



Compensation

How Much Are Hedge Fund Manager General Counsels and Chief Compliance Officers Paid?

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In a revealing recent interview with the Hedge Fund Law Report, Jason Wachtel, Managing Partner of JW Michaels, provided detailed insight into the structures and levels of compensation of hedge fund manager general counsels and chief compliance officers. Specifically, Wachtel discussed the “market” for compensation of GCs and CCOs; the role of manager size and candidate experience in determining compensation; compensation of junior legal and compliance personnel; compensation of **dual-hatted** employees; how compensation of GCs and CCOs of hedge fund managers compares to the compensation of persons in similar roles at private equity fund managers; the relationship among fund performance, examination experience and compensation; how experience as a regulator or prosecutor affects compensation; investments by GCs and CCOs in the manager's funds; and GC and CCO reporting lines. See also “**Annual Greenwich Associates and Johnson Associates Report Reveals Trends in Compensation of Investment Professionals at Buy-Side Firms**,” Hedge Fund Law Report, Vol. 6, No. 48 (Dec. 19, 2013).

HFLR: What is the “market” for compensation of a hedge fund general counsel today, in terms of structure and dollar levels, and what roles do manager size and candidate experience play in determining the size and structure of compensation packages?

Wachtel: This year we have worked on general counsel roles that are paying as low as \$400,000 and as high as \$2 million. There are even a few out there who are making as much as \$3-\$8 million. Most GCs out there have salaries in the \$150,000 to \$250,000 range and their bonuses are some multiple of that. So, if the total compensation is \$1 million and the salary is \$200,000 then the bonus would be a significant portion of the total compensation. If the person is also a partner in the firm, they may receive some sort of equity as well. See “**Use by Hedge Fund Managers of Profits Interests and Other Equity Stakes for Incentive Compensation**,” Hedge Fund Law Report, Vol. 7, No. 15 (Apr. 18, 2014).

The majority of the general counsels that we see make between \$400,000 and \$2 million, I'd say that about 99.9% of general counsels fall in that range. The few GCs who make more than \$2 million can earn up to \$8-\$10 million; they are with the biggest funds and have been with the firm for a long time. The range in compensation is really determined by a few things: assets under management, performance of the fund and the personnel and the strategy of the fund. If it's a vanilla long/short equity fund with \$1 billion under management, the performance is average, and the general counsel has only been with the fund for about a year, the compensation would be expected to be closer to the lower end of the spectrum. When it comes to compensation, you

want to look at when the person joined the firm, how the fund has performed and grown since that time and the person's role within the firm. The more responsibilities and authority a person has within the firm, the more you can expect to layer on to the compensation.

HFLR: Same question – about typical compensation structures and levels, and factors influencing compensation – for hedge fund manager chief compliance officers.

Wachtel: The market for CCOs is really strong right now. I'd say very in-demand right now are the junior compliance personnel, making \$150,000 to \$200,000. For the CCOs, it's always a hot market. This time of year is usually slow but right now it's through the roof. When you're looking to hire a senior compliance person, you're looking at a 20% to 30% increase in salary. Again, there is also bonus compensation that is some multiple of the base salary.

One trend we are seeing is that, depending on the background of the person, the firm isn't naming that person CCO on day one. The candidate and the firm usually agree to see how things go for a year before the person is officially named CCO. This is because if there are compliance issues in the firm and the CCO comes in and signs off on everything but is unaware of the existing problems because he wasn't there, there is a liability concern. People are a little more cautious in taking on the compliance role and we're seeing more firms and candidates agree to allow for a certain period of time for the person to become familiar with the firm and what's going on before agreeing to officially be named CCO. See "[Dechert Partners and Venor Capital General Counsel Describe the Scope of Supervisory Liability for Hedge Fund Manager Personnel](#)," Hedge Fund Law Report, Vol. 7, No. 26 (Jul. 11, 2014).

HFLR: You mentioned compensation for junior compliance personnel; can you discuss the market for compensation of junior legal personnel, such as the associate general counsel?

Wachtel: First, there is less of a market for someone coming from a law firm directly to a fund. When someone goes to a hedge fund from a law firm, the compensation is generally lower. Someone hired from another firm will have a higher compensation.

The salary is in the range of \$150,000 to \$225,000, plus a bonus. Most funds that hire an attorney out of a law firm will make an offer that is a lateral (meaning there will be a haircut on salary), and if the firm does well and the candidate does well, there is a chance that candidate can earn more in the first year than he or she could at a law firm. In the second year, that candidate should start to make significantly more money at the fund than the candidate would at the law firm.

HFLR: What is the common compensation structure for dual-hatted employees of a hedge fund manager, that is, those serving simultaneously as general counsel and CCO? In particular, are such persons paid the combined compensation of a GC and CCO, or does the manager employer get, in effect, a volume discount?

Wachtel: I don't think a person that is serving as GC/CCO for a \$2 billion fund is making more than someone who just serves as GC at a \$2 billion fund. Usually what happens is, at a \$2 billion fund, the fund will hire a GC in the class year of 2001-2004 and eventually will hire a junior- to mid-level compliance person who can eventually become CCO. You're not going to have a \$700,000 GC and a \$400,000 CCO at a \$2 billion fund; the economics don't make sense. By hiring a junior- to mid-level candidate, it gives the firm a chance to see the candidate perform under pressure and it gives the candidate a chance to prove himself or herself, and make sure he or she understands the makeup of the firm before taking on the role of CCO.

HFLR: How does the compensation of legal and compliance personnel at hedge fund managers compare to the compensation of similar personnel at private equity fund managers in terms of components of compensation and levels?

Wachtel: The base salaries tend to be higher at a private equity firm for both positions but the bonus compensation in most cases is much higher at a hedge fund. On the private equity side, I've seen the general counsel have \$500,000 base salaries while at hedge funds the salary tends to be lower, with the bonus making up a huge portion of the overall compensation.

There is a lot less risk, in general, at a private equity firm and people tend to have a better idea of what they will earn in a given year. If you look at a top GC at a top private equity firm, they're earning between \$3 million and \$5 million, where you might see someone in the same position at a top hedge fund firm pushing \$5-\$8 million. The bonuses at private equity firms also usually include some sort of carried interest in the investment of the fund, so if a deal goes well, the person has the potential to make a significant amount of money.

If you are a CCO at a top five or top ten private equity firm, then you most likely earn an amount similar to that of a CCO at a top hedge fund. In general though, compliance professionals at private equity firms earn less than their counterparts at hedge funds.

HFLR: Is the compensation of a GC or CCO typically tied to fund performance? If so, how?

Wachtel: The bonuses are usually tied to firm performance and individual performance. Mostly, it comes down to whether the person meets or exceeds expectations and the firm has good performance, then the bonus will be higher. If the person simply performs as expected and the fund's performance is just average, the compensation will be set to a lower percentage. Whether there is a certain percentage of the bonus allocated to personal performance and fund performance will differ from firm to firm.

Another thing I have seen is if the SEC comes in for an examination and no deficiencies or only minor deficiencies are found, the GC and CCO may get extra bonuses for that. See "[Top SEC Officials Discuss Hedge Fund Compliance, Examination and Enforcement Priorities at 2014 Compliance Outreach Program National Seminar \(Part Three of Three\)](#)," Hedge Fund Law Report, Vol. 7, No. 9 (Mar. 7, 2014).

HFLR: On the other hand, are GCs or CCOs typically subject to clawbacks for legal, compliance or examination failures by the manager or any of its employees?

Wachtel: I haven't seen any clawbacks being used. I think, generally, when people in these positions see something that isn't right, they are bringing the issue to the right people at the firm for resolution. Where there aren't changes being made, I have seen in some cases that people are just resigning rather than facing liability for some situation that could be problematic or illegal. See "[Scope of Supervisory Liability of Senior Legal and Compliance Professionals at Hedge Fund Managers Remains Uncertain after SEC Dismissal of Urban Action](#)," Hedge Fund Law Report, Vol. 5, No. 5 (Feb. 2, 2012).

HFLR: What are the most common backgrounds of GCs and CCOs being hired by hedge and private equity fund managers? For example, are they coming from law firm partnerships, other in-house roles, government or other roles?

Wachtel: I would say the most common profile person we're placing in the general counsel role is someone who has at least 10 years' experience, top academics and top legal training, and is probably the number two person at another shop with an established GC who is not likely to leave in the near future. So, in order to move up, these people will move to another firm and become the GC. So, for the general counsel, most firms will only interview people who have worked with a competitor. For example, if Hedge Fund X is looking to hire a GC, the manager may look at someone coming out of the alternatives group of a bank, but these people tend not to have enough hands-on management experience (i.e., are members of a large team). More than likely, the ideal candidate will come from another hedge fund manager. A great profile is

someone who has great academics, legal training and has worked at the SEC or has at least two or three years of in-house experience.

The most common profile that people are looking to hire right now is the \$150,000 to \$200,000 compliance person. These people are generally being brought in at a junior level to help out the CCO. The reason we're seeing more hiring right now in this role is that many firms no longer have one person in the GC/CCO role. The roles are being separated and a junior person is also being hired to help support the compliance officer. This person is harder to find. They're not coming from a competitor but from a bulge bracket bank's asset management side. In this space, it is also ideal to find someone who has regulatory experience, with the SEC or other regulatory body.

HFLR: In an enforcement climate that remains vigorous, in particular with respect to insider trading, are managers hiring former federal prosecutors as GCs or CCOs and, if so, what does the compensation of such persons typically look like in terms of levels and structures?

Wachtel: Where the candidates have prior experience as a prosecutor or with the SEC, it absolutely impacts the compensation. As an example, someone at the SEC probably makes \$200,000 a year. In order to bring that person in-house, you can expect to pay at least \$300,000 to \$400,000. If someone is really high-profile, obviously the compensation will be higher.

As to how the compensation is different for a former prosecutor or SEC official who joins a hedge fund as GC or CCO, it depends on whether the individual is named GC/CCO on day one or if the person will be given that title in a year or so. It also really depends on the size of the firm.

HFLR: Are GCs or CCOs typically required or permitted to invest in the funds managed by the manager for whom they work?

Wachtel: Absolutely. For every candidate who goes to a firm, it is an added bonus if he or she is able to invest in the funds and will often negotiate being able to do so into the compensation structure. You're going there because you believe in the firm and most people want to be able to buy into the fund and be a part of the upside. See "[Are the General Counsel and Chief Compliance Officer of a Hedge Fund Manager Considered 'Knowledgeable Employees' of the Manager?](#)," Hedge Fund Law Report, Vol. 5, No. 35 (Sep. 13, 2012).

HFLR: In the employment agreements or arrangements you have seen, to whom do the GC and CCO of hedge fund managers typically report, and do reporting lines have any effect on compensation?

Wachtel: Historically, with the CCO, that person would generally report up to the general counsel. Now that is changing. More often now, the CCO is reporting directly to the founder, CEO, CFO or COO. It's not how it's done most of the time yet, but it is a growing trend to not have the CCO reporting to the GC. Managers recognize now that the firm can really be hurt by compliance failures so they want to hear about compliance matters directly from the CCO. The GC typically reports to the founder, CEO or COO. See "[To Whom Should the Chief Compliance Officer of a Hedge Fund Manager Report?](#)," Hedge Fund Law Report, Vol. 4, No. 22 (Jul. 1, 2011).

I don't think the reporting structure really has an impact on compensation. I would say that the firms who pay their GC and CCO multiple millions of dollars have these people directly reporting to the founder.

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