



## HOW PENSION FUNDS ACTUALLY PAY THEIR OWN PEOPLE

*“The most direct indicator of the quality of governance in a pension or other long-horizon investment fund may be how it pays its people.....”*

from the Lead Editorial  
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### Revisiting the Pension Fund Pay Question

The title of last November’s *Letter* was “How Should Pension Funds Pay Their Own People?” In it, we set out our views on why this was a critically important question, and on the principles that should guide the design and implementation of the compensation schemes of pension- and other long-horizon investment organizations. Little did we know at the time that a sequel *Letter* would report on the actual pay practices of 37 funds from three continents with aggregate assets under management of \$2.2 trillion. This has come about because one of those 37 funds persuaded us earlier this year that we were uniquely positioned to design and conduct a global study to address the pay practices question.

While the conduct of the actual Study that resulted turned out to be a bigger challenge than originally anticipated, its findings are of strategic importance to senior fund executives and their boards, and we are pleased to be able to share these findings with you in this *Letter*. As it is impossible to tell the whole pay practices story coherently in the usual four-page format, we have tripled up and made this *Letter* the combined May-June issue. The Study could not have been completed without the outstanding support of KPA colleagues Virginia Atkin and Kalia German, and of John McLaughlin of Treasury Technologies International. All data collected for the Study were checked for completeness and consistency. In many cases, specific issues were discussed with the respondents.

However, KPA cannot guarantee 100% accuracy of the resulting database.

### Key Study Findings and Conclusions

Not to keep you in suspense, key findings and conclusions of the Study include:

- The 37 funds employ a surprisingly broad array approaches towards such strategic issues as active vs. passive management, investing in public vs. private markets, and insourcing vs. outsourcing investment mandates.
- Average total compensation levels in the 37 fund sample can be judged ‘high’ or ‘low’, depending on the reference points used. There is considerable variance in total comp levels within the sample.
- Many funds take a middle-of-the-road 50-50 approach to splitting total comp into its base and variable components, and also to splitting variable comp into organizational/personal and investment performance-related components. However, once again, some funds diverge considerably from these general tendencies.
- Regarding the benchmarking of investment performance, there is a strong emphasis in the sample towards using market-relative yardsticks. However, absolute return targets and peer-relative performance also play an important benchmarking role in a number of funds.
- The most important high comp drivers in the sample turned out to be total head count of