CCO Pay Rebounds Slightly at Larger Firms; CCOs More Involved in Risk Management

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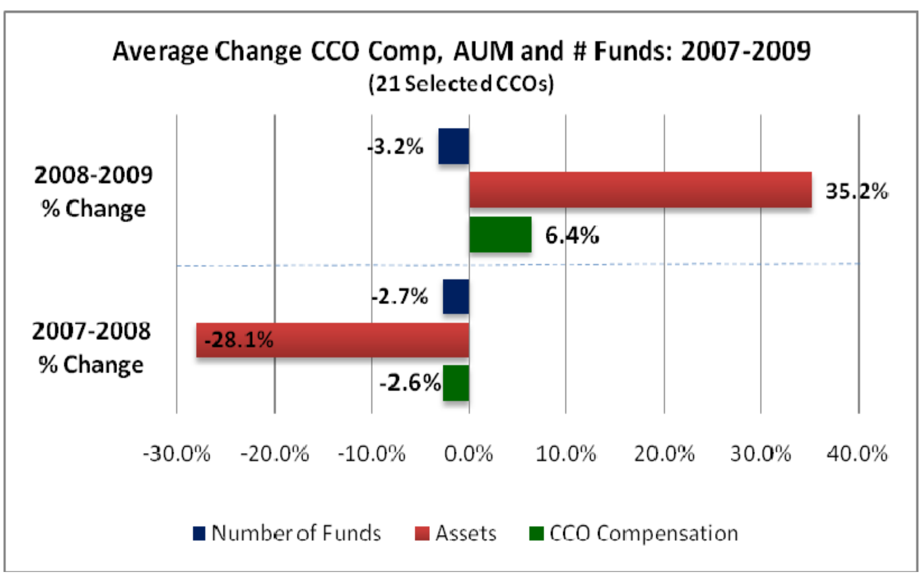
MPI recently completed its fifth annual Survey of Mutual Fund Chief Compliance Officer Compensation and Organizational Practices. This bulletin summarizes the findings and is based on the submissions of 65 fund CCOs, representing funds with $2.9 trillion in assets. 66% of the participants were full-time employees and serve as CCO to both the fund and the advisor.

Apart from CCOs at the largest firms, CCO compensation on average appears to be holding relatively steady through the financial crisis, with few CCOs seeing wide variability in their annual pay. The overall picture was on par with expectations that CCOs would not receive the larger increases seen before the meltdown. The majority of participating mutual fund CCOs again saw moderate or no increases in total compensation in 2009 when compared to 2008. Based on the 65 participants in the 2010 study (not exactly the same group as in 2009), average total annual CCO compensation rose from $349,266 to $352,034, an increase of less than 1%.

CCOs at larger fund firms, who (due to reduced bonuses) were more likely to experience decreases in pay in 2008, saw a moderate rebound in 2009. CCOs with assets over $50 billion saw average total compensation rise to $567,928, an increase of just over 5%.

A subset of the survey participants, which includes 21 CCOs for whom data exists for 2007 to 2009, provided similar results. These CCOs saw a modest decrease in total compensation of 2.6% in 2008, but an increase of 6.4% in 2009, netting to a 3.6% increase over the 2 year period. The chart below demonstrates this change, contrasted against the widely varying asset levels over the same period.



The range of CCO compensation for the reporting fund families was wide and depended on many variables, such as geographic location, number of funds and portfolios, retail or institutional distribution, number of sub-advisors, and mix of insurance related products. We also found that many CCOs had been long term employees of the management company, or had many years of experience at another fund company. As a result CCO compensation was sometimes correlated with age and experience.

Bonuses for CCOs typically range from 25% to 100% percent of base pay, with (as mentioned above) some of the highest-paid CCOs receiving as much as 200% or more before the market meltdown. The majority of CCOs reported that their bonus is influenced by management (86%) as well as the board (81%).

An important finding of our survey is that while CCOs often participate in the advisor's 401(k) plan, they do not always qualify for the advisor's long term capital accumulation plan. These plans are usually based on restricted share grants or qualified stock options, and are worth, in a good year, 20% to 30% of total compensation for an executive of the typical CCO's salary grade. As a result the CCO's base compensation is typically set 20% to 30% above that of his or her grade's salary range to make up for the loss of a capital accumulation plan.

As the true costs and benefits of compliance have become clearer over recent years, there has been a trend toward splitting the cost of CCO compensation between the funds and the manager. There was a slight reversal of this trend in 2009, with just 44% of CCOs reporting being paid at least in part by the fund, down from 56% the year before.

We also saw a continued pattern of CCOs performing certain other functions for the business. We found that 85% (up from 78% in last year's report) of the reporting CCOs perform analytical functions directly for the fund board, which might include involvement in the 15(c) contract renewal process or monitoring soft dollar expenditures. Also notable in this environment is a continued increase in "Risk Management Support" as an additional duty of the CCO, rising to 73% in 2009, up from 62% last year and 54% in 2007. Involvement in "Legal Support" also rose from 50% to 63% of those reporting.

Finally, this year 51% of the respondents were lawyers, up from 43% last year and 34% in 2007. CPAs, on the other hand, represented just 16% of the participants, down from 25% last year and 34% in 2007.

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Any CCO's compensation must be evaluated in proportion to the effort, expertise and exposure of that particular complex. CCO compensation, as with any other position, is the result of determining how best to attract, motivate and retain the requisite talent for the specific assignment. For more information regarding the MPI Survey of Mutual Fund Chief Compliance Officer Compensation and Organizational Practices, please contact Management Practice.

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