Letter from our Managing Partners

November 2006

To our clients and friends,

This document is the culmination of six months of work done by over 80 of our consultants and market intelligence professionals to help clients make 2006 compensation decisions and develop their human resource plans for 2007. Our Options Group Intelligence Unit has captured information about business performance, people moves, recruitment trends and compensation practices using our global database of 250,000 industry professionals, interviews with senior executives, and media sources.

With these data points, Options Group was able to make thorough assessments of expected compensation by product category, by region and by bank. Of course, since many firms have not finalized their bonus pool plans and 2007 budgets, these estimates may be used by hiring managers and unit heads as a guide-post to set bonuses up and down their company's organizational charts.

Options Group is committed to delivering value-added market intelligence and strategic consulting as well as executive search services. We believe our clients value firms who have rapid cycle times and can complete searches and market intelligence projects in weeks rather than months. This year's report also includes new sections on fast-growing emerging markets around the world.

If clients or friends would like Options Group to expound on any particular subject in this report, please contact any of our managing partners or visit www.optionsgroup.com. Please also feel free to provide us with any feedback – both positive and constructive – so we can make future compensation analysis reports even better.

Sincerely,

Managing Partners

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Data Contributors: ABS Alert, Asiamoney, Bloomberg, Bond Week, The Boston Consulting Group, Business Week, Credit, Credit Suisse/Tremont Index, Dealogic, Derivatives Week, Euromoney, Financial News, Financial Times, Investment Dealers Digest, New York Times, PE Week, Risk, Securities and Exchange Commission filings, Securities Industry Association, The Wall Street Journal

About Options Group

Options Group is a leading global executive search and strategic consulting firm for the financial services industry. Over the past 15 years, the company has successfully carried out placements of mid- to senior-level personnel in all areas of the financial services industry for a range of global institutions. With over 80 consultants and market intelligence professionals worldwide, Options Group has a handle on key competencies in the financial field and is at the cutting edge of global hiring and compensation trends in capital markets, derivatives, equities, hedge funds, investment banking and technology. Options Group has placed thousands of professionals across five continents since 2000 and has seven offices globally. For additional information, please contact Eric Moskowitz, our Director of Content and Development, or visit www.optionsgroup.com.

WE BELIEVE IN PARTNERING WITH OUR CLIENTS IN A HIGHLY PROACTIVE AND CONSULTATIVE MANNER TO PROVIDE CREATIVE SOLUTIONS TO HUMAN CAPITAL AND STRATEGIC INITIATIVES. OUR GOAL IS TO FACILITATE OUR CLIENT'S GROWTH, ENHANCE THEIR VALUE, AND FUEL OPPORTUNITIES FOR CONTINUED SUCCESS.

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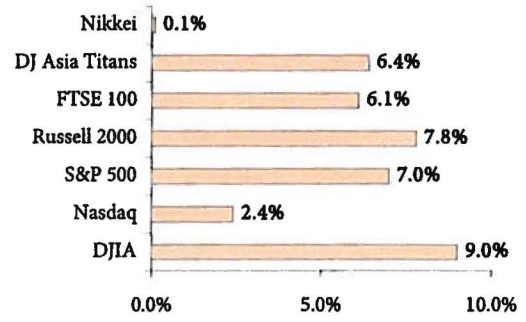
Global Markets Overview

Global Markets

GLOBAL MARKETS

After 40 months of rising global financial markets, banks are prepping for more complicated times in 2007. Rising compensation costs and the increasing reliance on derivatives and international revenue are increasingly on the minds of banking committees and risk managers. Analysts surveyed by *Bloomberg*, for example, estimated Credit Suisse's securities unit to have spent 76 cents for each dollar of revenue generated in the second quarter.

MAJOR STOCK INDEXES*



* Data through 9/30/06.

Senior bank managers are seeking to minimize costs by not only consolidating credit and equity products but also structured finance and investment banking. Structuring of all types surged this year, led by CDO volumes, which have doubled this year. Key products range all the way from sub-prime loans to structured credit. In the second half of 2006, correlation trading increased globally as volatility spreads declined, prodding banks to seek more hybrid-like transactions.

U.S. investment firms (Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch and Morgan Stanley) continue to lead this global earnings wave: the five firms' combined earnings in the first nine months ending in August exceed the full-year record set by them in 2005. Overall, bonuses will climb as fast as they did last year. Due to record revenue, 2006 bonuses should reach $36 billion at the five firms, according to ***Bloomberg***. Compensation as a percentage of revenue at the five firms (Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch and Morgan Stanley) is 48.8%, 47.4%, 50.1%, 49.5% and 41.8% respectively.

Wall Street earnings from the U.S. will tumble 23% next year as the economy slows and competition from electronic exchanges forces firms to lower fees. A key question for 2007 – and one the Options Group Intelligence Unit will watch closely – is whether international revenue can sufficiently offset possible U.S.-based revenue declines. The theory at the global investment banks is emerging market growth in banking, trading and asset management will be able to more than make up for any dips in the Americas.

The biggest risk factors remain global politics, terrorism and derivatives. According to the International Swaps and Derivatives Association, the volumes of the derivatives required to create structured products soared once again. Meanwhile swaps linked to commodity indices have grown by an estimated $10 billion in 2000 to $80 billion across the globe, according to an Asiamoney poll. Derivatives trading has become a bit of a Catch 22 for the global banks because it drives revenue on so many levels. Prime brokerage, asset management, equity and credit trading, and even investment banking are becoming more and more dependent on structured transactions.

SNAPSHOT/BONUS BREAKDOWNS

Fixed Income: Bonuses will rise 10% on average over last year, driven by increased credit derivatives and structured finance activity.

- Oil and Gas trading was the big product area in 2005; this year, investor interest has diversified into metals, soft commodities and emissions
- High-yield and U.S. investment grade credit markets made comebacks in 2006, while FX and Interest Rates trading lagged other areas.
- Credit managers are moving marquee corporate bond sales and traders into credit derivatives and structured credit products. CDO volumes are accelerating even faster than the ABS market: Volumes have doubled through the first 9 months of 2006 to nearly $300 billion.

Equities: Bonuses will be up 20% on average over 2005, led by continued growth in equity derivatives, alternative investments and electronic businesses.

- Pay for U.S. and European hedge fund managers, associates and vice presidents should rise significantly. Asian hedge fund bonuses should be on the lower-end compared to the U.S. and Europe. Many hedge funds there stumbled through the summer and posted flat returns.
- The prime brokerage wave is showing no signs of slowing down at the global investment banks and smaller boutiques as the industry expands into fixed income.

Investment Banking: Bonuses up 20-25% on average over 2005, driven by increased M&A, private equity and corporate finance dealmaking.

- Announced European mergers and acquisitions activity is now on par with U.S. volume for the first time ever. Bonuses for the second year in a row will be higher on a percentage basis in London than New York.
- Distressed investing is emerging as a major investment vehicle for the global investment banks and hedge funds.

BONUS INCREASE/(DECREASE) BY CATEGORY

CATEGORY	PERCENTAGE
Regions	
Americas	10-15
Europe	15-20
Asia	20
Fixed Income	10
Commodities	15
Credit Derivatives	10-15
Emerging Market Debt	5-10
Fixed Income Proprietary Trading	0-5
FX	0-5
High Yield Credit	5-10
Interest Rates	0-5
Investment Grade Credit	0-5
MBS	0-5
Municipal Derivatives	5-10
Structured Credit	15-20
Structured Finance	15
Equities	20
Alternative Investments/Hedge Funds	10-15
Asset Management	10-15
Convertible Bonds	5-10
Equity Cash	15-20
Equity Derivatives	20-25
Equity Proprietary Trading	15-20
Prime Brokerage	20-25
Structured Tax	15-20
Quantitative Research	15
Information Technology	15
Investment Banking	20-25
Private Equity/VC	15-20
TOTAL	15-20

TOP 10 TRENDS FOR 2006-2007

1) Emerging markets will soon be considered the most important priority for global investment banks as they seek to offset declining domestic profits. Banks are expanding beyond sovereign debt to equities, structured products and origination.

2) Firms spent much of 2006 building out front-office teams across all product lines in order to meet this growing global demand for new products in fixed income, equities and banking. Sales, marketing, distribution and origination staffers should expect sizable increases in pay this year because of this trend.

3) Distressed sales, trading and research professionals also are now very attractive to the global investment banks. The rationale is that the same investors who recently cashed out of their bear market investments from 2001-2003 are going to seek similar value plays in 2007.

4) Trading now dominates Wall Street revenues and 78 cents of every $1 earned in investment banking and capital markets come from sales and trading in global markets. So far, this reliance on trading revenue has eclipsed increased VAR and led to a risk manager hiring surge.

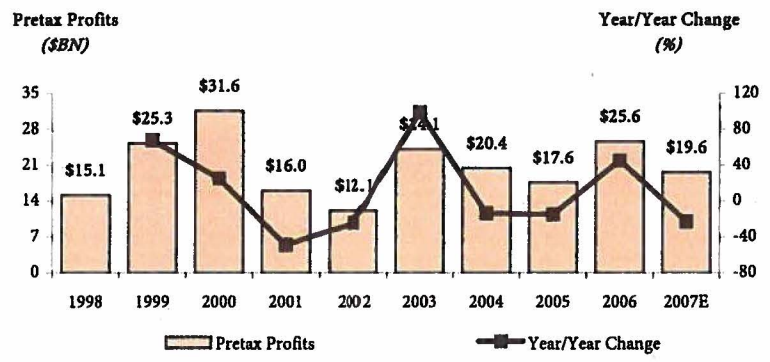
WHAT'S HOT!	WHAT'S NOT!
Asset Based Lending CDO's Cross-Asset Algorithmic Trading Distressed Investing Emerging Markets *(BRIC & Middle East)* Fixed Income Prime Brokerage Futures/Derivative Brokerage Investment Banking *(Structured Finance/Hybrids)* Private Equity/ Venture Capital Structured Credit	Corporate Bond Trading Energy Trading Foreign Exchange Interest Rates Leveraged Loans MBS

AMERICAS

It was a glorious year for the global investment banks in terms of profits. And record-high earnings combined with robust emerging markets and a strong investment-banking pipeline often equate to a positive outlook for the financial markets. Yet as banks head into 2007 there is an undercurrent of negativity surrounding next year's earnings picture.

The good news is the international story for these banks, many of whom receive almost half of their earnings from outside the U.S. thanks to strong economies in Europe, Asia and a number of fast-growing emerging markets. Latin American divisions of global banks and domestic firms in Brazil and Mexico are growing profits and personnel in not just debt but equities and investment banking as well.

U.S. SECURITIES INDUSTRY ANNUAL DOMESTIC PRETAX PROFITS



* Source: SIA DataBank; SIA forecast.

The U.S. Securities Industry Association said recently Wall Street earnings from the U.S. will tumble 23% next year as the economy slows and competition from electronic exchanges forces firms to lower fees. Pretax profits at New York Stock Exchange and NASD member securities firms will fall to $19.6 billion from $25.6 billion this year as proprietary trading results will dip, said Frank Fernandez, the SIA's chief economist. Profit will probably surge 46% in 2006 to the second-highest ever as trading and investment banking boom.

There's more: The Dow Jones Industrial Average is once again at record levels (in mid-October) and gas prices are no longer at $3-plus levels. The annual big blow-up happened (Connecticut-based Amaranth Advisors), temporarily shaking up the commodities markets, but failed to cause damage to the institutional investor's psyche. Employment is not yet at record-high levels either. U.S. securities industry employment at the end of August reached 801,300 people, the highest since April 2002 and 2.3% higher than a year earlier, the SIA said, citing Bureau of Labor statistics. The peak was 840,900 in March 2001, a year into the three-year bear market in stocks after the technology bubble. The trough was 751,000 in October 2003.

U.S. securities firms and commercial banks acquired both mortgage financing and investment management companies in 2006. Morgan Stanley acquired Saxon Capital and FrontPoint. Deutsche Bank bought MortgageIT and Merrill Lynch recently took a minority stake in Jack DiMaio's

5) Banks increasingly sought to lure top producers throughout the year. By October, global investment banks already were seeking salespeople, traders and analysts so they could start January 1, 2007 after their gardening leaves expired. This change in thinking was inspired by hedge funds that poached several of the bank's top producers in the last quarter of 2005.

6) Asia-Pacific deal flow will continue to hit record setting levels in IPOs, private equity investing and M&A, led by Hong Kong.

7) Derivative brokerage businesses, which include interest rates like financial instruments and commodities, are now very popular among the top investment banks this year.

8) Convertible bond activity jumped in 2006 and should continue to benefit from a surge in hybrid equities trading in the U.S. and Europe. Hedge funds generated their best returns using convertible arbitrage strategies this year.

9) Asian equity long/short managers will attempt to improve their average three-year performance by trading off the Nikkei in 2007 due to a lack of abundant investing opportunities elsewhere.

10) London will remain a very good place to be a banker due to a strong backlog and diverse opportunities in Russia, Eastern Europe and the Middle East.

BONUS EXPECTATIONS FOR TOP 3 MONEY CENTERS

Source: New York State Comptroller's Office, Centre for Economics and Business Research.

* Tokyo numbers based on Options Group Intelligence Unit estimates.

D.A. Capital Advisors, among many other investments.

Banks continue to ratchet up their value-at-risk levels as they offer more and more complex investor packages, including hybrids (debt to debt and increasingly debt to equity) and structured credit and equity-linked products.

Hedge funds also are expanding their product offerings to compete not just with the global banks but with the private equity and LBO firms as well.

U.S. corporations are spending billions to build businesses in the top emerging markets, most notably Citigroup and General Motors. GM, which is battling a $10.6 billion loss and the company's lowest market share since 1925, leads all carmakers globally in the 10 leading emerging markets.

Russia is the fastest growing of GM's overseas markets. Auto sales there may jump as much as 39% to more than 2 million in the next few years and GM is growing 3 times faster than Toyota in China. In fact, outside the U.S., GM's auto operations profits rose 88% to $447 million before taxes in the second quarter.

Overall, bonuses should be 10 to 15% higher than last year on average among global investment banks. Sales, marketing and distribution talent are in great demand across all asset classes.

ASIA PACIFIC *(EX-JAPAN)*

China is no longer alone. India, Taiwan, Singapore and Indonesia all have emerged as countries to be reckoned with in the region. Thailand and South Korea are two other obvious candidates, but a recent military coup and an anemic economy are respectively limiting their potential.

Singapore, known as the Lion City and until recently as a commodities marketplace, is now a hub for all of South Asia due to its lax regulatory environment. The Royal Bank of Scotland transferred senior credit staff in Asia to its newly-minted Singapore desk in a plan to place traders closer to marketing staff as part of the firm's regional build-out. Credit Suisse said in May it planned to add 900 IT and operations support jobs in Singapore by the end of 2007 in asset management, private banking and investment banking. The Swiss bank also is targeting Vietnam and Pakistan for growth. Paul Calello, chief executive of the group's Asia Pacific operations, said Credit Suisse's business was evenly spread across Asia and not dominated by deals in China.

ASIA-PACIFIC DEBT UNDERWRITING (EX-JAPAN)

2006 (THRU 9/30)				2005 (THRU 9/30)			
Underwriter	Share (%)	Total ($MM)	Fees	Underwriter	Share (%)	Total ($MM)	Fees
HSBC	8.4%	12,864	172	Citigroup	7.5	10,597	135
Citigroup	8.3%	12,774	138	JPMorgan Chase	6.7	9,439	86
Deutsche Bank	6.4%	9,802	83	HSBC	6.7	9,434	152
JPMorgan Chase	5.1%	7,851	53	Deutsche Bank	6.3	8,848	62
Barclays Capital	4.4%	6,705	69	Barclays Capital	5.4	7,643	68
National Australia Bank	3.9%	6,056	36	Korea Dev. Bank	4.4	6,186	84
Morgan Stanley	3.8%	5,838	26	UBS	4.2	5,933	46
UBS	3.5%	5,425	49	Merrill Lynch	2.5	3,476	47
Standard Chartered	2.4%	3,766	135	ABN Amro	2.4	3,427	56
Industry		153,990	1566	Industry		140,834	1963

Source: Bloomberg

Investment banking is now spread beyond China and throughout the region due to the enormous investment potential of institutions and companies. DCM and ECM originators, especially those who speak Mandarin, Japanese or Korean, are currently very valuable. Firms have been very aggressively hiring in the fall to avoid what is expected to be a major fight for talent after the January-March 2007 bonus season. Banks across the board this year built out their equity trading desks, employing experienced sales and traders in Relative Value, Long/Short, Global Macro and Local Currency Trading. The trend towards electronic trading also hit Asia in 2006, as domestic banks began moving resources away from equity sales trading and towards Direct

Market Access. Corporate coverage is booming as well and tax and compliance people are engineering new structures for corporations.

While Japan, Singapore and China experienced strong economic growth this year, South Korea's economy, Asia's third largest, continues its anemic march. Its GDP growth of 0.8% in the second quarter was the weakest since the start of 2005. China, on the other hand, is growing faster than 10% annually and India expanded by over 8% in the year ended on March 31. Indonesia's industrial production rose by 12% in the year to July 2006 amid lower inflation. The country's stock market was up nearly 30% in 2006 through September.

Surging crude oil prices and rising global interest rates leave market makers uneasy. After South Korea's main Kospi index spiked 54% in 2005, this year it has been down over 5% through August. South Korea imports all of its oil and with crude oil prices shooting up by more than a third this year, the country has resorted to boosting interest rates and taxing expensive homeowners to stabilize property prices.

For the entire Asia-Pacific region, Japan accounted for 28.1% of announced M&A deals by value, followed by Australia with 18.2% and China with 12.4%. China was the clear winner by volume, with 27.9%, ahead of Japan with 18.8% and Australia with 16.7%.

2007 OUTLOOK

The shortage of human capital is leading domestic and foreign firms to hire non-Japanese speakers for the first time in the country – and this trend should accelerate in 2007 as the market further reawakens. **Firms have been very aggressively hiring in the Fall to avoid what is expected to be a major fight for talent after the January – March 2007 bonus season.**

Hedge funds continue to expand their local presences in the region. Traditionally, London and New York were the principal centers for hedge funds managing capital flowing toward Asia, but this is no longer the case. In fact, the business is at such a mature state that firms are gobbling up local competitors to gain scale. Tokyo-based **Sparx Asset Management**, which has over $5 billion in assets, bought up Hong Kong-based **PMA Capital Management**, with more than $2 billion in assets, in June. Other big players in the region which will undoubtedly seek to get bigger are: **Asia Debt Management** in Hong Kong, a distressed debt and special situations fund with almost $1.5 billion in assets; and **Ward Ferry Management**, an equity long-short fund with $1.4 billion in assets. Most of the funds are located in "Central", the financial district in Hong Kong, and are equity Long-Short in terms of strategy. Options Group Intelligence Unit estimates that this mix will shift to distressed in the second half of 2007 after the U.S. and Europe shift to higher-yielding securities next year. Asian equity long/short managers will attempt to improve their average three-year performance by trading off the Nikkei in 2007 due to a lack of investment opportunities elsewhere.

This hedge fund expansion hasn't gone unnoticed by the global investment banks. Firms stepped up their efforts to capture more of the prime brokerage and capital intro business from these funds, according to the Options Group Intelligence Unit. Global investment banks are busily setting up private equity and hedge funds in Hong Kong and Singapore, especially in real estate-related entities.

Overall, bonuses should be 20% higher than last year on average among global investment banks. Professionals who are abroad are particularly attractive to domestic firms.

AUSTRALIA

The Australian financial services expansion is still under way, and it's becoming more complex every year. In fact, both credit and equity derivatives products are heavily in demand by retail, middle market and institutional investors. Professionals with technical skills attached to derivatives sales, trading and research are perhaps the most in demand by both domestic and international banks.

Banking continues to be most active in terms of pay acceleration and recruiting. Guaranteed pay is no longer an exception: Senior bankers (VP and above) continue to receive guarantees across all asset classes, but especially in banking and sales and trading. Young talent also is in demand, as bankers are particularly interested in 3rd year analyst-1st year associates. Analysts, sales people and traders often are poached at this stage by competitors and moved offshore, most commonly to Asia and/or Europe. This movement is not confined to any specific products and in the current climate talented professionals across most asset classes are heavily sought after. UBS once again leads the M&A tables through 9 months, followed by Deutsche Bank, domestic bank Carnegie Wylie & Company Pty Ltd and Goldman Sachs.

AUSTRALIA M&A OFFERINGS

2006 (THRU 9/30/06)				2005 (9/30/06)			
Bookrunners	Share *(%)*	Total *($MM)*	Deals	Bookrunners	Share *(%)*	Total *($MM)*	Deals
UBS	23.0	17796.0	21	UBS	27.9	19744.3	22
Deutsche Bank	20.4	15755.0	10	Deutsche Bank	22.0	15566.4	17
Goldman Sachs	19.9	15373.4	20	Carnegie Wylie	21.0	14857.2	5
Carnegie Wylie	19.4	14999.4	3	Citigroup	20.9	14799.9	10
Macquarie Bank	14.1	10888.6	26	Credit Suisse	11.5	8138.1	14
Grant Samuel	5.1	3905.0	26	First NZ Cap.	9.1	6482.1	16
ABN Amro	4.7	3664.3	14	Goldman Sachs	9.0	6391.9	15
Merrill Lynch	4.3	3347.9	10	Macquarie Bank	9.0	6373.7	47
Morgan Stanley	4.1	3204.9	10	Caliburn	7.8	5546.7	6
JPMorgan Chase	4.1	3156.9	7	Gresham Ptnrs.	5.	3936.6	22

One of the big trends in Australia has been the extension of headcount windows at the investment banks. International firms including Deutsche Bank, JPMorgan Chase and Citigroup – as well as Australia-based Macquarie – continue to increase their on-the-ground presences in the country. In year's past, hiring often ended in the Spring in conjunction with the end of the domestic banking firm's fiscal years. (Key domestic players are: Westpac, ANZ Bank, NAB and CBA) But in 2006 these firms plan to continue hiring at least through the end of the third quarter, according to the Options Group Intelligence Unit.

In one week alone in August, a large number of key people moves occurred within Australia's investment banking market. The Australian Financial Review reported that Citigroup's head of mergers and acquisitions, John Hanson, was heading to **Merrill Lynch**. Merrill Lynch's Geoff Brunsdon, head of Australian investment banking, also snapped up Greg Quinn from Goldman Sachs. **Citigroup** made three senior hires in its investment banking division in Australia, including Clayton Daley from PricewaterhouseCoopers, Quentin Law from NM Rothschild & Sons, and Richard Long from Deutsche Bank. For the Asia-Pacific region, Japan accounted for 28.1% of announced deals by value, followed by Australia with 18.2% and China with 12.4%. China was the clear winner by volume, with 27.9%, ahead of Japan with 18.8% and Australia with 16.7%.

The largest asset class is property finance in Australia. Real Estate Investment Trusts (REITs) are massive. The success and maturation of the Australian REIT market has capitalized the major players and allowed them to purchase assets abroad. **Centro Properties Group of Melbourne** acquired Boston-based **Heritage Property Investment Trust** for $3.2 billion in July. The price represented just a 6% premium in the target's closing price. The small premium is due to the sharp drop in market cap at U.S.-based REITs, making them more attractive to foreign investors in the process. Heritage owns 131 properties in 30 states, including Burlington Square in Burlington, Mass., and Lynn Marketplace in Lynn, Mass. Centro owns shopping centers in Australia, New Zealand and the United States.

Another emerging trend is the increasing demand for fund managers and financial advisors to help manage the 9% pension payouts by companies to employee accounts. Asset management teams also are bulking up due to the rise in wealthy investors. Credit Suisse hired Keith Ince, founder and former joint chief executive officer of Portfolio Partners Ltd., to head its asset management unit in Australia. Ince will manage the business for six months until the appointment of a permanent head, and was also named executive vice-chairman of Sydney-based Credit Suisse Asset Management.

The reason for this trend is the rise in wealthy Australians over the last few years. In Australia the number of high net-worth individuals with more than $1 million in investable assets grew by 8.5% in 2005, or around 12,000, according to a report released by Merrill Lynch in conjunction with **Capgemini Australia**. The total wealth of these Australian investors increased by 9.7% to $463 billion. The number of ultra-high net worth investors - those with more than $30 million in financial assets - grew by 16.1%, compared to a global growth rate of 10.2%. Investors were becoming very open-minded about how they could protect and enhance their wealth, with an increase in the use of alternative assets seen as a trend to diversify portfolios according to Merrill Lynch Private Wealth Services' Matthew Koch. "Diversification seems to be the key," said Koch, "They see a shift into alternatives as a way of reducing risk."

All this activity aided domestic banks' overall results. A 23% growth in funds under administration to $152 billion helped **Commonwealth Bank** post a record annual net profit to a shade under A$4 billion in its 2005-06 fiscal year. The equity markets, however, didn't fare as well after a strong first quarter.

The optimism of the first three months of 2006 was wiped out in the second quarter as equity markets in Australia plummeted. The S&P/ASX200 had fallen as much as 11% by mid-June to 4,781.6, from its mid-May record high of 5,364.5.

But IPO activity topped $9.6 billion in 2005-06 after a bounce-back in the June quarter, according

to a report from Deloitte Corporate Finance. The bounce lifted IPO activity in the financial year through June 30, 2006 to $13.2 billion from 170 IPOs – a 29% increase in the value of funds raised compared to the previous financial year, according to Insto.

2007 OUTLOOK

M&A will continue to raise the profile of Australia, and even choppy equity markets failed to stem recruiting activity from July to September 2006. Global banks have large customer service and custodial operations in Australia for the Asia-Pacific region excluding Japan, and that should also be a source of growth for firms locally.

Private equity funds are off to a rocky start in Australia, although larger players aren't having trouble raising assets. The Age reported in August that, regardless of their strategies, Macquarie Capital Alliance Group and Babcock & Brown Capital were down 10.5% and 23% from their initial capitalizations, while Allco Equity Partners was 30% off from its high. The question of whether investors give these funds a long or short leash will determine the fate of this fledgling industry for the next few years. Brian Johnson, banking analyst at JPMorgan Chase in Sydney, said in a survey that 8.9% of Australia's biggest 500 companies intended to borrow in the next 12 months. The survey also found that 82% of companies with an annual turnover of between A$20 million ($15 million) and A$240 million intended to borrow in the next year, with most citing new investments or acquisitions as the reason they would seek financing.

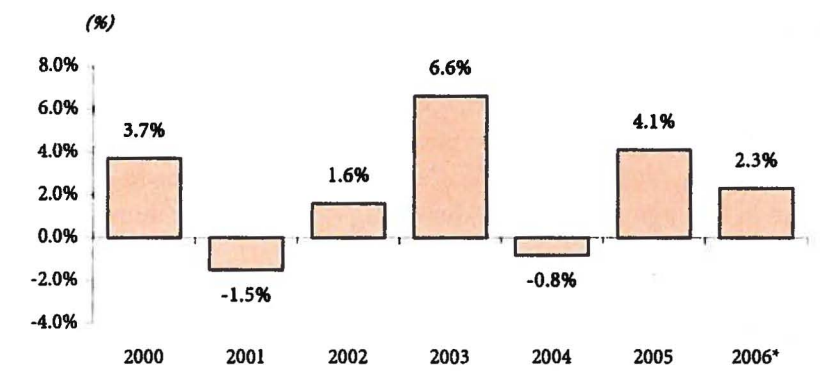
COMPENSATION

- **Bonuses up 15 to 20% in 2006 on average for the second year in a row**
- One of the key driving factors continues to be the rise in M&A deal flow in the country. Another fledgling industry is infrastructure finance, an industry Macquarie put on the map globally.

JAPAN

After Japan's "lost decade," the country now finds itself very competitive while still holding onto the corporate ethos for which it has long been known. The part Western and part Japanese management style emerging has allowed companies like Toyota, Mizuho Financial Group and Matsushita to lower debt as a proportion of equity and raise cash flow levels. Capital spending jumped 16.6% from April to June 2006, the fastest growth rate since the third quarter of 2002 and the highest figure posted since the boom years of the late 1980's. Corporate profits also rose over 10% in the quarter. The second-quarter data for Japan suggest corporate investment, which makes up 15% of the country's GDP, continues to support the world's second-largest economy.

JAPAN GDP



* Revised figures; 2006 data through 6/30/06.

The shortage of human capital is leading domestic and foreign firms to hire non-Japanese speakers for the first time in the country. **Firms have been very aggressively hiring in the Fall to avoid what is expected to be a major fight for talent after the January–March 2007 bonus season.** Banks across the board this year built out their equity trading desks, employing experienced sales and traders in Relative Value, Long/Short, Global Macro and Local Currency Trading.

Despite a choppy May and June in the Japanese equity markets, professionals should expect robust bonuses this year as domestic firms have become wiser on profitability. Hot areas include equity derivatives, Fund of Funds (FOF's) and private wealth management, major product areas where global and domestic banks are rapidly hiring. A former head of Deutsche Bank's prime brokerage business, Ed Rogers, was in the process of raising $500 million this summer, in what he claims is the first FoF in Japan. There are about 220 Japan-focused hedge funds overseeing a total of $35 billion in assets, according to Eurekahedge, a research company.

Japanese banks such as Mizuho Financial Group, Mitsubishi UFJ Financial Group and Daiwa Sumitomo paid off or rid themselves of their bad debts and now have capital to spend on new assets. **Banks are moving into principal transactions, following the lead of global investment banks in Japan, and also are bulking up their securities units.** Shinsei Bank, the first Japanese lender bought by overseas investors, said it will almost double the staff of its securities arm this year to boost revenue from sales of structured bonds, derivatives and hedge-fund investments. Shinsei Securities President Daniel Shireman said the firm planned to hire as many as 300 within the next few years. Japanese banks are strengthening securities operations to boost profit while their loan margins remain low. Mitsubishi UFJ, Japan's

biggest lender, said it will buy all shares of its brokerage arm by March 2007. Smaller Aozora Bank, controlled by New York-based buyout fund Cerberus Partners, started its own securities unit last month. "In Japan, the securities business has more room to grow than banking," Reiko Toritani, a Tokyo-based analyst at Fitch Ratings, told *Bloomberg*.

Japanese banks are moving away from MBS, CMBS and ABS transactions and towards the REIT market, which is showing momentum throughout the Asia-Pacific region, according to the Options Group Intelligence Unit. The re-emergence of second and third-tier banks in Japan following several years of a downturn led to more turnover in 2005 and 2006. Royal Bank of Scotland is expanding in fixed income products and banks generally are also immersing themselves in structured credit and structured finance transactions. Japanese firms are excited about financing transactions, especially in consumer, aviation and leveraged finance, spurred in part by the Vodafone Japan sale to Softbank in April.

2007 OUTLOOK

Options Group Intelligence Unit predicts compensation for Japanese professionals will rise 10 to 15% on average. Increases will be slightly higher in the region because of the strong Chinese equity and banking markets. Sales, marketing and distribution talent are in great demand across all asset classes.

Japanese banks – free of most debt – will make acquisitions both inside and outside the country. Aozora also may be listing publicly in the next 6 to 12 months. Leveraged finance transactions should significantly increase in 2007 after the Vodafone Japan sale.

EUROPE

The European financial markets had their second consecutive up-down-up year. At the start of the year the FTSE 100 continued its rally from the previous year, rising 6% between January and April to an all-time high of 6,087. However, in the subsequent two months it underwent a sharp decline, particularly in May, falling 9% on the year to 5,572. The prospect of rising U.S. inflation and a further depreciation of the dollar were widely regarded as the main culprits. After mid-June, the FTSE100 was on a steady path of recovery and was trading well above 6,000 again by mid-October. The springtime volatility benefited equity and credit salespeople and traders, who should expect sizable bonuses at the end of 2006. European M&A was strong throughout the year, and as of October, matched U.S. volume for the first time ever (see chart). Corporate Finance and prime brokerage also experienced record levels of activity.

ANNOUNCED EUROPEAN M&A

2006 (THRU 9/30)			2005 (THRU 9/30)		
Advisor	Total ($MM)	Deals	Advisor	Total ($MM)	Deals
Citigroup	432,063	139	Goldman Sachs	247,924	142
JPMorgan Chase	378,637	149	Morgan Stanley	225,916	148
Morgan Stanley	362,564	125	JPMorgan Chase	190,368	174
Merrill Lynch	341,034	85	UBS	184,537	133
Goldman Sachs	318,430	111	Citigroup	160,451	117
Deutsche Bank	297,276	111	Merrill Lynch	151,287	110
BNP Paribas	280,901	75	Deutsche Bank	148,928	115
UBS	272,842	123	Rothschild	133,741	179
Rothschild	256,845	217	Lazard	113,911	109
HSBC	222,516	52	Lehman Brothers	100,033	67
Industry	1,196,048	10,066	Industry	869,286	9,599

Source: IDD

Compensation estimates went perhaps too high by May, too low by July and about right by mid-October. In May, City financial services workers expected their own bonuses to be at least 50% higher in 2006.

The Centre for Economics and Business Research expects the number of jobs in London's international financial and professional services to rise to a record 335,700 in 2006, although the larger increase in City jobs may be nearing its peak. The workforce number is already above the total of 324,100 jobs in 2000 at the height of the technology boom. The argument against a peak is that this bullish run has been much broader based

in investment banking, derivatives trading, hedge fund and emerging markets growth.

The expansion of financial markets into Europe and, the Middle East and Africa (EMEA) also boosted the underwriting and M&A markets. One of the biggest IPOs in Europe was that of the Russian energy giant Rosneft, with a $10.4 billion sale that valued the company at close to $70 billion. Petrodollars also contributed to an intensive build-up in the Middle East. Oil exporters said their GDP will grow by 6% in 2006 and between 2002 and 2005, oil prices had risen 25% in real terms.

Major deals in the European subordinated debt market include the September issue by U.S. conglomerate General Electric, which was five times subscribed, and German electronics group Siemens, which issued the market's largest corporate hybrid bond. International bond market volumes increased 11.7% in the first half of last year, led by the second issue of the German Postal Pension Securitization program.

One trend worth watching is the decline in U.K. credit card fees claimed by local banks. U.K.-based banks such as HSBC and Barclays are seeing profits hit by a rapid decline in credit-card fees. Customers are taking advantage of debt-repayment programs like the Individual Voluntary Arrangements, which allows them to pay as little as 25% of their bills, according to *The Wall Street Journal.*

Another increasingly healthy area in Europe is the hedge fund industry. By this past summer, the latest rage in the U.K. was single manager fund of hedge funds. The success of Close Fund Management's Close Allblue Fund, which raised $266 million from institutional investors and private wealth manager in July, spurred other big names to follow suit, including the New Star Absolute Return Fund and the Cazenove Capital Trust. Goldman Sachs Asset Management and RAB Capital were reportedly next. These funds not only run in-house with one-fee level, but they also may soon become closed-end single hedge funds.

One of the many reasons why European hedge fund growth won't be ending anytime soon may be because of Charlie McCreevy, the internal markets commissioner for the European Union. He repeatedly said over the course of this year that he was supportive not only of hedge funds, but of the entire investment industry for that matter. Europe's $300 billion-plus hedge fund community will not be hampered by cross-border regulations on his watch, he said.

Old Lane LLC, the hedge fund started in April by former Morgan Stanley executives including Vikram Pandit, opened an office in London to be headed by Sutesh Sharma, who joined the firm in January. At Morgan Stanley he was Global Head of Equity Proprietary Trading. The firm also hired Yusaf Khan from Och-Ziff Management, Ashwin Kumar from Bank of America, and Lincoln Bennet, a portfolio manager from Morgan Stanley.

2007 OUTLOOK

A record-level of backlog should bode well for investment bankers at least through the first half of 2007. Hedge fund and institutional investment should prove beneficial to private equity firms and corporate finance professionals. Prime brokerage will continue to bridge the fixed income-equities divide into more complex products due to overwhelming demand from clients throughout Europe.

Bonuses are expected to rise 15 to 20% in 2006.

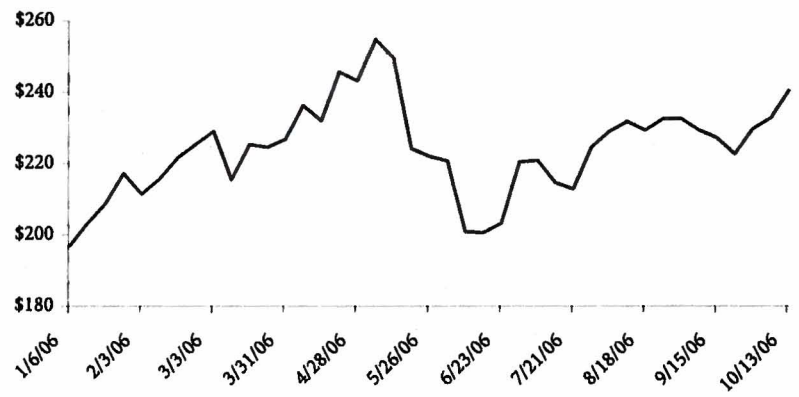
EMERGING MARKETS

This section's goal is to provide highlights on the past, present and future of Emerging Markets in the Americas, Europe and Asia Pacific. The Options Group Intelligence Unit offers insight into these emerging money centers, with in-depth reports on the BRIC countries (Brazil, Russia, India and China) and the Middle East. Assets held by high net worth investors in Brazil, Russia, India and China are set to rise by $2 trillion, or 71%, to $4.8 trillion by 2010, according to a recent Boston Consulting Group study.

Front-office sales, research and marketing professionals remain in particularly high demand around the world. In fact, equities, salespeople and marketers should receive higher pay this year than traders due to this gap between supply and demand. Citigroup hired 35 research analysts this year as it increased its 350-person research staff by 10% during the second half of 2006 in such areas as Russia, Brazil and Dubai. Top equity researchers should be very well paid as more foreign investors look to invest in Latin America. A top-ranked Institutional Investor analyst covering a key Latin American industry could see pay reach $1 million (U.S.) – that's up 20 to 40% over 2005.

Domestic and global investment banks are expanding beyond sovereign debt to equity cash, equity derivatives/structured products and origination. Barclays Capital was just one of many banks to boost its emerging markets equity derivatives sales team with hires from JPMorgan Chase. Private equity funds' ability to raise large amounts of capital has spurred an ECM/IPO boom in many countries, making equity financing executors and structurers attractive to banks. The banks themselves are beginning to acquire firms as well as hire local talent, and the Options Group Intelligence Unit expects this trend to continue in 2007.

MSCI BRIC INDEX *(2006)*



Mexico, which already has a substantial ABS and MBS market, is becoming a bigger player in equities. Earlier this year, JPMorgan Chase started an equity trading operation in its Mexico City office and Barclays Capital opened an investment bank and broker-dealer in Mexico, Grupo Financiero Barclays Mexico. In July, Deutsche hired Luis Antonio Betancourt Barrios from JPMorgan Chase as head of trading for Mexico in its Global Markets group. Betancourt is based in Mexico City and reports jointly to Cristian Binaghi and Sergio Kostek, co-heads of Latin America trading, and Tito Vidaurri, managing director and country manager for Deutsche Bank Mexico.

Argentina, Peru and Chile also are seeing traction thanks to a more robust economy in currencies, interest rates and equities.

Emerging market hedge fund professionals are seeking to move back to the sell-side as many funds were hit in May and June by a global slump precipitated by record crude oil prices. In Europe, new innovative deals are being done using creative financing and equity structuring. In Asia and India, funds are doing well and there has been a lot of recruiting activity currently in Russia and South Africa, according to the Options Group Intelligence Unit. Compensation is reaching all-time highs in many markets as competition is intense for experienced talent, especially in sales, trading and marketing.

2007 OUTLOOK

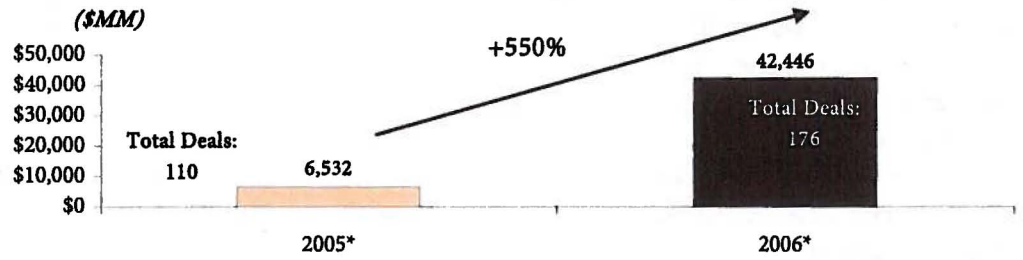
Gang and terrorism-related crime is still a major factor in developing countries, especially in Latin America. Rampant crime is robbing Latin America of up to 8% of its national economic growth, World Bank officials said in a recent report. Foreign corporations will need to be assured that out-of-control crime waves can be controlled by local governments for them to establish more significant on-the-ground infrastructure in emerging markets such as Brazil, Korea and Thailand.

BRAZIL

Brazil has made important advances under president Luiz Inácio Lula da Silva, allowing him to enter the election season with a scenario few imagined possible four years ago. As he faces off against former São Paulo governor Geraldo Alckmin, local interest rates and inflation are at a record low, while exports are higher than ever. While many other developing countries that have traditionally been grouped together with Brazil in investment portfolios have seen substantial capital flight due to the recent rise of interest rates in the US, Europe and Japan, Brazil has remained an attractive destination for foreign capital, according to *Latin Finance*. Evidence can be seen in the appreciation of the Brazilian currency, the real, against the dollar. The real, which gained about 30% against the greenback over the past two years, has been hovering near a five year high for much of 2006. Brazil also gained two positions in the global investment funds ranking and is now the 11th largest market with $361 billion (U.S.) in assets under management, according to the National Association of Investment Banks.

In June 2005, Brazil's new bankruptcy law went into effect, giving troubled companies fresh hope for recovery and the bill has become a lure for foreign capital. While distressed debt funds such as Ashmore, Marathon and W.R. Huff are largely absent from the Brazilian corporate debt market, observers say it is just a matter of time before they arrive. "Given the large number of companies that have filed for bankruptcy protection under the new law, the market for non-performing loans is improving and hedge funds are already eyeing this market," Salvatore Milanese, director of KPMG Corporate Finance in São Paulo, told *Latin Finance* in September. With the debt financing market still in its infancy, domestic and global banks are tilting their resources towards equity and fixed income sales and trading, strengthening their research teams and populating their M&A groups, according to the Options Group Intelligence Unit. One major stumbling block for Brazil is its public pension system. At the end of June, the system had an $8.6 billion deficit, up 13.6% over the same period of 2005. The deficit has led government officials to raise taxes, and the country now has one of the world's highest tax rates. While it could take time for the Brazil's Bovespa Index (Ibovespa) to regain ground lost in the first half of the year, even the most pessimistic of analysts expects the index to end 2006 at 40,000 points, a 20% increase for the year.

ANNOUNCED M&A DEALS



* Data through September 30.

Despite recent market turbulence, several Brazilian companies debuted on the exchange with IPOs in July, including mining and metals company MMX Mineração e Metálicos and real estate development company Abyara. And others, like São Paulo power generator Companhia Energética de São Paulo (CESP), real estate development company Cyrela and insurance company Porto Seguro held secondary offerings.

Agribusiness has become one of the most dynamic sectors of the Brazilian economy in recent years, responsible for 33% of the country's gross domestic product and 38% of exports. Brazil's National Agricultural Confederation expects the country's agricultural exports this year to reach $43 billion – more than three times what producers shipped out in 1996. Most recently, São Paulo venture capital fund SPTec acquired a minority share of Brasil Agronegocios, which issues certificates of origin for livestock. Similarly, Belo Horizonte-based Fundotec backed Excegen, a biotechnology company that seeks to improve the quality of Brazil's cattle herd. Sugarcane mills also are in great demand by private investors. U.S.-based investors like Kidd & Company are raising capital for Infinity Bio-Energy, a venture that will own and operate Brazilian cane mills. BrasilAgro raised $265 million in an IPO this past February. Brasil Ecodiesel Industria e Comercio de Biocombustivel e Oleos Vegetais SA, Brazil's largest producer of biodiesel, was set to raise as much as 694.7 million reais ($324.6 million) in an initial public offering in mid-November.

Private equity investors also are increasingly interested in the real estate market. During the first five months of 2006, mortgage financing increased by 95% over the same period of 2005 to $1.48 billion, although these levels are still well below those from 20 years ago, according to *Latin Finance*. Multinational property development company Hines, together with the California Public Employees' Retirement System has begun investing in Brazil's affordable housing sector through its $200 million joint venture, the HCB Interests LP fund. In 2005, Equity International acquired a 32% share of Gafisa, one of the leading real estate developers in Brazil, from private equity fund manager GP Investimentos for $50 million.

2007 OUTLOOK

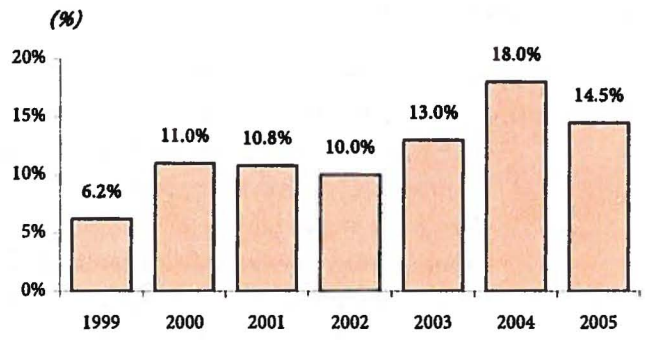
With all the activity in the market, securitization funds should expand further next year. The majority of them acquire credit portfolios from developers who are forced to offer loans to homebuyers and package them into securitization funds. Local pension funds favor senior debt, while international investors are more willing to take risks by acquiring subordinate debt. Gavea Investimentos, the Rio de Janeiro hedge fund set up by former Brazilian central banker Arminio Fraga, is stepping up purchases of local bonds, betting that interest-rate cuts will drive up the value of the fixed-rate securities.

As recently as the late-1970s, Brazil imported roughly 90% of all the oil it consumed. Nearly 10 years after opening the sector up to foreign investment, however, Brazil is now a net exporter of crude. During the first three months of 2006, Brazil exported $2.54 billion of crude, putting it on track for full-year shipments of $3 billion. The oil shock of the Arab oil embargo in the 1970s was in large part responsible for Brazil's debt crisis in the 1980s as it triggered hyperinflation and ultimately caused the country to default on its financial obligations.

CHINA *(INCL. HONG KONG)*

Merrill Lynch, Morgan Stanley, Royal Bank of Scotland and Goldman Sachs continue to be aggressive hirers of Mandarin speakers across the fixed income, equities and investment-banking universe. 2006 will be remembered as the year of the "distribution franchise" in China, where banks and domestic firms hired front-office facing professionals with sales and marketing experience. Those individuals with existing "books" of business were particularly in demand and could see their total pay packages double come bonus time. Chinese speakers with banking or trading experience who happen to be People's Republic of China (PRC) nationals are the most coveted of all.

ANNUAL CHINA GDP (YEAR OVER YEAR % CHANGE)



More specialized asset-classes, namely credit derivatives, structured credit and structured products, are in demand by Asian investors and banks are rushing to staff up to meet this demand. In credit derivatives, for example, Deutsche Bank became the dominant player this year, taking share of the market away from JPMorgan Chase and Morgan Stanley.

"Deutsche is like a black hole in credit derivatives, sucking up every business deal around them," said one Options Group consultant stationed in Hong Kong. Other shifts on the fixed income side include a shift away from interest rates trading and foreign exchange towards more structured credit derivatives and structured products.

IPO's continue to attract the global banks and no firm has benefited more than Morgan Stanley. When Morgan Stanley's chief executive officer, John Mack, flew to Beijing in mid-2005, he met with the heads of China's banking and securities regulatory commissions and with Zhou Xiaochuan, governor of the People's Bank of China, the central bank.

Morgan Stanley's attentiveness to China paid off and the investment bank was the No. 1 underwriter of Chinese initial public offerings in the 12 months that ended June 30, 2006, according to *Bloomberg* data. Morgan Stanley advised on half of the 10 biggest stock offerings by Chinese companies in that period, including the $9.2 billion IPO of China Construction Bank. Morgan Stanley helped back stock offerings valued at $4.72 billion and took in $135 million in fees. Perhaps most significant was the bank's purchase of China's Nan Tung Bank, which allowed Morgan Stanley to secure a commercial banking license and begin doing business in RMB-denominated transactions. The late October Industrial and Commercial Bank of China (ICBC) IPO raised over $19 billion and was the largest IPO ever, catapulting Hong Kong into first place in the public offerings for the year over London and New York.

In the year that ended June 30, 75 companies, including banks, property developers, technology companies and manufacturers, raised $28.1 billion through share offerings on Hong Kong and U.S. stock exchanges, *Bloomberg* data show. That was almost double the $14.7 billion raised by 115 companies in the 12 months that ended June 30, 2005. The deals this year generated about $788 million in investment banking fees, compared with $459 million a year earlier, according to *Bloomberg* data.

The biggest transactions by far were bank listings. Construction Bank's $9.2 billion offering last October, with Morgan Stanley as lead underwriter, set the standard. It was then surpassed by the $11.2 billion listing in June by Bank of China, which is based in Beijing. That deal catapulted its three underwriters - Goldman Sachs, Bank of China itself and UBS, which is based in Zurich - into the No. 2, 3 and 4 slots in the *Bloomberg* ranking.

HANG SENG COMPOSITE INDEX *(3 YEARS)*

As Chinese companies grow and become more ambitious, more of them are selling stock overseas. "The pipeline for China deals is like a fire hose, and it keeps flowing," Jack Chow, a partner at the consulting firm KPMG in Hong Kong told *Bloomberg*. "Chinese companies are facing tighter liquidity because of government lending curbs, and you'll see them continue rushing to the Hong Kong capital market to raise funds."

Companies that have said they plan to go public include China National Coal Group, the large coal producer, and Beijing Automotive Industry Holding, which makes vehicles in China with DaimlerChrysler and Hyundai Motor. The state-owned China Southern Industrial Auto also plans to sell shares in Hong Kong next year, according to company officials and bankers at Bank of China and Goldman Sachs, which will underwrite the offering.

Investors may be growing wary of China and other developing markets, according to the latest data from the Options Group Intelligence Unit. Interest rates are rising around the world, and for the past few months, emerging-market investors have been fleeing to safer ground. A huge backlog of Non-Performing Loans (NPL) also has some concerned.

"To speed up reform of the financial system, China must dispose of the huge amount of bad assets of the state-owned commercial banks as soon as possible, so that they can go public after the joint-stock reform is completed. For some foreign investors, China's huge bad asset is an attractive cake," said an analyst of Hong Kong South China Research Center. Citigroup acquired non-performing loans from China's Huarong Asset Management worth 36.4 billion yuan in the largest China deal for buying bad assets. Citigroup did the deal through its joint venture in Hong Kong, Silver Grant International Industries Ltd. The price of $67 million was only 1.5% of the book value of the bad assets.

Western banks with designs on China's capital markets were dealt a setback in September when the country halted acquisitions of brokerages by international firms. The China Securities Regulatory Commission also said it would stop issuing licenses and approving new branches to give existing brokerages time to improve profits.

INDIA

China receives an incredible amount of ink from the press, but it is India that may have the most long-term upside as a financial market. According to the joint Merrill Lynch/Capgemini 2006 World Wealth Report, India has one of the fastest growing high net worth populations, with more than 83,000 millionaires (US$) in the country at the end of 2005. Banks, hedge funds and private equity funds are all seeking entrance into India, which has a larger English-speaking workforce than China and a democratic government. Blackstone Capital and Warburg Pincus have recently made purchases in the region and the Carlyle Group earmarked a significant portion of its new $1.8 billion Asian fund to the country. Private equity firms Matrix Group, Ritchie Capital, Jefferies Group and BTS Investment Advisors have all announced plans to open offices in India.

SENSEX 30 INDEX *(3 YEAR RETURN %)*

* Values in Indian Rupees.

India is becoming more than just a country to outsource a company's back-office operations. Senior bankers and managers at global investment banks in Asia are taking over responsibility of India as well as Asia-Pacific.

Merrill Lynch, for example, lured long-time Citigroup banker Rahul Malhotra to the firm in a newly created position. Malhotra will serve Merrill as head of its Global Private Client (GPC) group, India from the firm's Singapore office. He will report to Raymundo Yu, chairman of Merrill Lynch Asia-Pacific region and head of Merrill Lynch GPC EMEA and Pacific regions and to Ausaf Abbas, chief administrative officer for its GPC EMEA Pacific and head of GPC for Middle East and India. Malhorta started his career with Citigroup in New Delhi. "We have an aggressive strategy to grow our GPC business in India over the next five years by hiring more financial advisors, targeting the affluent market and enhancing our offerings," said Abbas. "At the same time, we will expand our offshore business by targeting ultra-high net worth and high net worth non-resident Indians."

Deutsche Bank moved Pavan Sukhdev from London to India in August to become head of global markets, reiterating its commitment to growing its India franchise. The bank said Sukhdev will be responsible for Deutsche Bank's onshore sales and trading businesses, and for providing global markets product and service functions through local vendors and through Deutsche Bank's global markets center in Mumbai. The move marks a full circle for Sukhdev who began his career with Deutsche Bank in India in 1994 as head of India for global markets.

Due to the lack of a strong financial advisory practice, wealthy Indian professionals are moving their finances to Dubai. In late August, Merrill Lynch said it hired nine people in Dubai and Bahrain to win business advising Indian

expatriates in the Middle East. The investment bank's private clients unit hired Manish Agrawal, Rajiv Sodhi, Inderpal Singh and Sameer Baig as financial advisors from ABN Amro in Dubai. The bank also hired Pratap Chaubal from Citigroup in Mumbai and Sujit Pillai from the same bank in Bahrain. Merrill in December 2005 spent about $500 million to raise its stake in a partnership with Mumbai-based DSP Financial Consultants Ltd. to 90% from 40%.

Global banks including Citigroup, Standard Chartered and HSBC are trying to win wealth-management business from the increasing number of high net worth Indians. The number of Indians with financial assets of more than $1 million grew 20% to 83,000 in 2005, according to the Merrill Lynch/Capgemini report. About 25 million people of Indian origin live outside the country. One concern of ex-pats is India's already-strained infrastructure. But the Indian government recently agreed to sell 10% stakes in 4 major power companies as a way to raise capital for further expansion. Prime Minister Manmohan Singh estimated India will need to spend $320 billion to improve its infrastructure. An estimated 1.1 billion people are expected to be living in India by 2012.

2007 OUTLOOK

After the BPO boom, Knowledge Process Outsourcing (KPO) has been the emerging trend for 2006 and should accelerate in 2007. KPO involves the outsourcing of skilled or high-end functions such as R&D in pharma, biotechnology, finance and legal services. Global companies are hiring local researchers to tailor products for the market. The key factors fueling growth are: Labor cost arbitrage; a large patient pool, and a skilled workforce. The hurdles of this new trend include low government investment, perceptions constituting international property rights and confidentiality issues.

From a currency perspective, it is expected that there will be a weakening of the U.S. dollar and strengthening of Asian currencies. It has been noted that several banks and insurance companies, such as ICICI Bank, will step up efforts to jump into Micro Finance. India's Professor Muhammad Yunus pioneered the strategy, which helps the poor by providing them with small loans to set up businesses, in Bangladesh and his recent Nobel Prize win should spur further investment in this promising loan product.

MIDDLE EAST

The Middle East market may be officially located in the Europe, Middle East and Africa (EMEA) region, but it has become increasingly dominated by the Asian-based banks. HSBC is the market leader in the Middle East in terms of revenue, market share and most region-specific league tables. CIMB, a Malaysian investment bank, leads the Islamic bond tables (see chart). **Banks are busily applying for licenses in Dubai, which has become in a very short amount of time the Middle East gateway for all financial services activities, according to Options Group Intelligence Unit.**

ISLAMIC BOND UNDERWRITING*

2006		2005	
Underwriter	Share *(%)*	Underwriter	Share *(%)*
CIMB	22.5	CIMB	27.9
Dubai Islamic Bank	16.4	HSBC	22.0
Barclays Capital	16.1	Ammerchant Bank Bhd	21.0
HSBC	11.3	Aseambankers Malaysia	20.9
Ammerchant Bank	10.8	Dubai Islamic Bank	11.5
Aseambankers Malaysia	7.8	Citigroup	9.1
RHB Sakura Merchant Bankers	3.1	Bank Muamalat Malaysia	9.0
WestLB	1.8	Deutsche Bank	9.0
Industry Total	$10.85BN	Industry Total	$5.9BN

* Data through October 15.

U.S. firms have the most difficulty receiving licenses, which puts European and Asian firms at a distinct advantage. Credit Suisse, Deutsche Bank, Calyon, BNP Paribas already have established offices in Dubai and are performing quite well, according to the Options Group Intelligence Unit. Deutsche, Calyon and BNP Paribas began transplanting their structured products desks earlier this year due to the extremely limited talent pool in the region. The most aggressive bank is Deutsche, which bought three local firms to expand their presence. Deutsche also moved Alexander Schuetz from Frankfurt to Dubai to become COO of the Middle East and Africa.

The Dubai Financial Market (Arabic: سوق دبي المالي) is the main stock exchange and it was founded on March 26, 2000. There are about 40 companies listed (as of June 2006), most of them local UAE companies and a few from other Gulf countries with dual listings. Some of the companies allow foreigners to own their shares. During 2004 and 2005, there were significant increases in the volume of shares traded and the share prices of many companies. However, towards the end of 2005 and through the first few months of 2006 the bubble has burst and share values dropped as much as 60%.

The two other significant exchanges are Abu Dhabi Securities Market (ADSM), which also lists mostly UAE companies, and the recently opened Dubai International Financial Exchange (DIFX), which was set up to trade international stocks. Lehman Brothers said in late March it plans to join the rush of investment banks setting up in the Middle East by opening offices in Dubai and Qatar this year.

Besides Dubai, Qatar is becoming the second-most attractive city for the global investment banks. Qatar opened its financial center last year to attract

overseas financial institutions. Morgan Stanley received a license to open a Qatar office and expand in the oil-rich Persian Gulf in September. It gave Credit Suisse a license in March, and Goldman Sachs said in April it plans to open an office there. Barclays got its license as well. Morgan Stanley expects to double its Middle East revenue this year.

With a population of about 890,000, Qatar is the smallest oil producer in the Organization of Petroleum Exporting Countries. Qatar owns the world's third-largest natural gas reserves. The country requires $130 billion of financing over the next six years to develop energy assets and public works, according to Qatar Financial Centre figures. Riyadh/Jeddah, Oman, Kuwait and Bahrain, respectively, also are developing the infrastructure to grow their local financial markets.

Infrastructure build-outs are a top priority for these governments as Islamic debt and underwriting businesses expand (see chart on previous page). In May, Pan-Nordic stock exchange owner OMX signed a contract to provide trading and technology to the Dubai Financial Market, as investment banks unveiled plans to expand in the Middle East, where soaring oil prices have triggered an economic boom. Other firms are setting up Islamic funds for foreign investors. Deutsche Bank started a $2 billion Islamic fund to invest in companies from the Middle East, North Africa and South Asia. Deutsche's partners in the fund will be Abraaj Capital, an emerging markets private equity group, and Bahrain-based Ithmaar Bank. Additionally, Shuaa Capital, which has more than $2 billion of assets under management, unveiled plans to open offices in Saudi Arabia and India. Shuaa Capital is one of several investment banks working on the IPO of DP World, the Dubai-based state-owned Gulf ports operator that acquired the UK's P&O this year. The deal, which is due in the second half of 2006, is expected to fetch up to $5 billion.

RUSSIA

Global investment banks are seeking to expand in Russia as an eighth year of economic growth spurs a surge in initial public offerings and takeovers. Russian companies may raise as much as $18 billion in IPOs in 2006. Goldman Sachs said in August it obtained a license to become a securities dealer in Russia and is expected to add dozens of professionals in 2007. Credit Suisse, Deutsche Bank and UBS already have major presences in Moscow. ABN Amro and Citigroup also have big commercial and retail shares on the ground.

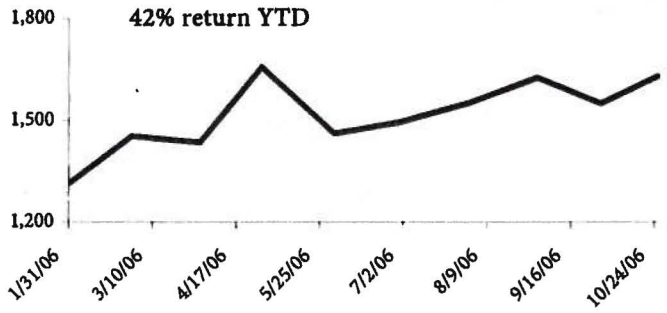
As in most large but emerging markets, talent supply is dwarfed by demand. Russia's economy, which expanded 7.4% in the second quarter, has grown more than 6% on average a year for the past seven years. The International Monetary Fund forecasts growth of 6.5% this year, the fund's Russia representative Poul Thomsen said in June. The rate is twice the pace of Western Europe, as Petrodollars continue to drive the overall Russian economy. Russian capital markets have performed very strongly over the past 18 months. In 2006, the local stock market is up 42% in Rubles, making it one of the world's top performers.

As banks push into more complex product areas – currently, equity cash is the strongest asset class – executive search firms are attempting to repatriate Ph.D quantitative analysts and traders. Fixed income, specifically the corporate bond market, is still a small but growing part of Moscow's financial markets.

Bank moves have been fast and furious this year and it seems as if Russia has managed to win back many foreign investors eight years after the country defaulted on $40 billion in debt. Merrill Lynch in March hired Sergei Alexashenko, a former deputy chairman of Russia's central bank, to expand its Moscow office. In an interview, Alexashenko said the firm wants to have as many as 40 employees in Moscow by the end of 2006. Credit Suisse in July appointed former Deutsche Bank executive Alexis Rodzianko as head of private banking in Moscow.

UBS in June said it received a banking license from Russia's central bank, enabling it to build its wealth management operations in the country. In September, Credit Suisse opened its onshore private banking operation in Moscow to attract wealthy Russian clients. It plans to add international securities, mutual funds and structured products at a later stage.

YTD RUSSIA STOCK MARKET INDEX*



* Values in Russian Rubels.

JPMorgan Chase bought a 2% stake in the Bank of Moscow, a lender controlled by the Moscow government. Terms weren't disclosed, but the Russian central bank approved the sale Aug. 18.

JPMorgan Chase also said it's considering acquiring a stake in Moscow-based Troika Dialog to bolster its securities arm in Russia.

Troika and Aton Capital Group would be likely targets for takeovers because they are decade-old independent banks with strong Russian client bases. Aton, which had earlier spoken with JPMorgan Chase, reportedly held recent talks with Bank Austria Creditanstalt AG. JPMorgan Chase has about 85 Russian employees, with most working for the company's investment-banking and transaction-services divisions. UBS and Deutsche Bank also have bought Russian brokerages.

The global investment banks face stiff competition from domestic banks when it comes to compensation. Russian banks are paying huge amounts to lure Western European and American bankers. Dresdner's Matthias Warnig, the chairman of its Moscow office, left in December 2005 to become chief executive of the Gazprom-led consortium building the North European pipeline. Bob Foresman, the head of investment banking, also left in July, to become deputy chief of the local brokerage Renaissance Capital. Dresdner, whose profits were down last year, has cut bonuses worldwide. Renaissance, set up by two Credit Suisse bankers in the early 1990s, is known for its bonuses. It lured one M&A banker, Chris Baxter, from Merrill Lynch, reportedly for a guaranteed bonus of $6 million a year. Even relatively junior bankers can hope for bonuses of up to $800,000, Moscow bankers say.

Hans Jochum Horn, the chief operating officer of Renaissance Capital, told *The Times of London*: "If we want to win top talent, we're willing to pay what the market demands. Western firms are often constricted by it being difficult for them to go over fixed bonus brackets of, say, $1 million or $2 million, without seeking approval right at the top of the bank. We don't have that problem." Mr. Horn was lured from Ernst & Young, where he had been managing partner for Russia, last September. Many Western banks are feeling the heat. One Moscow banker said: "Citigroup is complaining that it is leaking staff to local firms, because the Moscow pay scale is right off the end of the global pay scale and Russian firms are offering crazy packages."

2007 OUTLOOK

Overly aggressive compensation could be an issue for domestic firms if M&A slips, although it is doubtful that a slowdown will occur in 2007, according to Options Group Intelligence Unit estimates. Acquiring talent in more trading-related areas like equity derivatives will be difficult next year.

Fixed Income Overview

Fixed Income

COMMODITIES

Since April, commodity-trading markets have been increasingly volatile, pushing a few well-known firms (MotherRock and Amaranth, to name just 2) to the brink. Despite these blow-ups, global investment bank salespeople and traders should expect to receive another increase in total compensation this year. Commodity trading continues to be dominated globally by Goldman Sachs, Morgan Stanley. JPMorgan Chase, with the hire last year of energy trading head Beau Taylor from Morgan Stanley, raised its risk profile and is firmly in the second-tier list of global commodity players along with Deutsche Bank, Merrill Lynch and Barclays. Morgan Stanley and Goldman Sachs may produce commodity revenue totaling more than $3 billion each in 2006, according to the Options Group Intelligence Unit.

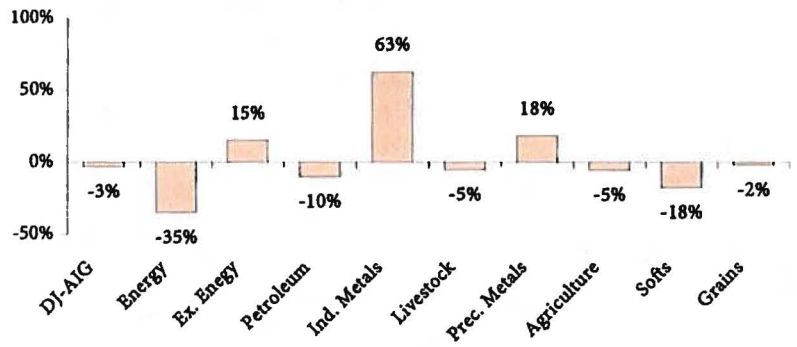
KEY 2006 TRENDS

- **Oil and gas trading was the big product area in 2005. This year, investor interest has diversified into power, metals and soft commodities. Crude oil, which hit an all-time high in July, remains the global driver of commodities, although it is still harder to trade power and gas in the U.S. than in Europe, where there is limited customer hedging. The future opportunity in European gas and power is via proprietary trading.**
- **Banks are aggressively building out commodity desks in Russia and Dubai as Europe shifts its focus to emerging markets across all commodity products. Russia surpassed Saudi Arabia this year as the largest oil producer in the world. In Asia, Shanghai and Singapore are fledgling commodity centers to watch.**
- **Firms this year like Merrill Lynch expanded their interest in finding structuring professionals as well as salespeople and traders. There has also been more interest in structured commodity finance and in incorporating derivative instruments among banks.**
- **Foreign banks especially pushed to get into commodities-related project and principal finance ventures in the U.S.**
- **Commodities have become a more integrated product in the derivative brokerage spectrum at the global banks.**

The sudden uncertainty in the commodities world hasn't stopped firms from recruiting for more sales, traders and structurers. That's because fund investments in commodity indexes and other products may exceed $120 billion by 2008, compared with $80 billion last year, according to estimates from Barclays. Citigroup had plans to almost double staff at its commodities-trading unit worldwide to 150 from 85, according to John Casaudoumecq. Citigroup's plan, he said, was to expand power and gas trading in North America to Europe and start trading coal and carbon

dioxide emissions. Barclays Capital said it planned to hire as many as 40 extra people for its commodities unit this year and Bank of America hired six associates from HSBC to start a metals-trading business in February.

COMMODITIES*



* As of 9/29/06.

Joint ventures also were started to varying degrees of success. Credit Suisse in February formed an oil-trading venture with Glencore International AG, a closely held commodities trader based in Baar, Switzerland. In August, they expanded their relationship into metals trading. Bear Stearns' initial foray into commodities trading wasn't profitable. In September 2005, Bear announced a joint venture with Calpine to trade energy but the new partnership (called CalBear Energy) was dissolved this April following the collapse of Calpine along with the departure of senior executives. Since then, Bear Energy, led by senior managing directors Francis Dunleavy and Eli Wachtel, started building its own U.S. commodity platform. Banks and hedge funds raced to build-out desks in western North America, acquiring desks versus building them out. In August, Lehman was expected to open a commodities office in Calgary and Barclays Capital hired a team of power marketers from Constellation Energy Group to set up an office in Portland. SG Corporate & Investment Banking hired the head of commodity sales at RBC Dominion Securities in Calgary to establish a new commodity marketing effort. Saracen Energy Partners hired a former AEP Energy Services natural gas trader to set up an office in Seattle. In Asia, where the commodity markets are smaller, the growth potential remains enormous. One interesting development has been the increasing integration of China and Japan's commodity businesses. For example, carbon has become a big trading product for China because it is not a member of the Kyoto Protocol. The country is able to sell emissions credits to the West – and banks, energy boutiques and private equity firms are actively originating Cleaning Development Mechanism (CDM) and Joint Implementation (JI) deals.

While energy-related commodities peaked in March and into April, soft commodity prices across the board reached record-levels by the end of the summer as growing economies around the world clamored for more raw materials and food. Copper and nickel futures hit records and oil reached a high of $78.40 a barrel on July 14th in New York Mercantile Exchange trading. Metals hit all-time highs in the spring and then cratered through the summer. Corn futures prices hit a two-year high of $2.84 a bushel in mid-July and sugar futures rose to an all-time high of $499 in early July. Their ties to ethanol development boost both commodity products. Ethanol can be made from sugar as well as corn and Brazil now devotes a large part of its sugar crop to this production.

COMPENSATION

- Bonuses up 15% on average after a record year for compensation in 2005 has set the bar ultra-high. Successful senior traders, structurers and unit heads should still expect to receive record-levels of pay in 2006.
- Due to Asia's scarcity of talent, senior traders in commodity hubs Singapore and Tokyo may receive pay packages 25 to 30% higher than last year, and in some cases much higher compensation. A Singapore-based MD, for example, received a $2.5 million package versus $1.5 million in 2005, according to Options Group Intelligence Unit data.
- Experienced London traders that posted robust revenue also will do well. A London-based MD received a 100% pay hike to go from one global investment bank to another in September. A director in the City got a 50% pay hike to switch firms this summer.

AVERAGE GLOBAL INVESTMENT BANK PAY *SALES* (US$)*

		BASE	BONUS
Associate	*1-2 Years*	80-100K	90-110K
	3rd Year	90-110K	110-130K
VP		125K	300-350K
Director		150K	400-500K
MD		200K	1.2-1.5MM

	TOTAL COMPENSATION
Global Head, Sales	6-8MM
Head of Americas, Sales	3MM
Head of Europe, Sales	2-3MM
Head of Asia, Sales	1.5-2MM

AVERAGE GLOBAL INVESTMENT BANK PAY *TRADING/STRUCTURING* (US$)*

		BASE	BONUS
Associate	*1-2 Years*	80-100K	90-110K
	3rd Year	90-110K	120-140K
VP		125K	400-550K
Director		150K	650-750K
MD		200K	1.5-2MM

	TOTAL COMPENSATION
Global Head, Trading	7-9MM
Head of Americas, Trading	4-5MM
Head of Europe, Trading	4-5MM
Head of Asia, Trading	3-4MM

* Managing directors and unit heads may receive bonuses much higher than the following ranges.

2007 OUTLOOK

- Increased volatility in crude oil trading could blur the bonus picture. Last year, JPMorgan Chase set aside its commodity bonus pool in October 2005, but the group reportedly experienced some losses in November and December, leading the firm to ratchet down the total amount.

- Experienced commodity traders that don't get significant payouts will seek employment elsewhere, especially since less experienced traders are reaping six-figure signing bonuses and other guarantees, despite some concerns they may lack necessary experience. There is more potential for future blow-ups due to this trend in 2007.

- Two-year guaranteed contracts will become increasingly common as banks, hedge funds and even private equity firms seek a foothold in the global commodities space. Recruitment trends will continue to highlight the need for natural gas options traders, derivative brokers, and fuel and distillate oil traders.

- Investors increasingly seek out riskier investments in emerging markets like Russia, the Middle East (Dubai) and Shanghai/Hong Kong.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Jose Arce	*Financial Transmission Right (FTR) Trading*	Edison Mission Energy	Citadel	Chicago
Todd Van Roten	*Gas Basis Trader*	Citadel Investment	Constellation Energy	Chicago
Jason Wolfe	*Natural Gas Trader*	UBS	Citadel	Chicago
Vasant Shanbhogue	*Energy Quantitative Analyst*	AIG	RBS	Greenwich
Bob Johnson	*Head, Asian Project Finance Oil & Gas*	SG Corporate	Standard Chartered	Hong Kong
John Kiani	*Electric Utilities, Global Markets*	Credit Suisse	Deutsche Bank	Houston
Jeremy East	*Head of Metals, Global Commodity Derivatives, Rates & FX*	Commerzbank	Standard Chartered	London
David Holmes	*Precious Metals Marketing & Investor Products*	RBC	Dresdner Kleinwort	London
Igor Kurinny	*Analyst, Russian Oil & Gas Companies*	Morgan Stanley	ING	London
Kieran McKenna	*Senior Crude Oil Trader*	Citadel Investment	JPMorgan Chase	London
Kamal Murari	*Director & Global Head of Energy Marketing*	Deutsche Bank	Dresdner Kleinwort	London
Haakon Olafsson	*Head, European Gas Trading Unit*	Goldman Sachs	Lehman Brothers	London
David Paul	*Director of Commodity Sales*	Refco	Barclays	London
Barbara Riccardi	*Head of Oil & Gas*	Internal Promotion	West LB	London
Edward Solari	*VP, Crude Oil Trading*	Electrabel	JPMorgan Chase	London
Clive Stocker	*Commodities Sales-Base & Precious Metals*	Macquarie	Calyon	London
Gergana Thiel	*VP, Global Currencies & Commodities Group*	Goldman Sachs	JPMorgan Chase	London
Simon Underhill	*MD, Commodities Marketer*	HSBC	Bank of America	London
James Yong	*Executive Director in Commodities*	Natexis Banques	Goldman Sachs	London
Edward Bases	*MD, Hedge Fund Sales*	Deutsche Bank	Bear Stearns	New York
Stefan Dorfmeister	*Head of Commodities Finance*	Merrill Lynch	Morgan Stanley	Singapore
Marie-Cecile Grzanka	*Director in Energy SCF Team*	Internal Promotion	Societe Generale	New York
Richard Hajdukiewicz	*Head of Precious Metals for Americas*	Sempra	HSBC	New York
Simon Jackson	*Principal, Commodities Sales*	HSBC	Bank of America	New York
Alan McHugh	*Principal, Commodities Sales*	HSBC	Bank of America	New York
Peter Merritt	*MD & Global Head of Metals*	HSBC	Bank of America	New York
Herb Petry	*Energy Trader*	Goldman Sachs	Old Lane, LLC	New York
Christopher Plante	*Head of U.S. Power Trading*	Constellation Energy	Deutsche Bank	New York
Sean Mulhearn	*Head of Energy Origination*	Merrill Lynch	Standard Chartered	Singapore

CREDIT DERIVATIVES

Designing the right credit derivatives model is becoming more and more important for top-tier banking firms. Ideally, U.S. firms would like to replicate the French banks (Societe Generale and BNP Paribas, among others) and also closely align their Investment Grade and High Yield desks with their credit derivatives centers. **The convergence between fixed income and equities is overblown, say unit heads surveyed by the Options Group Intelligence Unit, as long as capital structure arbitrage strategies under-perform the market.**

This has not stopped unit heads from moving marquee corporate bond salepeople and traders into credit derivatives and structured credit products. In fact, it continues to accelerate: Firms such as Merrill Lynch, Citigroup and First Albany are reducing or firing staff that trade, sell or analyze company bonds and hiring new derivatives employees instead, noted *Bloomberg* in May. Trading in the contracts, the fastest growing part of the 300-plus trillion dollar derivatives market, doubled in the last two years to over $10 billion a day.

More specialized asset-classes, namely credit derivatives, structured credit and structured products, are in demand by Asian investors and banks are rushing to staff up to meet this demand. In credit derivatives, for example, Deutsche Bank became the dominant player this year, taking share of the market away from JPMorgan Chase and Morgan Stanley.

"Deutsche is like a black hole in credit derivatives, sucking up every business deal around them," said one Options Group consultant stationed in Hong Kong. Other changes on the fixed income side include a shift away from interest rates trading and foreign exchange towards more structured credit derivatives and structured products.

Since 2004, Barclays Capital has increased staff by 1,200, or 15%, recruiting for trading and derivatives. Barclays Capital President Robert Diamond said derivatives might boost pretax profit by at least 15% annually for the next five years. Derivatives account for about 50% of Barclays Capital's trading and contribute an even larger share of revenue.

COMPENSATION

- **Bonuses up 10 to 15% on average over last year**
- Flow credit salespersons received 50% pay increases in 2005 and should expect to earn 30 to 50% more in bonuses over last year.
- Credit derivatives traders, salespeople and analysts continue to get paid two to three times as much as corporate bond traders.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	70-80K	90-120K
	3rd Year	80-90K	150-200K
VP		100-125K	300-700K
Director		150K	900-1.2MM
MD		200-250K	1.5-2MM

	TOTAL COMPENSATION
Global Head, Sales	3-4MM
Head of Americas, Sales	2.5-3MM
Head of Europe, Sales	2.5-3MM
Head of Asia, Sales	2MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	70-80K	90-120K
	3rd Year	80-90K	175-225K
VP		100-125K	400-800K
Director		150K	1-1.5MM
MD		200-250K	1.7-2.2MM

	TOTAL COMPENSATION
Global Head, Trading	6-8MM
Head of Americas, Trading	4-5MM
Head of Europe, Trading	3-4MM
Head of Asia, Trading	2.5-3MM

2007 OUTLOOK

Technological improvements also are top priorities for credit derivatives desks. Hedge funds and banks are set to spend almost $500 million on new information technology this year as they scramble to improve their credit derivatives trading systems by shifting from paper and pens to the digital age. The extra spending on new systems, which have the potential to halve the cost of credit derivatives trades in future, represents a six-fold leap from 2004, when data was first collected, according to Aite Group, a U.S. research consultancy.

Credit derivatives have been plagued by backlogs and errors and both the U.S. Federal Reserve and the U.K. Financial Services Authority warned market makers this year to improve their back office operations. A recent survey from the International Swaps and Derivatives Association showed that in 2005 one in five credit derivatives trades by large dealers contained mistakes and many suffered settlement delays. There is still a sharp discrepancy in spending on each side of the Atlantic. Although almost half of trades between brokers in Europe are now conducted electronically, Aite says more than 90% of U.S. trades are still done on paper.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
David Austen	*Head, Credit Derivatives Sales*	Internal Promotion	Bear Stearns	London
Alex Bernand	*MD, Global Head of Credit Correlation Trading*	Bank of America	Deutsche Bank	London
Mickey Bhatia	*Head of Global Credit Correlation Trading*	Deutsche Bank	Citigroup	London
Charles Cho	*MD, Head of European Credit Spread Trading*	Credit Suisse	Bank of America	London
Jon Gregory	*Co-Head of Credit Derivatives*	BNP Paribas	Barclays	London
Paul Griffiths	*Director, Proprietary Credit Trading*	Blue Mountain	Merrill Lynch	London
Matthew Reader	*Global Head of Correlation Trading*	UBS	RBS	London
Stephen Stonberg	*Head of Business Development, Credit Derivatives*	JPMorgan Chase	Brevan Howard	London
James Wilkinson	*Head of Yen Secondary Trading*	Internal Promotion	Nomura	London
Scott Balkan	*Credit Derivatives Trader*	Archeus Capital	Citigroup	New York
Rich Barnett	*Credit Derivatives Sales*	Lehman Brothers	Goldman Sachs	New York
Edward Bayliss	*Credit Derivatives Trader*	Citigroup	Morgan Stanley	New York
Steven Gee	*Credit Derivatives Marketer*	Nomura	Barclays	New York
Saul S Kattan	*MD, Head of North American Credit Derivatives Sales*	Citigroup	Bear Stearns	New York
Mitch Levy	*Head of Structured Credit Products*	Bank of America	IXIS	New York
Naresh Malhotra	*Structurer, Correlation Trading*	UBS	Merrill Lynch	New York
Brad Mazer	*MD, Credit Derivatives Structuring & Marketing*	JPMorgan Chase	Bear Stearns	New York
Greg Miesner	*Credit Derivatives Sales*	Citigroup	Bear Stearns	New York
David Moffitt	*MD, Structured Credit Sales*	RBS Greenwich	Merrill Lynch	New York
Martin Palmieri	*Senior CD Structurer & Marketer*	Dresdner Kleinwort	Bank of Tokyo	New York
Steven Ricciardi	*MD, Structured Credit Sales*	Lehman Brothers	Goldman Sachs	New York
Ronnie Roy	*MD, Head of Cash, Credit Derivatives*	Internal Promotion	Merrill Lynch	New York
Kent Sinmaz	*CDX Tranche Trader*	Deutsche Bank	JPMorgan Chase	New York
Vikrant Yadav	*CDX Tranche Trader*	HSBC	JPMorgan Chase	New York
Rodrigue Afota	*Head of Credit Structuring*	Morgan Stanley	IXIS Corporate	Paris
Laurent Benissan	*Director, Credit Derivatives Structuring*	Standard Bank	IXIS	Singapore

EMERGING MARKETS DEBT

Last year, salespeople who could navigate local emerging markets were in great demand. In 2006, its local traders and researchers who are most coveted by the global investment and domestic banks. Ravi Mankude, for example, moved from Deutsche Bank to Merrill Lynch to head its local market trading in Hong Kong. Credit Suisse in 2005 won many of the top emerging market debt awards from Euromoney and other magazines, but this year it's another European bank that is taking top honors.

In 2002, Deutsche Bank was a second-tier player in emerging markets debt. It was ranked outside the top five bond underwriters in the league tables and was barely considered as a bank that could execute groundbreaking transactions. Today, the story could not be more different and Deutsche took home a number of top awards in Euromoney's September 2006 Emerging Markets debt poll, including best investment grade debt house, best debt house overall, Asia, and most tellingly, best emerging markets debt house.

Emerging market debt as a category this year in Latin America is being eclipsed by a large push into equities and banking by global banks on the ground there. In June 2005, Brazil's new bankruptcy law went into effect, giving troubled companies fresh hope for recovery and the bill has become a lure for foreign capital. While distressed debt funds such as Ashmore, Marathon and W.R. Huff are largely absent from the Brazilian corporate debt market, observers say it is just a matter of time before they arrive. "Given the large number of companies that have filed for bankruptcy protection under the new law, the market for non-performing loans is improving and hedge funds are already eyeing this market," Salvatore Milanese, director of KPMG Corporate Finance in São Paulo, told *Latin Finance* in September. **With the debt financing market still in its infancy, domestic and global banks are tilting their resources towards equities sales, trading and research and M&A, according to the Options Group Intelligence Unit.**

With all the activity in the Brazilian market, securitization funds have also been expanding. The majority of them acquire credit portfolios from developers who are forced to offer loans to homebuyers and package them into securitization funds. Local pension funds favor senior debt, while international investors are more willing to take risks by acquiring subordinate debt. Gavea Investimentos, the Rio de Janeiro hedge fund set up by former Brazilian central banker Arminio Fraga, is stepping up purchases of local bonds, betting that interest-rate cuts will drive up the value of the fixed-rate securities.

COMPENSATION

- **Bonuses up 5 to 10% on average over last year**
- The most robust regions were Asia and Latin America because these local capital markets are issuing their own debt on top of corporate debt.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1st Year*	70K	50-60K
	2nd Year	80K	65-75K
	3rd Year	90-110K	90-110K
VP	*1st Year*	100-120K	120-140K
	2nd Year	125K	175-225K
	3rd Year	125-150K	250-300K
Director	*1-2 Years*	150K	500-600K
	3+ Years	175-200K	900-1.2MM
MD	*1-2 Years*	200K	1.3-1.6MM
	3+ Years	250K	2-2.5MM

	TOTAL COMPENSATION
Global Head, Sales	4MM
Head of Americas, Sales	3.5MM
Head of Europe, Sales	3-3.5MM
Head of Asia, Sales	3MM
Head of Latin America, Sales	3MM
Head of EMEA *(Europe, Middle East and Africa)*	2.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING *(US$)*

		BASE	BONUS
Associate	*1st Year*	70K	50-60K
	2nd Year	70-80K	70-80K
	3rd Year	90-110K	100-120K
VP	*1st Year*	100-120K	150-175K
	2nd Year	125K	200-250K
	3rd Year	125-150K	300-350K
Director	*1-2 Years*	150K	600-700K
	3+ Years	175-200K	1-1.2MM
MD	*1-2 Years*	200K	1.5-1.8MM
	3+ Years	250K	2-2.5MM

	TOTAL COMPENSATION
Global Head, Trading	4MM
Head of Americas, Trading	3.5-4MM
Head of Europe, Trading	3.5-4MM
Head of Asia, Trading	3.5MM
Head of Latin America, Trading	3.5-4MM

GLOBAL EMERGING MARKETS CORPORATE DEBT

2006 (THRU 6/30)

Advisor	Share (%)	Issues	Total ($MM)
Citigroup	11.2	43	4,673
JPMorgan Chase	8.9	19	3,683
Deutsche Bank	7.2	22	2,998
Credit Suisse	6.9	15	2,860
UBS	5.6	12	2,347
ABN Amro	4.7	14	1,967
HSBC	3.6	32	1,498
Merrill Lynch	3.1	13	1,283
Barclays Capital	3.0	9	1,227
Morgan Stanley	2.6	9	1,078

Industry Total: $41.6BN

2005 (THRU 6/30)

Advisor	Share (%)	Issues	Total ($MM)
Credit Suisse	12.9	19	5,696
Citigroup	10.2	40	4,520
JPMorgan Chase	5.4	13	2,391
ABN Amro	5.4	14	2,372
Barclays Capital	5.1	13	2,269
Deutsche Bank	4.6	5	2,042
UBS	4.3	12	1,919
Dresdner Kleinwort	4.2	13	1,872
HSBC	2.9	12	1,261
Banco Bilbao Vezcaya	2.7	11	1,192

Industry Total: $44.2BN

Source: IDD

2007 OUTLOOK

Pay also is up in countries with fast growth rates: In Europe, Poland, Turkey, Russia and Hungary continue to be popular, while Asia, Singapore, Thailand and Korea are seeing increased pay packages as supply hasn't been able to keep up with demand. In Latin America, Brazil has become a big center for hedge funds and Chile, Argentina and Mexico all have seen strong growth in corporate bond activity.

Global banks and private equity firms increasingly expressed interest in buying assets in Latin America, Asia and EMEA this year. It is likely that activity in this area will pick up in 2007 as the asset class becomes increasingly important in generating revenues for institutions. Local market EM derivatives and principal investments professionals will also be in significant demand.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Peter Cheng	*VP, Local Market Trading*	Fortis Bank	Morgan Stanley	Hong Kong
Tarun Mahrotri	*MD, Head of EM Currencies, FX & Rate Sales/Trading*	HSBC	JPMorgan Chase	Hong Kong
Ravi Mankude	*MD, Head of Local Markets Trading*	Deutsche Bank	Merrill Lynch	Hong Kong
Vivek Mohindra	*Director, Local Market Cash & Derivative Trading*	Citigroup	Merrill Lynch	Hong Kong
Alexandra Basirov	*Head of European Sovereigns, Agencies & Supranationals, DCM*	JPMorgan Chase	BNP Paribas	London
Nick Chavadarov	*MD, Head of Emerging Markets, Structured Credit*	Deutsche Bank	Merrill Lynch	London
Paul Cliff	*Emerging Europe Metals & Mining Analyst*	JPMorgan Chase	Nomura	London
Xavier Grunauer	*Analyst Emerging Markets Debt*	JPMorgan Chase	Nomura	London
David Johnston	*Head of Structured Equity Trading for Emerging Markets*	Marathon Asset Management	Standard Bank	London
Fawzi Kyriakos-Saad	*CEO of Emerging Markets for EMEA*	JPMorgan Chase	Credit Suisse	London
Simon Lue-Fong	*Head of Emerging Debt*	Standard Bank	Pictet Asset Mgmt.	London
Ulrich Schlumberger	*Head, Emerging Market Equity Trading*	Barclays	Dresdner Kleinwort	London
Philip Staveley	*Head, Emerging Market Equities*	Deutsche Bank	Nomura	London
Kwee Tee Lim	*Director, Senior Correlation Trader*	Deutsche Bank	Merrill Lynch	London
Maurice Nadjar-Primack	*Head, Emerging Markets Equity Trading (Russia)*	Credit Suisse	Merrill Lynch	Moscow
Noam Berk	*Director, Latin American Commodity Derivatives Sales*	Deutsche Bank	Merrill Lynch	New York
Pablo Gradwohl	*Director Emerging Markets CDO Trader*	Bank of New York	West LB	New York

FIXED INCOME PROPRIETARY TRADING

Proprietary traders are shying away from arbitrage and relative value strategies and placing more of an emphasis on more fundamental strategies like distressed debt, event-driven and long/short in equities. These are more deep value, analysis-driven investments requiring firms to act more as teams and less as individuals. Because of this trend, macro traders should do consistently better than relative value traders this year: **Options Group Intelligence Unit estimates that macro traders will receive anywhere from 8 to 12% of P/L while relative value traders will receive more like 5%.**

Cross-asset class proprietary trading is being replicated in this product area as well as in structured products. Citigroup, Merrill Lynch, Credit Suisse and Bear Stearns are developing cross-asset proprietary sales, trading and research desks. Hedge fund traders also continue to move back to Wall Street proprietary desks for the security. Many economists and market-watchers are now predicting proprietary trading will not be able to sustain the returns these desks posted in 2005 and 2006.

Interest rates traders are moving into fixed income and equities proprietary trading so they can have additional capital to work with. One problem is that rates traders do not have the necessary experience or the risk appetite to deal with the longevity of fundamental prop swings versus quicker rates moves, according to the Options Group Intelligence Unit.

COMPENSATION

- **Bonuses flat to up 5% on average versus 2005 with macro and distressed sales, traders and analysts earning the highest pay increases**
- **Total pay consists of 8 to 15% of P&L of the portfolio in cash and stock. Increasingly, banks are investing in their internal proprietary initiatives and desks are being run like internal hedge funds. Cost per proprietary desk seat can cost as little as $250,000 and exceed $1 million depending on the existing infrastructure. Total compensation ranges vary by firm, and top producers in this category can make as much as $50 million in 2005. Each firm's payouts are based on the balance sheets deployed by the desk.**

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING
(US$)

		BASE	BONUS
Analyst	*1-3 Years*	70-90K	60-80K
Associate	*1-3 Years*	100K	125-175K
VP	*1st Year*	125-150K	300-400K*
Director		150K	800-1MM*
MD		150-200K	1-2MM*

* Most compensation is related to a percentage formula payout. (See above Compensation section for details)

2007 OUTLOOK

For the equity and fixed income prop trader, 2007 will be the year to watch if bonuses don't fulfill expectations. Heavy movement among experienced fixed income proprietary traders could lead to a shift in leaders at the global investment banks. In order to keep top producers, many bank's fixed income proprietary desks (and equity proprietary desks) are structured like internal hedge funds. The desire to keep these players in-house has a lot to do with the fact that this team in a good P/L year can generate as much as 60 percent of total fixed-income trading profits at a firm. This desk also provides banks with what is its highest EBITDA business, according to the Options Group Intelligence Unit.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Carl Im	*MD, Head of Strategic Solutions Group*	Goldman Sachs	Merrill Lynch	Hong Kong
Muse Kwong	*Head of Derivatives Solutions Group*	UBS	ABN Amro	Hong Kong
Hui Wen Shiau	*Head of Fixed Income Structuring/Derivatives Sales*	Credit Suisse	West LB	Hong Kong
Paul Griffiths	*Director, Proprietary Credit Trading*	Blue Mountain	Merrill Lynch	London
Ralph Axel	*Senior VP & Proprietary Fixed-Income Trader*	HSBC	Lehman Brothers	New York
Pat Fay	*Fixed Income Prop Trader*	ABN Amro	HSBC	New York
Steve Jamison	*Head of Global Macro Proprietary Trading*	Internal Promotion	Morgan Stanley	New York
Yubo Wang	*Head of Fixed Income Volatility Strategy*	Morgan Stanley	Wachovia	New York
Edwin Waters	*Associate Director, Structured Products*	Westpac	ANZ	Sydney
Allan Bedwick	*Head of Proprietary Trading, Global Finance*	Merrill Lynch	Deutsche Bank	Tokyo
Jezri Mohideen	*Global Head of Yen Delta Trading*	Barclays	RBS	Tokyo

FOREIGN EXCHANGE

Foreign Exchange (FX) traders are suddenly valuable to global investment banks for their ability to help other unit's P/L. Proprietary traders and prime brokers want FX salespeople and traders so they can add FX products to their own service offerings.

New competitors also are intent on making this formerly parochial desk less centralized. Lava Trading, a subsidiary of Citigroup, is launching at the end of this year an electronic matching system for interbank FX trading that will compete with the existing duopoly of Reuters Matching and EBS – which its bank consortium owners sold this summer to ICAP.

Reuters and the CME this spring announced a joint venture to create FXMarketSpace, which they dubbed "the world's first centrally cleared, global FX marketplace" and which they expect to launch in the first quarter of 2007. It will allow users to trade directly through either the Reuters foreign exchange system or the CME Globex system, or on their own desktop systems running Reuters or Globex software. All this consolidation isn't necessarily a good thing: RBC Capital Markets shut down its FX desk and other North America-based firms will pay out bonuses flat to down versus 2005.

Asia, however, is booming in FX due to the rise in corporate accounts and global hedge funds. Merrill Lynch established an FX derivatives desk in Hong Kong in 2006 and has been shifting staff from Tokyo to meet growing demand from Chinese currency investors. Merrill Lynch also hired Sowen Ng as a managing director for the Hong Kong global FX sales desk, along with three other salespersons and traders. Singapore banking giant DBS hired a team of three marketers from UBS to handle institutional flow and Barclays Capital appointed four new directors in Singapore to increase its team on the ground in Asia. CBA re-entered the market hiring key traders such as Brian Lynskey from Lehman Brothers as its head of North American currency trading.

In Europe and the U.S., major hires included: Royal Bank of Scotland hired Alan Ruskin as head of North American international strategy for FX from 4Cast. Stewart Morton was hired by ANZ in London to head G4 spot trading. Simon Manwaring was hired by Bank of America from JPMorgan Chase to become global head of FX options correlation trading. In Europe there remains a huge shortage of skills in short- and long-dated FX hybrid quantitative sales, trading and research.

COMPENSATION

- Bonuses flat to up 5% on average over 2005 bonuses, with Europe, Asian and Australian professionals once again taking the bulk of increased pay packages. Some banks in the U.S. will pay professionals less in bonuses then they did in 2005.
- Non-U.S. firms are building up their desks to take advantage of burgeoning demand from buy-side clients internationally. FX traders with proprietary trading experience should expect to receive pay increases in New York and Europe. European banks are paying higher base salaries to attract good talent.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-80K	20-40K
	3rd Year+	85-100K	40-60K
VP	*1-2 Years*	95-110K	150-250K
	3rd Year+	125K	250-450K
Director		125-150K	500-900K
MD		150-200K	1-1.25M

	TOTAL COMPENSATION
Global Head	3-3.5MM
Head of Americas	2-3MM
Head of Europe	1.5-2MM
Head of Asia	1.5-2MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-80K	40-60K
	3rd Year+	85-100K	70-90K
VP	*1-2 Years*	95-110K	300-400K*
	3rd Year+	125K	400-500K*
Director		125K	1-1.2 MM*
MD		150-200K	1.5-2MM*

	TOTAL COMPENSATION
Global Head	4MM
Head of Americas	2-3MM
Head of Europe	2-2.5MM
Head of Asia	2-2.5MM

* Bonuses are based on sales credits or P/L of a seat. Nominative ranges have skewed from 8 to 12% in 2005 to more like 5 to 10% this year.

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2007 OUTLOOK

There's a limit to how many separate systems and ECNs both the sell-side and the buy-side can connect to and Options Group Intelligence Unit predicts there will be consolidation among the FX exchanges by the end of 2007. New York-based Latin American FX senior traders should make total pay of over $1.2 million to $1.5 million, up from around $1.1 million in 2005.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Alan Ruskin	*Head of International Strategy for FX in North America*	RBC Capital Markets	RBS	Greenwich
Sowen Ng	*MD, Global FX Sales*	Morgan Stanley	Merrill Lynch	Hong Kong
Rodolphe Alexis	*Head of European Non-Reciprocal Bank Global FX Sales*	Goldman Sachs	Bank of America	London
Gael de Boissard	*Head of Global Foreign Exchange*	Internal Promotion	Credit Suisse	London
Marcus Browning	*Global Head of Foreign Exchange trading*	Merrill Lynch	Citigroup	London
Richard Brownlees	*FX, Institutional Clients Group*	Merrill Lynch	BNP Paribas	London
Richard Gladwin	*Senior FX Trader*	Barclays	Lehman Brothers	London
Simon Manwaring	*Principal & Global Head of FX Options Correlation Trading*	JPMorgan Chase	Bank of America	London
Tim McCullough	*FX, Institutional Clients Group*	West LB	BNP Paribas	London
Stewart Morton	*Head of G4 Spot Trading, Deputy Head of FX Spot Trading*	ABN Amro	ANZ	London
Jonathan Pollock	*Head of U.K. Real Money Sales for FX*	West LB	BNP Paribas	London
Todd Bickmeyer	*FX Sales, Hedge Funds coverage*	Merrill Lynch	Morgan Stanley	New York
Steven Englander	*Head of Currency Research team*	Barclays Capital	Merrill Lynch	New York
Andy Flynn	*FX Corporate Sales*	JPMorgan Chase	Goldman Sachs	New York
Andrew Goldberg	*MD, North American Head of FX Options*	Citigroup	BNP Paribas	New York
Stephen Goldman	*Manager for Fixed Income & Currency Management Business*	Pimco	Goldman Sachs	New York
Jason Henderson	*MD, Head of FX Options Trading*	RBC Capital Markets	HSBC	New York
Samuel Lopez-Briceno	*Credit Analyst of European Banks & Insurance Companies*	Principal Global Investors	Goldman Sachs	New York
Bryan Lynskey	*Head of North American Currency Trading*	Lehman Brothers	Commonwealth Bank of Australia	New York
Craig Puffenberger	*Head of FX Trading*	Internal Promotion	Credit Suisse	New York
Winston Quek	*Capital Markets Manager-Sales & Trading*	RBS	Calyon	Singapore
Terence Yiu	*Head of FX Trading*	ABN Amro	ING	Singapore

HIGH YIELD CREDIT *(DISTRESSED)*

The high yield bond market switched gears in 2006. For the past four years, bank fee percentages dropped while the number of issues rose. This year, the number of issues floated by the global investment banks dropped from 414 to 362 through Oct. 1, according to *Bloomberg*. Total revenue also was up 21% and fees rose to 1.44% from 1.27%. The lingering compensation-related issue is that total revenues are still well off levels hit from 2000 to 2004.

Citigroup maintained its leadership position in global high-yield over JPMorgan Chase with a 14.2% share of the market as of Oct. 1. Citigroup also boosted its fee percentage on deals from 1.1% to 1.96% – an impressive jump in a mature industry. JPMorgan Chase had 13.6% of the $121 billion market, followed by Credit Suisse at 10.4% and Deutsche Bank at 9% (see chart of page 49). One reason for the decrease in the number of issues is the shift to leveraged loans and distressed debt activity.

Market leaders in the U.S.-led leveraged loans market include JPMorgan Chase, Bank of America, Citigroup and Wachovia. The increase is due to the continued rise of LBO firms internationally. LBO financings include both high-yield bonds and leveraged loans to finance deals. This type of fundraising, known as staple financing, along with increased M&A activity, has led to an increased amount of bond and loan relationships. Leveraged loan activity dipped a little from 2005, but is still a major reason why high-yield volume hasn't returned to its record highs.

DISTRESSED DEBT

Last year in this report, we pointed to this emerging trend, as billions poured into distressed hedge funds worldwide. The rise in distressed debt investments has pushed mega hedge funds into major private equity investments, especially in Europe.

Distressed debt has also become a factor in recruiting at banks. The reason is that investors cashed out of their 2001 through 2003 distressed investments with profits in 2006 and banks are guessing investors will swing back into these products next year.

Options Group Intelligence Unit predicts distressed analysts, especially in Asia, could receive pay packages two and three times higher than their current compensation. Or they could be poached by hedge funds, which already have many of the best junior distressed analysts. Distressed personnel are being placed under the ABS/MBS umbrella this year as firms buy up hard assets and securitize the debt.

Options Group Intelligence Unit's prediction of a rise in distressed investing has led to the acceleration of risk manager hires this year. Investment banks stepped up their hiring in this area in early 2006, which should push risk personnel's total compensation significantly higher in 2007 at hedge funds. This trend also means banks also will need to dig a bit deeper into their pockets in 2007 to attract or retain top talent in distressed.

COMPENSATION

- Bonuses up 5 to 10%, although distressed sales, trading and research professionals should receive significantly higher compensation globally.
- Last year, high-yield salespersons and traders saw compensation dip 10% or more. One high-yield sales MD at a global bank saw his 2005 bonus cut in half to $600,000 in 2005, according to Options Group Intelligence Unit data. This year, bonuses should stabilize as activity strengthened globally.

AVERAGE GLOBAL INVESTMENT BANK PAY *SALES* (US$)*

	BASE	BONUS
Associate	90K	80-100K
VP	125K	200-250K
Director	150K	400-500K
MD	200K	1.5-2 MM

	TOTAL COMPENSATION
Head of Americas, Sales	4MM
Head of Europe, Sales	3-3.5MM
Head of Asia, Sales	3MM

AVERAGE GLOBAL INVESTMENT BANK PAY *TRADING (US$)*

	BASE	BONUS
Associate	90K	80-100K
VP	125K	200-250K
Director	150K	500K
MD	200K	1.5-2 MM

	TOTAL COMPENSATION
Head of Americas, Trading	4MM
Head of Europe, Trading	3-3.5MM
Head of Asia, Trading	3MM

* Sales could be a little higher than trading because they are selling a number of securitized products.

GLOBAL HIGH YIELD

2006 (THRU 10/1)				2005 (THRU 10/1)			
Advisor	Share (%)	Total ($MM)	Fees	Advisor	Share (%)	Total ($MM)	Fees
Citigroup	14.2	17,174	2.0	Citigroup	12.5	12,452	1.1
JPMorgan Chase	13.6	16,419	1.1	JPMorgan Chase	12.1	12,043	1.3
Credit Suisse	10.4	12,536	1.8	Bank of America	10.3	10,304	1.4
Deutsche Bank	9.0	10,953	1.2	Deutsche Bank	10.3	10,283	1.8
Merrill Lynch	6.8	8,288	0.8	Credit Suisse	9.9	9,926	1.8
Bank of America	6.7	8,054	1.3	Goldman Sachs	6.3	6,316	2.6
Goldman Sachs	5.9	7,088	1.3	Merrill Lynch	5.8	5,832	1.3
Morgan Stanley	5.5	6,679	1.7	Lehman Brothers	5.5	5,463	2.0
Lehman Brothers	4.9	5,932	1.9	UBS	5.0	4,969	1.3
UBS	4.5	5,446	0.8	Morgan Stanley	4.5	4,536	2.6
Industry		121,107	1.4	Industry		99,889	1.3

Source: Bloomberg

2007 OUTLOOK

Hedge funds unable to obtain enough high-yield debt are looking to derivatives based on loans. Trading in these credit default swaps more than doubled to $7 billion this year through June and may quadruple by that time next year, according to Lehman. Investors are speculating with loan derivatives because rising interest rates in Europe have made the competition for debt so great that borrowers are turning lenders away. The volume of swaps based on bonds rose to $26 trillion in the five years ending June 2006, according to *Bloomberg*. "The old guard is gradually being replaced by a new breed," Robert Reoch, a Lehman credit derivatives consultant in London.

Distressed research, sales and trading executive searches will accelerate as the distressed market broadens out globally. The Options Group Intelligence Unit also predicts firms will begin seeking distressed equity analysts to cover small-cap companies due to the inherent volatility in those stocks.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Benjamin T May	*Head of High Yield & Structured Products*	Wachovia	Piper Jaffray	Charlotte
Alvaro Ballesteros	*Senior High Yield Trader*	West LB	BNP Paribas	London
Douglas Clarisse	*Director, High-Yield Sales*	ABN Amro	BNP Paribas	London
Kevin Connell	*VP, High-Yield Capital Markets group*	Bear Stearns	RBS	London
Farid Gargour	*High-Yield Fund Manager*	Internal Promotion	RAB Capital	London
Lok Lee	*Head, European High Yield & Mezzanine Capital Markets*	JPMorgan Chase	UBS	London
Katherine McCormick	*Head of European Distressed Debt*	Internal Promotion	JPMorgan Chase	London
Phillipe Niebuhr	*VP, Distressed Trading*	Goldman Sachs	Merrill Lynch	London
Martin Thorneycroft	*ED, European High-Yield*	Goldman Sachs	Morgan Stanley	London
Robert Haley	*High Yield Trader*	Wachovia	Piper Jaffray	Minneapolis
Jeff Stewart	*Senior Analyst, High-Yield Consumer Products*	Wachovia	Piper Jaffray	Minneapolis
Rob Alloway	*VP, High Yield, Credit Derivatives Trading*	Goldman Sachs	Lehman Brothers	New York
Brent Buckley	*Distressed Portfolio Manager*	Deutsche Bank	Centerbridge Capital Partners	New York
Kevin Christano	*Senior Analyst, Debt Research Group*	Barclays	Bank of America	New York
Kevin Corgan	*Head of High-Yield Trading*	Morgan Stanley	JPMorgan Chase	New York
Drew Doscher	*Director & Head of U.S. Distressed Trading*	UBS	Barclays	New York
Tim Eng	*Research Analyst in Distressed*	UBS	Barclays	New York
Rick Feinstein	*Research Analyst in Distressed*	UBS	Barclays	New York
Jim Felty	*High Yield Trader*	JPMorgan Chase	Lehman Brothers	New York
Jim Gereghty	*Head of Distressed Debt Research*	Morgan Stanley	UBS	New York
Brian Goldberg	*VP, High-Yield Capital Markets*	Goldman Sachs	Deutsche Bank	New York
John Lennon	*High Yield Fixed Income Salesperson*	Raymond	RBS Capital	New York
Mark Melchiorre	*High Yield Trader*	Bank of America	Credit Suisse	New York
Joseph Russick	*Principal, Distressed Debt hedge fund*	Bennett Funds	Blackstone Group	New York
Christopher Yanney	*Director, U.S. High-Yield Cash and Credit Default Swaps trading*	Goldman Sachs	Barclays	New York
Luke Lawrence	*High Yield & Credit Derivatives Trader*	JPMorgan Chase	UBS	Stamford
Jim Trefry	*MD, Global Head of Distressed Trading*	Deutsche Bank	UBS	Stamford

INTEREST RATES (GOVERNMENT BONDS, OPTIONS, SWAPS & AGENCIES, DERIVATIVE BROKERAGE)

Interest Rates as well as interest rate futures are not the active products they were in 2005. Straight rates have become commoditized and firms are offering more cross-asset products. Middle-management (VP/Director) cuts at top-tier banks including Citigroup and Bank of America are changing hierarchies so that there are a few managing directors supported by a number of more junior professionals.

In Europe, Dresdner Kleinwort recruited four senior European derivatives staff, including three from UBS, as part of a push to strengthen its distribution business in mid-September. The new hires are in line with the German investment bank's efforts to build a "multi-asset class structured product distribution platform" in Europe.

The best interest rate houses are Goldman Sachs, Lehman and Deutsche Bank. Bank of America and JPMorgan Chase make the top list because of the sheer size of their trading profits. All three large money-center banks (JPMorgan Chase, Citigroup and Bank of America), in fact, have trading profits of at least $250 million – more than double the size of the top U.S. securities firms.

In Swaps trading, JPMorgan Chase and Deutsche Bank dominated all categories, according to an interest rates survey done by *Risk* magazine in September 2006. In short-dated interest rate swaps, Deutsche jumped from fourth in 2005 to first, knocking off RBS. In 2-10 year swaps, Deutsche Bank finished first for the second consecutive year. In swaptions, JPMorgan Chase finished first again, ahead of Goldman Sachs and Deutsche Bank respectively. In exotics, Goldman Sachs led the way followed by BNP Paribas, according to *Risk*.

Lehman, Goldman Sachs and JPMorgan Chase continue to lead Agencies trading, but the market has dipped due to a lack of liquidity. Freddie Mac and Fannie Mae are doing less agency bond issuance, leading to lighter volume in secondary trading by hedge funds that crave that liquidity to take on big trades.

The sudden firming by the Fed – the Fed held interest rates steady for the first time in two years in early August, after 17 consecutive 25 basis-point increases –should give a boost to a flagging U.S. Government Bond market. Asian investor demand for products also has increased as the days of the "zero interest" rate environment have ended with a pick-up in the local economies. Overall, government bonds have seen steady growth with little personnel movement.

Less volatility in treasuries and rates has been good news to the futures and options world. The Chicago Board Options Exchange's VIX index, which measures the market's expectation of 30-day volatility on S&P 500 index options, leapt from 13.35 points on May 16 to 18.26 points on May 23. The S&P 500 index fell by 7.7% between May 5 and June 13, from 1,325.76 to 1,223.69, while Japan's Nikkei 225 stock index plunged 17.8% between May 8 and June 13. The number of options contracts on the DJ Euro Stoxx 50 index, the key benchmark for futures and options in Europe, increased by 120% from June 2005 to June 2006, according to Reuters.

Commodity futures, especially energy futures, have supplanted interest rates for global investment banks (see Commodities, page 31). Derivative brokerage businesses are now very popular among the top investment banks this year. The top futures/options firms include: Goldman Sachs, FIMAT, Calyon, Deutsche and UBS, after its purchase of ABN Amro's futures business earlier this year.

COMPENSATION

- Bonuses flat to up 5% on average over last year as interest rate trading took a back seat to sub-sectors like commodity trading and Derivative Brokerage (Futures)
- Rates salespeople remain the most in demand across the global recruiting landscape. Directors who cover hedge funds can expect to receive 30 to 50% jumps in pay this year. One director in rates sales, for example, received a $1.25 million guaranteed pay package this year to move to another firm, up from $950,000 all-in in 2005, according to Options Group Intelligence data.
- The market was much more volatile than in 2005 and pay will reflect the lack of it this year.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*
GOVERNMENT BOND ESTIMATES

		BASE	BONUS
Associate	*1-2 Years*	65-75K	50-60K
	3rd Year	75-90K	70-90K
VP		100-125K	300-450K
Director		150K	600-800K
MD		200K	1.2-1.4MM

	TOTAL COMPENSATION
Global Head, Sales	4-5MM
Head of Americas, Sales	3-4MM
Head of Europe, Sales	3-4MM
Head of Asia, Sales	2-3MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*
GOVERNMENT BOND ESTIMATES

		BASE	BONUS
Associate	*1-2 Years*	65-75K	50-60K
	3rd Year	75-90K	70-90K
VP		100-125K	500-600K
Director		150K	800K-1MM
MD		200K	1.3-1.7MM

	TOTAL COMPENSATION
Global Head, Trading	4-6MM
Head of Americas, Trading	3.5-4MM
Head of Europe, Trading	3.5-4MM
Head of Asia, Trading	2.5-3.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*
INTEREST RATES (SWAPS, OPTIONS, EXOTICS & AGENCIES)

		BASE	BONUS
Associate	*1-2 Years*	65-75K	50-60K
	3rd Year	75-85K	60-80K
VP		100K	350-500K
Director		125K	1-1.2MM
MD		150-200K	2-2.5MM

	TOTAL COMPENSATION
Global Head, Sales	6-8MM
Head of Americas	4-5MM
Head of Europe	4-5MM
Head of Asia	4-4.5MM
Head of Swaps/Optioms	2.5MM
*	
Head of Agency Bond, Sales	2.3-2.7MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*
INTEREST RATES (SWAPS, OPTIONS, EXOTICS & AGENCIES)

		BASE	BONUS
Associate	*1-2 Years*	65-75K	70-80K
	3rd Year	80-90K	80-95K
VP		100K	400-600K
Director		125K	1-1.5 MM
MD		150-200K	2.5-3MM

	TOTAL COMPENSATION
Global Head, Trading	10-15MM
Head of Americas	8-10MM
Head of Europe	8-10MM
Head of Asia	6-8MM
Head of Swaps/Options	3.5MM
Head of Exotics, Trading	2.5-3MM
Head of Agency Bond, Trading	2.5-3MM

* Firms don't have a Head of Exotics, Sales.

2007 OUTLOOK

The attractiveness and renewed growth of futures has boosted interest among the global investment banks. UBS acquired ABN Amro's well-regarded futures division and Bank of America was reportedly interested in buying Man Financial, the futures arm of Man Group. Exchanges also will continue to consolidate in the U.S. and Europe. In mid-October, the Chicago Mercantile Exchange agreed to buy the Chicago Board of Trade for about $8 billion, creating the largest exchange for futures contracts on stocks, bonds, currencies and commodities.

Asia will see a boom in futures volume in 2007 due to the launch of index futures in Shanghai, which makes it easier for dealers to structure OTC products offshore and hedge them locally. Man Group also opened its first futures and options fund in Hong Kong in 8 years and that should spark others to follow the futures market pioneer.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Geoff Verter	*FID Options Trader*	Deutsche Bank	AQR Capital	Connecticut
Indira Citrarine	*Head, Investor Clients Solution Group*	Credit Suisse	Merrill Lynch	Hong Kong
Ines Noe	*Head, Medium-Term Notes Business*	UBS	Nomura	Hong Kong
Marc Fleishman	*Head, European Interest Rate Product Sales*	Morgan Stanley	Bear Stearns	London
Michael Hof	*Head, Structured Interest Rate Products*	UBS	Dresdner Kleinwort	London
Arsene Lahoud	*Senior Quantitative Analyst*	Goldman Sachs	Wachovia	London
Andrew McGuinness	*Government & Derivatives Trader*	Nat'l Australia Bank	UBS	London
Mouaoya Noubir	*Director & Head, European Quant Analysis*	Dresdner Kleinwort	Wachovia	London
Max Pero	*Head, Structured Interest Rate Products, Italy*	UBS	Dresdner Kleinwort	London
Christopher Wilcox	*Head of Liquid Rates Trading for EMEA*	Citigroup	JPMorgan Chase	London
Shane Collins	*Head, Institutional Sales*	Nat'l Australia Bank	ANZ	Melbourne
James Caron	*Co-Head, Global Rates Strategy*	Merrill Lynch	Morgan Stanley	New York
David Martins Da Silva	*Head of European Rates Hedge Fund Sales*	Deutsche Bank	BNP Paribas	Paris
Chuck Fletcher	*FID Swaps Trader*	Bank of America	Deutsche Bank	New York
Kevin Harmon	*MD, Head of Derivatives for Interest Rate Products*	Credit Suisse	Bank of America	New York
Toby Lawson	*Director, Interest Rate Swaps*	JPMorgan Chase	Merrill Lynch	New York
Daniel Orlando	*Director, Government Bonds*	Merrill Lynch	Deutsche Bank	New York
Ritanker Ronty Pal	*MD, Interest Rate Swaps Trader*	Citigroup	Barclays	New York
Gary Spencer	*MD, Options Trading*	JPMorgan Chase	Bear Stearns	New York
Dan Wang	*Associate, Interest Rate Swaps Trading*	JPMorgan Chase	Merrill Lynch	New York
Patrick Weychardt	*Head of German Frequent User Rates*	Deutsche Bank	BNP Paribas	Paris
Pin Hong Koh	*Fixed Income Futures Sales*	ABN Amro	RBS	Singapore
Chin Leng Woon	*Head, Fixed Income Futures Sales*	ABN Amro	RBS	Singapore
Damon Radisch	*Director, New Zealand Swaps Trader*	BNZ	UBS	Sydney
Luiz Cunha	*Head of Options Trading, Senior Interest Rate Derivatives Trader*	RBS	Calyon	Tokyo
Takuma Kitajima	*Inflation-Indexed Bond Trader*	BNP Paribas	BlackRock	Tokyo
Tomoko Kondo	*Government Debt Options Trader*	Mitsubishi UFJ	Lehman	Tokyo
Freddy Lim	*Japanese Government Bond Strategist*	Merrill Lynch	Morgan Stanley	Tokyo
Neale Muston	*MD, Interest Rates & Swaps Trader*	Morgan Stanley	Blackrock	Tokyo
Takahiro Namekata	*Head, JGB & Interest Rates Trading*	Goldman Sachs	Calyon	Tokyo

INVESTMENT GRADE BONDS

The contraction in the corporate bond trading market has been pronounced since the Trace listings expansion. At the start of 2006, the trading platform began covering all 29,000 securities within 15 minutes of a deal, cutting commissions to a fraction of a penny. Dealers have to provide almost as much information in corporate bond trading as they do for stocks. With the data available immediately, there's little need for guidance from analysts or salespeople. Less experienced bond salespersons and traders were subsequently laid off, while the more experienced corporate bond traders have been moved into the credit derivatives and structured credit space to handle increased demand for those products.

The U.S. investment grade bond market, however, was a bright spot. The number of issues floated by the global investment banks dropped by a wide margin, from 2903 to 2271 through Oct. 1, according to *Bloomberg*. **Total dollar volume, however, was up 27% to $695 billion and fees rose from 0.47% to 0.55%.**

Citigroup retained its top position in U.S. investment grade bonds over JPMorgan Chase with a 14.5% share of the market as of Oct. 1. JPMorgan Chase had 10.5% of the market, followed by Bank of America at 9.9% and Morgan Stanley at 9.6%. **One reason for the decrease in the number of issues is that the market's increasing transparency has forced 25% of corporate debt traders out of the market this year.**

The Fed held interest rates steady for the first time in two years in early August, after 17 consecutive increases. This led to an up tick in the U.S. corporate market after a lackluster first-half of the year. U.S. corporations issued $63 billion in August for a record in corporate debt issuance for the month. That is well above the $34 billion average since 1998.

Investors quickly absorbed this increase in corporate bond issuance with no negative impact on the secondary markets. Industrial bond issues outperformed the secondary market after issue as a total of 28 industrial companies came to market in August – including Caterpillar and Federal Express - with new bonds equaling $15 billion. Analysts are estimating $750 billion in new corporate bonds this year. While company bonds are about 20% of the $25.3 trillion U.S. bond market, they account for only 2.2% of trading.

COMPENSATION

- **Bonuses flat to up 5% on average versus last year, although the re-emergence of the U.S. investment grade market could bode well for professionals in this product area globally**
- The overall corporate bond outlook remains dim for traders however.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	50-60K
	3rd Year	75-90K	75-85K
VP		125K	400-500K
Director		150K	600-800K
MD		200K	900K-1.1MM

	TOTAL COMPENSATION
Head of Americas, Sales	2.5-3MM
Head of Europe, Sales	2.5-3MM
Head of Asia, Sales	2MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	50-60K
	3rd Year	80-90K	75-85K
VP		125K	400-500K
Director		150K	700-900K
MD		200K	1-1.5MM

	TOTAL COMPENSATION
Head of Americas, Trading	3-4MM
Head of Europe, Trading	2.5-3.5MM
Head of Asia, Trading	3.5MM

U.S. INVESTMENT GRADE

2006 (THRU 10/1)

Advisor	Share (%)	Total ($MM)	Fees
Citigroup	14.5	100,763	0.7
JPMorgan Chase	10.5	72,691	0.4
Bank of America	9.9	69,033	0.5
Morgan Stanley	9.6	60,535	0.6
Goldman Sachs	8.7	60,298	0.5
Lehman Brothers	6.9	47,920	0.4
Merrill Lynch	6.6	46,075	0.7
Wachovia	6.0	41,418	0.8
Credit Suisse	5.7	39,433	0.4
Barclays	4.1	28,457	0.4
Industry		695,133	0.6

2005 (THRU 10/1)

Advisor	Share (%)	Total ($MM)	Fees
Citigroup	14.9	81,132	0.5
JPMorgan Chase	10.4	56,556	0.5
Goldman Sachs	9.6	52,223	0.4
Bank of America	8.1	44,283	0.5
Merrill Lynch	7.9	43,190	0.7
Lehman Brothers	7.3	39,633	0.4
Morgan Stanley	6.5	35,376	0.5
HSBC	5.8	31,620	0.4
Deutsche Bank	5.7	31,028	0.4
Wachovia	5.1	28,054	0.6
Industry		546,099	0.5

2007 OUTLOOK

One area still valuable is debt research as global firms seek to trade or sell products based on the capital structure of a public entity. In August, Royal Bank of Scotland hired John Richards from Barclays Capital to head its newly-created debt markets strategy and economics unit for the Asia Pacific region. He reports locally to Lee Knight, chief executive officer of RBS Securities Japan and globally to Kit Juckes, head of debt markets research in London. Options Group Intelligence Unit predicts an increase in hiring for debt researchers in emerging markets, especially in EMEA and second-tier Asian "tiger" countries like Korea and Taiwan.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Wally Hufer-Neder	*Head of European Covered Bond Origination*	Depfa Bank	Deutsche Bank	Germany
S.J Lee	*VP, Fixed Income Korean Sales*	Deutsche Bank	Goldman Sachs	Hong Kong
Stephen Panizza	*MD, Asia Head of Debt Services*	ABN Amro	Macquarie	Hong Kong
Mark Peaker	*MD, Head of Credit Sales Asia Pacific*	China Trust	West LB	Hong Kong
Shen Yan	*MD, Head of Fixed Income Sales*	Credit Suisse	Deutsche Bank	Hong Kong
Carol Yuen	*VP, Fixed Income Corporate Sales*	Standard Chartered	Goldman Sachs	Hong Kong
Peter Duenas-Brckovitch	*MD, Head of European High-Grade Credit Trading*	Goldman Sachs	Lehman Brothers	London
Richard Kemmish	*MD, Head of European Covered Bond Origination*	Dresdner Kleinwort	Credit Suisse	London
Brynn Charles Lewis	*MD, Head of European Credit-Trading Business*	Lehman Brothers	Morgan Stanley	London
Armin Peter	*MD, Head of Covered Bond Syndicate*	HSBC	UBS	London
James Robson	*Director & Senior Credit Trader*	HSBC	Dresdner Kleinwort	London
David Goldman	*MD, Global Head of Fixed Income Research*	Bank of America	Cantor Fitzgerald	New York
Jong Sil Lee	*Head of Corporate Institutional Banking Sales*	Bank of America	HSBC	Seoul
Neil Ge Gan-Nill	*MD, Head of Fixed Income Sales-China*	BOC International	Credit Suisse	Shanghai
Xiaomin Qian	*MD, Corporate Client China Sales*	JS Investment	ING	Shanghai
Iain Johnson	*Director, Fixed Income & Investment Solutions*	Deutsche Bank	AXA	Singapore
Stuart Raynes	*Director, Corporate & Hybrid Origination*	Nomura	ANZ	Singapore
Jeremy Fan	*SVP, Fixed Income Sales -Taiwan*	Deutsche Bank	Lehman Brothers	Taiwan
Toshitaka Nagatsu	*MD, Head of Japan Credit Sales*	BNP Paribas	Merrill Lynch	Tokyo
Yujiro Obata	*Director, Credit Sales & Marketing*	BNP Paribas	Merrill Lynch	Tokyo

MORTGAGE-BACKED SECURITIES

Wall Street firms Goldman Sachs, Morgan Stanley and most recently Merrill Lynch all snapped up struggling lenders this summer. Banks see these acquisitions as a way to lock up a steady supply of home loans that they can bundle together and sell to investors in the Mortgage-Backed Securities (MBS) market. Last year, total sales of loans reached a record-high $1.4 trillion, according to *Dealogic*.

The reason for the banks relatively late entry into the sub-prime mortgage business may be due to the lower share prices of the targets. Morgan Stanley acquired Saxon Capital for $706 million in cash, around the same time the mortgage lender said second-quarter net income dropped by over 60% from a year earlier. The story is the same for MortgageIT, a Manhattan-based lender that Deutsche Bank bought for $429 million in cash earlier this year. Merrill Lynch snapped up National City's sub-prime residential business for $1.3 billion. With such poor results, many of these mortgage lenders – and now the investment banks that own them – may not be able to provide the steady stream of profits that these firms are hoping for in the months to come, according to *Crain's*.

Institutional investors continue to pour money into mortgage trading portfolios in the U.S. and Europe. Every global investment bank is busily building up their mortgage proprietary desks, following the lead of hedge funds Mariner and Citadel. Citigroup is leading the mortgage prop charge but UBS, Morgan Stanley and Merrill Lynch also assembled teams this year. Other banking portfolio managers use mortgage portfolios as a hedge against their other fixed income investments.

In the league tables, RBS took over the top spot from Lehman Brothers through the first three quarters of 2006 versus the same period in 2005. RBS' share of over $100 billion was a record for the industry, which had proceeds of $1.04 trillion in the first 9 months of the year compared to $81 billion last year (see chart on page 59).

One emerging trend is banks such as Morgan Stanley are assembling autonomous principal finance strategies groups and moving away from consumer-focused products. This strategy shift can be very profitable but is more risky and will be subject to more ups and downs, according to the Options Group Intelligence Unit. Hedge funds are increasingly sharing the same yield on these investments. Another trend is in increasing securitization of MBS, ABS and commercial paper products.

COMPENSATION

- **Bonuses flat to up 5% versus last year on average (same as 2005)**
- The most lucrative areas for banks remain ARM's, Non-Agency CMO's and Home Equity Loans. Bonuses for professionals in Agency CMO's and Pass-Through's may be flat to down in 2006. This is the opposite result as 2004, when Pass-Through's were very lucrative for the banks. Asia is now a hotbed for ABS and MBS investing, while CDOs are a huge business in Europe.
- One VP mortgage trader joined a European-based bank recently and will receive the same pay in

2007 as the trader made in 2006. Bonuses will be muted overall as banks scale back expectations in the U.S. dominated market. The upside clearly is in Asia with the region's commercial and residential real estate boom showing no signs of abating.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	50-60K
	3rd Year	75-85K	60-80K
VP		100K	250-400K
Director		125K	900K-1MM
MD		150-200K	1.5-2.5MM

	TOTAL COMPENSATION
Head of Americas, Sales	3-3.5MM
Head of Mortgage Research	2MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	65-75K	70-80K
	3rd Year	80-90K	80-95K
VP		100K	300-600K
Director		125K	1-1.5 MM
MD		150-200K	2-3 MM

	TOTAL COMPENSATION
Head of Americas, Trading	3.5-4MM
Head of CMBS, Trading	6MM
Head of CMO, Trading	5-6MM, Top 10MM
Head of Whole Loan Trading	5-6 MM
Head of Derivatives, Trading	3MM, Top 4.5MM
Head Pass-Throughs, Trading	3-3.5MM
Head of Non-Agency, Trading	2-2.5MM

GLOBAL MBS MARKET

2006 (THRU 9/30)

Advisor	Share (%)	# of Issues	Total ($BN)
RBS	10.1	99	103.7
Lehman Brothers	8.5	111	87.5
Bear Stearns	8.0	93	82.8
Deutsche Bank	7.3	107	74.7
Credit Suisse	6.7	88	68.8
JPMorgan Chase	5.8	90	59.6
Goldman Sachs	5.3	63	54.8
UBS	5.2	77	53.0
Morgan Stanley	5.0	83	51.6
Citigroup	4.9	82	50.3
Industry Total: $1,030 BN			

2005 (THRU 9/30)

Advisor	Share (%)	# of Issues	Total ($BN)
Lehman Brothers	9.8	112	86.6
RBS	9.2	120	81.1
Bear Stearns	8.9	120	78.9
UBS	7.8	94	69.1
Credit Suisse	6.8	100	60.2
Bank of America	5.7	90	50.3
JPMorgan Chase	5.7	70	50.2
Goldman Sachs	5.5	73	48.8
Deutsche Bank	5.5	70	48.1
Morgan Stanley	5.4	77	48.0
Industry Total: $883.1BN			

Source: IDD

2007 OUTLOOK

After second-quarter earnings, Bear Stearns CFO Sam Molinaro said his firm is "still churning out big numbers in this area and people have been calling for the demise of the MBS market for three years now." The opportunities in Asia are so enormous in mortgage banking that Options Group Intelligence Unit predicts the market will continue to grow even with a change of direction from the Fed on interest rates. One point of concern in the U.S.: Increased competition from the Yankee banks is shrinking mortgage spreads and arbitrage opportunities. Increased MBS activity in emerging markets such as Mexico could offset any declining trading options.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Chris Lau	*MD, Co-Head CMBS Secondary Trading*	Internal Promotion	RBS	Greenwich
Kin Lee	*MD, Co-Head CMBS Secondary Trading*	Internal Promotion	RBS	Greenwich
Virginia Darrow	*CEO of Rooftop Mortgages*	Internal Promotion	Bear Stearns	London
Fred Khedouri	*Head of European Residential Mortgage & Consumer Loan Origination*	Internal Promotion	Bear Stearns	London
Kevin Callaghan	*Head of Structured Loans, Real Estate Capital Markets Group*	Lehman Brothers	Barclays	New York
Phil Chadwell	*Director, MBS Sales*	UBS	Barclays	New York
Elizabeth Comerford	*MD, MBS Sales*	Bank of America	JPMorgan Chase	New York
Adina Dolfman	*MBS Sales*	Morgan Stanley	Bank of America	New York
Jiangtao Du	*Mortgage Strategist, MBS*	JPMorgan Chase	Deutsche Bank	New York
Corey Hechler	*MD, Regional Dealers*	Bear Stearns	JPMorgan Chase	New York
Jeff Johnson	*MD, MBS Sales*	Morgan Stanley	JPMorgan Chase	New York
David Pawlowski	*Director, Whole Loan Trading*	Kidder Peabody	BNP Paribas	New York
Matt Sherwin	*Sub-Prime Whole Loan Mortgages Trader*	Citigroup	JPMorgan Chase	New York
Sean Whelan	*Director, MBS Sales*	UBS	Deutsche Bank	New York
Frank Forelle	*MD, Head of Asia Commercial Real Estate*	Internal Promotion	Deutsche Bank	Tokyo

MUNICIPAL DERIVATIVES

Municipal bond activity continues to migrate towards a derivatives platform. Many desks now sit within a firm's commodities and/or high-yield unit, meaning municipal derivative sales and traders should receive slightly better compensation due simply to their association with more profitable books.

While municipal bond volumes were down 15% in the first 9 months of 2006 ($261 billion) from last year ($309 billion), overall demand is growing as more hedge funds and international investors look to break into the U.S.-led market (see chart on page 62). Derivatives activity is increasingly popular with municipalities and global investment banks like **Citigroup, Lehman, Merrill Lynch, JPMorgan Chase** and **Bank of America** are leading the charge to take advantage of this demand. Others like Wachovia, UBS, and Deutsche Bank are just beginning to break into the industry. **Of the latter three, it appears that Deutsche Bank is having the most success primarily with overseas investors selling Credit Linked Notes with a levered BMA/Libor ratio trade embedded into the structure, according to executives surveyed by the Options Group Intelligence Unit.**

Frequent Fed tightenings persuaded investors to make new issue trades on the structured note side. Some of them have played the tax arbitrage Treasury curve out long and made money, while traders that bet on relative value got hurt at the front of the curve, although no investor got blown up like in 2005, according to the Options Group Intelligence Unit.

The end of the Fed's tightening, and the possibility of future Fed easings, could be a big boost to the municipal derivatives market. In fact, core municipal investors are beginning to enter the market as they expect to see a pick-up in fourth-quarter refundings with the latest Treasuries rally and flatter curve environment. Refundings were down this year in the first nine months to 31% of all activity from 45% of all activity last year.

New estimates from Merrill Lynch and others are calling for refundings to pick up in part because if the Fed begins to ease that should open up a new wave of municipal issues. Another trend to watch: Hedge funds and non-U.S. firms are coming into the municipal derivative market so there is less supply and more demand – a good sign for the asset class.

In terms of performance, the long end of the curve beat out the short-end. Additionally, AAA-rated munis outperformed LIBOR all year as long-end treasuries (15-year or longer) did well. The short or front-end of the curve activity wasn't extremely volatile, however, and "no firm got whipsawed like in 2005," said one survey respondent.

COMPENSATION

- **Bonuses up 5 to 10%, even though municipal bond volume dropped significantly after a record 2005**
- Managers are still worried about losing talent however and those linked to energy funds will have strong bonus years. Derivatives professionals will continue to make significantly more than municipal bond salespeople and traders.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	60-70K	70-90K
	3rd Year	70-90K	100-120K
VP		100-125K	200-250K
Director		150K	500-700K
MD		200K	800K-1.2MM

	TOTAL COMPENSATION
Regional Head Muni Securities, Sales	3.5-4MM
Regional Head, Sales	1.5-2MM
Regional Head of Banking, Sales	1.5-2MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	60-70K	70-90K
	3rd Year	70-90K	100-120K
VP		100-125K	250-400K
Director		150K	600-800K
MD		200K	900K-1.3MM

	TOTAL COMPENSATION
Regional Head Muni Securities, Sales	4-5MM
Regional Head, Trading	2-2.5MM
Regional Head of Banking, Trading	2MM

U.S. MUNICIPAL BONDS

2006 (THRU 6/30)

Advisor	Share (%)	# of Issues	Total ($BN)
Citigroup	12.9	254	23.0
UBS	11.1	351	19.7
Merrill Lynch	10.0	219	17.8
Bear Stearns	6.8	74	12.0
JPMorgan Chase	6.7	166	11.9
Goldman Sachs	5.5	92	9.7
Lehman Brothers	5.3	103	9.5
Morgan Stanley	5.1	122	9.1
Bank of America	4.6	189	8.1
RBC Capital Markets	3.6	295	6.3

Industry Total: $177.7BN

2005 (THRU 6/30)

Advisor	Share (%)	# of Issues	Total ($BN)
Citigroup	16.7	495	34.9
UBS	11.7	462	24.4
Merrill Lynch	7.9	205	16.5
Lehman Brothers	6.7	143	13.9
Bear Stearns	5.5	92	11.6
Morgan Stanley	5.4	136	11.3
JPMorgan Chase	5.2	206	10.9
Bank of America	4.1	205	8.6
RBC Capital Markets	4.1	120	8.5
Goldman Sachs	3.9	86	8.2

Industry Total: $209.3BN

2007 OUTLOOK

Flow into high-yield municipal funds is coming back thanks to the core municipal investor. Credit spreads are so tight that "every high-yield muni fund launch has been a riot," according to one municipal trading head who spoke on the condition of anonymity. The problem may be that as mainstream investors jump into more high-yielding products, they are less likely to fully examine the larger risks they are taking, warns one municipal derivatives participant. After the Amaranth blow-up, traders should become more conservative in the fourth quarter to lock in gains like a hedge fund PM, say market participants surveyed by the Options Group Intelligence Unit.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Mike Helmuth	*Municipal Prop Trading*	Stark	Deutsche Bank	Chicago
Dan Solender	*Director, Head of Municipal Bond Management*	Nuveen	Lord Abbett	Jersey City, NJ
Jude Arena	*Municipal Products Trader*	Susquehanna Capital	Citigroup	New York
Paul Ferrarese	*Municipal Products Trader/Interest Rates Swaps*	Citigroup	Merrill Lynch	New York
Zoya Gargiulo	*Principal, Municipal Bond Sales*	JPMorgan Chase	Bank of America	New York
Taylor Germano	*VP, Municipal Bond Sales*	Lehman Brothers	JPMorgan Chase	New York
Sam Gruer	*Director, Municipal Products Marketing*	JPMorgan Chase	Deutsche Bank	New York
Ross Jackman	*MD, Head of Municipal Risk Trading and Sales, Strategy*	JPMorgan Chase	UBS	New York
Adam Joseph	*Head o Structured Municipal Products*	JPMorgan Chase	Bank of America	New York
Bill Johnson	*Head of Municipal Products*	Paloma Partners	JPMorgan Chase	New York
Drew Levinson	*MD, Sales Manager/Municipal Bond Sales*	Lehman Brothers	First Albany	New York
Bryan McCoy	*ED, Municipal Bonds Cash Trader*	Morgan Stanley	UBS	New York

STRUCTURED CREDIT

Correlation trading and synthetic CDO products were important products for investors in 2006, although more vanilla products were in vogue in the U.S. and Europe. Unlike in 2005, markets really rebounded from the slow Spring in May and June in structured credit and correlation. The convergence between cash and synthetic CDOs continues as more structured products break away from flow products. A new FASB accounting change should further accelerate this fast-growing market and allow for even more hybrid trading involving cash and synthetic components in ABS, CDO, CMBS and CDS products.

Many structured credit desks now combine Correlation, CDS and structured cash flow based businesses, although many firms say the convergence between fixed income and equities is overblown to some degree. For example, structured credit and equity derivatives trading are combined at many global investment banks but they are run quite differently, according to the Options Group Intelligence Unit. Furthermore, equity derivatives salespeople don't have much to do with credit sales staff.

Overall, CDO volumes are accelerating even faster than the ABS market: Volumes have doubled through the first 9 months of 2006 to nearly $300 billion. Merrill Lynch leads the worldwide CDO market again with $37 billion in issuance, followed by **Goldman Sachs** with around $25 billion in issuance, according to *IDD*.

CDO structurers are increasingly valuable to firms seeking to establish businesses quickly. For example, one senior CDO structurer received a counter-offer of $750,000 this year to stay at one European bank after making less than $300,000 in 2005. In August, **BNP Paribas** hired two senior securitization bankers, including Kevin Stocklin, who joined from Dresdner Kleinwort as head of U.S. CDO origination and structuring, reporting to Sean Reddington, head of BNP Paribas' U.S. securitization group.

BNP Paribas already has a successful CDO structuring platform in Europe, which it wants to use to develop its ABS, CDO and loan origination platforms in the North American region. Demand continues to be high among insurance companies and banks in Europe for CDOs. As transactions backed by pools of bonds and loans, they often use credit default swaps to lay off credit risk. The Options Group Intelligence Unit also is hearing that RBS' CDO pipeline and activity has been very strong in 2006.

The issuance of synthetic CDO also ballooned in Europe in June due to the recent spread widening in the CDS index markets that enabled structured deals to meet target return levels. Market watchers said at the time new issuance was squeezed onto that month's calendar due to the double whammy of the European summer lull combined with the July World Cup of soccer. Bespoke CDO's – either portfolios of CDS or tranches – and standard index portfolios all saw a noticeable pick-up in issuance.

Correlation trading books are run out of London but it's really become a global game. The top players are Deutsche Bank, JPMorgan Chase, Morgan Stanley and Bear Stearns. Citigroup made the biggest hiring splash this year, hiring Mickey Bhatia from Deutsche Bank as head of global credit correlation trading, Michael Jinn from Deutsche Bank to head structured illiquid

trading, and in April, Michael Raynes also from Deutsche Bank to head its global structured credit business. In Europe, Merrill Lynch hired five former Deutsche Bank employees to work in its London-based credit structuring team, including Paul Levy as head of exotic credit structuring for EMEA.

CDO, CLO and Cash are all very active products and pay for those who can structure them is expected to be way up in 2006. One first-year VP received an $800,000 guaranteed pay package this year, up from $550,000 in 2005, according to Options Group Intelligence Unit data. Another senior structurer asked for and received a $1.2 million pay package – 75% higher than the candidate's 2005 compensation.

At least through August, CLO equity returns outpaced those of ABS and CDO. Widening leveraged loan spreads and stable CLO spreads juiced up equity returns to 16% from less than 9% in May, a two-year high. ABS and CDO equity returns, meanwhile, are in the low to mid-teens. BB and B loan spreads have widened 52 basis points since May on volatility in other corporate credit markets as well as a very large loan pipeline. CLO spreads, however, have stayed stable, making equity more attractive. The relative value reversal may make CDO equity investors who can cross sectors sit up and take notice. **Credit trends in leveraged loans may be better than ABS due to lingering concerns over the real estate market, according to the Options Group Intelligence Unit.**

COMPENSATION

- **Bonuses up 15 to 20%, led by a record year in CDOs, most significantly in Europe**
- VPs should receive the largest bonus boosts in 2006 because they are increasingly responsible for deal execution. VPs on the move from one top-tier firm to another have seen their total compensation jump 50 to 100%.
- Compensation is all over the map. One U.S. based bank is paying $4 million to its U.S. head of correlation while another European-based bank is paying $1.25 million to its global head.
- Corporate bond traders who can trade loans are in demand and looking for new positions because some of them are getting downsized. Compensation is expected to be down in corporate bonds once again.

FOR SALES AND TRADING PROFESSIONS WORLDWIDE *(US$)*

		BASE	BONUS
Associate	*1st Year*	80-90K	90-110KK
	2nd Year	85-95K	125-175K
	3rd Year	100K	225-275K
VP	*1st Year*	100-120K	350-400K
	2nd Year	120-140K	400-450K
	3rd Year	130-150K	500-600K
Director		150K	1-1.3MM
MD		200K	2.5-3MM

	TOTAL COMPENSATION
Global Head	10MM
Head of Europe	6MM
Head of Asia	4.5MM
Head of U.S.	6MM
Regional Head of CDOs	3.5-4.5 MM

2007 OUTLOOK

A new FASB accounting change should further accelerate this fast-growing structured credit market and allow for even more hybrid trading involving cash and synthetic components in ABS, CDO, CMBS and CDS products. Options Group Intelligence Unit expects more mortgage securitization professionals to move into structured credit because of their relevant deal flow experience.

Many firms, including Credit Suisse, Citigroup and UBS, are securitizing portfolio credit-default swaps on balance-sheet bank loans. Credit Suisse and Citigroup both issued CLOs late in the summer and ratings analysts said they have seen proposals from firms across Wall Street. There is a big buzz around synthetic CLOs because of newly standardized terms for trading loan CDS. Most market participants are eager to get into LCDS but so far too few names are being traded to structure fully synthetic cash-flow CLOs. As a result, dealers are structuring full synthetic deals referencing entire portfolios of bank loans.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Ryan Chan	*ED, Asian Credit Structuring*	Morgan Stanley	UBS	Hong Kong
Aditya Rana	*CEO*	Morgan Stanley	AIG FP	Hong Kong
Ashish Sekhri	*Structured Credit Trader*	Credit Suisse	Citigroup	Hong Kong
Gonzalo Amian	*Director, Structured Products Marketer, Iberia*	Goldman Sachs	RBS	London
Salah Amraoui	*Senior Trader, Structured Credit Products desk*	Societe Generale	BNP Paribas	London
Antony Bowyer	*Assistant Director, Structured Credit Products*	Internal Promotion	ANZ	London
Paul Byers	*MD, Head of Structured Credit Sales, EMEA.*	UBS	Calyon	London
Glen Fairbairn	*Structured Credit Trading*	Merrill Lynch	Deutsche Bank	London
Tarek Hard	*Director in Credit Structuring*	Dresdner Kleinwort	RBC	London
Paul Levy	*MD, Head of Credit Structuring/Exotics*	Deutsche Bank	Merrill Lynch	London
Ulrich Neuhauss	*Director, Head Structured Credit Sales, Germany and Austria*	Dresdner Kleinwort	RBS	London
Pan Tan	*VP, Structured Credit Products/Trading*	Bank of America	Morgan Stanley	London
Brian Venables	*Head of Credit Strategy Research*	West LB	Calyon	London
Olivier Vigneron	*Global Head of Structured Credit Risk Management*	UniCredit Banca	BNP Paribas	London
Olga Chernova	*Structured Credit, Correlation, Principal Finance Trader*	Goldman Sachs	UBS	New York
Joe Facchini	*Structured Credit Trader*	Merrill Lynch	Morgan Stanley	New York
David Hensle	*Correlation Trader*	Bank of America	Citadel	New York
Sonal Khot	*Structured Credit Derivatives Marketer*	JPMorgan Chase	BNP Paribas	New York
Mitch Levy	*Head of Structured Credit Products*	Bank of America	IXIS	New York
David Moffitt	*MD, Structured Credit Sales*	RBS Greenwich	Merrill Lynch	New York
Michael Raynes	*MD, Head of Global Structured Credit Products*	Deutsche Bank	Citigroup	New York
Johnny Srivastava	*Director, Structured Credit Sales*	Societe Generale	Calyon	New York
Stefan Masuhr	*Director, Credit Structuring*	HVB	Deutsche Bank	Singapore
Mark Sewell	*Head of Illiquid Credit Trading*	UBS	RBS	Singapore
Shun Cajot-Yoshida	*Director, Credit Sales & Marketing*	BNP Paribas	Merrill Lynch	Tokyo
Nickolas James	*Head of Active Credit Portfolio Management*	Daiwa	Shinsei Bank	Tokyo
Go Yajima	*Director, Credit Sales & Marketing*	BNP Paribas	Merrill Lynch	Tokyo
Manroop Jhooty	*Structured Credit Derivatives Desk*	Dominion Bond Rating Service	Merrill Lynch	Toronto

STRUCTURED FINANCE

Issuers globally completed more than $1.8 trillion of structured finance transactions during the first nine months of 2006, a 21% jump over the same time period in 2005, according to *Asset-Backed Alert* (see chart on page 70). **The ABS market in general has seen a noticeable shift toward principal finance/trading in 2006. This has caused an "evolution" of the traditional third-party banker into more of a hybrid banker/structurer/trader.** Although relationships remain an important part of any banking activity, clients and investors alike demand a more sophisticated and quantitative coverage professional and more concessions from prospective underwriters. Thus, profits for agency deals are continually being squeezed and are forecasted to be flat to down for 2006.

On the other hand, principal finance/trading profits are significantly higher at most every major firm. While P/L breakdowns within and amongst traditional ABS and principal platforms are still to be determined, the delineation between traditional and principal is getting narrower each year. Last year, ABS traders were very well compensated and should still be considered valuable in 2006 by the global investment banks.

European ABS volumes were up more than 50% in the first nine months of the year to $317 billion, led by RBS, Barclays Capital and Deutsche Bank, respectively, according to *Asset-Backed Alert.*

European banks such as Royal Bank of Scotland, Barclays, HVB Bank (which is in the process of merging with Unicredito Italiano) have recently entered the CDO and credit derivatives business and are starting up their desks with senior structurer/marketer professionals, followed by correlation traders and originators. These European banks made a large number of junior and senior hires in New York and Europe, including multiple correlation trader associates and synthetic originators. "[The market is] definitely busier now than this time last year, when people were scratching their heads about correlation, Ford and [General Motors]," Rob Pomphrett, head of the structured product syndicate at RBC Capital Markets in London told *Derivatives Week* in June. "With spreads widening, there has been a real boom," he added. Europe is in desperate need of good originators in ABS and CDOs.

Hedge funds, asset managers, investment and Yankee banks are all competing to attract more experienced talent from the same pool, and increasingly from each other. **With this increase, of course, compensation is again expected to be higher across the product category.**

COMPENSATION

- Bonuses up 15% over 2005 on average
- Principal finance professionals and synthetic structurers will be the best compensated professionals in structured finance.
- Structured Finance, as well as Structured Credit, is becoming more and more integral to the fixed income profit picture at global investment banks.

AVERAGE GLOBAL INVESTMENT BANK PAY WORLDWIDE – SALES *(US$)*

	BASE	BONUS
Associate	80-100K	90-120K
VP	125K	200-400K
Director	150K	500-700K
MD	200K	900-1.4MM

	TOTAL COMPENSATION
Global Head of Structured Finance, Sales	8-10MM
Head of Americas, Sales	4MM
Head of Europe, Sales	4MM
Head of Asia, Sales	3MM
Global Head of Research	2-2.5MM
Regional Head of Research	1.2-1.5MM
Regional Head of Structuring	2-2.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY WORLDWIDE – TRADING/STRUCTURING *(US$)*

	BASE	BONUS
Associate	80-100K	100-140K
VP	125K	400-600K
Director	150K	600-800K
MD	200K	1.3-1.7MM

	TOTAL COMPENSATION
Global Head of Structured Finance, Trading	10-15MM
Global Head of ABS Trading	9-11MM
Head of CMBS, Trading	6MM
Head of Americas, Trading/Structuring	5-6MM
Head of Europe, Trading/Structuring	5-6MM
Head of Asia, Trading/Structuring	4MM
Regional Head of Structured Finance	3.5MM
Regional Head of ABS Trading	3.5-4.5 MM

STRUCTURED FINANCE*

2006 (THRU 9/30)				2005 (THRU 9/30)			
Advisor	Share (%)	# of Issues	Total ($BN)	Advisor	Share (%)	# of Issues	Total ($BN)
Lehman Brothers	8.0	220	146.5	Lehman Brothers	8.6	196	130.1
Deutsche Bank	7.3	237	133.4	Bear Stearns	7.5	212	113.6
RBS	7.1	194	129.2	RBS	7.5	185	112.3
Citigroup	6.8	189	123.4	Citigroup	7.0	176	105.4
Credit Suisse	6.6	192	120.2	Credit Suisse	6.9	189	103.5.
JPMorgan Chase	6.2	168	112.2	Deutsche Bank	6.7	189	101.4
Goldman Sachs	5.8	157	105.9	Morgan Stanley	6.7	137	101.3
Merrill Lynch	5.7	149	104.2	Merrill Lynch	6.2	145	93.4
Bear Stearns	5.6	165	102.2	Banc of America	6.0	159	89.9
Morgan Stanley	5.4	160	97.9	JPMorgan Chase	5.4	131	81.1
Industry		2,625	1,822.0	Industry		2,186	1,505.4

* Includes ABS, MBS, CMBS, CDOs.

2007 OUTLOOK

The Options Group Intelligence Unit correctly predicted the rise of illiquid asset securitization and synthetics this year. In 2007, the demand for structurers should only grow as less established banks desperately seek market share in this lucrative asset class. **Lehman should maintain its hammerlock on the worldwide structured finance market despite receiving a challenge from Deutsche Bank and RBS.**

This being in many ways the Year of the Customer, banks continue to buy "issuer" type businesses in this area around the world. **Asset managers, proprietary traders, and balance sheet financing/CP Conduit personnel will be more in demand than pure relationship banking types.** Along with this trend will be the need for better and more sophisticated analytical, structuring and collateral analysis. Structurers in particular have and will continue to enjoy higher compensation levels globally. **In Europe, where illiquid asset securitization and whole business securitization have been the most profitable niches, the need for innovative structuring expertise is great.** In Asia, where a combination of product knowledge, marketing savvy, and language/cultural skills are highly prized, the compensation premium is significant.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Eric Schubert	*Head of Structured Financial group*	Bank of America	Harris Nesbit	Chicago
Wolfgang Schubert	*Structurer*	Merrill Lynch	Silver Point Capital	Greenwich
Sheree Ma	*Cash/Synthetic CDO Structurer*	UBS	Deutsche Bank	Hong Kong
Malik Chaabouni	*MD, Structured Credit Trading group*	Merrill Lynch	Deutsche Bank	London
Christos Danias	*Head of European CDO - Fixed Income*	Credit Suisse	BNP Paribas	London
Bertrand des Pallieres	*MD, Global Co-Head of Structured Credit trading*	Merrill Lynch	Deutsche Bank	London
James Dougall	*CDO Trader*	Lehman Brothers	ABN Amro	London
Anton Hong	*VP, Derivatives Structuring/ Exotics*	JPMorgan Chase	Dresdner Kleinwort	London
Mayur-Sinh Jethwa	*CDO Trader*	Credit Suisse	Bank of America	London
Priscilla Lau	*CDOs - Fixed Income*	BNP Paribas	RBS	London
Orestis Millas	*Director, CDO Structurer*	BNP Paribas	Citigroup	London
Dominic Powell	*MD, Head of CDO Business, Asset Management*	Henderson Global Investors	JPMorgan Chase	London
Manfred Puffer	*MD, Coordinate Strategic Finance for Germany, Austria, Eastern Europe*	West LB	Bear Stearns	London
Ed Selby	*Structured Finance Trader*	Merrill Lynch	Barclays	London
Kathy Sutherland	*Global Head of Product Management & Syndicate, Managing Marketing & Distribution of Syndicate*	Internal Promotion	JPMorgan Chase	London
Sandra Wong	*MD, Head of European CDOs*	Citigroup	RBC Capital Markets	London
Yale Baron	*Global Head of Origination & Structuring*	Internal Promotion	JPMorgan Chase	New York
Jay Bryant	*Director, Cash, Synthetic CDO Origination*	Merrill Lynch	Deutsche Bank	New York
Thomas Dial	*VP, Structured Finance*	CIBC	GSC Partners	New York
James Kane	*Global Head of Client Coverage*	Internal Promotion	JPMorgan Chase	New York
Asif Khan	*MD, CDO Marketing*	Goldman Sachs	Wachovia	New York
Michael Llodra	*Head of ABS & CDO*	Bank of America	JPMorgan Chase	New York
Richard Stephenson	*Head of Structured Credit Sales*	Internal Promotion	JPMorgan Chase	New York
Kevin Stocklin	*MD & Head of U.S. CDO Origination & Structuring*	Dresdner Kleinwort	BNP Paribas	New York
Steve D'Agostini	*Head of CDO, Technology & Analytics*	Merrill Lynch	Cohen Brothers	Philadelphia
Lars Norell	*Head of Capital Markets*	Merrill Lynch	Cohen Brothers	Philadelphia
Giorgio Pilla	*Director, Investor Clients Group, CDO Sales*	Dresdner	Merrill Lynch	Singapore
Jason Lee	*Syndicated Loans, Leveraged Finance Sales*	Westpac	Calyon	Sydney

Equities Overview

EQUITIES

ALTERNATIVE INVESTMENTS/HEDGE FUNDS

For the second year in a row, two major trends held sway: 1) Hedge fund returns dipped in May and June; 2) Institutional investments in hedge funds didn't fall even though they seemed poised to in 2006.

In fact, in the second quarter alone, investors gave hedge funds more than $42.1 billion, according to Hedge Fund Research, the highest level of inflows since the organization has been tracking them. Over the last five years, hedge funds received almost $340 billion from investors. Hedge funds' assets under management around the world have topped $1.5 trillion, with the U.S. alone surpassing $1 trillion, according to an April survey from HedgeFund Intelligence. European hedge fund assets reached $325 billion, up 25% from its April 2005 survey.

Alternative investing by institutions continues to accelerate in Europe and Asia. Investors appear not to mind short-term dips as long as annual returns surpass their local stock markets. For example, in May, 70% of hedge funds lost money, according to Barclays Group estimates. The average hedge fund was down 1.54% in May – that still beat the S&P 500 Index, which was down 3%. For the year through August, hedge funds were up 7% on average, according to Credit Suisse/Tremont Hedge Index, versus 5.6% for the S&P.

More aggressive hedge funds specializing in alternative investments had a rough August. Goldman Sachs' $10 billion Global Alpha hedge fund lost nearly 10% of its value in August, according to a report in *The Wall Street Journal*, citing a draft of a letter sent to the fund's investors. The Journal added that the loss occurred across many different trading strategies, including negative bets on 10-year U.S. Treasuries and Japanese government bonds, both of which rallied in August after the Federal Reserve paused its series of interest rate hikes. The fund was rumored to still be up low double-digits in early September.

TOP GLOBAL HEDGE FUND WINNERS/LOSERS*

Winners	
Penta Japan Fund C1	101%
Sofaer Capital Natural Resources Hedge	49%
Firebird Republics Fund	40%
BayHarbour Partners	40%
GLG Emerging Markets Fund-Class A	37%
Losers	
Tontine Overseas	(29%)
Blue Sky Japan – Class A	(25%)
Melchior Japan	(24%)
Whitney New Japan Investors	(23%)
New Star UK Hedge Fund	(18%)

* Source: HSBC.
Data through 9/30/06.

COMPENSATION

- Bonuses up 10 to 15% on average over 2005, with senior risk managers and marketing professionals earning 20 to 25% bonus pay hikes. Senior hedge fund managers, associates and vice presidents should see bonuses rise 15 to 20% in 2006. U.S. hedge fund managers with over 10 years experience are expected to earn average wages of over $1.5 million this year, according to a survey published by Institutional Investor and Lipper Hedge World.
- Pay continues to escalate in London. One example from the Options Group Intelligence Unit: A vice president and senior analyst received a total package of $920,000, up from $400,000 in 2005 to move from a Wall Street firm to a fast-growing boutique
- Asian hedge fund bonuses should be on the lower-end compared to the U.S. and Europe. Many hedge funds there stumbled through the summer and have posted flat returns through mid-September.

AVERAGE GLOBAL INVESTMENT BANK & HEDGE FUND PAY *(US$)*

		BASE	BONUS
Analyst/ Associate	*1-2 Years*	60-70K	30-40K
	3rd Year	90-100K	80-100K
VP/Client Service/ Investor Relations		100-125K	150-225K
VP/Business Development/Sales		125K	350-500K
Head of Product Development		150K	300-400K
MD/PM		200K*	650-850K*
CIO		200K	2.5-3.5MM

* Average payout on Return to Portfolio (RTP) ranges between 10%-20% based on size.

** All remaining revenue-producing personnel receive bonuses on a discretionary basis and by portfolio performance.

In last year's Report, Options Group Intelligence Unit data suggested mega-hedge funds would take more and more of new investment assets. In 2006, this outlook proved prescient. In Europe over the past 12 months (through August), inflows at the 10 largest hedge fund managers increased 70% to nearly $120 billion. In contrast, those hedge funds outside the top 10 saw either assets remain relatively flat or fall in 2006. One European fund of hedge fund manager told *Financial News* that pension scheme trustees, "take comfort from brand names and solid infrastructure."

Goldman Sachs Asset Management (GSAM) is now the largest single hedge fund manager, according to the latest rankings from *Alpha* Magazine. In just two years, GSAM has risen from No. 28 with $5.4 billion in assets to $21 billion to grab the top spot. The firm's hedge funds grew 85% in each of the past two years and its Global

Alpha fund soared 33% last year. Holding steady in second place is **Bridgewater Associates** (with $20.9 billion), followed by **D.E. Shaw** at No. 3 (up from No. 7). Last year's top hedge fund, **Farallon Capital Management** ($16.4 billion) fell to No. 4. The biggest firm to drop the furthest is **GLG Partners** from No. 4 to No. 14. Other rising stars among the top 100 are **ESL Investments** (No. 5, up from No. 16), **Lone Pine Capital** (No. 16, up from No. 26) and **Atticus Capital** (No. 21 up from No. 62).

The effect on smaller hedge funds has been apparent: Of the 1,900 hedge funds that set up shop in the Cayman Islands over the past 12 months, 575 shut down in that time period. This is an increase in failure rates and means newer entrants are being given much less time to establish superior returns. In Japan this year, hedge funds continued to grow assets even though returns at many large firms were not good. Whitney New Japan Fund, which had assets of $1.3 billion at the end of 2005, reported declines of about 23% thru July 2006. In 2005, it was up 40%. Eurekahedge Pte. Ltd., a Singapore hedge-fund tracking firm, says that of 104 hedge funds investing exclusively in Japanese shares, 47 have posted negative returns. Being overweight small-cap shares, according to the Options Group Intelligence Unit, has burned many. Japan's S&P/Topix small-cap index was down as much as 12% in 2006.

There is no question this boom in alternative investment assets has been a boon for global investment banks. Hedge funds with over $3 billion in assets paid equity brokerage commissions of $54 million each, according to Greenwich Associates, which concluded: "When you take prime brokerage and these other products into account, hedge funds are the single most important client segment for some of the major brokerage houses."

In terms of specific strategies, convertible arbitrage and emerging markets hedge fund strategies did best, rising just over 10% on average through September, according to the Credit Suisse/Tremont Hedge Fund Index. The largest need at hedge funds in the first half of 2006 was fundamental long/short traders. Fundamental credit analysts also were in demand in such industries as Consumer Products, Biotechnology, Technology and unsurprisingly, Energy.

On the buy-side there has been a real shift towards portable alpha. Citigroup, for example, launched an extensive portable-alpha offering in August, and is now one of the many firms (including Goldman Sachs, Morgan Stanley, JPMorgan Chase) offering portable-alpha strategies. Most asset managers charge flat fees of about 1% for portable-alpha strategies, and some tack on a performance fee of as much as 20% – not unlike hedge-fund fees.

Distressed investing also continued to emerge as a major investment vehicle for hedge funds. Last year in this report, we pointed to this emerging trend, as billions poured into hedge funds worldwide. The rise in distressed debt/specialty lending investments has pushed mega hedge funds into major private equity investments. (see High Yield Credit for more distressed debt intelligence on page 47.)

Options Group Intelligence Unit's prediction of a rise in distressed investing in 2005 has led to the acceleration of risk and compliance manager hires this year as well. Investment banks stepped up their hiring in this area in early 2006, which should push total compensation significantly higher in 2007 at hedge funds.

2007 OUTLOOK

The big question throughout the global hedge fund industry is: Will the U.S. heavyweights go public and raise the spotlight on the entire business? Hedge fund Fortress Investment is considering an IPO this Fall in a deal that could value the company from $5 billion to $7 billion. A Fortress offering would be the first public listing of its kind and could pave the way for a stampede of interest from other seasoned hedge funds as well as private equity giants. This probable trend–Man Group in London went public and now is considered the largest hedge fund in the world with over $50 billion in assets–should lead to increased hiring of risk managers, compliance managers and chief accounting officers. Options Group has received several mandates in the last few months to fill these types of positions.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Harvey Boshart	*MD, Advising High-Net Worth individuals*	Lehman Brothers	Bear Stearns	Boston
Jamie Fagan	*MD, Advising High-Net Worth individuals*	Lehman Brothers	Bear Stearns	Boston
Harjit Bhatia	*Chairman & CEO - Asian Business*	GE Capital	Ritchie Capital	Hong Kong
Bonnie Lam	*Head of Fund Marketing*	Citigroup	HSBC	Hong Kong
Myles MacMahon	*Asian Equity Sales-Hedge Funds*	ABN Amro	HSBC	Hong Kong
Omar Abukhadra	*MD, European Head Hedge Fund business*	Calyon	Lehman Brothers	London
Stuart Bohart	*MD, Head of Alternative Investments*	Internal Promotion	Morgan Stanley	London
Diego Caielli	*VP – Equity Derivatives Salesperson - Hedge Funds*	JPMorgan Chase	Goldman Sachs	London
Martin Coughlan	*Director, Hedge Fund Sales/Equity Trading*	Citigroup	Dresdner Kleinwort	London
Gavyn Davies	*Chairman and Co-Founder*	BBC	Fulcrum Asset	London
Daniel Goldstein	*Head of Equity Derivatives Flow Sales to Hedge Funds*	Lehman Brothers	BNP Paribas	London
Mehraj Mattoo	*MD, Global Head of Alternative Investments*	Dresdner Kleinwort	Commerzbank	London
Mike Murphy	*Head of Equity Sales to Hedge Fund clients*	Deutsche Bank	BNP Paribas	London
Cameron Small	*MD, Macro Strategies Broker to Hedge Funds*	ABN Amro	BNP Paribas	London
Paul Swaddling	*MD, Coordinates Flow Rates Volatility*	HSBC	BNP Paribas	London
Matthew Tricks	*ED, Hedge Fund Sales Desk*	Dresdner Kleinwort	Bear Stearns	London
David Zobel	*Principal, Head of Hedge Fund Strategies*	Deutsche Bank	BlueBay	London
Stefano Russo	*Hedge Fund Equities Manager*	Morgan Stanley	Renaissance Technologies	Milan
Andy Baehr	*ED, Global Equity Derivatives-Hedge Fund*	Deutsche Bank	Morgan Stanley	New York
Mark Baumgartner	*ED, Develops derivative-related strategies for institutional investors*	Boston Consulting Group	Morgan Stanley	New York
Michael Feldschuh	*MD, Alternative Investments group, Portfolio Manager*	Millennium Partners	Morgan Stanley	New York
Laurie Hodrick	*MD, Global Head of Alternative Investments*	Columbia Univ.	Deutsche Bank	New York
Kevin Kuntz	*Executive Director, Investment Manager for Fund of Hedge Funds*	Ramius Capital	Morgan Stanley	New York
Doug Mangini	*MD, Head of Distribution*	Nationwide Financial	Morgan Stanley	New York
John Raveshe	*Marketing to Canadian Institutions & Hedge Funds*	Nomura	Barclays	New York
Ed Robertiello	*Head Global Hedge Fund Research and Selection/Portfolio Manager*	Asset Alliance	Credit Suisse	New York
Stefan Nilsson	*Associate Director, Asian Business*	ProfitfundCom	Bear Stearns	Tokyo

ASSET MANAGEMENT

Asset managers, especially at leading firms such as Goldman Sachs Asset Management (GSAM) and UBS, continue to transform their businesses into alternative-investment product shops. High-net worth investors seek higher returns and large firms are eager to supply higher-margin hedge fund, fund of hedge fund, and private equity products. This trend continues to be the great growth opportunity for the category, and wealth management groups affiliated with Goldman Sachs and UBS are getting more active in structured products and marketing alternative investment products. **Due to this trend, marketers should receive more compensation this year relative to their sales brethren because the retention of assets is becoming more important to the largest firms.** Salespeople still earn significantly more overall. GSAM made five new hires in September alone within its fixed income and currency management businesses in order to keep its leading status. GSAM hired Kevin Corrigan in the U.S., Stephen Goldman from Pimco in Europe, analyst Samuel Lopez-Briceno from Principal Global Investors, and Kaori Iimori and Maki Hanawa in Tokyo.

Other significant hires: Andrew Shoup of Legg Mason was hired by UBS to be its new Global Head of Fund Services; and Lehman – in a move to get into more structured products – also hired Stephane Rougier from BNP Paribas SA as global head of structured asset management.

In perhaps the biggest recruiting news, Lehman hired George Walker from GSAM in June to run its Global Investment Management division out of New York.

Citigroup's sale of its traditional asset management business to Legg Mason in return for the Baltimore-based company's retail brokerage business last year – along with Merrill Lynch's agreement to merge its asset-management business with BlackRock in exchange for a nearly 50% stake in the money manager this past February – are two deals still shaking up the asset management industry. There continues to be a large shake-out at Merrill Lynch, BlackRock and Citigroup with a lot of movement at the firms this year, according to Options Group Intelligence Unit data. Merrill Lynch and Citigroup are intent on building out their higher-margin alternative investments businesses. This industry movement also is leading to the re-emergence of more boutique asset managers.

COMPENSATION

- Bonuses up 10 to 15% on average over 2005, with global heads and alternative investment senior managers receiving 2006 pay package increases of 20%.
- An increasing focus by asset managers on retaining assets, rather than just collecting new ones, has shifted the balance of pay to some degree from sales staffers to portfolio management, marketing and customer relationship. Global heads of investment services should expect to receive pay 20% higher than in 2005.

AVERAGE GLOBAL INVESTMENT BANK PAY *MIDDLE OFFICE (US$)***

		BASE	BONUS
Associate	*1-2 Years*	80K	30-50K
	3rd Year	100K	60-80K
VP/Dir.		125-150K	125-175K
MD		200K	600-800K

AVERAGE GLOBAL INVESTMENT BANK PAY *FRONT OFFICE* (US$)***

		BASE	BONUS
Associate	*1-2 Years*	80K	50-70K
	3rd Year	100K	70-90K
VP		125-150K	175-225K
MD		200K	900K-1.3MM

	TOTAL COMPENSATION
Global Head of Investment Services, Middle Office	1-1.5MM
Global Head of Sales/Distribution***	2-3MM
Chief Investment Officer	2-3MM

* Includes accountants, legal, compliance and operational risk managers.

** Includes portfolio management, sales and trading.

*** Not including alternative investments.

2007 OUTLOOK

Asset management firms made a rash of hires to establish pension solutions groups – expect this trend to accelerate next year. In August, Morgan Stanley hired Neville McKay from PricewaterhouseCoopers LLP to head the European Pensions Group to advise clients on reducing pension deficits. Credit Suisse also hired Paul Bourdon to head its newly-created European Pension Solutions Group in September. As corporations, especially in the U.S., grapple with looming pension issues, we anticipate large banks to step in to offer solutions. Pension units will also benefit from an increase in assets from pension funds such as the California Public Employees' Retirement System (CalPERS), one of the world's largest.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Conny Raif	*Head of sales relationship management*	Citigroup	BNP Paribas	Frankfurt
Ken Sue	*Head of Investment Products Group*	Deutsche Bank	Retired	Hong Kong
Youssef Amine	*Co-Manager, European Equity Market Neutral Portfolios, Investment Manager*	Credit Lyonnais	State Street Global Advisors	London
Ella Brown	*Global Head of Equity Research, Asset Management*	Credit Suisse	ABN Amro	London
Alexander Classen	*Head of High Net Worth Sales, EMEA*	Goldman Sachs	Morgan Stanley	London
Suzanne Donohue	*Division Co-Head of Europe Investment Management*	Internal promotion	Goldman Sachs	London
Miles Geldard	*Fund Manager/Multi-Asset & Convertible Funds Salesperson*	JPMorgan Chase	MPC Investors	London
Hywel George	*MD, Chief Investment Officer, London Equities*	Goldman Sachs	Morgan Stanley	London
Peter Harrison	*Chief Executive Officer*	Deutsche Bank	MPC Investors	London
Neville Mckay	*Head, European Pensions Group*	PWC	Morgan Stanley	London
Stephane Rougier	*Global Head of Structured Asset Management*	BNP Paribas	Lehman Brothers	London
Paul Stevens	*MD, Head of Asset Management division*	Barclays Capital	Catalyst	London
Ronnie Vaknin	*Co-Manager, European Equity Market Neutral Portfolios/Hedge Fund Strategist*	Barclays Capital	State Street Global Advisors	London
Tracy Wills-Zapata	*MD, Global Institutional Sales*	Deutsche Bank	Campbell & Company	Maryland
Jonathan Guise	*Partner, Co-Founder*	CIBC	Blenheim Capital Management	New Jersey
Stacy Brandom	*CFO, Private Client Group*	JPMorgan Chase	Citigroup	New York
Eric Glicksman	*MD, Head of Structured Products, Private Wealth Management*	Citigroup	UBS	New York
Dana Hartwell	*VP, Defined Contribution Group*	Fidelity	Ixis	New York
Neil Johnson	*Director, New Business Development*	AIG Investment	Credit Suisse	New York
George Walker	*MD, Global Head of Asset/Investment Management*	Goldman Sachs	Lehman Brothers	New York
Yves Choueifaty	*Head of Quantitative Asset Management*	Credit Lyonnais	Lehman Brothers	Paris
Ashutosh Sinha	*Managing Partner of Asia Hedge Funds*	Morgan Stanley	Amoeba	Singapore
Takahiro Moriguchi	*Chairman of Japanese Brokerage Business*	Mitsubishi UFJ Securities	JPMorgan Chase	Tokyo

CONVERTIBLE BONDS

Convertible arbitrage trading strategies made a complete turnaround from last year thanks to increased volatility and buoyancy among global equity markets. In 2005, convertible bonds suffered their worst year on record as overcrowding by funds and proprietary desks, tight credit spreads and low volatility squeezed returns. **In the first nine months of 2006, global convertible proceeds rose to $81.9 billion, up from just $47.4 billion in the same time period** last year. Citigroup leap-frogged over JPMorgan Chase to grab a hammerlock on the product category with a 17.2% share of the fast-growing market. Merrill Lynch, which jumped from 8th to 2nd this year, and Morgan Stanley, which moved up to 3rd from 7th, also should pay their professionals well in 2006 (see chart on page 83).

This year, convertible arbitrage hedge funds were up 10% through September, compared to a loss of 5% for the same time period one year earlier, according to the Hennessee Group. The leading firms continue to be **KBC Financial Products**, which has one of the largest converts desks in the secondary market, **Goldman Sachs, Morgan Stanley, Deutsche Bank** and **Lehman**. KBC hired Ian Cross, a senior converts salesman, from Bear Stearns in February, further strengthening its marketing capabilities.

In the second quarter, investors increased the amount of total dollars in convertible bond strategies by 3.3%, according to Tremont Capital's hedge fund database. Investors withdrew around $1.8 billion from convertible bond strategies in the second quarter of 2005 – the biggest outflow in more than a decade. Hedge funds are estimated to own around 75% of all convertible bonds.

The failure of quantitative-based trading systems to generate profits has led to a move away from traditional convertible arbitrage, which involves purchasing convertible securities and shorting the corresponding stock in an attempt to exploit pricing errors. Long and short and cross-asset volatility strategies are increasingly being added to convertible trading, which is leading to demand for traders with experience analyzing debt and equity securities based on fundamentals, and with specific sector expertise.

Banks and hedge funds are similarly reshaping their convertible arbitrage operations from a lateral desk, which may house traders specialized in credit derivatives, bonds or stocks, for example, to a more silo-based approach, which perform fundamental analysis on company securities.

Last year, the Options Group Intelligence Unit predicted that the converts business had become cyclical and would most likely remain flat to slightly higher in terms of compensation next year after a sub par 2005. In Europe, we were noticing a slight upturn in market conditions towards the end of the summer and we correctly suggested that this could bode well for the European convertibles market in 2006.

COMPENSATION

- **Bonuses up 5 to 10% on average**
- Hiring in convertible trading has been increasing, especially among VP-level sales and traders. A VP-level salesman received a 33% hike in pay after moving to another firm. Another vice-president received a guaranteed comp package of $380,000, up from $290,000 in 2005, according to Options Group Intelligence Unit data.
- Some of the best performing banks have been upgrading staffers although there has not been significant strategic movement. Banks are expected to pay well to keep their strongest traders, especially after the poor converts year in 2005.

AVERAGE GLOBAL INVESTMENT BANK PAY *SALES (US$)*

	BASE	BONUS
Associate	60-80K	60-80K
VP/Dir.	100-125K	250-350K
MD	200K	700-800K

	TOTAL COMPENSATION
Global Head, Sales	2.5-3.5 MM
Head of Americas, Sales	1.4-1.6 MM
Head of Europe, Sales	1.2-1.4 MM
Head of Asia, Sales	1.1-1.3 MM

AVERAGE GLOBAL INVESTMENT BANK PAY *TRADING (US$)*

	BASE	BONUS
Associate	60-80K	60-80K
VP/Dir.	100-125K	400-500K
MD	200K	800K-1MM

	TOTAL COMPENSATION
Global Head, Trading	2.5-3.5 MM
Head of Americas, Trading	2 MM
Head of Europe, Trading	1.4-1.6 MM
Head of Asia, Trading	1.4-1.6 MM

GLOBAL CONVERTIBLES

2006 (THRU 9/30)				2005 (THRU 9/30)			
Bookrunner	Share (%)	Total ($MM)	# of Issues	Advisor	Share (%)	Total ($MM)	# of Issues
Citigroup	17.2	14,106	44	JPMorgan Chase	14.0	6,624	36
Merrill Lynch	11.2	9,138	34	Citigroup	9.2	4,377	23
Morgan Stanley	8.2	6,728	18	Lehman Brothers	8.9	4,224	15
JPMorgan Chase	7.2	5,919	33	Deutsche Bank	7.5	3,533	22
Goldman Sachs	7.0	5,710	22	UBS	6.9	3,251	19
UBS	6.8	5,563	26	Goldman Sachs	6.7	3,192	14
Deutsche Bank	6.5	5,361	27	Morgan Stanley	6.7	3,180	20
Credit Suisse	5.6	4,559	20	Merrill Lynch	6.0	2,841	22
Lehman Brothers	5.5	4,522	14	Nomura	4.4	2,105	8
Banc of America	5.0	4,107	24	Credit Suisse	4.3	2,017	13
Industry		81,907	258	Industry		47,419	210

2007 OUTLOOK

Significant growth in Europe and Asia did occur in 2006, although we were surprised by the sudden turnaround in the U.S. The large growth in convertibles on a year-over-year basis is partly attributable to the rise of hybrid equities transactions at the global banks, which are just beginning to build out these practices in the U.S. and Europe.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Kwong Lam	*Head of Convertibles*	KBC	Nomura	Hong Kong
Miles Geldard	*Fund Manager, Multi-Asset & Convertible Funds*	JPMorgan Chase	MPC Investors	London
Christopher Maher	*Principal, Convertible Debt Security Trading*	CIBC	Thomas Weisel Partners	London
Andy McDonnell	*Global Head of Convertible Bond Trading*	Internal Promotion	Deutsche Bank	London
Karen Naylor	*Head of European Covered Bonds*	Internal Promotion	Standard & Poor	London
Peter Barna	*Director, Convertible & Equity-Linked Solutions group*	Merrill Lynch	Deutsche Bank	New York
Bradford Cook	*Principal, Convertible Debt Security Trading*	Descartes Capital	Thomas Weisel Partners	New York
Gregory O'Loughlin	*Partner, Convertible Debt Security Trading*	Deutsche Bank	Thomas Weisel Partners	New York
Todd Sandoz	*MD, Global Head of Convertibles*	Internal Promotion	Credit Suisse	New York

EQUITY CASH

After five strong months of equity cash trading in 2006, the category took a big hit in June and July. In Europe, for example, the FTSE temporarily fell 10%. For the year, however, equity cash once again was a profitable business and not just one used for flow purposes. Maintaining profitability in higher and lower volatile markets is still a priority for global investment banking managers and the transformation to low- or no-touch trading systems continues in London, New York and other major "money cities."

Global firms are increasingly focusing on execution speed and advanced trading systems, especially when it comes to derivative trading. Derivatives as an asset class have the lowest level of automation across all segments of the investment industry and it remains a challenge due to the wide variety of instruments and rapid change in the products that are traded. Since over 10% of all bank profits are still generated by equity cash, the march to technology has been pronounced among the global investment banks. Program trading – from the technology and management perspective – is increasingly being folded into equity cash desks and senior managers are taking responsibility of these businesses. For example, Nasser Al-Khudairi, co-head of European cash equity trading at Credit Suisse is also responsible for program trading. Mark Wheatley, Morgan Stanley's head of equity cash, moved to Merrill Lynch to be the firm's head of equity cash trading. This trend by banks of combining the two product categories is being done so banks can focus more on algorithmic trading, ETF's and Direct Market Access (DMA) to boost profits further – especially in derivatives and on the fixed income and equity proprietary desks. Capital structure trades also are becoming more automated as the size of this product grows among the global investment banks. Assets in ETF's have more than quadrupled since 2002 to $360 billion and the rise in this market has boosted this asset class, especially in the U.S.

COMPENSATION

- **Bonuses up 15 to 20% on average from 2005**
- Delta One traders and senior electronic traders in Europe and the U.S. will need to be paid well in 2006 because there is significant demand for them globally. One Delta One trader in London, for example, received a 75% guaranteed pay package in 2006 to stay put, according to Options Group Intelligence Unit data.

AVERAGE GLOBAL INVESTMENT BANK PAY *SALES (US$)*

	BASE	BONUS
Associate	65-85K	70-90K
VP	100-125K	400-500K
Director	125-150K	600-700K
MD	200K	1-1.2K

	TOTAL COMPENSATION
Global Head of Equities	12-15MM+
Head of Americas, Sales & Trading	3-3.5MM
Head of Europe, Sales & Trading	3-3.5MM
Head of Asia, Sales & Trading	2-2.5MM
Regional Head – Sales Program	2-2.5MM

AVERAGE GLOBAL INVESTMENT BANK PAY *TRADING (US$)*

	BASE	BONUS
Associate	70-90K	80-100K
VP	100K	600-700K
Director	150K	750-900K
MD	200K	1.5-1.75K

	TOTAL COMPENSATION
Global Head of Equity Trading *(Includes Cash & Derivatives)*	6-8MM
Global Head of Sales &Trading	5-6MM
Regional Head – Trading Programs	2-2.5MM

GLOBAL EQUITY & EQUITY RELATED

2006 (THRU 9/30)				2005 (THRU 9/30)			
Bookrunner	Share (%)	Total ($MM)	# of Issues	Advisor	Share (%)	Total ($MM)	# of Issues
Goldman Sachs	10.9	49,213	140	Citigroup	9.2	32,945	197
Citigroup	9.2	41,733	188	UBS	9.1	32,613	169
Morgan Stanley	8.1	36,880	136	Goldman Sachs	9.1	32,573	122
UBS	7.9	35,968	175	Morgan Stanley	8.2	29,461	114
JPMorgan Chase	7.5	33,807	165	Merrill Lynch	7.9	28,345	139
Merrill Lynch	6.5	29,529	158	JPMorgan Chase	7.4	26,373	140
Credit Suisse	5.2	23,615	122	Deutsche Bank	5.6	20,159	99
Deutsche Bank	4.5	20,521	127	Credit Suisse	5.0	17,787	97
Nomura	3.7	16,899	88	Lehman Brothers	5.0	17,771	97
Lehman Brothers	3.5	15,679	94	Nomura	2.7	9,829	81
Industry		453,127	2,372	Industry		385,970	2,278

Source: IDD

2007 OUTLOOK

As firms shift more resources to distressed investing, there will be more opportunities for small-cap equities traders and researchers. The thinking is that pink sheets, BB and OTC stocks will be more attractive to firms. A good example of this trend: Cory Carlesimo moved from Merrill Lynch to Deutsche Bank and now has a team of 12 people working on small-cap equities trades. Small-cap companies generally have market caps below $2 billion, lack Wall Street research coverage, and are profitable. Demand will also be high for statistical traders in equities in all emerging markets.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Alastair MacDonald	*Equity Research Analyst-Head of Banks*	Finansa	Macquarie	Bangkok
James Gleeson	*Head of Asian Sales Trading*	Credit Suisse	Nomura	Hong Kong
Pierre Lau	*Head of Regional Equities Research-Utilities*	ABN Amro	Citigroup	Hong Kong
Nick Lord	*Associate Director & Equity Research Analyst*	Deutsche Bank	Macquarie	Hong Kong
Peter Williamson	*Analyst, Equity Research-HK Listed Consumer Stocks*	Macquarie	Citigroup	Hong Kong
Charles Donald	*Head of European Equity Research & Corporate Broking*	Internal Promotion	Lehman Brothers	London
Jason Brus	*Director, Senior Listed Options Trader*	Credit Suisse	BNP Paribas	New York
Adam Dixon	*Head of Index Options Trading*	Internal Promotion	JPMorgan Chase	New York
Brian Fagen	*Head of U.S. Electronic Sales Division*	Morgan Stanley	Lehman Brothers	New York
Richard Sansaricq	*Head of Equity Finance Sales, Americas*	Abbey National	BNP Paribas	New York
John Barker	*Equity Sales Trader*	Deutsche Bank	Credit Suisse	Sydney
Roger Collison	*Senior Equity Analyst*	Credit Suisse	Tyndall	Sydney
Jason Cooper	*Equity Trader*	Deutsche Bank	Credit Suisse	Sydney
Alex Milton	*Senior Analyst, Equity Research*	Macquarie	Challenger	Sydney
Peter Kurz	*Head of Taiwan Equity Research*	BNP Paribas	Citigroup	Taiwan
Kristine Yue	*Head of Taiwan Equity Research*	JPMorgan Chase	Deutsche Bank	Taiwan
Hajime Kitano	*Chief Equity Strategist*	Mitsubishi UFJ Sec.	JPMorgan Chase	Tokyo
Tatsuya Nozawa	*Equity Execution Trader*	HSBC	Nikko Citigroup	Tokyo
Mamoru Shimode	*Chief Equity Strategist, Japanese Stocks*	Deutsche Bank	Resona Bank	Tokyo

EQUITY DERIVATIVES

For the first time in three years, equity derivatives desks (sales, structurers and traders) will receive significant pay increases. The last couple of months of 2005 hinted at a better year for the asset class this year, but few thought it would end up being so robust. In just one example, a candidate was offered a top-tier bank job for $650,000 after making $400,000 in 2005. He was countered by the candidate's current firm for $825,000, according to Options Group Intelligence Unit data.

On the recruiting front, equity derivative desks had short benches in 2005 and when the market picked up late last year, banks were unprepared. A large wave of hiring occurred, led by Société Générale (SocGen) – the longtime industry leader in equity derivative activity. SocGen snapped up Dan Hutchinson as a senior equity derivatives flow salesperson, a role that banks and buyside firms were anxious to fill across the industry.

BNP Paribas has been significantly building up its leading equity derivatives franchise after promoting Todd Steinberg in April to head the group in the Americas. SocGen also hired Heddy Tsang as a managing director in flow and listed products in Asia Pacific/Hong Kong. Other key moves include Adam Green jumping with his team to Lehman from JPMorgan Chase as recruiting activity jumped anywhere from 25 to 50% at global investment banks with large equity derivative groups. Goldman Sachs and Merrill Lynch also were noticeable buyers of talent in 2006.

The top firms in equity derivatives remain: **SocGen, BNP Paribas, Goldman Sachs, Lehman, Merrill Lynch, Morgan Stanley, and Barclays,** which has a significant alternative investments group. Options Group Intelligence Unit sources note Lehman is having a strong year in sales and trading. On the opposite end of the spectrum are Wachovia and Citigroup, which as of mid-September had trading losses in its single-stock group, according to the Options Group Intelligence Unit.

The fund of fund business now contains 40% of all alternative investment assets. Increasingly, those funds are heading to equity derivatives under tight value-at-risk provisions. **"It really was the year of the re-emergence of the institutional customer in equity derivatives," said one Options Group consultant.** Barclays, in particular, made a "big splash" in the fund of funds business.

Hedge funds, though, are still by far and away the biggest users of derivatives for both hedging and arbitrage purposes. Activity is especially strong in Europe, particularly in the UK, which is becoming a global center for hedge funds. "The general increase in derivatives use in Europe has been pretty exponential, but it has become a lot more pronounced in the last six to nine months," said Alex Ypsilanti, an equity-linked analyst at Merrill Lynch in London. "The hunt is on for alpha (investments that outperform market benchmarks), and traditional managers are now seeing outflows to hedge funds so have to improve returns in order to compete."

One area that has driven growth in the last year is volatility trading, in particular variance swaps that allow funds to stay delta-neutral. This means that a fund manager does not have to constantly re-hedge his portfolio, because variance swaps are based purely on volatility and have no up-or-down directional bias.

COMPENSATION

- Bonuses up 20-25% over 2005 on average, led by professionals focused on volatility sales, prime brokerage and equity finance. Total compensation this year should rise significantly because of an increased demand for professionals across the product area, including equity options salespeople.

- Latin America (especially Brazil) is making a comeback in equity derivatives and local sales and traders are highly prized by pro-active firms such as SocGen, BNP Paribas and Bear Stearns

- There is a very limited amount of talented candidates with two to five years of experience due to a decrease in recruiting in this area from 2001 to 2005. As noted above, the biggest compensation increases should revolve around candidates with 5 to 8 years of experience. In one instance, a candidate received a 60% bump to $1.2 million, up from $750,000 in last year.

- Structured products sales and traders typically make 10 to 20% more than options staffers because they provide higher profits to the bank. Options traders often make 5 to 10% more than sales personnel on average, although a piece of a sales P/L goes to the trading desk.

- On average, a trader that produces $5 million to $10 million in revenue for a firm will typically receive a bonus of 7 to 9% of the P/L – depending on the overall profits of the firm of course. A star salesperson with over $10 million in revenue can take home a maximum of around 12% of that total.

AVERAGE GLOBAL INVESTMENT BANK PAY – SALES *(US$)*

		BASE	BONUS
Associate	*1-3 Years*	100K	125-175K
VP		100-125K	250-350K
Director		150K	750-900K
MD		200K	1.1-1.3MM

	TOTAL COMPENSATION
Global Head – Sales	5-6MM
Head of Americas– Sales	4-5MM
Head of Europe– Sales	3.5-4MM
Head of Asia– Sales	3-3.5MM
Global Head Volatility Sales	2.5-3MM

AVERAGE GLOBAL INVESTMENT BANK PAY – TRADING/STRUCTURING *(US$)*

		BASE	BONUS
Associate	*1-3 Years*	100K	175-225K
VP		125K	350-450K
Director		150K	1-1.2MM
MD		200K	1.4-1.6MM

	TOTAL COMPENSATION
Global Head – Trading/Structuring	6-8MM
Global Head Volatility Trading	5-6 MM
Head of Americas– Trading/Structuring	5-6MM
Head of Europe– Trading/Structuring	4-5MM
Head of Asia– Trading/Structuring	3.5-4MM

2007 OUTLOOK

Jean-Pierre Mustier, chief executive of SocGen's corporate and investment bank, predicted in July that the industry would slow over the next five years from current annual growth of 15 to 20% to about 5%. SocGen generates over $2.5 billion of revenue from equity derivatives, more than any other bank. Equity derivatives generated about $14 billion of the $184 billion in investment banking revenue made by the world's banks in 2004, and are expected to reach $20 billion next year, according to Boston Consulting Group. Mustier, the head of the world's biggest equity derivatives business, warned that firms are entering a "maturing phase" after a boom in the options and futures markets.

Our conclusion is that investor demand for equity derivatives products, especially in Europe, Asia and increasingly, Latin America, will boost equity derivative profits through 2007.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Julien Bahurel	*Director, Equity Derivative Sales*	Calyon	Morgan Stanley	Hong Kong
Timothy Bousser	*Head of Hedge Fund Sales, Asia*	BNP Paribas	SG Corporate	Hong Kong
Mark Chan	*MD, Head of Equity Derivative Sales*	HSBC	Citigroup	Hong Kong
Arnaud Droitcourt	*Executive Director, Head of Exotics Equity Trading*	Calyon	Morgan Stanley	Hong Kong
Alex Lau	*Director, Equity Derv Sales-China Coverage*	Deutsche Bank	Lehman Brothers	Hong Kong
Jae Lee	*Director, Equity Structured Solutions*	Deutsche Bank	Merrill Lynch	Hong Kong
Andrew Suh	*Senior MD, Structured Equity Product Group*	Citigroup	Bear Stearns	Hong Kong
Yassine Bouhara	*Global Head of Equities Trading*	Internal Promotion	Deutsche Bank	London
Brent Clapacs	*Head of Equities Trading, Europe*	Internal Promotion	Merrill Lynch	London
Cristiano Committeri	*Head, Italian Flow Sales in Derivatives group*	Lehman Brothers	BNP Paribas	London
Claudio D'Angelo	*Head of Institutional Flow Sales*	Lehman Brothers	BNP Paribas	London
David Escoffier	*Head of Equity Derivatives Sales*	Internal Promotion	SG Corporate	London
Henry Hall	*Head of EM Equity Derivatives Structuring*	Credit Suisse	Merrill Lynch	London
Michael Ingelog	*Senior Equity Derivative Flow Sales*	UBS	Deutsche Bank	London
David Moroney	*Director in Equity Derivatives Structuring*	Swiss Re	Barclays Capital	London
Dean Murray	*European Head of Hedge Fund Sales*	Bear Stearns	ABN Amro	London
Michael Pringle	*Head, Flow Derivatives & Equity Risk*	Credit Suisse	Merrill Lynch	London
Chris Rodarte	*Portfolio Manager, Technical Equity Derivatives Opportunities*	EBF & Associates	Castlegrove Capital	London
Matthias Rode	*Executive Director, Equity Derivatives*	Dresdner Kleinwort	Morgan Stanley	London

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Peter Van Kleef	*Head of Equity Derivatives*	Landesbank	Investec Bank	London
Uwe Warpak	*Executive Director, Equity Derivatives*	Dresdner Kleinwort	Morgan Stanley	London
Andrew Baehr	*Executive Director, Equity Derivatives-Hedge Fund Coverage*	Deutsche Bank	Morgan Stanley	New York
Jordan Beck	*VP, EM Equity Derivative Sales*	Lehman Brothers	Deutsche Bank	New York
Jonathon Boos	*Director, Third-Party Equity Derivatives Marketing*	JPMorgan Chase	UBS	New York
Cory Carlesimo	*Head of Equity Derivatives Sales*	Merrill Lynch	Deutsche Bank	New York
Joseph D'Anna	*Head, Equity & Fund Derivatives Structuring*	Societe Generale	Rabobank	New York
Michael George	*Senior VP, Derivatives Trading*	Goldman Sachs	Jefferies	New York
Jason Glover	*Senior Equity Derivatives Trader*	Goldman Sachs	Jefferies	New York
Francisco Hervella	*Director, Senior Latin American Structured Products*	UBS	BNP Paribas	New York
Daniel Hutchinson	*MD, Equity Derivatives Flow Sales*	Wachovia	Societe Generale	New York
Lars Sjumarken	*Head of Marketing for Europe and Asia*	BNP Paribas	CIBC	New York
Larry Smith	*Head, Corporate Structuring Equity*	CBM Capital	HSBC	New York
Todd Steinberg	*Head of Equity Derivatives*	Internal Promotion	BNP Paribas	New York
John Tobin	*MD, Head of Equity Derivatives Trading*	Wachovia	HSBC	New York
Jean-Jacques Legendre	*Co-Head of Equity Flow Sales*	Morgan Stanley	Deutsche Bank	Paris
Kikuchi Kanji	*Director, Fund Derivatives Products*	BNP Paribas	Merrill Lynch	Tokyo
Peter Scot	*Head, Equities, Equity Derivatives & Structured Products*	Internal Promotion	Credit Suisse	Zurich

EQUITY PROPRIETARY TRADING *(FUNDAMENTAL AND QUANTITATIVE)*

As assets and resources shift away from fixed income products to equities, portfolio managers are moving resources from quantitative research to more fundamental research, especially at hedge funds. Portfolio managers want to build models this year that run on basic nuts and bolts research. Quant research is by no means disappearing however. In fact, desk managers say a firm can't run a fundamental strategy without a quant strategy and vice versa.

Statistical arbitrage and relative value traders left Wall Street for the buy-side last year because quantitative traders in a flattish market do best in a low volatility market. This year, higher volatility aided event-driven, long/short and macro strategists. Banks are shying away from short-term arbitrage strategies and placing more of an emphasis on deep value analysis-driven investments (i.e., event-driven). **Teams are beginning to truly work together rather than as individuals as global investment banks and hedge funds seek to establish "franchise models" in particular strategies.** Most proprietary traders still prefer to beat the S&P versus the Dow and aim to develop strategies that will prove to deliver higher results.

Banks continue to place a tremendous emphasis on building up cross-asset proprietary desks. **Bear Stearns** started a new principal strategies group, led by Wendy De Monchaux, earlier this year. The growth of algorithmic trading, as a component of overall equity prop, is just beginning as banks also expand their operations. **Game theory professionals, an off-shoot of the statistical arbitrage wave, became increasingly in demand in 2006. In London, risk arbitrage is very attractive to banks seeking to build-out their prop desks.**

Cross asset algorithmic trading is still the build-out project of choice for chief information officers over the past year, and quantitative and IT people with this background are particularly attractive. Systematic trading and technical analysis that eliminates human emotion using stop/loss also have become more of a factor.

COMPENSATION

- **Bonuses up 15 to 20% on average higher than last year, although the ranges will be much wider than in year's past. Europe and Asia should see much higher compensation increases than the U.S.**
- For example, one VP trader in London received a guaranteed pay package of $1.5 million in 2006, double the trader's 2005 compensation.

Traditionally, total pay consists of 8 to 15% of P/L of the portfolio in cash and stock. Global banks often pay 8-12% of P/L while hedge funds pay up to 15%. Increasingly, banks are investing in their internal prop initiatives and desks are being run like internal hedge funds, meaning percentage

payouts are on the rise. Senior event-driven and long/short traders who produce significant trading profits by December can expect to see anywhere from 10 to 20% payouts.

AVERAGE GLOBAL INVESTMENT BANK PAY
TRADING* (US$)

		BASE	BONUS
Associate/ Analyst (Quant)	*1-2 Years*	80K	60-100K
	3rd Year	100K	100-150K
VP (Execution Trader)		125K	250-350K
Director		150K	1-1.1MM
MD/PM		200K	1.2-2 MM

	TOTAL COMPENSATION*
Global Head	8-9MM
Head of Americas	5-6MM
Head of Europe	5-6MM
Head of Asia	2.5-3.5MM

* Most compensation is related to a percentage formula payout

2007 OUTLOOK

One trend continuing to gain traction is automated market-making, which has moved from the equity cash and options desks to the proprietary trading groups at such firms as Bear Stearns and Credit Suisse. More financial institutions will roll out proprietary groups internally next year. Hedge funds that are more debt-based will look to expand into equity strategies to better cover a company's capital structure.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Arnaud Droitcourt	*Executive Director, Head of Equity Exotics Trading*	Calyon	Morgan Stanley	Hong Kong
David Sarkis	*Head of Volatility Trading for Asia*	Deutsche Bank	ABN Amro	Hong Kong
Nagi Bedawi	*Equity Volatility Trader*	Eton Park Capital	Barclays	London
James Follows	*Equity Proprietary Trading Manager*	Progressives Alternatives	Morley Fund Management	London
Jerry Gallagher	*Analyst, Equity Proprietary Trading team*	Internal Promotion	Deutsche Bank	London
Michael Guiney	*MD, Debt/Equity Relative Value Trading*	Credit Suisse	Castlegrove Capital Management	London
Paul Jones	*Portfolio Manager, Equity Volatility Trading*	KBC	Old Mutual Asset Managers	London
Steve Kelso	*Fund Manager, Equity Volatility Trading*	KBC	Old Mutual Asset Managers	London
Ian Lancaster	*Equity Proprietary Trading Manager*	Progressives Alternatives	Morley Fund Management	London
John Larkin	*Equity Strategies*	JPMorgan Chase	Millennium Global Investment	London
Franck Lauri	*Equity Long/Short Strategist*	Global Gestion	Castlegrove Capital Management	London
Andrew Pickup	*Head of Equity Proprietary Trading*	Internal Promotion	JPMorgan Chase	London
Joe Farrell	*Director, Proprietary Trading Desk*	Millennium Management	Merrill Lynch	New York
Lawrence Gibbs	*VP, Volatility Trader in Investment Group*	Millennium	JPMorgan Chase	New York
Ken Kramer	*MD, Quantitative Prop Trader*	Deutsche Bank	Bank of America	New York
Andrea Chan	*Equity Proprietary Trader*	Morgan Stanley	Merrill Lynch	Tokyo

PRIME BROKERAGE

The prime brokerage wave is showing no signs of slowing down at the global investment banks and smaller boutiques. Firms, including Jefferies and Nomura (synthetic financing), are also finding niches within the hedge fund community. All this increased competition will augment compensation across the board for those individuals with deep hedge fund relationships, product knowledge and risk or client service specialties.

As hedge funds continue to grow in their complexities, prime brokers are trying to match their product offerings with the needs of hedge funds. Some firms continue to consolidate their fixed income, futures, repo and FX prime brokerage desks closer with equity prime brokerage while others remain separate.

Firms such as **HSBC, RBS** and **JPMorgan Chase**, which have decided not to compete directly within the equity prime broker area, still can be very competitive in financing situations due to their huge balance sheets.

The demand for talented individuals with not only hedge fund relations, but also a strong derivatives background is far outstripping supply. An experienced salesperson also needs to understand the strategies and what a fund wishes to accomplish. The role has evolved into a solutions provider for not only operations, but also for the financing needs of the fund and portfolio manager. While several people have joined from other areas of a firm, including equity sales, not all have transitioned well. Additionally, the industry has been fairly slow in attracting new people from undergraduate or MBA programs to the prime services business. We are seeing some transfers from investment banking or trading to prime services.

On the business side, **Morgan Stanley** and **Goldman Sachs** continue to grow in actual dollars significantly more than the competition and are maintaining their percentage of market share. According to a recent survey of all the prime brokers by the Options Group Intelligence Unit, the current perception of respondents was that **UBS** has grown faster over the last year than any other firm. Some banks use UBS' low rates and terms as an excuse for this growth, but multiple senior hires at the firm helped raise the bank's profile. One leading prime broker mentioned that UBS seemed to now be the third choice of hedge funds. In June, **Bear Stearns** made a significant hire in Jeff Dorman from Lehman and expectations are high that it will be able to grow internationally.

In 2003, **Deutsche Bank** was situated right behind Morgan Stanley, Goldman Sachs and Bear Stearns (known than as the "Big 3") due to its synthetic strength and strong sales team. By early 2005, after a number of departures and a decrease in technology spending, Deutsche had lost ground. With the re-hire of Jon Hitchon in the summer of 2005, the bank has stabilized its team and, with a commitment again to invest, should again be a factor. **Citigroup**, said survey respondents, is making inroads in fixed income prime brokerage and recently received high marks from Amaranth for their support during the hedge fund firm's collapse. **Lehman**, which seemed to be snake-bitten by senior management departures in 2005, is now rated high by several hedge funds for their dexterity with complex situations. Additionally, there is strong respect for the Lehman franchise.

Merrill Lynch may have made the highest profile hire in 2006 in Sylvan Chackman from Morgan Stanley and the appointment of Jeff Penney to run

prime brokerage. Even with the changes, Merrill has the "tools to deliver in a bigger way," said one Options Group survey respondent. Credit Suisse has developed a strong swaps business and it continues to develop additional products through joint ventures. Bank of America continues to grow beyond its U.S.-focused long/short business with an eye on a European expansion.

COMPENSATION

- **Bonuses up 20 to 25% on average globally, with Europe and Asia receiving slightly higher bonus packages because of later pay dates and a thinner talent pool. Fixed income prime brokers will be increasingly in demand in 2007.**
- A prime brokerage sales person making $450,000 in 2006 turned down an offer for $650,000 before finally accepting a second offer for $750,000. The typical sales team leader of a major global bank can expect total comp of $2 million to $3 million this bonus season.
- Risk managers that last year earned $350,000 to $450,000 this year will earn $450,000 to $550,000 (with 2-3 years experience). Client Service managers last year that earned $150,000 this year may earn $200,000 (with 2-3 years of experience). A senior risk manager's compensation nearly doubled to $850,000 this past summer. A top client transition employee may be paid as much as $650,000, with good seasoned individuals in this space being paid between $300,000 and $400,000.

AVERAGE GLOBAL INVESTMENT BANK PAY
SALES (US$)

	BASE	BONUS
Associate	110K	120-200K
VP	115-150K	225-500K
Director	150-175K	450-800K
MD	200K	900K-1.1 MM

	TOTAL COMPENSATION
Global Head-Prime Services	5-7 MM
Head of Americas	2.75-3.25 MM
Head of Europe	2.75-3.25 MM
Head of Asia	2.25-2.75 MM

AVERAGE GLOBAL INVESTMENT BANK PAY
CAPITAL INTRODUCTIONS (US$)

	BASE	BONUS
Associate	90K	80-110K
VP	125K	175-300K
Director	150-175K	425-725K
*		

	TOTAL COMPENSATION
Global Head-Cap Intro	2.5-3 MM
Head of Cap Intro Americas	900K-1.2 MM
Head of Cap Intro Europe	1.1-1.5 MM
*	

* Capital Intro teams often have heads and then VP- and Director-Level professionals

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Tavneet Bakshi	*Equity Finance/Prime Brokerage*	Morgan Stanley	Pioneer Alternative	Hong Kong
Andrew Coyne	*Global Head, FX Prime Brokerage*	Deutsche Bank	Citigroup	London
Stewart Kemp	*VP, Hedge Fund Demand Team & Equity Prime Brokerage.*	Deutsche Bank	Citigroup	London
Neil Swinburne	*European Head of Stock Lending*	Goldman Sachs	Citigroup	London
Tara Westbrook	*Head, Capital Introductions, Europe*	Deutsche Bank	Citigroup	London
Christopher A. Bianchi	*Principal, Senior Operations Manager*	Bank of America	Jefferies	New York
Sylvan Chackman	*Global Head of Equity Finance*	Morgan Stanley	Merrill Lynch	New York
Glen C. Dailey	*Head of Prime Brokerage Services*	Bank of America	Jefferies	New York
Jeff Dorman	*Senior MD, Global Clearing Services*	Lehman Brothers	Bear Stearns	New York
Matthew Flannery	*Head, Synthetic Prime Brokerage*	Deutsche Bank	BNP Paribas	New York
Evan P. Gevarter	*Head of Relationship Management*	Bank of America	Jefferies	New York
Mike Ginelli	*Director, Head of Product Development*	Goldman Sachs	Deutsche Bank	New York
Mel Gunewardena	*Global Head of Fixed Income Prime Brokerage*	Goldman Sachs	Deutsche Bank	New York
Michael S. Hill	*Principal, Senior Relationship Manager*	Bank of America	Jefferies	New York
Mahesh Kumar	*Director, Product Development group*	UBS	Deutsche Bank	New York
John F. Kunze	*Partner, Head of Technology*	Bank of America	Jefferies	New York
Jeff Penney	*Global Head of Prime Brokerage*	Internal Promotion	Merrill Lynch	New York
Craig Perlman	*U.S. Head of Client Service*	UBS	Deutsche Bank	New York
Matthew Roux	*Global Prime Services*	Citadel Investment	Deutsche Bank	New York
James Jennings	*Director, Head of Prime Services*	ABN Amro	Deutsche Bank	Sydney
Takahiro Moriguchi	*Chairman of Japanese Brokerage Business*	Mitsubishi UFJ Securities	JPMorgan Chase	Tokyo

STRUCTURED TAX PRODUCTS

One key trend in 2006 is the continued integration of principal tax technology with both equity and fixed income sales and trading desks. This mixing of personnel goes in both directions, as trading desks look to increase their margins in trades. Merrill Lynch is a leader in this transformation, having already established a presence in integrating this technology for several years.

The biggest player by far is **Barclays Capital**, with other major players being **Bank of America**, **Deutsche Bank** and **Goldman Sachs**. Newer U.S. entrants include: **Royal Bank of Scotland**, **Washington Mutual** and **BB&T**. Other established European players include: **Fortis Bank**, **BNP Paribas**, and **Credit Suisse (London)**.

How the Business Works: Structured products are increasingly driven by accounting, regulatory and tax concerns because the business revolves around lending and cross-border transactions. The principal tax business typically "sits" in fixed income because there is a lot of tax and rating agency sensitivity. Employees typically report to structuring heads. On the solutions side, the tax component applies to larger transactions in such areas as CDO's and securitizations and usually sits in both fixed income and equities. In banking, a firm often wants to know if there is a mandate for business solutions and that it has wide distribution channel.

In the U.K., the structured products business continues to see the most significant legislative changes. Inland Revenue (as well as the Internal Revenue Service in the U.S.) cracked down on the business in general, increasing regulatory exposure for the banks.

COMPENSATION

- **Bonuses up 15 to 20% globally, with relatively higher paydays in the U.S.**
- Structured tax professionals said 2005 bonuses were for the most part lower than they had anticipated. Thus, after another strong year in structured tax, bonuses should be significantly higher in 2006.
- While some London professionals should expect more than modest upside (i.e., Barclays Capital), certain firms faced significant regulatory hurdles from Inland Revenue, U.K.'s governing tax body.
- The people with execution experience are most in demand, particularly VP- and Director-level professionals. Talent is generally pulled from lower-tier banks, and not law firms, because staffers need bank-trained execution skills. HSBC is the only major player in Asia.

AVERAGE GLOBAL INVESTMENT BANK PAY *(US$)*		
	BASE	BONUS
Associate	80-90K	80-90K
VP	125K	250-350K
Director	150K	900K-1.1 MM
MD	200K	1.5-3 MM
	TOTAL COMPENSATION	
Global Head	4 MM	
Head of Americas	3 MM	
Head of Europe	1.5-2 MM	

2007 OUTLOOK

Last year, the Options Group Intelligence Unit predicted a rise in Australian activity and it has come to pass. Goldman Sachs, Morgan Stanley and Bank of America jumped into the Sydney market to better compete with Australian-based banks like Macquarie and NAB.

Infrastructure finance also has entered the radar screen because these deals have significant tax issues to them. Infrastructure finance will continue to be a significant driver of structured tax strategies through at least 2008.

Hedge funds expect to further expand into principal tax trades both in Europe and in the U.S. **Fortress Capital** and **Silverpoint** are two funds seeking to expand into this area as a part of their special situations team.

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Stewart Bayfield	*Director*	BNP	Merrill Lynch	London
Troy Bowker	*MD*	Swiss Re	HSBC	London
Naresh Manjanath	*VP*	Swiss Re	HSBC	London
Richard Casavechia	*MD*	JPMorgan Chase	Bank of America	New York
Antony Joyce	*Director*	ABN Amro	Bank of America	New York
Jorge Usandivaras	*MD*	Bear Stearns	Merrill Lynch	New York
Valerie Batigne	*MD*	Societe Generale	Deutsche Bank	Paris
Stephane Melli	*MD*	Societe Generale	Deutsche Bank	Paris
Karl Nicholson	*Director*	Lehman Brothers	ANZ	Sydney

QUANTITATIVE RESEARCH

Banks and hedge funds are hiring less aggressively in anticipation of a slowdown in the global markets next year. That doesn't mean compensation will remain flat: Senior quantitative research professionals should expect to receive a 20% increase in pay, according to Options Group Intelligence Unit estimates. In 2005, energy quants were in demand, but this year its all types of commodity quant analysts and commodity risk managers that are needed by the global banks. Risk managers, especially those with 2 to 3 years of experience, were in great demand in 2005. **This year, quantitative risk managers are attractive to banks in the hybrid asset classes (structured products, proprietary trading). A hedge fund strategy shift away from statistical arbitrage and toward equity long/short also has shifted demand.**

Candidates with Ph.D's from top schools are especially in demand at investment banks and hedge funds, especially those with degrees in Physics, Mathematics or Engineering. Quants are adept at building new pricing models and creating new synthetic and hybrid structures that are very in vogue on Wall Street right now, according to Options Group Intelligence Unit data. Quants also calibrate and enhance products and, most importantly, assess and adjust portfolio risk and performance to find inefficiencies in different segments. With the importance of trading results increasing, banks are eager to find these "inefficiencies" on both the fixed income and equities side.

There has been unprecedented movement at the senior level, which is typically an area with very little turnover. In May, Lehman added several analysts for its new U.S. quantitative portfolio strategies group on the heels of hiring Matthew Rothman as head of the group. Rothman, who reports to Ravi Mattu, global head of equity and fixed income research, worked three years at Sanford Bernstein with well-known strategist Vadim Zlotnikov. Dino Buturovic left Bear Stearns as head of fixed income quant research and went to Goldman Sachs. This trend will push banks to pay senior managers significant increases in London and New York to retain talent.

In Europe, credit derivative quants were on the move earlier in 2006 because many desks didn't do well last year. Jon Gregory went to Barclays Capital and Merrill Lynch hired Alexander Lipton from Citadel.

COMPENSATION

- Bonuses up 15% over 2005 on average
- Competition is extremely intense among senior managers who should expect 20 to 25% compensation increases. One global head of equity saw his pay double in 2006. A VP-level credit and equity strategy quant received a guaranteed pay package of $500,000 – 80% higher than the professional's 2005 pay package.
- Quantitative types should expect larger bonuses, although risk managers typically get less of a bonus.

AVERAGE GLOBAL INVESTMENT BANK PAY *(US$)*

	BASE	BONUS
Associate	80-100K	50-70K
VP	100-125K	175-225K
Director	150K	350-450K
MD	175-200K	800K-1MM

	TOTAL COMPENSATION
Global Head of Research	6-7 MM
Head of Americas	2-3 MM
Head of Europe	2 MM
Head of Asia	2 MM

2007 OUTLOOK

The demand for risk managers will remain strong and become even greater in Europe and Asia as regulatory reform hits key money centers there. Many junior candidates prefer to transition into quantitative research and that makes the supply of risk managers tight at all levels. Fund investors increasingly want to know that their portfolios have experienced risk managers, especially after the Amaranth meltdown. **Demand for equity derivatives quant analysts will still be great on a global basis.**

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Rick Shypit	*Global Head of Equity Derivatives Research*	Morgan Stanley	Wachovia	Charlotte
David Shelton	*Senior Credit Quant*	Citigroup	Barclays Capital	London
Jakob Sidenius	*Head of Credit Derivatives Research*	Bank of America	RBS	London
Greg Berman	*VP, Quantitative Products Engineering*	Citigroup	Deutsche Bank	New York
Christian Daher	*Partner, Fixed Income Derivatives Research*	JPMorgan Chase	AlphaDyne Asset Management	New York
Bjorn Flesaker	*Head of Credit Derivatives Research*	Morgan Stanley	Bloomberg	New York
Sunil Gaglani	*Risk Analyst*	Cantor Fitzgerald	Mariner Investment Group	New York
Pat Hagan	*Head of Interest Rate Derivatives Quant Research*	Bloomberg	Brevan Howard	New York
Kai Huang	*VP, Credit Risk*	Citigroup	Merrill Lynch	New York
Thomas Hughes	*COO*	Deutsche Bank	Clinton Group	New York
Haitao Jiang	*Associate Equity IT*	Citigroup	Morgan Stanley	New York
Phillipe Martin	*VP, Risk Management*	UBS	Merrill Lynch	New York
Joseph Mezrich	*MD & Head of U.S. Quantitative Research*	UBS	Nomura	New York
Louis Scott	*Head of Quantitative Research, Market Risk*	Internal Promotion	Morgan Stanley	New York
Michael Threadgold	*Global Head of Market Risk*	JPMorgan Chase	UBS	New York
Jay Chia	*Technical Support Analyst*	Garcills	RBS	Singapore
Nana Otsuki	*Head of Credit Research*	Mitsui Trust & Banking	UBS	Tokyo

INFORMATION TECHNOLOGY

Fixed income IT budgets were up around 30% globally, as opposed to flat budgets in Equities and Investment Banking, according to Options Group Intelligence Unit data. The reason: Equities and banking departments added a significant number of professionals over the last few years.

Banks this year began assembling financial engineering IT teams that could quickly jump into a project and complete it in anywhere from two hours to two months. Traditionally, IT business heads turnaround projects in a six-month to two-year time frame. Heads of these financial engineering groups should see total compensation in the $700,000 to $1 million range. Overall, Options Group Intelligence Unit estimates that total IT compensation will rise by 15% this year. In 2005, bonuses were flat to up 5% on average.

The big winners will be the more senior professionals, the managing directors and the heads of derivatives and financial engineering. This group will receive 15 to 20% higher bonuses than in 2005 on average, according to the Options Group Intelligence Unit. While technology software and hardware is in a bit of a lull period as everyone waits for the next "killer" set of applications, hiring mid- to senior-level staff continues to be a significant priority for firms worried about the security and scalability of their internal systems.

2007 OUTLOOK

The IT outsourcing wave continued in 2006 and should accelerate at European banks. Indian firms Tata Consultancy Services, Patni Computer Systems and Infosys are receiving the lion's share of these deals. **Singapore will become more and more of an operations hub for South Asia. Finally, more banks will assemble financial engineering "quick-strike" teams that can handle short-term projects to fix trading systems, software and hardware.**

COMPENSATION

- Bonuses up 15% on average versus 2005
- Heads of IT businesses and derivatives trading will receive the highest premiums in 2006.

AVERAGE GLOBAL INVESTMENT BANK PAY *(US$)*

		BASE	BONUS
Associate	*1-2 Years*	80-90K	25-35K
	3rd Year	90-100K	35-45K
VP		125K	60-70K
Director		150K	150-200K
MD, Technology		200K	700-900K

	TOTAL COMPENSATION
Global Head	2.5-3.3 MM
Head of Americas	1.5-2 MM
Head of Europe	1.5-2 MM
Head of Asia	1.2-1.4 MM
Head of Business, IT	800K-1 MM
Head of Derivatives	2-2.5 MM
Head of Financial Engineering	1.5-2 MM

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Trupti Amin	*Associate, Equities Research*	Morgan Stanley	Citadel	Chicago
Zhenyu Dai	*VP, IT*	Credit Suisse	Citadel	Chicago
John Reynolds	*Global Head of IT/Analytics*	Morgan Stanley	Citadel	Chicago
Shailesh Bhatt	*Head of Equity Derivatives IT*	Bear Stearns	Credit Suisse	New York
Aaron Goodman	*Head of MBS IT*	Bear Stearns	Morgan Stanley	New York
Shamil Merchant	*Associate, FICC IT*	Deutsche Bank	Goldman Sachs	New York
Karl Questelles	*Associate Director, Prime Brokerage IT*	Goldman Sachs	Bear Stearns	New York
Richard Ye	*VP*	Sempra Energy Trading	Bear Stearns	New York
Leon Yi	*VP, IT*	Bank of America	Bear Stearns	New York

Investment Banking

INVESTMENT BANKING

INVESTMENT BANKING

After three years of dramatic growth both in established and emerging markets, it is hard to find an area in investment banking that has not done well in 2006. European dealmakers, distressed debt and specialty lending capital market professionals, equity capital markets originators and hybrid structurers all will receive total compensation significantly higher than last year.

The rapid banking expansion in fast-growing emerging markets such as Russia, Eastern Europe, the Middle East, and Brazil generated record deal-making volume. 2006 volume for announced M&A in the first 9 months reached $2.5 trillion, up from $1.97 trillion during the same period in 2005, according to *IDD*. That pace over a full year would equal or shatter the annual record of $3.32 trillion set in 2000, the peak of the late 1990's stock and tech bubble. **Although the year isn't over, Citigroup raised some eyebrows by taking the top spot in global announced M&A through 9 months with nearly $700 billion in volume, according to *Bloomberg* data thanks to its advisory role on AT&T's $81 billion purchase of BellSouth in March and E.On AG's acquisition of Endesa for $67 billion in February.** JPMorgan Chase is a surprising second, followed by Goldman Sachs and Morgan Stanley, who were first and second in the league tables in 2005 (see chart on page 107).

The downside to this trend is that enormous worldwide competition pushed reported fees down in the first half of the year. Investment banking revenue for the first half of 2006 totaled $7.5 billion, down from the $8.9 billion generated during the second half of 2005, according to Dealogic. London remains a very good place to be a banker. There is a tremendous backlog of mergers and acquisitions activity, insuring strong investment banking revenue through the first half of 2007. Furthermore, the energy banking industry continues to move resources to London. Oil, natural gas, coal and electric companies account for $330 billion, or 18%, of takeovers announced in 2006, making energy one of the most lucrative industries in a record year for mergers and acquisitions, according to first-half data from *Bloomberg*.

European banking also has spread to Russia and the Middle East. Options Group Intelligence Unit estimates indicate an acceleration of expansion within the Middle East as banks look to import talent to oversee local activity, particularly within Dubai and Qatar. Advisory specialists are high on the agenda, as are private bankers with "platinum" accounts. European equity capital markets also remain strong due to an increasing focus on equity-linked origination within the Middle East, Russia, Kazakhstan and Ukraine. The main area of activity lies within the oil, gas and energy sectors.

One potential stumbling block for the industry is European Commission authorities in Brussels, who may decide to try and block more than $128 billion worth of mergers, putting up to $1 billion of fees from the transactions in jeopardy. Three of Europe's biggest pending takeovers could be derailed after a stand off between governments in France, Italy and Spain and the European Commission. Claims being investigated by the EC involve the allegation that the French government is supporting an alliance between French and Italian airlines in exchange for Italian power companies staying out of the French market. A banker close to Endesa said the

company had not paid its advisers, despite some of them being hired last September to fend off a rival bid from Gas Natural. According to data provider Dealogic, the estimated fee pool from the three deals accounts for about 14% of total M&A fees owed on pending deals as of mid-August.

Overall, the execution quality of European M&A deals has improved as buyers and sellers pay more attention to due diligence, according to Options Group Intelligence Unit data. The rise in standards has increased confidence in the industry even in the formerly struggling middle-market. Nearly two-thirds of European mid-market corporations expect M&A activity to increase over the next six months. Family businesses and other private companies are considered the most likely source of acquisition targets, followed by private equity divestments. M&A activity will take place across all sectors, with hotspots in TMT, Energy, Mining & Utilities, and Financial Services, according to a June survey by KPMG.

In Asia this year, Goldman Sachs, Morgan Stanley, Merrill Lynch and UBS have all expanded their leveraged finance capabilities to enhance their lending to private equity firms targeting the region. Merrill Lynch, for example, hired senior banker Ajay Sawhney from ING in July to lead the bank's expansion of its leveraged finance business in the Asia Pacific region.

M&A deals in the technology sector are facing challenges as sellers and buyers square off over prices in a choppy equity market. Cisco Systems, Computer Associates and Symantec have scaled back their pace of acquisitions this year compared with the past few years. M&A deal volume in the technology sector fell 38% to 734 transactions as of early August compared with 1,181 deals over the same period a year ago, according to *Dealogic*. **Compensation for technology bankers this year will be below levels in our compensation section.**

COMPENSATION

- **Bonuses up 20-25% on average, with European bankers leading the total pay increase for the second straight year.**
- Announced European M&A activity is now at the same level as the U.S. ($1.2 trillion through 9 months on all announced targets, according to IDD) and is growing at a faster clip (33% vs. 17%) U.S. banker pay will be improved over 2005 but still fall short of European dealmakers on a percentage basis.

AVERAGE GLOBAL INVESTMENT BANK PAY *(US$)*

Analyst	*1st Year*	80K	50-70K
	2nd Year	90-100K	90-110K
	3rd Year	100K	125-175K
Associate	*1st Year*	100-125K	200-300K
	2nd Year	120-140K	275-350K
	3rd Year	150K	350-400K
VP		150-200K	600-700K
Director		200K	800-900K
MD		200-250K	2.5-3.5 MM*

	TOTAL COMPENSATION
Global Head	10-12 MM
Head of Americas	5.5-6 MM
Head of Europe	5.5-6 MM
Head of Asia	4-5 MM

* MD compensation can often rise to many multiples of this bonus range

GLOBAL M&A DEALS

2006 (THRU 9/30)			2005 (THRU 9/30)		
Bookrunner	Total ($MM)	# of Deals	Advisor	Total ($MM)	# of Deals
Citigroup	691,820.19	255	Goldman Sachs	508,693.94	257
JPMorgan Chase	674,374.19	303	Morgan Stanley	508,059.69	266
Goldman Sachs	652,124.5	204	UBS	384,464.78	207
Morgan Stanley	605,013.31	261	JPMorgan Chase	368,721.06	280
Merrill Lynch	545,179.12	208	Citigroup	329,138.84	237
UBS	489,783.25	258	Merrill Lynch	324,230.09	221
Lehman Brothers	444,105.84	141	Lazard	231,440.23	140
Credit Suisse	419,690.16	216	Lehman Brothers	226,450.91	151
Deutsche Bank	382,809.69	168	Credit Suisse	221,691.77	175
BNP Paribus	314,398.53	91	Deutsche Bank	219,194.89	157
Top 10	5,219,898.00	2,105	Top 10	3,322,086.00	2,091

2007 OUTLOOK

Firms may very well be saddled with excessive pay expenses by the first quarter of 2007. "Compensation costs can get bid up quickly at this stage of the cycle, leaving banks in a no-win situation," Brad Hintz, a Sanford Bernstein banking analyst, told *Financial News*. "Those that don't pay in-line with the market will see staff leave for rivals, and will then have to pay even more to hire new people." A recent *Financial News* survey found nearly 100% of banks plan to hire junior M&A employees by the end of 2006. **That type of confidence tells the Options Group Intelligence Unit M&A may peak by the second half of 2007.**

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Andrew Moorfield	*MD, DCM Origination*	Bank of America	Lloyds TSB Bank	Amsterdam
Wei Christianson	*MD/CEO, China*	Citigroup	Morgan Stanley	Beijing
Zhao Jing	*Head of Investment Banking China*	Morgan Stanley	Citigroup	Beijing
Andrew Savarie	*Senior MD, Global Industries group*	Bank of America	Bear Stearns	Chicago
Andreas Dombret	*Vice Chairman, Global Head of Investment Banking EMEA*	Rothschild	Bank of America	Frankfurt
Hans-Olaf Henkel	*Chairman, Senior Adviser for German Markets*	Deutsche Bank	Bank of America	Frankfurt
Hans Meier-Scherling	*MD, German Investment Banking*	Rothschild	Credit Suisse	Frankfurt
Christian Meissner	*Co-Head of European investment banking*	Internal Promotion	Lehman Brothers	Frankfurt
Philip Meyer-Horn	*MD, Investment Banking*	BNP Paribas	Greenhill	Frankfurt
Andrew Fung	*Deputy GM, Head of Investments & Insurance*	DBS Bank	Hang Seng	Hong Kong
Matthew Hanning	*Head of M&A & Corporate Advisory Asia Pacific*	Morgan Stanley	UBS	Hong Kong
Shamus Hassan	*Head of Asia's Resources Investment Banking*	Morgan Stanley	Merrill Lynch	Hong Kong
Peter Ryan-Kane	*Head of Product Development & Management NJA*	Watson Wyatt	Credit Suisse	Hong Kong
Marcus Scott Merner	*Head of Asian Project Finance Oil & Gas*	Societe Generale	Standard Chartered	Hong Kong
Stephen Panizza	*MD, Asia Head of Debt Services*	ABN Amro	Macquarie	Hong Kong
Wu Sheng	*Director of Investment Banking*	Morgan Stanley	Citigroup	Hong Kong
Jack Zhai	*Head of Investment Banking for China*	Deutsche Bank	Macquarie	Hong Kong
Barbara Zhang	*MD, Telecom and Utilities, China*	Deutsche Bank	Macquarie	Hong Kong
Jerry Zhang	*MD, M&A Advisory of Global Banking Asia*	Citic Capital Markets	Deutsche Bank	Hong Kong
Kevin Adeson	*Global Head of Leveraged Finance*	Morgan Stanley	HSBC	London
Jameel Akhrass	*CEO- Middle East*	Morgan Stanley	Lehman Brothers	London

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Peter Bacchus	*MD, Head of European Investment Banking, Mining & Metals*	Citigroup	Morgan Stanley	London
Kaan Basaran	*MD & Head of Investment Banking division in Istanbul*	Merrill Lynch	Credit Suisse	London
David Blitzer	*Managing Director*	Standard & Poor	Blackstone Group	London
Michael Bonacker	*Co-Head of Germany Investment Banking*	Deutsche Bank	Lehman Brothers	London
Hoby Buvat	*VP, Origination*	Deutsche Bank	Merrill Lynch	London
Jeffrey Culpepper	*Head of Banking, Sales & Trading, Middle East/North Africa*	Deutsche Bank	Merrill Lynch	London
Herman Deetman	*Co-Head of European Utilities*	UBS	Deutsche Bank	London
Edoardo Spezzotti	*Co-Head of Investment Banking*	Merrill Lynch	UniCredito Banca	London
Wilder Fulford	*Head of European Healthcare M&A*	Bank of America	Deutsche Bank	London
Emmanuel Moulin	*Senior Government Banker*	World Bank	Citigroup	London
Martin Pellbäck	*Head of the Nordic Coverage team*	UBS	Credit Suisse	London
Petter Sternby	*Investment Banking Nordic Advisory*	Morgan Stanley	Lehman Brothers	London
John Studzinski	*Head of Merger Advisory group*	HSBC	Blackstone Group	London
Stephen Trevor	*Head of Global Corporate Finance*	Goldman Sachs	Morgan Stanley	London
Michael Turnbull	*Head of Corporate Origination for EMEA*	Morgan Stanley	Merrill Lynch	London
David Berman	*Co-Head, Real Estate Gaming*	CIBC	Credit Suisse	Los Angeles
Dean Decker	*Co-Head, Real Estate Gaming*	CIBC	Credit Suisse	Los Angeles
David St. Jean	*MD, Technology Investment Banking team*	Bear Stearns	UBS	Los Angeles
David Jiminez-Blanco	*President, Spanish Business*	Goldman Sachs	Merrill Lynch	Madrid
Carlos Pertejo	*Head of Iberian financing*	JPMorgan Chase	Goldman Sachs	Madrid
Rafe Haneef	*Head of Islamic Banking (Corporate & Consumer)*	ABN Amro	Citigroup	Malaysia
Tengku Zafrul Aziz	*Director, Head of Investment Banking for Malaysia*	Avenue Capital	Citigroup	Malaysia
Paul Meadows	*Non-Executive, Senior Advisor IBD*	Arthur Allen	UBS	Melbourne
Paul Inouye	*MD, Head of U.S. Internet Investment Banking*	Piper Jaffray	Lehman Brothers	Menlo Park
Alessandro Gumier	*Global Head of Investment Banking in Italy*	UBM	Bank of America	Milan
Elena Titova	*Senior Investment Banker in Russia*	Goldman Sachs	Morgan Stanley	Moscow
Mihir Doshi	*Head of India*	Morgan Stanley	Credit Suisse	Mumbai
Brooks Entwistle	*CEO, India*	Internal Promotion	Goldman Sachs	Mumbai
Bruce Buchanan	*Executive Director, Global Head of Restructuring Finance*	GE Capital	Morgan Stanley	New York

PEOPLE MOVES & PROMOTIONS

NAME	TITLE	FROM	TO	LOCATION
Eric Chilton	*Head of Corporate & Investment Banking*	Barclays	Fortis Bank	New York
Michael Caulfield	*MD, Diversified sector*	Morgan Stanley	Bank of America	New York
Jennifer Fox	*MD, Biotech, Health Care Services Coverage*	Bear Stearns	Deutsche Bank	New York
Martin Friedman	*MD, Healthcare Group*	Novartis	Credit Suisse	New York
Greg Hazelton	*VP, Global Power & Investment Banking*	Lehman Brothers	UBS	New York
James Sprayregen	*MD, Investment Banking*	Kirkland & Ellis	Goldman Sachs	New York
Andrew Taussig	*Vice Chairman, Global Head of Investment Banking*	Credit Suisse	Lehman Brothers	New York
Colin Welch	*Head of European Retail Investment Banking*	JPMorgan Chase	Lehman Brothers	New York
Jerry Wood	*Investment Banking Management Committee*	Credit Suisse	Morgan Stanley	New York
Francois Wohrer	*MD, Investment Banking*	World Bank	UBS	Paris
Steve Abbott	*MD & Head, U.S. Semiconductor Coverage*	Deutsche Bank	UBS	San Francisco
Mauricio Marchenesi	*Investment Banking, Latin America*	Merrill Lynch	Morgan Stanley	San Francisco
Tom Mazzucco	*Head of the Internet Investment Banking group*	Lehman Brothers	UBS	San Francisco
Rex Sherry	*MD, Head of West Coast TMT*	Merrill Lynch	Bear Stearns	San Francisco
Jae Wook Yoo	*MD, Co-Head of Investment Banking, Korea*	Lehman Brothers	Morgan Stanley	Seoul
Screenivasan Iyer	*Director, Head of DCM (Corporate Coverage)*	Merrill Lynch	Deutsche Bank	Singapore
Lawrence Komo	*MD, Head of Securities Finance Asia*	United Overseas Bank	Citigroup	Singapore
Michael Smith	*Head of Real Estate Investment Banking*	UBS	Goldman Sachs	Singapore
David Dixon	*Director, Real Estate Advisor*	Deutsche Bank	Credit Suisse	Sydney
Peter Field	*Executive Director, Origination & Portfolio Management*	Deutsche Bank	Export Finance & Insurance Corporation	Sydney
Eric Hsu	*Head of Global Banking for Taiwan*	Lehman Brothers	Deutsche Bank	Taipei
Steve Conway	*Head of Financial Sponsors Group*	Bankers Trust	UBS	Tokyo
Takayuki Kuroki	*Head of Leveraged Finance Origination*	Mizuho	Merrill Lynch	Tokyo
Masayoshi Nakamura	*Head of Investment Banking, Japan*	Morgan Stanley	Mitsubishi UFJ Securities	Tokyo
Murat Talayhan	*Head of Investment Banking in Turkey*	Standard Bank	Barclays	Turkey
Yuhiko Yano	*MD, Head of TMT for Japan*	Lehman Brothers	Deutsche Bank	Tokyo

PRIVATE EQUITY/VENTURE CAPITAL

According to a recently-released Holt/Dow Jones Private Equity survey, average pay for venture capitalists is up 35 % this year, with senior partners at venture firms earning nearly $1.5 million a year and managing partners pulling in a cool $2 million. The average employee--comprising lower-level analysts, associates and back-office personnel–is expected to earn in $777,000 each. That is still lower than the peak VC years of 1999 and 200.

Rewards at private equity buyout firms will also be ample. Average employee pay at a buyout shop could reach $1.2 million, up 62% from last year. The survey, covering over 200 firms, is generally focused on U.S. pay. For buyout firms, senior professional pay jumps make sense because of the large influx of "going private" deals and the easy availability of debt to buy up firms. The venture capital numbers, however, seem inflated because the big returns associated with the late 1990's have not appeared as of yet. Further, there continues to be a lackluster market for smaller-stock offerings–the bread-and-butter of the venture capital industry.

Since venture capitalists only make money when companies are bought or go public, the volume numbers don't justify such a large increase in pay and contradict the findings of the Options Group Intelligence Unit. The total dollar value of acquisitions of venture-backed companies declined in 2005 to about $14.4 billion from $15.4 billion a year earlier, according to the National Venture Capital Association. Investors clearly believe in venture capital again and that has made large venture capital firms significantly bigger. The second quarter of 2006 saw record-breaking fundraising for private equity and venture capital, thanks largely to the efforts of a few large funds, according to Thomson Financial and the National Venture Capital Association. Last quarter, 50 VC funds raised a total of $11.2 billion, while 35 buyout and mezzanine funds gathered $30.8 billion. Oak Investment Partners XII became the largest VC fund ever with $2.56 billion, followed by New Enterprise Associates 12 with $2.25 billion. Texas Pacific Group's TPG Partners V took the buyout crown with its $14 billion.

Private equity firms, on the other hand, are much further along in their own respective "up" cycle, and some were arguing that the industry was peaking this summer. Blackstone Group, for example, announced it lined up a staggering $15.6 billion in commitments for its latest buyout vehicle, forming the world's largest private equity fund.

Private equity firms, flush with cash for four years now, also are moving into hedge funds, lobbying and myriad foreign investments. In the first half of 2006, nine private equity funds raised $1.5 billion in the Middle East and North Africa region, compared with $5.8 billion for the 11 years between 1994 and 2005. Firms continue to make big inroads into Asia, in terms of both investment and personnel. In March, U.S. private equity firm Kohlberg Kravis Roberts (KKR) hired Taketo Yamakawa as chief executive officer of its Japanese operations.

Foreign-owned private equity funds doing deals in Asia are experiencing fundraising growth rates of 50%. The amount raised in the first half of 2006 was 75% higher than all of 2005. The bigger firms realize that they need local professionals with operational experience and

need to anticipate the strategy of competitors and not overestimate the capacity of management.

Deals by U.S. private equity firms have grown at a compounded annual growth rate of 63% between 2002 and 2005, though deals fell at a moderate pace between 2000 and 2003. Domestic deals by U.S. private equity firms in the first half of 2006 increased 75% to $75 billion versus $119 billion for all of 2005. Ralph Reynolds, former head of Deutsche's global proprietary trading business, received backing from the Carlyle Group in another example private equity firms, flush with assets, spreading their wings into new areas.

COMPENSATION

- **Bonuses up 15 to 20% overall with private equity professionals earning slightly more than their venture capital counterparts. Private equity pay can rise much higher than the below levels due to outstanding investment returns.**
- **Even junior professionals are now being allocated carried interest from investment returns due to the increased demand for associates and VP-level personnel.**

AVERAGE PRIVATE EQUITY PAY *(US$)*
($1 BILLION-PLUS IN AUM)

		BASE	BONUS
Associate	*1-2 Years*	70-90K	90-110K
	3rd Year	90-110K	150-200K
VP*	*1-2 Years*	125K	250-300K
	3rd Year	125-150K	400-500K
Director/Principal*		150-200K	700K-1.2 MM
MD/Partner*		200-250K	1-5 MM

* Principal/Partner compensation also is based on percentage of deals

2007 OUTLOOK

Private equity firms will continue to invest overseas, especially in emerging markets. The ratio of domestic to overseas deals completed by U.S. private equity firms during the first six months of 2006 was 2.6, slightly higher than full-year 2005 and 2004 numbers. The highest ratio (3.3) was set in 2003, while the lowest (1.5) occurred in 2002. Venture capital firms will continue to receive large amounts of investment as brokerage and hedge fund products produce average returns.

There may be too many big private equity firms with too much capital. The result of this is multiple offers for public entities. In September, two private equity consortiums put in competing bids for Freescale Semiconductor. We expect that trend to continue with fewer quality companies for sale and larger portfolios still in cash.

PEOPLE MOVES & PROMOTIONS

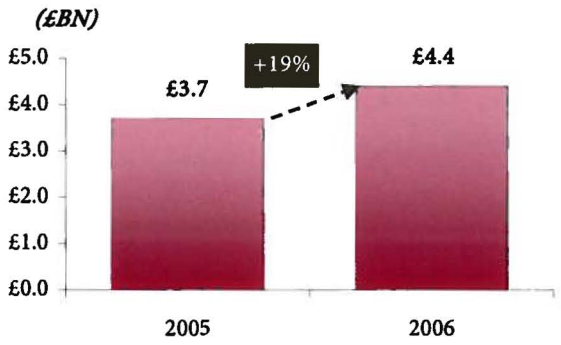
NAME	TITLE	FROM	TO	LOCATION
David Haifeng Liu	*Head of Investments - China*	Morgan Stanley	Kohlberg Kravis Roberts	Hong Kong
Steven Schneider	*Partner*	General Electric	Newbridge Capital	Hong Kong
Robert Xie	*MD, Head of China Private Equity*	Bank of China	Macquarie	Hong Kong
Jonathan Zhu	*Head of its China operations*	Morgan Stanley	Bain Capital	Hong Kong
William Allen	*Director in Private Equity*	Macquarie	CIBC	London
George James	*Partner, Private Equity & Hedge Fund business*	Morgan Stanley	Old Lane Mgmt.	London
Lyndon Lea	*Founding Partner*	Hicks Muse Tate	Lion Capital	London
David Novak	*Financial Partner*	Morgan Stanley	Clayton Dubilier & Rice	London
Vittorio Pignatti Morano	*Head of European Private Equity business*	Internal Promotion	Lehman Brothers	London
Rhonda Ryan	*VP of AIG's Private Equity Funds Group*	Insight Investment	AIG Global Investment Group	London
Sutesh Sharma	*Head of Trading Operation, Private Equity & Hedge Fund business*	Morgan Stanley	Old Lane Mgmt.	London
Robert Swannell	*Non-Executive Director*	Citigroup	3i	London
Benoit Valentin	*Private Equity group*	Goldman Sachs	Cinven Ltd.	London
Josh Tanzer	*Co-Head, Revolution's Private Capital group*	Credit Suisse	Revolution Partners	Los Angeles
Thomas Schnettler	*Vice Chairman & Chief Financial Officer*	Internal Promotion	Piper Jaffray	Minneapolis
Raymond Albright	*Principal, Private Equity*	Citigroup	Carlyle Group	New York
David Coulter	*MD, Senior Adviser*	JPMorgan Chase	Warburg Pincus	New York
Nicolas Debetencourt	*VP, Private Equity*	Citigroup	Carlyle Group	New York
Robert Dove	*Co-Head, Private Equity team*	Bechtel	Carlyle Group	New York
Barry Gold	*Executive, Private Equity*	Citigroup	Carlyle Group	New York
Bradley Gordon	*Principal, Private Equity*	Bechtel	Carlyle Group	New York
Bryan Lin	*Principal, Private Equity*	Citigroup	Carlyle Group	New York
Jill Srigley	*VP, Private Equity*	Bridgewater Associates	Carlyle Group	New York
Nathan Wares	*Associate Director, Investor Sales*	Citigroup	ANZ	Sydney

Bank Overviews

Bank Overviews

Barclays, Britain's third-largest bank by market value, said first-half profit climbed 19% as it earned more from investment banking and consumer lending outside the U.K. Net income advanced to 4.4 billion pounds from 3.7 billion pounds in the year-earlier period. Pretax profit at the Barclays Capital investment-banking unit surged 66%, exceeding estimates.

NET INCOME*



* Data through June.

Chief Executive Officer **John Varley** is under pressure to maintain profit gains at Barclays Capital after hiring more than 3,800 people since 2003. Barclays is also beefing up its international unit after buying Absa Group Ltd. in South Africa last year, amid mounting bad debts at its Barclaycard unit and a U.K. consumer-lending slowdown. Barclays' stock has risen as much as 22% this year, with most of those gains coming in August and September.

President **Bob Diamond** who oversees the investment banking and asset management units, said in May that Barclays Capital seeks to boost profit by at least 15% annually for the next five years. The unit hired 600 people in the first half. "I think the environment is a bit trickier right now than it was in the first half," Diamond told *Bloomberg* in August.

Net trading income accounted for about half of the bank's total 2006 first-half earnings as Diamond continued to build Barclays Capital's proprietary trading desks in London and New York. The desks, which operate as internal hedge funds, trade credit derivatives with hundreds of millions of dollars of the bank's own capital. Particularly strong growth was delivered by interest rate products, equity products, currency products, emerging markets and commodities. Growth in market risk and capital consumption was substantially lower than growth in income and profit, the bank said.

Barclays Capital was nominated to be "European Credit Derivatives House of the Year" by Institutional Investor in September. The investment bank subsidiary of Barclays has been gaining ground under London-based **Heikki Monkkonen**. Rival firms lauded the firm's in-depth research and foresight demonstrated by structures such as commodity-trigger swaps and notes that allow investors to express tailored views on iTraxx spreads.

Profit at Barclays Global Investors, the asset management unit, jumped 51% to 364 million pounds. The wealth management unit increased profit by 31% to 110 million pounds. Barclays wealth management head **Thomas Kalaris** is seeking to recruit more clients by increasing the range of services in the U.K. and expanding

abroad. Pretax profit at the wealth unit rose 56% last year to 172 million pounds ($318 million).

Earnings from the international unit more than tripled led by Absa Bank, South Africa's biggest consumer bank. Barclays bought Absa for $4.5 billion in 2005, helping it boost overseas earnings to 50% of profit in the first half, from about 40% previously. "Absa is flying," Varley said after first-half earnings were announced in early August.

KEY MANAGEMENT CHANGES - FIXED INCOME

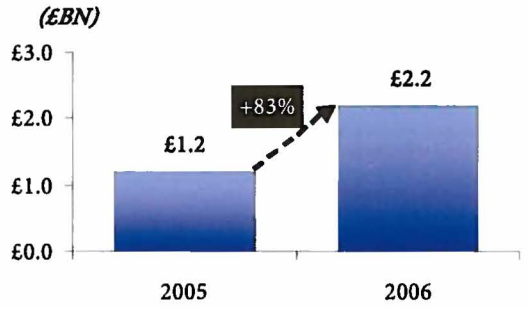
Barclays Capital said in February it planned to hire between 30 and 40 people for its commodities unit this year. Barclays Capital appointed **Russell Norton** as head of its Asian commodities unit and hired **Drew Doscher** from UBS as a director and head of U.S. distressed trading in May. He will report to **John Kreitler**, head of credit trading.

Barclays Capital reorganized credit trading in August, bringing cash and credit derivatives flow businesses for U.S. and European investment-grade credit into its global credit derivatives group, headed by **Vince Balducci** in New York. **Spencer Jesner**, formerly head of U.S. credit-default swap trading, and **Mark Jicka**, formerly head of U.S. credit trading, now co-head U.S. flow trading. In Europe, **Kai Seeger** is sole head of flow trading. Jesner and Jicka report to **Doug Warren**, managing director and head of U.S. credit derivatives, and Seeger reports to **Andrew Whittle**, managing director and head of European credit derivatives. Warren and Whittle report to Balducci.

Barclays Capital hired **Mohammed Farid Bin Kairi**, a marketer at BNP Paribas in Singapore, as head of non-Japan Asia bank sales, focusing on FX derivative products. Bin Kairi reports to **Yue Wu**, director and head of FX distribution for Asia-Pacific, in Singapore. The British house has been staffing up its FX sales and trading capabilities in the region this year, according to *Derivatives Week*.

The unit also appointed two bankers from Bank of America to its distressed debt team. **Sensu Serpen** joined on June 12 as director reporting to **Mahtab Hanjani**, head of European high-yield and distressed sales. **Lionel Laurant** joined as associate director with a focus on research, reporting to **James Moylan**, head of high-yield and distressed trading. Barclays Capital recruited **Pascal Hery**, a senior credit derivatives salesman to hedge funds at Deutsche Bank in London, who will report to **Brett Tejpaul**, head of hedge funds, bank proprietary and cash bond distribution in London.

NET TRADING INCOME*



* Data through June.

KEY MANAGEMENT CHANGES - EQUITIES

In the last three years, Barclays has almost doubled the number of people in its equity-linked trading and structuring business to 165. **Emmanuel Baror** joined as a director in equity derivatives research in New York from BNP Paribas. Other hires (chronologically):

Jerry Hammerschmidt joined as a director in equity derivatives sales in January from BNP Paribas where he was responsible for European hedge fund sales to help balance a division dominated by fixed-income. **Yongsheng Tan** joined as head of third party distribution for Southeast Asia in March, based in Singapore. Tan was hired from DBS. **Laurent Rimmen** joined as a director in fund derivatives sales from Deutsche Bank in April.

Stuart Jarvis joined Barclays from Goldman Sachs as head of stock loan hedge fund distribution for Europe in June and is based in London. In June, **Axel Kaiser** also was hired as a director in equity derivatives sales and is based in London. He joins from Morgan Stanley where he was responsible for derivative research output and marketing.

Kenny Li was also hired in June from Credit Suisse as a director in equity derivatives sales and is based in Hong Kong. **Wolfgang Stefan** joined as a director in equity derivatives sales from Morgan Stanley in June and is London-based. Barclays Capital continued to invest in its European equity-linked business and trading in July, hiring **Luke Newman-Taylor**, a single-stock trader at UBS. He joins the slew of hires that include director **Joergen Jaehnig**, from Deutsche Bank. All of the new traders report to **Franck Lacour**, head of volatility trading.

Barclays Capital hired a trio of equity derivatives sales officials to expand its Middle East coverage from JPMorgan Chase: **Harry Martin, Francisco Pizarro** and **Arnaud Hatte** in September. **Wendy Kwan** joined as a director and head of third party distribution for Hong Kong from Deutsche Bank. **Dirk Schremmer** joins as a director in equity derivatives sales from Morgan Stanley, and will be based in Frankfurt starting in October.

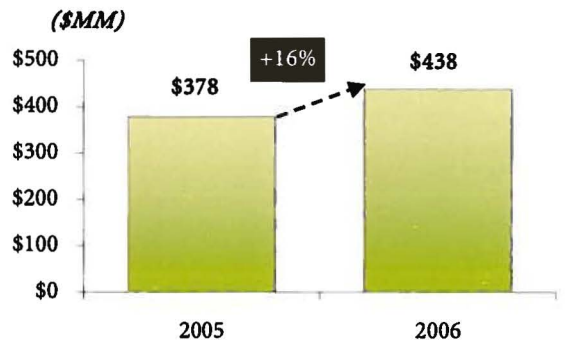
KEY MANAGEMENT CHANGES - INVESTMENT BANKING

Barclays Capital named **Pierre Bes** as head of private bank coverage in Europe. Bes joined from BNP Paribas, where he worked for eight years in roles including head of equity structured products marketing in Switzerland and Benelux. **Werner Schlossmacher** joined in July as head of private banking coverage for non-Japan Asia based in Singapore.

BEAR STEARNS

Bear Stearns posted a sizable increase in third-quarter earnings in mid-September, thanks to its bond and stock trading desks. Net income climbed 16% to $438 million, in the fiscal third quarter ended Aug. 31, from $378 million as profits exceeded analyst estimates in a "softer" equities trading environment, Chief Financial Officer **Sam Molinaro** said at the time. Chief Executive Officer **James Cayne** led Bear Stearns to a 22% increase in trading revenue and outpaced the 13% gain at Lehman Brothers and Goldman Sachs (1.7%). Shares of Bear Stearns rose 8.3% after earnings were announced were trading at $140 at the end of September – good for an 32% return year-to-date.

NET INCOME*



* Data for fiscal third quarter ended 8/31.

Here are some notable stats: Total revenue increased 17% to $2.1 billion; fixed-income revenue, which includes mortgage-bond underwriting and bond trading, rose 19% to $878 million (Bear was the largest mortgage-bond underwriter in the quarter); Equity sales and trading climbed 31% to $436 million. Investment-banking fees decreased 23% to $232 million, although M&A advisory fees jumped 48% to $132 million (the losses were due to a decline in underwriting and merchant banking).

Bear Stearns has bought mortgage lenders to provide a steady supply of loans, a strategy Merrill Lynch also used in September when it agreed to buy National City Corp's home-loan unit for $1.3 billion. Morgan Stanley, Deutsche Bank AG and Credit Suisse also have acquired mortgage lenders. Bear Stearns also has been buying and reselling home loans shunned by Fannie Mae and Freddie Mac. Molinaro in June said the strategy helped Bear Stearns weather declines in the U.S. mortgage market.

Bear Stearns in September combined its stock and equity derivative trading divisions with its prime brokerage to better serve its hedge fund clients. **Bruce Lisman**, who heads stock trading, and **Steven Meyer**, who manages structured equities, will jointly run the new global equities division, which will include all of clearing, run by **Richard Lindsey** and **Michael Minikes**. In the third quarter, these businesses combined for $705 million – 34% of total quarterly revenue.

Bear Stearns also said it promoted **Wendy de Monchaux**, who ran derivatives, to manage a new division responsible for coordinating all of the firm's proprietary trading activities. Lisman, Meyer and de Monchaux will report to **Warren Spector**, Bear Stearns's president and co-chief operating officer.

Bear Stearns also raised a $2.7 billion buyout fund to acquire financial-services, retail and consumer-

goods companies in early August. **John Howard**, chief executive officer of the buyout unit, said its third fund will invest as much as $200 million in equity for ``middle-market" acquisitions. The buyout unit, with around 32 employees, contributed $897.8 million of revenue in the past five years, or about 3% of the firm's total in that period, according to *Bloomberg*.

KEY MANAGEMENT CHANGES – FIXED INCOME

Bear Stearns is one of several financial services companies adding to its distressed debt and restructuring teams in recent months ahead of a potential rise in corporate defaults and bankruptcies in Europe. Others include Close Brothers, Lazard, Bank of America, Rothschild, Barclays Capital, Lloyds TSB, JPMorgan Chase and Goldman Sachs while alternative asset managers Fortress Investment and Cerberus Capital Management are also understood to be eyeing deeper involvement in the distressed debt market.

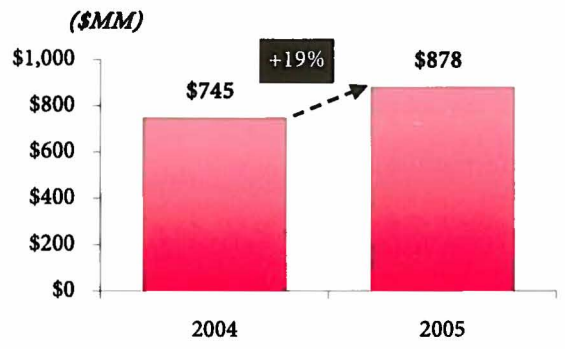
Bear Stearns hired **Joachim Koolmann, Patrick McNellis** and **Stephen Hamilton** in late August. The group adds further expertise to its special situations group in Europe. The special situations group is part of Fixed Income and consists of experts in corporate restructuring and recapitalization for distressed debt. The group has seen considerable growth and investor demand across Europe and its recent significant debt purchases and restructurings include companies such as Deutsche Nickel AG and Concordia Bus AB.

Koolmann joins Bear Stearns from Deutsche Bank, where he was a senior member of its distressed products group focusing on restructuring. McNellis, a former Morgan Stanley high-yield debt salesman, most recently worked as a consultant to Eurohypo Bank in Frankfurt, where he placed high-yield and mezzanine real estate loans around Europe. Hamilton was previously a vice president in the financial restructuring and recovery group at ABN Amro.

In June, Bear Stearns reshuffled senior management in its international mortgage business after losing one of the most senior bankers in its European securitization team. Bear appointed **Fred Khedouri** as head of European residential mortgage and consumer loan origination and **Doug Lucas** was named head of European asset-backed securities trading. **Virginia Darrow** took over as chief executive officer of Rooftop Mortgages. All three will move from New York to London.

In August, Bear Stearns hired **Brad Mazer**, managing director in credit derivatives structuring and marketing, from JPMorgan Chase in New York. He reports to **David Carlson**, head of credit derivatives structuring and marketing. **Steve Sterling** also joined Bear in August as its head of U.S. loans, taking on a similar responsibility he had at Lehman before he left the firm in Feb. 2005.

FIXED INCOME REVENUE*



* Data for fiscal third quarter ended 8/31.

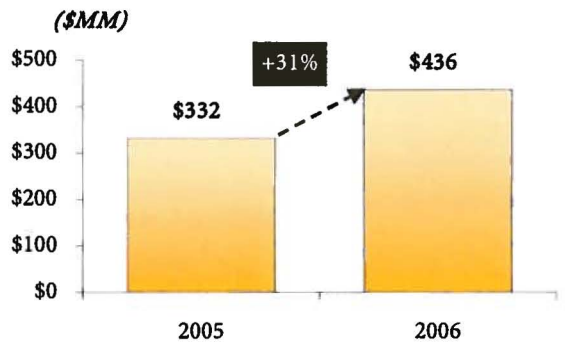
KEY MANAGEMENT CHANGES – EQUITIES

Bear Stearns Asset Management (BSAM) hired two portfolio management teams from BKF Capital Group in June. The quantitative equity team consists of Michael Rosen, a managing director and analyst Lindsey Houghton, while Jordan Alexander and Stephen Friscia, managing directors, comprise the fundamental small cap value team. They will report to Mike Guarasci, senior managing director and head of Institutional Business for BSAM, which manages more than $34 billion in assets.

Marc Fleishman was hired by Bear Stearns from Morgan Stanley to become head of hedge fund sales in London. He will report to Morad Mahlouji, senior managing director and head of interest rate derivatives sales, and to Peter Williams, senior managing director and head of liquid product sales in Europe.

Bear Stearns also said that Peter Cherasia, chief information officer and co-head of equity analytics and systematic trading, will take on a new responsibility of overseeing operations and technology for the firm. He will report to CFO Molinaro. (For additional equities-related management changes, see top of Bear Stearns section)

EQUITY SALES & TRADING REVENUE*



* Data for fiscal third quarter ended 8/31.

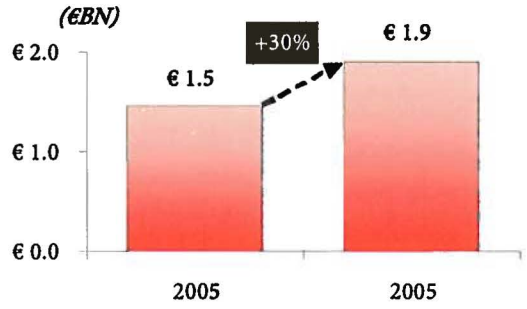
KEY MANAGEMENT CHANGES – INVESTMENT BANKING

In July, Bear Stearns hired TMT bankers Rex Sherry and Igor Ilic. Sherry joined the firm from Merrill Lynch as a senior managing director and head of West Coast technology in August. Ilic, who came from UBS, will focus on corporate finance solutions in the semiconductor sector as a managing director.

Bear Stearns International hired Dr. Manfred Puffer as a senior managing director to coordinate strategic finance for Germany, Austria and Eastern Europe from WestLB and will be based in London. He will report to Michel Peretie, chairman of Bear Stearns International.

BNP Paribas SA, France's largest bank by market value, is bulking up at the right time.

NET INCOME*



* Data through June.

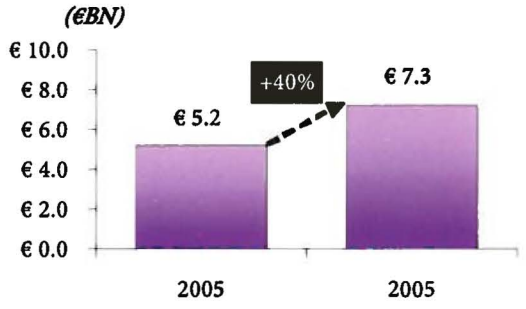
After saying it would hire 200 people in equity derivatives this year, BNP' equity derivatives unit doubled its revenue in the second quarter from a year earlier. The big result pushed second-quarter profits up 31%. BNP's shares gained the most in almost 3 1/2 years after the news was delivered to investors in August. The stock is up 26% this year (thru mid-October), compared with an 18% advance in the Bloomberg Europe Banks and Financial Services Index.

Chief Executive Officer **Baudouin Prot** followed through on his publicly announced plan to hire 600 people this year for the investment-banking unit – including 200 for equity derivatives and 200 more in fixed income – where BNP is trying to catch up with rival Societe Generale. Overall net income advanced to 1.9 billion euros from 1.46 billion euros a year earlier and revenue increased 40% to 7.25 billion euros.

Prot also expanded BNP's consumer banking business by announcing the 9 billion-euro takeover of Italy's Banca Nazionale del Lavoro (BNL). Second-quarter earnings at the corporate and investment bank, run by **Jacques d'Estais**, rose 23% to 912 million euros, beating analysts' estimate of 796 million euros. Revenue increased 22% from the year-ago quarter to 1.9 billion euros. Profit from the advisory and capital markets division, which includes sales and trading, surged 76% to 430 million euros as stock market swings boosted client trading of derivatives in the quarter.

Yann Gerardin, head of the equities and derivatives unit, was among the first to work in the division following the opening of the Paris listed equity options market, known as Monep, in 1987, according to *Bloomberg*. Gerardin expanded the unit, which now has more than 1,200 employees, with **Remi Frank**, head of sales, and **Olivier Osty**, who runs trading and structuring. Last year, the company's first half was marred by a loss of 264 million euro on its repo agreement desk and a 641 million euro loss at its debt securities desk.

REVENUE*



* Data through June.

This year, BNP was sixth in overall derivatives trading in *Risk Magazine's* September survey of dealers and brokers. It didn't rank among the top 26 banks in 2004. Fixed-income revenue climbed 27% after higher sales from products such as interest rate swaps. Profit from the financing business slipped 2.6% to 482 million euros. When asked about the outlook for the third quarter, Prot said, "I'm optimistic."

Michael Longhini, chief executive for the Asian private banking for BNP Paribas business told Reuters recruitment of staff in these countries will be a major priority, and that the bank hopes to employ a total of 100 people by the end of 2006, up from about current levels of 60. The bank, along with Goldman Sachs among others, is looking to grow its private banking operation in China and India.

KEY MANAGEMENT CHANGES – FIXED INCOME

Over the last two years, BNP Paribas has established a successful and profitable CDO structuring platform in Europe. In 2006, the firm went out to develop its ABS and loan origination platforms in the North American region. In August, BNP Paribas hired its second senior securitization banker in four weeks as it looked to bolster the origination and structuring capabilities of its U.S. business. **Kevin Stocklin**, formerly director of CDO origination at Dresdner Kleinwort, joins BNP Paribas as head of U.S. CDO origination and structuring. He will be responsible for cash transactions. Stocklin will be based in New York, and report to **Sean Reddington** head of BNP Paribas' U.S. securitization group. The move comes weeks after BNP Paribas hired **Mary Dierdorff** from WestLB as director and U.S. securitization portfolio manager.

In February, BNP Paribas hired **Francisco Hervella** as a senior Latin American structured product marketer from UBS. He reports to **Nick Kello**, head of equity and derivative sales for financial institutions in the Americas and works with private, corporate and institutional clients.

BNP Paribas in April said it staffed up its credit derivatives teams in London and Tokyo, including hiring **Olivier Vigneron** from Unicredit SpA as head of structured-credit risk management, Lehman's **Sebastien Hitier** and **Jean-David Fermanian**, who joined from hedge fund CooperNef in April. Vigneron, who was head of structured credit trading at Unicredit, will work in London and report to **Stephane Delacote**, head of structured-credit trading and arbitrage.

The bank added to its credit-derivatives research team as well, hiring **David Thurtell**, a commodity strategist at Commonwealth Bank of Australia, left the bank to join BNP Paribas as a commodity analyst.

In July, BNP also hired **David Martins da Silva** and **Patrick Weychardt** from Deutsche Bank to bolster its fixed income sales team. Martins da Silva heads European rates hedge fund sales and Weychardt leads German frequent user rates. Both will report to **Alistair Mullen**, head of European frequent user rates at BNP.

BNP Paribas appointed **Russell Plackett** as head of base metals and bullion trading in London, replacing Peter Stoner, who left for Merrill Lynch. Plackett joined the Paris-based bank in 2004 from HSBC and before that he worked for Sempra Metals Ltd. Russell will report to **Amine Belhadj**, head of commodity derivatives.

BNP Paribas, the number eight underwriter of junk-rated debt in Europe through August, said it hired **Max Biagosch** from Deutsche Bank to join its high-yield capital markets group in London. Biagosch will report to **Youssef Khlat**, BNP Paribas's head of high-yield capital markets. Deutsche Bank this year is the No. 3 ranked underwriter of high-yield debt, according to data compiled by *Bloomberg*.

BNP Paribas hired **Alexandra Basirov** from JPMorgan Chase to replace Christopher Marks as head of the team that originates bond sales for governments, government agencies and supranational institutions in July. Basirov will be based in London and report to **Ligia Torres**, who heads the European corporate group. In September, BNP Paribas hired **Paul Sharp, James Gavilan, Claus Pramer** and **Leigh Ashton** all from Standard Bank in New York and London as senior base and precious metals marketers in its global commodity derivatives group. Sharp, Pramer and Gavilan join the New York commodity desk and Leigh Ashton joining the London desk. The French bank also said that it hired Christian Lusted from Amalgamated Metal Trading) All five report to Russell Plackett, head of metals.

KEY MANAGEMENT CHANGES – EQUITIES

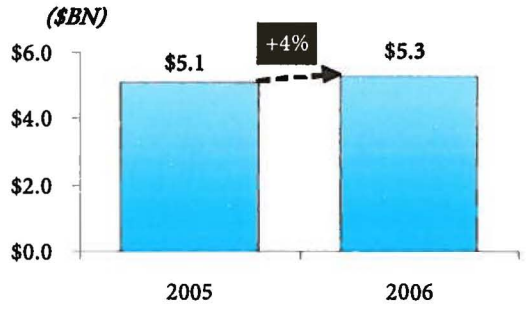
Todd Steinberg was promoted from deputy head to head of equities and derivatives for the Americas at BNP Paribas in New York this past April. He replaces **Amine Belhadj**, who moved to London as global head of commodity derivatives. Belhadj, in turn, replaces **John-Marc Bonnefous**, who is now global head of marketing and business development for commodity derivatives--a newly-created position.

In July, BNP launched an equity volatility hedge fund, seeking to off-load its single-stock event exposure using dispersion trading. BNP dominates the U.S. equity dispersion market, with rivals estimating it behind 80% of all trades, according to *Derivatives Week*. **Pascal Leyo** is head of equities and derivatives trading in New York.

BNP Paribas hired **Matthew Flannery** as director on the customer equity finance trading desk in July from Deutsche Bank. Flannery was brought into help grow the firm's customer equity swaps and synthetic prime brokerage business. At the time of the hire, **Todd Steinberg** said, "We are AA rated, have a $1.3 trillion balance sheet and have excellent hedge fund relationships."

Citigroup may still retain the title of the biggest U.S. bank, but its inability to grab a lion's share of trading profits has weighed down earnings. The New York-based bank said second-quarter profit gained 4% as rising costs from new branches, recruiting and acquisitions countered higher trading and investment-banking revenue. Citigroup said in July that operating expenses rose 16%, partly because of spending on investments, acquisitions and an accounting change.

NET INCOME*



* Data for 2Q.

Chairman and CEO Charles Prince, now in his fourth year in charge after the Sandy Weill Era, has spent more than $1 billion in the past three years to strengthen the bank's equity and fixed-income units, adding more than a thousand employees. While the investment is partly paying off– Citigroup topped the rankings in global equity underwriting for 2005 and fixed-income trading– it's trailing its smaller peers in trading.

The bank's value at risk (VAR) averaged $109 million in 2005, up from $63 million in 2001. Its VAR amounts to 0.15% of its shareholders' equity, compared with 0.58% at Goldman Sachs and 0.35% at Deutsche Bank. Citigroup remains an also-ran in derivatives, according to Risk Magazine's latest annual survey of dealers and brokers. The bank tied for eighth with Credit Suisse in the poll ranking top traders, trailing firms such as Deutsche Bank, JPMorgan Chase, and Goldman Sachs.

Revenue from fixed-income trading surged 51% to $2.76 billion and stock-trading revenue rose 30% to $945 million. Still, trading fell 14% from the first quarter, reflecting declines in some financial markets. Global Head of Capital Markets Thomas Maheras supervises just 8,500 of the company's 307,000 employees but his capital markets division accounted for more than $9 billion, or almost a quarter, of the bank's $44.4 billion in revenue for the first half of 2006 and for $2.6 billion of its $10.8 billion in first-half net income. Citigroup's corporate and investment bank posted the biggest earnings and revenue gains. Profit jumped 26% to $1.72 billion and revenue rose 31% to $6.76 billion, the second-highest level in the company's history. The bank finished first in global announced M&A through the first nine months of 2006, according to *Bloomberg*.