

## **Diversified Management Resources in the News**

### *Selected Press reports on Our Comments and Observations about the Changing Job Market*

#### **Mutual Fund Online Job Postings Rebound**

##### **Mutual Fund Careers.Com and Indeed.Com**

Employers posted more than 1,000 new mutual fund-related jobs online in October—16,402 vs. September's count of 14,886.

This resets the Mutual Fund Online Jobs Index © to 105 against the baseline of 15,663 jobs posted when the Index was started in July.

The Mutual Fund Online Job Index © is powered by Indeed, the most comprehensive search engine for jobs.

The Indeed search tool was added to Mutual Fund Careers.Com in June 2005. It enables site visitors to quickly view jobs offered through hundreds of other web sites, including major job boards, leading newspapers and employer sites.

The current Mutual Fund Online Job Index © 105

Median number of online job postings - October 2005: 16,402\*\*

\*\*Source: Mutual Fund Careers.Com and Indeed.Com. Not adjusted for any multiple postings of the same job. Number is median job posting count for September 2005. Reflects mutual fund industry jobs as well as jobs for which mutual fund training and experience are required (e.g. Financial Consultant positions.)

Index baseline = 100, representing median number of daily job postings in July 2005. (15,663)

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#### **Pay-for-Performance Climbs Corporate Ladder**

**Ignites, Oct 31, 2005**

**By Marc Hogan**

Performance-based pay has been a growing trend among wholesalers and portfolio managers for some time, but at least one financial services firm is also emphasizing it for top executives.

The head of the Bank of America division that oversees mutual funds, Brian Moynihan, has scrubbed his employment contract, according to a recent regulatory filing. B of A says the decision by Moynihan, president of its wealth and investment management business, is consistent with the bank's pay-for-performance principles.

Moynihan agreed to the now-canceled contract on April 1, 2004, following B of A's merger with FleetBoston Financial, where he had been an executive vice president. The agreement was scheduled to remain in effect until April 1, 2007.

By canceling the arrangement, Moynihan gives up all severance and other benefits he would have received, except for a possible payment involving merger-related taxes, according to the filing. He also ceases participation in the FleetBoston Supplemental Executive Retirement Plan, or SERP, a form of deferred compensation.

“He wanted to send a clear signal of his support for Bank of America’s pay-for-performance philosophy,” says Terry Francisco, a B of A spokesman. “He’s sacrificing his safety net in order to have his future compensation based solely on his performance as a leader.”

B of A Chairman Ken Lewis made a similar move in December 2003. Shortly after unveiling the Fleet merger, he announced that he would be scrapping his own employee agreement.

Moynihan is the only former Fleet executive listed in B of A’s nine-member senior management on the bank’s website. Other top Fleet execs tapped for roles at B of A following the merger have since departed with big payouts, including Eugene McQuade, Bradford Warner, Chad Gifford and Jay Sarles.

“He’s surely an optimist and he’s confident about his ability,” **Charlie O’Neill**, principal at recruiting firm **Diversified Management Resources**, says of Moynihan.

Performance-based compensation has been an ongoing theme in recent years in the fund industry, particularly for portfolio managers and wholesalers. For example, Janus revealed earlier this year that it would start linking its portfolio managers’ variable compensation to one- and three-year fund performance.

“Performance-based pay is clearly where management’s hearts lie today,” says Lawrence Lieberman, executive director with recruiting firm the Orion Group.

B of A was probably just looking to make its compensation structure more consistent, according to Lieberman, who suggests that Moynihan may be getting something in return for his concessions.

Either way, performance should be only part of the compensation equation for senior executives, according to recruiter Donald Dzurilla of Donald F. Dzurilla International. That’s because they ought to be taking a long-term, strategic view. But it makes sense, he says, that an executive might give up some compensation following a big merger.

“It never really surprises me when consolidation occurs between firms that compromises must be made between senior employees and employers,” Dzurilla explains. “These compromises might be more prevalent in an environment of cost-cutting.”

Bank of America’s Columbia Management Group has trimmed its fund family and consolidated its operations since the merger, aiming to pass on lower costs from economies of scale.

According to the filing, Moynihan will still receive benefits from his SERP account that have accrued through Dec. 31, at which point the account will be frozen. This amounts to \$613,708 a year, which Moynihan will be eligible to receive following his retirement. The SERP agreement provided Moynihan a retirement benefit based on a percentage of his final average compensation.

Recently, corporate America has been taking a harder look at SERPs. A generous SERP was a factor in the 2003 ouster of former New York Stock Exchange Chairman Richard Grasso. The recent firing of MassMutual Financial Group CEO Robert O’Connell also involved a ballooning SERP.

“SERPs are one of the areas that are being examined more closely for compensation issues because a lot of times they have gotten fairly rich,” says Ronald Mueller, a partner with law firm Gibson, Dunn & Crutcher. “To completely give it [the SERP] up in my experience would be unusual, but often there is some cutting back or some kind of rationalization of benefits.”

The increased scrutiny on SERPs stems not only from high-profile scandals, but also from a growing corporate-governance emphasis on compensation in general, Mueller says. Recent changes to the tax code have also impacted deferred compensation, including SERPs.

Companies that have gone through a number of mergers, in particular, are starting to revisit their SERPs, according to Mueller.

"There are a number of executives who are taking the lead on saying, 'I have more than I need here,'" he says.

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## Fund Jobs Way Up For Oct

### Fund Action, October 21, 2005

Mutual fund jobs have posted substantial gains this month, already hitting a median of 16,000 even though October is not yet finished. **Charlie O'Neill**, principal of **Diversified Management Resources**, said, "This reflects preparation for the New Year and determination to fill open positions prior to year-end." The Mutual Fund Online Job Index, an index reflecting fund jobs posted on the Internet, was flat for the month of August. The baseline job index figure--15,663--was established Aug. 1, using the median number of job postings in July. Fund companies are increasingly using online job boards to find even the most senior of executives, said O'Neill, who added that a number of mutual fund companies have recently signed on for a subscription to Mutual Fund Careers.com to post senior executive positions.

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## Fund Jobs Flat For August

### Fund Action, September 23, 2005

The Mutual Fund Online Job Index, a newly created index reflecting fund jobs posted on the Internet, was flat for the month of August. The baseline job index figure--15,663--was established Aug. 1, using the median number of job postings in July. **Charlie O'Neill, principal at DMR Financial**, the sponsor of the index through Mutual Fund Careers.com, said the index numbers were essentially flat for the month. He expects hiring to pick up throughout the fall.

Last month, according to the index, 15.59% of the more than 15,000 mutual fund jobs posted online were based in California ([www.fundaction.com](http://www.fundaction.com), 8/19). Those figures were followed by Massachusetts at 9.93%, and New York and New Jersey with a little more than 7% of all postings. Fund companies are increasingly using online job boards to find even the most senior of executives. O'Neill said 29% of new chief compliance officers at fund firms found their jobs by using online job boards. That is a close second to the 36% of mutual fund companies using executive recruiting firms.

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## New Index Suggests Flat Job Market

**September 12, 2005**

A new job index from **Diversified Management Resources**, a Boston-based human resources consulting firm, shows that total count of mutual fund industry job postings online was flat for the month of August.

The new index, which will be published on the first of every month going forward, is meant to show the percentage change in the median number of postings at corporate and career Web sites for the prior month. In August, the median job count was 15,301, an insignificant change versus July, officials said.

California, Massachusetts and New York continued to lead in job postings, accounting for 14.8%, 11.3% and 9.7%, respectively, they said.

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## California Leads Way With Fund Jobs

**Fund Action, August 19, 2005**

Those interested in a mutual fund job may want to consider moving to California, given that the state ranked first in the number of fund positions available. According to a new job index from **Mutual Fund Careers.com**, 15.59% of the more than 15,000 mutual fund jobs posted online were based in California. Those figures were followed by Massachusetts at 9.93%, and New York and New Jersey with a little more than 7%. As of July, 2005, the median number of jobs posted online was 15,663, according to the created index. **Charlie O'Neill, principal of DMR**, said he created the index in part to watch how jobs in the industry fluctuate over time. The index will be published at the first of every month.

The Mutual Fund Online Job Index uses the Indeed job search engine to find jobs online. The 15,000 mutual fund jobs are part of three million jobs posted online in the last month in the U.S.

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## Cyberspace Want Ads

### Online Job Boards Gain Traction In Search For Senior Execs

**J.S. August 12, 2005**

Fund firms looking to hire chief compliance officers are almost as likely to attract them through the Internet as through a search firm. The costs of recruitment could run as high as six figures, according to some estimates. Twenty-nine percent of new chief compliance officers at fund firms found their jobs by using online job boards, according to a survey. That is a close second to the 36% of mutual fund companies using executive recruiting firms, according to proprietary findings on CCO compensation and other issues from **Diversified Management Resources** and the National Investment Company Service Association. **Charlie O'Neill, principal at DMR**, said that the findings point to the increased use of online methods of finding jobs in the mutual fund industry, even among the most senior of executives. He said that the survey results apply to the

broad range of senior executive searches, from chief operating officers, counsel, and other top line leaders.

Most firms traditionally have used prestigious search firms to seek out company leaders, but now many are using the Internet as top candidates are seen reviewing online resources for open positions, said a senior executive at a major fund firm. The findings are somewhat surprising, said O'Neill, as many in the industry believe online job boards are the territory of only lower level staffers.

One recruiter at a major search firm said online job boards could never replace the vetting done by an executive recruiter. "The risk of finding new execs is not about missing out on any potential candidates. It's about not vetting individuals that could pose a reputational or financial risk to your company. Only a live network can fully vet candidates."

O'Neill said many companies are routinely posting jobs online and then using an executive recruiter. Using online resources allows companies to cast a wider net for applicants. Candidates found online may be forwarded to recruiters for referencing. "Not that long ago, the perception was that job boards were for blue collar or lower white collar posts," added O'Neill. He said he thinks the trend may be particularly apparent with CCO searches as these posts require an in-depth knowledge of many areas. "It's not who you know. Now it's what you know."

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## DMR Develops Job Index

### Fund Action, May 13, 2005

**Diversified Management Resources**, an executive recruitment and marketing firm, is developing a job index that will track the mutual fund industry. The Belmont, Mass.-based firm will use quantitative methodology to calculate the index, which will include results such as the type of firms hiring, desired qualifications and the types of jobs, said **Charlie O'Neill, principal**. "We want to come up with a useful benchmark to show from one period to another where the activity is taking place with new job creation," he said.

O'Neill noted that while a calculation of the number of jobs available might show simple expansion or contraction of the job market, the firm hopes to come up with something that will show positions in more or less demand than others in an accurate way. "It's always useful to... figure out where the puck is going rather than where it's been," he said. The index will likely be available in a few months.

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## Springtime Arrives for Industry Job Market

### Marc Hogan, Ignites, May 5, 2005

After a long freeze, the job market in the fund industry looks like it might be starting to thaw.

Industry professionals are looking around for new jobs and fielding calls from potential hirers. That's according to the results of an unreleased survey conducted by the National Investment Company Service Association (NICSA) and recruiting firm Diversified Management Resources.

Of the 1,000 executives who responded to the survey, 46% say they're currently employed but open to new employment opportunities. One factor that might be driving employees' willingness to look around is dissatisfaction with compensation. Approximately 42% of the survey's respondents indicated that they feel their compensation is less than what it should be.

Further, nearly 59% perceive the job market to be stronger than it was a year ago. Two-thirds report that they've been contacted by search firms or another employer over the past six months.

The survey results show the job market in the industry is starting to heat up again, says **Charlie O'Neill, an executive recruiter with Boston-based Diversified Management Resources**. As recently as a few months ago, anecdotal evidence suggested the market was flat.

"I am encountering more and more qualified people who have more than one potential employment opportunity in various stages of review," O'Neill observes.

Of the survey's respondents, roughly a quarter indicated that they are operations directors, and another 20% hold various general management roles. Roughly half have been in their current job function for more than 11 years. The survey was sponsored by compliance software provider PA Compliance.

There's definitely been an uptick in the job market, agrees Orion Group recruiter Larry Lieberman, though hiring is still far from frenzied. Firms are more eager than they were a year ago to start tackling senior-level strategic changes.

"We're getting past the initial shock of Spitzergate," Lieberman says. "It's allowing new management teams to finally refocus on business-building, as opposed to business-fixing."

Much of the recent hiring spike has been on the investment side, with sales opportunities still to come, according to Paige Scott of Sextant Search Partners. Portfolio manager searches and even full-team lift-outs to add new products or expand existing products have been popular.

It doesn't hurt that February and March are traditionally busier hiring months because annual bonuses have been paid, she observes.

The study also reveals that firms don't necessarily need to throw money at employees to keep them aboard. The survey asks respondents to identify the five most important factors in a job's attractiveness. Three-quarters cite "quality of employees" and 72% point to achieving "a better work/life balance." Higher compensation, the choice of 67% of participants, ranked third.

"What we often do is run our businesses as though compensation was the only thing that mattered to people," DMR's O'Neill says. "Quality of life and related issues are a key determinant in employee satisfaction."

Last year hiring stayed virtually flat in the fund industry, and compensation rose only slightly, according to a report from Russell Reynolds.

Across the U.S. economy, hiring was strong in March, with positive projections for April, according to the Society for Human Resources Management. The organization compiles a monthly index of hiring data in conjunction with Rutgers University.

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## Scandal to Continue to Boost Fund Hiring in 2005

### Money Management Executive January 10, 2005

Recruiting experts are predicting a relatively flat job market for the fund industry in 2005, although the trading scandal continues to reshape the boardrooms and executive suites of fund management firms, big and small.

In its annual investment management recruiting report released last month, New York executive placement firm Russell Reynolds Associates indicated that overall hiring slowed in 2004. While 2005 should provide greater opportunities for top-line managers in some investment areas, the industry is still far from its heyday of the late 1990s.

"Compared to 2003, [2004] hiring wasn't off drastically, but our recruiting work, as a whole, was probably half the rate of 1999," said George Wilbanks, managing director of the investment management practice at Russell Reynolds.

In 2004, according to Russell Reynolds research, recruitment activity within the executive suites of many asset managers was up between 12% and 15% versus 2003. Half of the appointments at the CEO or president levels were filled via internal promotions, while 85% of chief investment officer appointments were external hires.

But arguably the hottest seat of 2004 was that of the newly mandated chief compliance officer. That should continue, predicts **recruiter Charlie O'Neill at Boston-based Diversified Management Resources**, as fund groups seek to remove the "interim" title from their internal appointees.

"As far as the job of the CCO goes, that was the prominent position in 2004, and it will be again in 2005, largely because most of those appointments were interim," said O'Neill, whose firm examined the post through an industry survey prior to the Oct. 5 appointment deadline.

It's too early to accurately determine the day-to-day duties of the typical CCO. In fact, one industry insider called the post a "misguided" effort to restore consumer confidence in the industry after 16 months of intense media scrutiny. Nonetheless, experts agree that a regulatory chief at an average fund company could command a salary upwards of \$250,000 annually. A firm with a checkered past might pay even more, while a 25-year industry veteran could readily win \$500,000 annually from a leading investment firm. Smaller fund companies, experts agree, will be the most challenged in filling the position.

"They simply don't have the resources," O'Neill remarked.

Compliance officer backgrounds will also vary tremendously; some are lawyers with regulatory experience, others are operational veterans from the controller's office, and a handful could even be from the sell-side of the industry.

As far as an independent board chairman, fund companies must have one in place by the first quarter of 2006. The percentage of independent board members must also be increased to 75% to satisfy new federal regulations. Funds currently are required to have 40% of their board members be independent of the investment advisor, and, if the fund charges a 12b-1 fee, 50% be independent.

Russell Reynolds officials said that among the board appointments in 2004, most were executives with close ties to sitting CEOs, but that trend is quickly moving toward true process-driven searches.

O'Neill pointed out that many investment firms are meeting their independent percentages through addition by subtraction. In other words, board members with company ties are stepping down and those seats are going unfilled.

Alternative investments, according to Russell Reynolds findings, continue to hold appeal with professionals who have felt the weight of increased oversight and regulation and who are drawn

by the expectation of a much greater financial upside. Recruitment activity, Russell Reynolds said, has been focused on general management operations and compliance, as hedge funds, in particular, begin to understand that the entrepreneurial spirit must be tempered by the need to have sound systems in order to attract institutional assets.

A handful of hedge fund executives, however, are quietly returning to traditional mutual funds under the pressure of unrealistic expectations from investors and themselves. "Many executives overestimated the market and are finding that their income is not what they imagined," said Debra Brown, managing director of the investment management practice at Russell Reynolds. "Other factors include cultural issues and the length of the investment time horizon. Frequently, investors are seeking a return to the safety and security of a more traditional investment firm."

But as more traditional mutual fund firms diversify their portfolios with alternative options, O'Neill expects that back-and-forth movement to continue.

"It's more of a talent shift than new hires," O'Neill added. "Money management firms are nothing, if not innovative, even the traditional mutual funds. The best talent gravitates to that."

O'Neill also thinks that demand for highly skilled marketing professionals will continue in 2005. Astute strategists will be particularly popular. "We're working in an industry where you cannot see, grasp or taste the product," he said. "Who makes it real? The marketing people."

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## **Funds Bolster Screening of Job Seekers**

**January 10, 2005, By Marc Hogan**

Fund execs on the job hunt should be ready to have their histories investigated more thoroughly than ever before, industry recruiters say.

Over the past 10 or 20 years, employers and recruiters have stepped up the legwork they do to check out candidates' backgrounds. The fund trading scandal has only intensified that trend, according to sources in the executive search industry.

"Firms have been digging deeper where they hadn't gone before," says Glenn Buggy, a senior consultant at recruiter Christian & Timbers, where he heads the asset management practice.

Such heightened scrutiny may include detailed checks of a potential employee's credit history, criminal record, education and work history, according to Buggy. At his firm, candidates are asked to sign paperwork authorizing such background checks before they can meet with an employer.

"If someone doesn't give us authorization to do that, then it's a red flag," Buggy adds. Not only are background checks growing more extensive, they're being conducted earlier, some recruiters observe.

"Firms are worrying about getting so far down the path and getting to the offer stage only to have to rescind it because they found out that something wasn't accurate," explains Paige Scott, a recruiter at Korn/Ferry International.

Recruiters also offer simple advice about fudging on resumes: Don't do it. Lying on resumes is on the rise, according to Scott, providing firms another reason to be careful in an already-sensitive regulatory environment. Korn/Ferry posts on its intranet a list of "diploma mills," which churn out fake college degrees for a fee.

Fund firms, for their part, generally say hiring practices have always been exacting. But the level of inquiry could still surprise anyone who's spent some time out of the job market.

Dreyfus, for one, runs pre-hire checks of a candidate's employment, social security number, residential history and court records, according to a statement. After hiring, the firm enlists a third-party vendor to delve into similar data.

The Capital Group, parent of the American Funds, verifies not just references but also everything presented on a resume, says spokesman Chuck Freadhoff. The hiring process involves long blocks of back-to-back interviews with multiple executives.

If a job-seeker has an ethically questionable past, Freadhoff says, "enough people will ask about previous employment and about your work habits, and all of that stuff will come out."

T. Rowe Price also relies on an extensive interview process, according to spokesman Steven Norwitz. That's in addition to vetting references and credentials.

Candidates can also count on most firms verifying any licenses or certifications and searching public records for SEC and NASD violations.

Still, there's always the possibility that the documents uncovered in a background check could be wrong. Barclays Global Investors spokesman Lance Berg recalls one case where the human resources department came upon an unflattering detail that turned out to be false.

"Instead of just dismissing it, we looked into it and learned that it was an error," Berg says. "It was taken off and as a result we hired a good individual."

When outside investigative firms enter the picture, they sometimes run "reputational inquiries" in addition to more standard checks, according to Peter Turecek, a managing director at Kroll, a consulting firm that handles background searches. Much of Turecek's work has been in the financial services and investment management industries.

Such inquiries are mostly undertaken at the C-suite level, he says, and aim to uncover any problems that may not have made the public record. For instance, if several former co-workers recall that two secretaries quit suddenly, or that an executive couldn't keep his hands to himself, employers can ask the candidate to explain.

Even in publicly available information, a pattern of DUIs could indicate a drinking problem, while sometimes there might be liens and judgments indicating financial distress.

"You look for the million dollar house or the fleet of antique Ferraris," Turecek explains. "You want to see that someone's living within their means."

Firms' current background checks have evolved over the past two decades, according to Donald Dzurilla of recruiting firm Donald F. Dzurilla International. In the 1980s, employers mostly just confirmed the dates on the resume and called a few references, he says. In the 1990s, high-profile cases of phony degrees caused firms to start double-checking educational backgrounds.

The sheer wealth of information available today on the Internet has allowed firms to glean further details such as exactly how involved someone was in a trade group, or what specifically they wrote in a white paper.

"The level of due diligence on a specific potential candidate has increased significantly over the last 15 to 20 years, and then doubled over the last five years," Dzurilla points out.

With more executives listing their publications and media appearances on resumes, employers are poring over those materials, as well. For one client, Dzurilla says he called the producer's of

Louis Rukeyser's TV show to request a copy of an episode. After seeing the job candidate's appearance on the show, the employer decided not to make an offer.

Another area that recruiters or firms are vetting is compensation, according to **Charlie O'Neill**, an executive recruiter with **Diversified Management Resources**. Anyone who is paid on commission should expect to be asked to show a copy of either their 1099 or W2 tax forms to prove they earned the level of compensation they claimed they did. While many fund shops have policies prohibiting employees from providing references, employers, recruiters and third-party investigators generally have little trouble getting people to talk, O'Neill says.

"The truth has a way of coming out," he notes. "Even when companies will not discuss such matters with outsiders, it does happen."

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## Firms Going Back to School to Hire New Stars

**Ignites 9-20-04**  
**By Marc Hogan**

(Excerpts)

Fall rush is on for fund firms recruiting at business schools across the country. That's the word from business school career service directors, who say they expect another competitive year for their best and brightest students.

Fund firms hone in on preferred candidates through presentations, interviews and sometimes dinners. But even though this extensive selection process sweeps campuses in the fall, like certain undergraduate traditions, don't mistake MBA recruiting for the film *Animal House*.

In most cases, the firms will interview with a few students whom they'd already been eying, as well as a few students with perhaps less polished resumes who express a strong interest in the company.

Jobs are often also posted on university web boards for students and alumni to apply.

After the presentations and career fairs, when companies have possible candidates in mind, the interview process begins. That's usually around October for large firms, although smaller companies often wait until winter or even spring, career services directors say.

In most cases, the firms will interview with a few students whom they'd already been eying, as well as a few students with perhaps less polished resumes who express a strong interest in the company.

Students at many business schools are involved in investment and finance clubs, which bring in senior-level speakers and additional networking opportunities.

An MBA is becoming increasingly relevant in the mutual fund industry, notes **Charles O'Neill**, **president of Diversified Management Resources**, a recruiting firm.

"I have certainly found in recent years particularly that an MBA has become an expected credential for many kinds of positions," he says, "where in the past it was a nice to have but not a necessity."

While portfolio management and portfolio analysis positions often required an MBA degree in the past, that requirement has spread to marketing and other roles as well, according to O'Neill.

In the spring, fund firms again scour university campuses, this time for first-year MBA students to hire as summer interns. Next fall, the hunt will begin anew.

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## **Pay Packages Shift with Market**

**Ignites, 08-16-04**

**By Marc Hogan**

(Excerpts)

Fund companies are changing the way they pay their best and brightest. That's in response to the bear market, competition from hedge funds and the continuing regulatory watchfulness.

Increased competition, ongoing regulatory scrutiny, and the all-too-recent bear market are changing the way mutual fund firms compensate their executives.

This year, a growing number of fund shops have been taking new steps to retain top employees, industry recruiters say. These measures include changes in how portfolio managers receive bonuses, longer employment guarantees for senior-level executives and even reimbursements if an executive is caught up in legal action.

For portfolio managers, compensation is becoming less mysterious, says Marc Baranski, senior vice president at Sibson Consulting.

"A lot of organizations are really attempting to be more explicit about the performance measurement within their portfolio management plans," he says.

In the past, most portfolio managers have said their pay packages were basically subjective. That's according to a study earlier this year by two Washington University professors.

In the study, respondents said roughly 45% of their compensation comes through bonuses. But 54% of managers said they thought that their pay packages weren't tied to any quantitative measurement.

The shift to performance-based compensation is largely a reaction to the bear market, according to recruiter Larry Lieberman with the Orion Group.

"Not a lot of people paid attention to how portfolio managers were compensated in the 1980s and 1990s," he notes.

In the most recent study by the CFA Institute (formerly AIMR), the median total compensation for portfolio managers in 2003 was \$148,000, down from \$190,000 in 2001. The CFA Institute said the decrease was largely due to the drop in market performance and assets under management at fund firms.

Meanwhile, the job market is growing more competitive across the fund industry, recruiters say. For one thing, there's the ever-dangling lure of hedge funds.

Some mutual fund firms are responding by giving senior-level types multi-year job guarantees.

"Today executives who have proven themselves and who are scandal-free have perhaps more negotiating power than they did not long ago," says **Charles O'Neill, president of recruiting firm Diversified Management Resources**. "Stability is a very important factor to these people, and therefore to the extent that they can do so they are negotiating longer employment contracts."

Hedge funds are tempting for not just portfolio managers, but also for high-level marketing and distribution executives, according to O'Neill.

Along with lengthier contracts, executives are also increasingly seeing heftier counter-offers, recruiters say.

"I've had a number of people actually not take positions because of that," says Barry Emen, a recruiter with MJE Recruiters. "It's kind of like a war for talent."

The trend toward guarantees fits with recent survey results by Netshare, a networking service for executives earning \$100,000 or more. The survey finds that 42% of executive recruiters polled want four- to five-year commitments from job candidates. A one- to three-year commitment would suffice for 21% of recruiters.

One group that may be able to negotiate these deals is senior compliance staff, according to O'Neill, and not just chief compliance officers.

That's due, of course, to the continuing regulatory scrutiny.

Another compensation-related development from the fund scandal is an increasing emphasis on potential legal costs.

Contracts for fund executives often require the employer to pay the cost of defense against legal charges. The usual exception is that the company doesn't have to pay if the executive is found guilty.

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## **Market Upswing Does Not Buoy Fund Hiring**

**Fund Action, May 23, 2004**

(Excerpts)

Despite a swinging stock market that has translated into hiring in other areas of the financial services industry, hiring at mutual fund companies has remained flat to slightly up. According to investment management executive recruiters, the market upswing has translated into a frenzy of placements in alternative investments and wealth management, including separate accounts...

**Charles O'Neill**, president of Diversified Management Resources, said hiring is up, but most positions have shifted from marketing roles to general management and administrative positions. He said hiring in alternatives reflects growth in this market segment. "If mutual fund hiring is lower on a relative basis, that is a reflection of the fact that the tough revenue environment of the past few years has taught management to run a lean ship. I see fee reductions, and the tentative economic recovery, as wild cards," he said.

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## Finding Success with Succession planning

**Fund Action's** Suzanne McCoy quoted **Charles O'Neill** and other industry observers on the value of well organized succession planning. (03/06/04) (Excerpts)

Many fund firms don't think beyond their current organization chart.

There are plenty of reasons behind fund firms' lack of succession planning. As the industry has grown, firms have focused more and more on fast-paced change and keeping up with competitors. In turn, many firms focused only on their most immediate goals and the executives heading them, says Charlie O'Neill, an executive recruiter with Diversified Management Resources.

For executives at short-sighted firms, then, job security was often minimal, at best. If a firm's key initiatives failed suddenly, or an M&A deal loomed, any number of executives could be pressured out the door. Thus, top executives couldn't say when, exactly they planned to retire and hand over the reins.

In facing that kind of uncertainty, many top-achieving executives were reluctant to stay at a firm in hopes that they would eventually make it to the top, O'Neill says. So, many executives kept a close eye on job opportunities elsewhere.

But, while that may be standard operating procedure at many firms, such a culture can take its toll on a firm and its executives.

"One prominent firm, for example, sharply limits the number of people it will send to the ICI General Membership Meeting, because they don't want their people to learn about job opportunities from recruiters and competitors," O'Neill says. "But what better way is there to keep abreast of many significant changes than the ICI meeting?"

Indeed, a lack of succession planning and a fear of executives jumping ship can hurt companies in numerous ways. According to Hewitt Associates, highly successful firms spend much more time identifying potential leaders and developing their skills than less successful firms.

In a recent study, Hewitt found that 100% of top-performing firms polled identify potential leaders from inside their ranks, while only 55% of all firms polled did so. Top-performing firms were defined as those with the top 75% of total shareholder return.

That same study showed that 83% of top-performing firms develop leaders internally, while only 30% of all firms do. And, of top firms, 88% track potential leaders' performance, while only 44% of all firms do.

While many fund firms don't develop future leadership, some clearly do. At Franklin Templeton, top executives started planning in 1999 for the eventual retirement of CEO Charles B. Johnson, which was finalized in January 2004.

Franklin's planning took many steps. First, the firm created an office

of the president and an office of the chairman to begin a gradual transfer of duties. At the time, Johnson's sons, Greg Johnson and Charles E. Johnson, and Martin Flanagan were named to that office as co-presidents. All three were considered possible successors to the CEO position.

At the time, Greg Johnson was named president of U.S. retail and institutional distribution; Charles E. Johnson was named president of portfolio management and the international division, and Flanagan was named chief financial officer and chief operations officer. Those three men oversaw day-to-day operations of the firm, and helped Charles B. Johnson and the office of the chairman make long-term strategic decisions.

Sharing that power internally, and gradually determining each executive's future role served the firm well, says O'Neill. In fact, when Charles E. Johnson left the firm following domestic violence charges in October 2002, the firm continued with its succession plans. In January, Greg Johnson and Flanagan took over as co-CEOs of the firm.

Flanagan is now responsible for investment management, finance, technology, risk management, corporate planning, and legal departments. Johnson is responsible for global retail, institutional, private client and retirement businesses, shareholder services and human resources.

"Franklin is interesting because most people in the industry are probably not well aware that the changes were made, or what they were," says O'Neill. "This is a great example of effective succession planning in action."

Throughout the planning, Franklin raised executives through the ranks to take C-level positions. In May, 2003, Jim Baio took over as chief financial officer, and Jennifer Bolt was named chief information officer. Both Baio and Bolt had been with the firm for more than a dozen years each.

By many accounts, Franklin has seen a successful decade. With nearly \$200 billion in mutual fund assets as of December 31, the firm weathered the bear market better than most.

Franklin saw bear market outflows of \$6.8 billion in 2000 and \$740 million in 2001, according to Financial Research Corp. It then bounced back with inflows of \$4 billion in 2002 and \$10 billion in 2003.

Indeed, Franklin has done well by many financial benchmarks, says Dan Culloton, an analyst with Morningstar.

"Their performance didn't drop off a cliff during the bear market, and their assets under management and their earnings have been steady coming out of the bear," Culloton says.

Also telling, Culloton says, is the fact that the firm is facing only minor charges of improper trading, while much of the industry fights charges of a much more egregious nature.

"To their credit, they didn't allow it to get out of control," he says.

"It doesn't appear that it was their business plan to allow market timing."

For some firms, good succession planning may engender success. But, for some, it can be a matter of survival. There are times when it's essential to have competent leaders ready to take the helm at a moment's notice.

That's what executives at Oak Value found when their CEO, George Brumley died in a plane crash in Kenya in July, 2003.

Brumley was not only chairman and CEO of the Durham, N.C. firm; he also co-managed one of its larger funds. The firm managed roughly \$1.3 billion in assets at the time.

When Brumley died, the loss was clearly a shock, but its executives had a succession plan in place. The fund Brumley managed had an investment committee, which assumed its portfolio management duties. Per the plan, David Carr took over as chairman, and Larry Coates took over as president and CEO.

"After something happens, it's obviously too late to start planning," says Oak Value's director of marketing, Andrew Marino.

The firm had so-called key man life insurance, which allowed the remaining executives to buy out Brumley's shares of the firm. In Brumley's shareholder contract was a stipulation that his shares would be kept within the company, and not assumed by his estate.

"Our success with this is a function of having people want to think about a rainy day when it's not raining," says Marino. Similarly, Rydex had a succession plan in place when its CEO and founder, Skip Viragh stepped down amidst a battle with cancer. In September, Mike Byrum, who had been with the firm since its founding in 1993, was named chief operating officer, and Carl Verboncoeur, who had been with the firm since 1997, became CEO.

O'Neill says such plans are essential for firms, large and small. And, they'll likely be more important in the months and years ahead. Indeed, he says, things are already changing at many firms.

"Firms will conduct more detailed, in-depth due diligence on potential hires than they're ever conducted before," he says. "I already see this among my clients."

But, he says, top-level executives must have the will to make successful succession planning work. He looks at Strong Financial as one example of a case in which there was little thought or effort was put into succession planning. The firm had one clear leader, but no one within its ranks to fill founder Dick Strong's shoes in the event of his departure.

As a result, the firm was caught flat-footed when Strong was forced to step down as chairman of the board and CEO as a result of his alleged involvement in questionable trading schemes at the firm.

Outsider Kenneth Wessels, the former president of the RBC Dain Rauscher's capital markets division, had to step in and take over.

"Dick Strong was Strong," says O'Neill. "At one point, he hired a very effective dynamic marketing executive-who Strong in turn, apparently pushed out the door. If a senior executive-much less a founder-doesn't want a successor-well, there won't be one."

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## Online Poll Shows Some Strength in Employment Outlook

**Fund Action, February 8, 2004**

**Diversified Management Resources**, an executive recruitment firm in the financial services industry, has found in an online poll that 21% of those surveyed were finding "many opportunities" for new jobs. **Charlie O'Neill, president**, said the online poll's findings were another indication to him that the job market in financial services is perking up. O'Neill stressed that the industry is still absorbing significant job losses and that nobody surveyed in DMR's poll said it "was getting any easier" to find a job. They indicated that there were new opportunities, but competition is stiff, he said.

Other findings showed that 11% were somewhat concerned about the possibility of layoffs and that 5% believe the job market will improve further closer to the end of the year. O'Neill said new opportunities in the mutual fund industry include compliance reviewers and other legal and regulatory positions to contend with the swirl of new regulations hitting the industry. But he said that further down the road back offices could be hit with downsizing as firms seriously consider "offshoring." O'Neill added that the outlook is fuzzy on this trend because top management has to examine how investors would react to their sensitive financial information being handled by non-U.S. companies and employees.

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## Fee Reductions to Cap Hiring, Salaries

**Fund Action, 02/08/04 (Excerpts)**

Elliot Spitzer's efforts to win concessions on mutual fund management fees may significantly slow hiring and cap salaries and altogether change the employment outlook in the mutual fund industry, according to numerous industry officials and executive recruiters. Mutual fund complexes are reeling from the double whammy of lower fees and a new cost structure, including significant new costs associated with having to hire additional compliance staffers and legal document reviewers. Officials say that the industry has been reorganizing since the beginning of the 2000-2002 bear market, as it watched retirement flows flatten--the bulwark of asset growth in the 1980s and 1990s--and wealthier investors leave funds for other investments. They say Spitzer's widening probe into the industry and the concessions he is trying to win from firms in the form of lower management fees is the start of a significant industry contraction and the beginning of a new era for the funds industry.

**Charlie O'Neill**, president of Diversified Management Resources, said, "Fee reductions and lower revenues have to affect profit margins or

expenses. Shareholders in publicly traded investment management companies will not accept lower earnings, so firms will trim expenses." O'Neill added that the majority of expenses for the mutual fund business go to salaries.

"The cuts will come from product distribution, field wholesaling, and product management among other areas." Alex Thomson, partner at Russell Reynolds Associates, said, "When you reduce fees you have to reduce expenses. Firms are now trying to figure out where those cuts will come from. But it's obvious. The business relies on people and firms' cost structure is nothing but salaries," he said. "Firms are waiting to see how big the impact will be," Thomson added.

Burt Greenwald, a Philadelphia fund consultant, said the industry can't underestimate the new costs associated with compliance, independent board directors and other regulatory functions. And he added that firms have already been paring down the number of funds they offer and service. "The new costs will damp hiring," said Greenwald. One executive at a major fund firm in New York said the firm instituted a hiring freeze late last year, just two months after it started new searches because of 2003's bull market. "Spitzer took away what the bull market gave us," he said.

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## **A Better Job Market?**

### **Fund Action, February 8, 2004**

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**Charlie O'Neill**, president, said the online poll's findings were another indication to him that the job market in financial services is perking up. O'Neill stressed that the industry is still absorbing significant job losses and that nobody surveyed in DMR's poll said it "was getting any easier" to find a job. They indicated that there were new opportunities, but competition is stiff, he said.

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## Résumés That Make It Happen

The New York Times (1/25/04)

By Abby Ellin

THE résumé, career counselors say, is one of the most vital elements to the job search, especially when so many people are looking for work and applicants are lined up for every opening.

Résumés, they say, should be clear, in a traditional, plain-vanilla format: name at the top; a summary of one or two sentences; then a succinct review of employers and jobs held, in reverse chronological order.

They should be one page, tops; usually, you have to account for only the last 10 years. You should look at your résumé the way employers see it: Is there continuity in your work history? Have you jumped around too much? Be prepared to explain what you did, what you accomplished and why you changed jobs.

"The first thing I look for is a concrete, concise statement that covers their objective, as well as some essence of their experience," said **Charles O'Neill**, the owner of **Diversified Management Resources**, a recruiting firm in Peterborough, N.H. "Don't expect people to understand what you've accomplished unless you tell them. General résumés just don't work."

Mr. O'Neill and Stephanie A. R. Shirit, the founder and chief executive of Resource Associates, a job-search firm in Las Vegas, suggest that job seekers create résumés for each position they want, emphasizing strengths and interests particularly geared to the specific job. Do not lie, and avoid smarmy phrases like, "I could make a real contribution," or "I'm a people person."

"Everybody's a people person," Ms. Shirit said. "How are you different? You could say, 'I'm a people person because I'm very positive, focused, cost effective, a team player.' They don't care about your children, religion, or community activities. You can put these things down as additional activities because they show what kind of a person you are, but you don't have to list every single thing. Try and keep it professional."

Discussing people who have been out of work, Ms. Shirit said: "What were you doing? Why were you unemployed? You got laid off, but then what did you do? Were you trying to change careers? Did you volunteer? Go back to school? Start a business?"

"Emphasize the positive things you did," she added. "People have to have some kind of income; unemployment runs out. You probably weren't home eating bon-bons."

Ms. Shirit recently advised a client hoping to change her job as a retail executive to public relations, a move the client feels she could make with relative ease. Ms. Shirit agreed that it was a possible transition but that the client's résumé needed updating to reflect her new goals. "One of her bullet points," Ms. Shirit said, "was 'executed overall boutique operations.' That's good - executed is a good word. But then she had things like, 'Hiring and training of entirely new team.' That doesn't tell me anything. Accentuate what you did. Be specific. You have bullets there for a reason: to highlight your skills."

John Karras, director of graduate and Web-based career services at DeVry University in Chicago, calls the years between jobs the "trade-off factors" or "value added," when a job seeker can develop extra assets like international

travel, fluency in a foreign language, advanced degrees or strong technical or computer skills. "Focus on the day-to-day activities that may be transferable from position to position," he said. "Companies are often asked what they look for, and they say, 'A leader, a problem solver, someone who is dependable.' They rarely list job experience."

It is also important to focus on job responsibilities rather than job title, because titles can be ambiguous. "Take an inventory of the responsibilities you've had over the course of your careers and prioritize them in terms of points of marketability for the job sought," Mr. Karras said. "List the most relevant point first, even if it relates to something done many years ago."

What's more, you don't have to put your age on your résumé, or list your year of college graduation. Employers in many industries - especially those that do not require a special degree, like law or medicine - enjoy hiring older people because they are often more focused and know what they can and cannot do.

However, "If the issue is really breadth of experience rather than age - if, for example, you have more experience than your potential supervisor - address the issue head on, turning a potential negative into a positive," Mr. O'Neill said. " 'As you'll see, I've managed teams of people before. I understand the challenges you face. I can help you succeed. I look forward to the chance to roll up my sleeves and get the job done.' "

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## **Fund Titan: Whistle-Blower Noreen Harrington**

**Ignites Jan 20, 2004**

By Suzanne McCoy, Tom Leswing

She put it off for nearly a year, but finally her conscience got to her.

When Noreen Harrington finally picked up the phone to call New York attorney general Eliot Spitzer's office in May of last year, she did so to clear her conscience. She also wanted to put a stop to her former employer's market timing of mutual funds.

What she got was nationwide media attention as the woman who blew the lid off the biggest scandal ever in the \$7 trillion mutual fund industry, accusations that she was acting out a grudge against a former employer, and an uncertain professional future. But Harrington says she can live with that. Her conscience is clear.

Harrington's tip is what sent the attorney general's office on a hunt for market-timing arrangements between hedge funds and mutual funds. Along the way, Spitzer uncovered other abuses, such as late trading at fund firms. Those discoveries have sparked a regulatory reassessment of the way funds are governed, marketed, priced, sold and cleared.

"Few issues on the business pages have taken up so much space," says Arthur Levitt, former chairman of the SEC. "I believe Middle America is sensitive to this. No other scandal has had such a wide impact on Middle America."

As a result, the mutual fund industry will never be the same. Not only are regulators looking to eradicate market timing and late trading, they're also looking at reforming directed-brokerage

practices and funds' boards of directors.

"Just six months ago, the industry argued that fund boards did a good job," says Levitt. "Now, it's apparent that fund companies and fund boards have become too intimate."

From the time Harrington considered calling Spitzer's office to the present day, she says she's been torn by her decision.

"It was a heart-wrenching decision — there were times when I picked up the phone and didn't dial," Harrington told *Ignites* in one of the few interviews she's given since speaking to the *Wall Street Journal* and *The New York Times* in December. "It's not an easy thing to do, and it has ramifications. People are going to jail, and that's not an easy thing to wrestle with."

She says she was ultimately able to temper her concerns with her pride and faith in the financial services industry, of which she is a 22-year veteran.

Harrington has been involved in a range of hedge fund industry groups over the past 10 years. She is one of the founders of "85 Broads," a group of women who currently or previously worked at Goldman Sachs (which is located at 85 Broad Street in Manhattan).

That group brings in speakers, organizes forums and sets up programs for women in the hedge fund industry to mentor each other. In October 1999, six women from the group were featured on the front page of the *New York Times*' business section.

She is also a supporting member of 1,000 Women in Hedge Funds, another organization that mentors women in the industry and raises money for the education of disadvantaged youth.

The story of what finally led Harrington to make that call also illustrates some of the dynamics that may have kept others in the industry from coming forward. Considering the potential for recrimination and industry blacklisting, it's no wonder that illegal and unethical trading arrangements continued unnoticed for as long as they did, say recruiters and others in the fund industry.

From 2001 to 2002, Harrington managed a fund of hedge funds at Stern Asset Management, the parent company of Canary Capital, now infamous as the hedge fund manager targeted in Spitzer's initial complaint.

She had an office in New York, but spent two days a week at Stern's offices in New Jersey. It was there that Harrington says she stumbled across trade records showing frequent movement of Canary's assets into and out of a handful of mutual funds.

Then Harrington began to hear Canary traders bragging about their trade deals with mutual fund firms. When it became clear that Canary was market timing and late trading with some of the biggest names in the fund industry, she says she was dumbfounded.

"I had been in the industry for 22 years, and never thought that people could get away with anything so egregious," Harrington says.

Around that time, the firm's secretaries began complaining that their 401(k) plan featured poorly performing funds, she says. So Harrington went to Edward Stern, the firm's managing principal, and requested that he hire a different 401(k) plan administrator.

But Stern said the current plan administrator allowed him to time the market in his own account, so he didn't want to make a change. She questioned Stern on the ethics of market timing in mutual funds. But Harrington says Stern told her that it was up to the mutual fund firms to put an end to the practice.

That explanation didn't sit well with her, says Harrington. Knowing that the 401(k) plan was the only investment vehicle for many of the secretaries in the office and knowing that Stern's market timing could be creating a drag on other investors' returns, she was frustrated.

"It's a zero-sum game. Anything these people were making, the people in the fund were losing," she says.

Harrington was in a unique position to understand what Stern's frequent trading meant to other investors. For 11 years, she was a bond trader at Goldman Sachs, and then went on to head up emerging markets trading at Barclays.

During her tenure at Goldman, Harrington says, she was trained to question everything she saw, even if it was the decisions of top management. Putting fiduciary duty first was a ubiquitous mandate at the firm, she says.

"I grew up with the freedom to say, 'Maybe we shouldn't do that,' or 'Maybe we should do that,'" she says. "At Goldman, compliance was a resource, not the police. They were there to help you make sure you were doing things right."

That tone of doing the right thing has to be set at the top, says Harrington. By the looks of the trading deals at Canary, that kind of mandate had clearly broken down at some firms, she says.

Don Phillips, managing director of Morningstar, agrees that the breakdown of those values is one of the main issues behind the years of wrongdoing in the industry.

"I think it was just an industry where people stopped asking themselves questions," says Phillips.

When she was working at Stern, Harrington didn't know how far-reaching the firm's trading arrangements were, nor how common such arrangements were throughout the mutual fund industry, she says. But the environment at Canary didn't sit well with her on an ethical level.

"People have given us their life savings. We should be better than that," Harrington says.

So Harrington resigned her position at Stern in April 2002, staying on until August of that year to train her successor.

In the wake of her unmasking as the original whistle-blower, many have accused her of calling Spitzer as part of a vendetta against her former employer. She points to the way that she left her former employer as evidence that she was not motivated by revenge.

"I stayed at Stern to help them train a successor. Then I waited a whole year to come forward," Harrington says. "You don't do that if you have a personal vendetta."

After leaving Stern, Harrington joined SP Capital Management in Manhattan, a subsidiary of Sterling Equities, to manage another fund of hedge funds. She left that post because of the publicity the investigation brought her.

In the period between leaving Stern and calling Spitzer she continued to think about the effect that Canary's arrangements would have on the mutual funds' individual investors, she says.

Some of the lessons she learned from the terrorist attacks of September 11 also influenced her decision to call the attorney general, she says.

"I learned that maybe life isn't so long," Harrington says. "I lost 13 friends and a cousin that day. I learned that maybe you have to do the right thing when you have a chance."

Harrington says she thought many times about going to a regulator such as Spitzer with the story of wrongdoing at Canary. But she didn't want to make waves, and she had trepidations about being termed a whistle-blower, she says

"Some people still think you've betrayed a trust if you blow the whistle," Harrington says. "Instead of saying 'You did the right thing, you have integrity.'"

So she waited for news of the trading arrangements in the headlines and hoped that, somehow, regulators would catch wind of the wrongdoing, she says.

Then, conversations with her sister, who was worried about her financial future and whose only asset was her 401(k), brought the abuses home for Harrington.

"When I thought about it from the bottom up — from my sister's standpoint — I couldn't sleep anymore," Harrington says.

That was when she realized she had to come forward with her evidence, she says.

Harrington says she decided to bring the information she had to Spitzer, largely because she thought he had a track record of standing up for individual investors' rights.

Some of the news stories that would follow implied that Harrington went to Eliot Spitzer because she thought the SEC wouldn't act forcefully enough.

That insinuation is inaccurate, she says. She says she went to Spitzer because she knew he had the Martin Act on his side, and had moved swiftly against Wall Street research firms in the past.

"Through the media, I felt I knew him," Harrington says. "He championed the small investor and wanted to level the playing field. I believed that if I pointed him in the right direction, if there was wrongdoing there, he would fix it."

Furthermore, a fellow Goldman alum, David Brown, had recently joined Spitzer's office as head of the Investor Protection Bureau. Although they had never worked together, she says, she had heard of Brown from other former Goldman colleagues and knew his reputation.

Harrington's actions took guts, say many in the industry. Throughout the mutual fund business, there are a lot of disincentives for employees to come forward, they say.

"Companies have a way of encouraging people to 'stay on the team,' another way of saying 'don't make a fuss and we'll treat you well,'" says **executive recruiter Charlie O'Neil**.

If an employee does decide to leave a job because of ethical lapses at a firm, they'll have some tough questions to answer when they search for a new job, says Jeff Morton, a founding partner of Adviser Compliance Associates.

"It would be very hard to find a new job," says Morton. "It's such an incestuous industry. The fund firm's question is: 'Why did you leave your prior job?'"

Harrington originally wanted to offer her information anonymously. She didn't want to name Stern or Canary Capital specifically and she wanted to provide information only by phone, she says.

Ultimately, though, staffers and lawyers in Spitzer's office persuaded her to visit the attorney general's office. That was in May 2003. By September, Spitzer had announced his findings to the world.

Harrington was heartened by the fact that Spitzer promised to protect her identity. Only five people in his office knew her name, she says, and all of his documentation referred to her as a man.

But, she says, there was one thing that Spitzer said in his initial press conference that may have sparked some investigative reporters' interest in the whistleblower's identity. He said that someone had helped him in his investigation, but that he would take the person's name to his grave.

"I think some investigative reporters took that as a challenge," Harrington says.

Indeed they did. Reporters from the *Journal* tracked down two of the men subpoenaed to help Spitzer in his investigation of Canary. They were Andrew Goodwin, a former Canary trader, and James Nesfield, a consultant at the firm.

Soon, Harrington says, reporters from the *Wall Street Journal* started calling her. Harrington says she thinks that the reporters put together what they'd learned from Goodwin and Nesfield, and decided that the original tipster had to be someone from Canary. Because Harrington had recently left the firm, she says, she thinks she became a suspect.

But Harrington didn't want to be in the headlines. So, she says, she left the country for three weeks.

"That's just not me," she says. "I'm a very private person. I never wanted to be known for any of this."

When she returned reporters from the *Journal* were still trying to reach her, she says. One night when they called, she answered the phone. The reporters said they were planning to run a story the next day, alleging that she was the original whistle-blower. It was then, on Monday, Dec. 8, that Harrington agreed to an interview. She invited only the *Journal* and *The New York Times*.

"They had backed me into a corner," Harrington says of the media. "They were going to say that I helped Eliot Spitzer and that I wouldn't answer their questions, but that Andy Goodwin and James Nesfield did. Now I'm in the same sentence with two guys who broke the law, who got subpoenaed to come in. I wouldn't answer their questions, which makes me look horrible."

Neither reporters from the *Journal* would comment for this story.

"I'm not a rookie," Harrington says. "I learned at Goldman that it's better to get in front of a story than on the back side of the wrong story."

The *Journal* and the *Times* ran their stories on December 9. Then came the media onslaught — a barrage of calls to Harrington's home and a raft of newspaper headlines. In newspapers from Singapore to Oregon, the story of the whistle-blower was in the business pages.

At one point during that week of headlines, she says, someone tried to break into her apartment.

Harrington says she is happy with the way reforms in the industry are developing in the wake of the scandal. She says she doesn't want to see more regulations, just better enforcement. She says she has spoken several times with fellow Goldman alumni Senator Jon Corzine (D-N.J.) and SEC director of enforcement Stephen Cutler about the issue.

"We need to make sure that it's not up to one human being to make the right choices," Harrington says. "It's incumbent upon all of us to police the weakest link in the fence."

As for Harrington's career, she says, the future is uncertain. She had plans to start her own

hedge fund in the coming year. But she says she wants the frenzy of media attention to die down before she makes any definite plans.

Whatever she does, she can sleep at night, knowing she did the right thing, Harrington says.

"An old boss said to me: 'Some doors will close. Let them close. You're too good for those doors. You did a good thing and I don't think America will close the door on you.'"

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## Bringing Out the Best in Your Employees

(2003 ICI Operations Conference 10/20/03) **D.M.R.'s Charlie O'Neill** moderated a panel discussion, "Bringing out the Best in your Employees." O'Neill and other panelists discussed cost effective methods for successfully motivating and retaining staff. Key issues talented people look for include: being treated as adults, and managers who are even-handed and fair in conducting performance appraisals.

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## Funds Trim Fat - But Jobs Still Exist

"Job cuts and restructuring are not short-term trends in the mutual fund industry. They are here to stay," **Charlie O'Neill** told Money Management Executive on 9/22/03. "Companies are feeling increasing pressure on their profit margins." He points out that fund directors were already paying closer attention to fund expenses, but now new regulatory requirements, such as anti-money laundering compliance, will force firms to incur expenses that cannot be immediately passed along to shareholders. Upper management at these companies must also adapt to an environment that emphasizes transparency and clarity in expense reporting, he said.

Another ongoing theme among fund complexes has been a wave of restructuring efforts or what some in the industry refer to as "background noise." Many companies have found that their business models weren't working and have gone back to the drawing board. One area that has been targeted for retooling at many firms is their sales and marketing workforce. For example, it is likely that there will be more aggressive moves to leverage technology to improve or perhaps even replace some portion of the traditional wholesaling organization. That creates opportunity for job seekers, O'Neill argues, in that one person's job loss through restructuring often means another person's opportunity. In other words, when companies look to revamp their business, they tend to seek skilled outsiders to take on new roles.

Still, there's definitely a bias toward net loss of jobs in the fund industry. That is not just a function of the difficult market environment but also efficiency of technology. Overall, O'Neill believes that job seekers with the most experience are still highly employable, but folks whose credentials are not necessarily in the top tier will find the job search to be a daunting task.

An area where there will be real net growth in jobs is in the compliance field. In light of the intense scrutiny from securities regulators, legislators and most recently New York Attorney General Eliot Spitzer, mutual funds are being forced to beef up their compliance departments significantly. "Look for the compliance department to be gaining authority within a firm," O'Neill said.

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**Pink Slips Fly** In mutual fund industry publication, **Ignites**, on September 12, 2003, **O'Neill** said he was not surprised by recent staff reductions in mutual fund sales organizations. "The changes continue as firms struggle to contain costs but still grow their assets under management. "We are in a sustained period of staff reorganization as companies spend more money on programs that are working, less on those that are not," he says.

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## **Pru Rumored to Be Readying Cuts at Skandia**

**Article published on May 20, 2003**

**By Ignites.com Staff**

On the heels of finalizing its acquisition of American Skandia earlier this month, Prudential is said to be preparing in the coming days the first of two rounds of layoffs, according to a source familiar with the situation.

According to the source, Prudential is gearing up to eliminate more than 200 employees from its American Skandia subsidiary. This week's round of layoffs is expected to affect about 100 employees. A second round of roughly the same magnitude is being planned for late in the third quarter, according to the source. The cuts will be made across the board, but the bulk of the firm's wholesaling positions are expected to remain intact, the source says.

As part of the change it is rumored that William Marsh, a vice president of electronic commerce at Prudential who helped with the merger, will be named chief operating officer of the combined Skandia-Prudential unit.

Marianne Stochmal, a spokeswoman for American Skandia, referred calls to Prudential. Prudential spokesman Michael Arcaro would not confirm or deny the reports.

Prudential purchased American Skandia for \$1.17 billion last December. The deal catapulted Prudential from the 14th largest variable annuity firm based on assets to the fifth. Since then, industry observers have speculated that Prudential would seek to eliminate redundant positions. Skandia is said to have roughly 600 employees.

Much of Skandia's top leadership has already left the firm, sources say. That includes Wade Dokken, president and CEO; Patricia Abram, chief marketing officer; Michael Murray, senior vice president and national markets director; and Brett Winson, head of human resources.

While layoffs are typical of most mergers, the source questioned Prudential's strategy of quickly ushering the top executives out the door.

"It's mystifying because Prudential has effectively removed all third-party expertise and people who have relationships with the marketplace."

While Prudential appears intent on leaving Skandia's wholesaling network intact, it remains to be seen whether that approach will work, the source says.

"What Prudential is saying is that they put more importance on the wholesalers, which at the end of the day may be correct. However, the wholesalers have to believe in the management as well, so it will be interesting to see the reaction of Skandia employees to these latest moves."

The news came as no surprise to many industry recruiters and consultants, who say they were expecting such a move. Shortly after the merger a committee with executives from both firms was

put together to evaluate the redundancies, according to one industry recruiter.

Another headhunter speculated that the first round will probably include a lot of operations and administrative staff, where there is likely to be redundancy between the two firms.

Prudential, of course, isn't the only firm involved in slashing head count. Over the past few years, a prolonged bear market has crimped earnings at most mutual fund shops. AIM, Putnam, MFS, Fidelity, American Century and other firms have all laid off workers.

While the equity markets have generally improved this year, they are still way below their historical high levels. That's causing many firms to execute layoffs in a very prompt manner, says **Charlie O'Neill**, a principal with recruiting firm **Diversified Management Resources**.

"I think the difference between now and a year ago is that people would previously take more time," he says. "Now there is a tendency to do it more quickly."

That generally holds true for layoffs following mergers and also those that result simply from trying to cut costs.

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## **New Website Aims to Become Mutual Fund Jobs Central**

### **Mutual Fund Market News and MutualFundWire.com; 4/14/03**

Mutual Fund Market News and MutualFundWire.com were the first publications to announce the formal public launch of **Mutual Fund Careers**.

In their articles, headlined "New Website Aims to Become Mutual Fund Jobs Central" and "Fund Industry Gets Career Web Site" respectively, both publications reported MFC's unique combination of career management, professional development and job posting features.

MutualFundWires.com quoted **co-founder Charles O'Neill**, "the mass market job sites have their place, but for many firms in the fund industry, they are too broad-based."

Raymond O'Brien, co-founder, told Mutual Fund Market News that the site's fee structure is designed to appeal to qualified professionals, while providing an opportunity for job seekers to hone their skills with online training from Boston University's Center for Professional Education and the National Investment Company Service Association.

Mutual Fund Market News also noted that "after several years of layoffs in the mutual fund industry, a new service that provides a job board and skill enhancement at the same place may be well timed."

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## Tough Market Raises Bar for Job Seekers

Ignites, Feb 18, 2003

By Suzanne McCoy

While fund employees fight the layoff jitters, top headhunters say that the industry's job market is showing some signs of improvement. But when hiring does start picking up, they say, executives looking for work can expect an altered terrain.

Out-of-work executives will need to sell themselves harder than ever and may have to rethink their departments of choice. Some may also have to adjust their salary expectations.

Recruiters say that firms currently on the hunt are taking a fine-tooth comb to resumes and are cautiously hiring in areas such as sales and compliance.

Larry Lieberman of the The Orion Group says that since 2000, industry hires across the board have been largely geared toward just maintaining current staff. For every five hires firms made in 1999, he says, four were for new positions and one was for an existing position. Now, that ratio has reversed.

"They have resigned themselves that their margins won't be what they used to be," says Lieberman. "But they see that they need to move ahead."

So fund companies are weeding through stacks of resumes and deciding what, exactly, they want from a new hire. But unlike the situation in the '90s, firms now have a stronger field of candidates to choose from.

"Firms are looking for the perfect person," says **Charlie O'Neill**, an executive recruiter at **Diversified Management Resources**. "They really are going to wait until they find someone who fits all their requirements."

With the odds narrowed, Donald Dzurilla, president of recruiting firm Donald Dzurilla International Co., says job-seekers should be flexible when considering their next career step.

Sales and compliance staffers, for example, are likely to stay in demand for the near future. Every firm will need to maintain a sales force, and new regulations and greater SEC oversight of the industry is prompting firms to staff up legal and compliance departments.

Fidelity, for example, is adding four executive positions in sales or auditing roles.

Meanwhile, Oppenheimer is looking for a vice president of international sales, Franklin Templeton is looking for a corporate tax specialist, and American Century is looking for a vice president of national accounts.

With executive positions at fund firms few and far between, some say employers are using the market to their advantage.

One out-of-work executive says he watched his former employer pass up a talented, innovative candidate two years ago because her salary requirements were too high. His firm recently hired the same candidate for \$50,000 less than she had originally asked.

The executive says the firm clearly would have benefited and grown from having that candidate on board during the previous two years.

Firms need to be careful about lowering compensation for top talent.

"You have to look at the long-term implications of low-balling someone," says Dzurilla.

Employees who receive less than they think they're worth will likely feel resentful, even if they don't admit it, Dzurilla says.

"As soon as the market goes back up, that person will be out the door."

Some say that out-of-work execs may do well to consider working even farther afield.

Many out-of-work fund executives are moving toward hedge funds and private accounts.

"The trend is definitely in people moving into alternative products," says Lieberman.

Other executives may want to move even further out of financial services, says Dzurilla.

He uses the example of a portfolio manager who analyzed defense contractors — a job that required traveling three out of four weeks a month. He could, potentially, take a job as chief financial officer of a defense contractor, and have more time for other things in his life, Dzurilla suggests.

"Going to the other side of the desk can have its payoffs," he says.

O'Neill agrees, saying mutual fund employees are attractive to many other industries for their firm grasp of financial fundamentals and their reputation for integrity.

"The fund industry's a reservoir of talent," says O'Neill.

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## **Eaton Vance Cuts Pay, Adds Options in 2002**

**Ignites, Feb 5, 2003**

**By Colin Dodds**

After a strong 2002, Eaton Vance has cut the cash compensation of some of its top executives.

Its top two executives, CEO James Hawkes and Executive Vice President and Chief Investment Officer Thomas Faust, saw their cash compensation cut by \$824,000 and \$760,000, respectively.

Two other top execs, Vice President and Chief Legal Officer Alan Dynner and Vice President and Chief Financial Officer William Steul, saw their cash compensation fall by \$160,000 and \$166,000, respectively.

Those pay cuts came as net income rose by more than 4% to \$121 million and revenue rose by 4% to \$523 million.

But even with the cuts, Hawkes still took in roughly \$2.9 million in cash compensation, while Faust earned \$2.5 million. Dynner and Steul earned \$737,000 and \$730,000 in cash compensation, respectively.

The firm's decision to cut the execs' pay was the result of the sinking market, says Debbie Porter, a company spokeswoman.

"The lower compensation reported in the Eaton Vance 10-K reflects the 2002 market conditions and their impact on the company's performance," she says. "Management bonuses included in compensation are based on growth in profitability, which in turn is driven by assets under management."

And that's one measuring stick by which the company didn't improve in 2002. Its assets under management fell from \$56.6 billion to \$55.5 billion for the year.

But given the other improvements, more factors were at work in the company's decision to cut the cash compensation of its top honchos after a fairly strong year, consultants say.

One reason for the cuts in cash pay may well be company morale, says **Charlie O'Neill**, a principal at recruiting firm **Diversified Management Resources**.

"Employees do look at these [annual company] statements," says O'Neill.

And seeing the top executives haul in big bonuses while the rest of the company is clamping down on expenses elsewhere can alienate employees, O'Neill says.

Part of the reason for the cuts may also involve public relations, says Larry Lieberman, of recruiter Orion Group.

"While no one's going to shed a tear for a guy who earned \$3 million in cash, they're putting on a good show," says Lieberman.

Also, after corporate ignominies such as Enron and Tyco, top execs' pay is under much heavier scrutiny, says David Bushly, Buck Consultants' compensation practices leader for financial services. In the current economic and media environment, rising pay for top brass casts a bad light on a company's corporate governance.

But at the same time that Eaton Vance is cutting cash compensation for its top dogs, it increased the stock options it offered them in 2002.

The top two execs, Hawkes and Faust, received a respective 13,600 and 13,900 more in options in 2002 compared to 2001. Assuming regular annual stock appreciation of 5%, the total value of their options for 2002 are estimated at \$5.9 million and \$4.9 million, respectively.

Meanwhile, Dynner and Steul each received 4,700 more option shares in 2002 than they did in 2001. The total value of the shares they received in 2002, using the same method of calculation, amounts to \$580,000 apiece.

Eaton Vance's decision to move a chunk of its execs' compensation to stock options makes sense, says Lieberman. It's a good way for the company to increase management's incentive during harsh times, he says.

It's also a good way of improving the company's balance sheet, says Donald Dzurilla, of Donald F. Dzurilla International. The cash cut from the execs' compensation goes right to the firm's bottom line, he says.

Compensation in financial services industry is changing, says Dzurilla. Companies are looking more closely at how individuals affect overall performance, rather than just increasing compensation when the company does well, he says.

That may explain why Eaton Vance vice president and chief sales and marketing officer Wharton Whitson was the only one of the top five execs whose cash compensation increased in 2002.

Coming off a year in which net income and revenue climbed, Whitson's cash bonus rose roughly \$9,000, to \$1.17 million. His option grant also increased by 3,400 options, giving his grant a total value of just over \$2 million.

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## Putnam Cuts Tech Projects, Head Count

**Ignites, Jan 22, 2003**

**By Tom Leswing**

Based on its expectations for 2003, Putnam has laid off 17 information technology workers and an additional 18 contract employees.

"It's simply a matter of assessing where the market is and what projects we should support," says Nancy Fisher, a spokeswoman.

Certain technology projects on the drawing board have been dropped along with the positions that would have supported those projects, she says.

All of the positions affected by the cuts were located in Putnam's downtown Boston office and three suburban locations including Andover, Norwood and Franklin. Fisher adds that none of the eliminated positions were involved in information systems for investment management. Furthermore, the layoff is relatively small when compared to the size of Putnam's workforce, which totals approximately 5,600, she says.

Still, the recent layoffs follow a series of staff cuts at Putnam in the past two years.

In the first half of 2001, Putnam made two rounds of cuts totaling 277. Then last August, it laid off an additional 32 workers.

One recruiter says Putnam's cuts do not bode well for the industry. More layoffs, especially in technology, can be expected within the fund industry.

"Staff reductions are not over," says **Charlie O'Neill**, a recruiter with **Diversified Management Resources**.

Firms will continue to evaluate whether they should outsource various technology functions. Since many firms, such as transfer agencies and fund accountants, can offer those services on a more efficient basis, they can offer fund firms some cost savings.

While Putnam declines to disclose which technology projects it's dropping, many firms have shifted their IT priorities, according to a research report by Robert Hegarty of the TowerGroup. In 2000, fund firms were focused on developing Internet resources, preparing for T+1 settlement and accommodating rapid growth. Now, they are turning to technology to help contain costs and to implement business continuity plans.

"This will result not only in a net loss of jobs for fund companies, but a net loss overall, since outsourcing service providers are, in many cases, more efficient," O'Neill says.

Putnam, like most other asset management firms, is suffering from the three-year-long market decline. And like most other funds, it's been forced to cut staff to contain its costs. Indeed,

Fidelity, MFS, T. Rowe Price, Scudder, AIM, American Century and a host of other fund firms have slashed head counts, citing tough market conditions.

According to the Financial Research Corp., Putnam funds managed \$240 billion in long-term fund assets in 1999. Since then, however, its assets have steadily declined.

In 2000, assets dropped to \$224 billion. The next year they declined further, to \$179 billion, and through November, the firm's assets were down to \$138 billion.

Those factors notwithstanding, there is some glimmer of hope in Putnam's cuts. The layoffs could have been a lot worse, because Putnam didn't aggressively staff up during the bull market of the '90s, says O'Neill.

"Among all of the companies that have had to cut back, Putnam is one of the best managed in regards to deliberately hiring [a limited number of employees] and then laying off people," he says. "It's not the kind of company that would react in a boom market and then have to lay off a lot of workers."

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## Bonuses are Down

### Mutual Fund Market News (1/14/02)

In an article in "Bonuses offer ugly reminder of 2001," [Charlie O'Neill](#) described a shift in mutual fund industry compensation, placing more emphasis on individual and total company performance, with lower salaries. He also predicted that compensation for some positions in the mutual fund industry would decline over the next 2-3 years.

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## A New Wholesaler Emerges

### Mutual Fund Market News (10/15/01)

Charlie O'Neill was among the experts quoted in **Mutual Fund Market News** (10/15/01) commenting on recent changes in the mutual fund business and their implications for fund wholesalers. O'Neill observed that today's wholesalers must develop a more complete understanding of their firm's products as well as alternative investment vehicles. In responding to the complexity of the current business environment, he said wholesalers would need to learn to better represent the investment management process

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