and $1 million working for a large institution within the U.S. Those roles require exceptional strength in both investment management and people skills. A top client relationship manager must be able to bring in new clients, determine appropriate investment strategies and asset allocations for each client and execute buy and sell decisions, said Bob Bilkie, president of Sigma Investment Counselors, a high-net-worth advisory firm in Southfield, Mich. "At the end of the day, it's a professional that will make major decisions on behalf of a client and be right more often than they're wrong."

Mid-level investment professionals, who help the advisor manage the portfolio, may command $200,000-300,000 in total compensation within a large institution. Entry-level roles, which often require some previous buy-side experience and a chartered financial analyst credential, tend to fall in the $60,000-100,000 range in the first year. These roles also require a full palette of 'soft skills' - emotional maturity, empathy, communication and polish - that are essential for working comfortably with the very wealthy on a regular basis. "We don't hire anybody into an analyst-type role who couldn't face clients," McLaughlin noted.

Nurturing and retaining talent is perhaps the biggest single challenge facing private wealth institutions of all types, according to PricewaterhouseCoopers. Faced with a shortage of high-quality client relationship managers, most firms have made poaching talent from other banks their primary staffing tool, according to a survey it issued late last year. That feeding frenzy may explain why Options Group's Shen sees compensation rising by 30-50% for senior managers who have a solid client base, while Sigma's Bilkie sees base salaries trending higher by 8-10% annually, even in the mature U.S. market.

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