



GRAVITAS

The Advantage of Innovative Thinking

GRAVITAS Capital Advisors, Inc.

University of the West Indies Lecture Series:

Compensation & Corporate Competitive Advantage

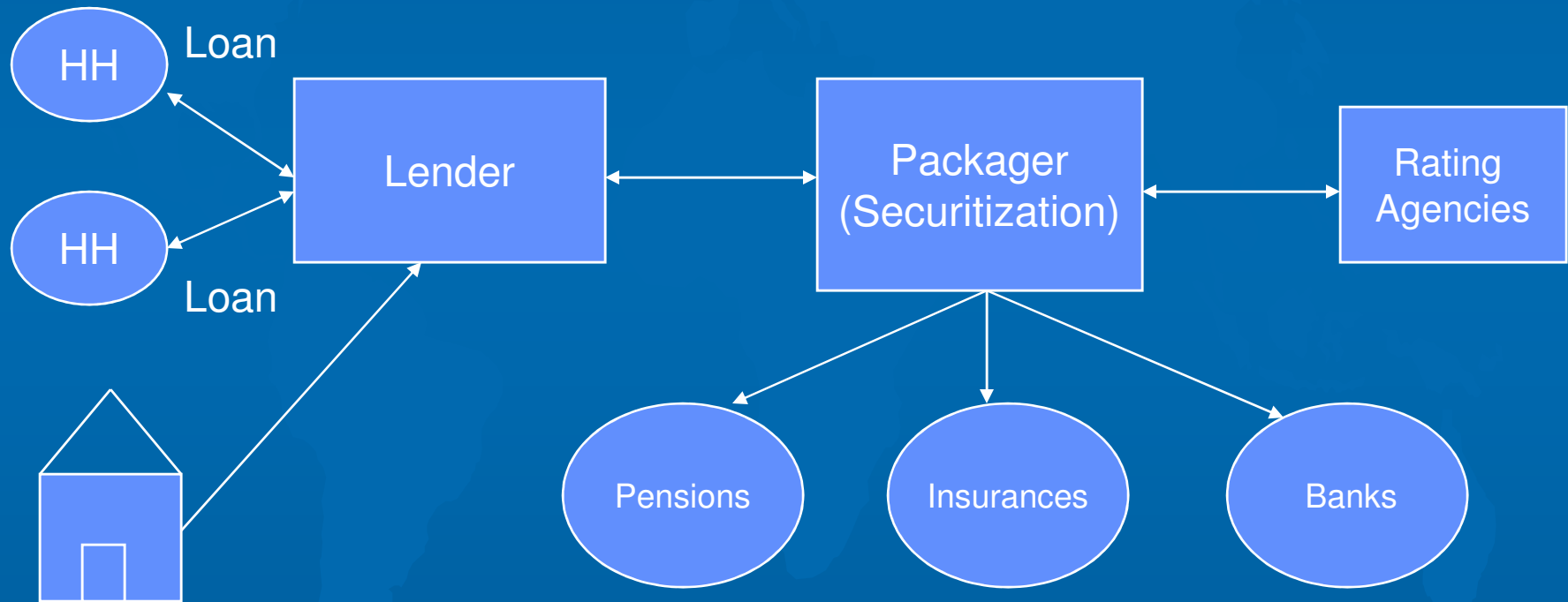
Presenter:
Eric Guichard
GRAVITAS Capital
October 27 - 28, 2009
Trinidad & Tobago

CNBC: House of Cards

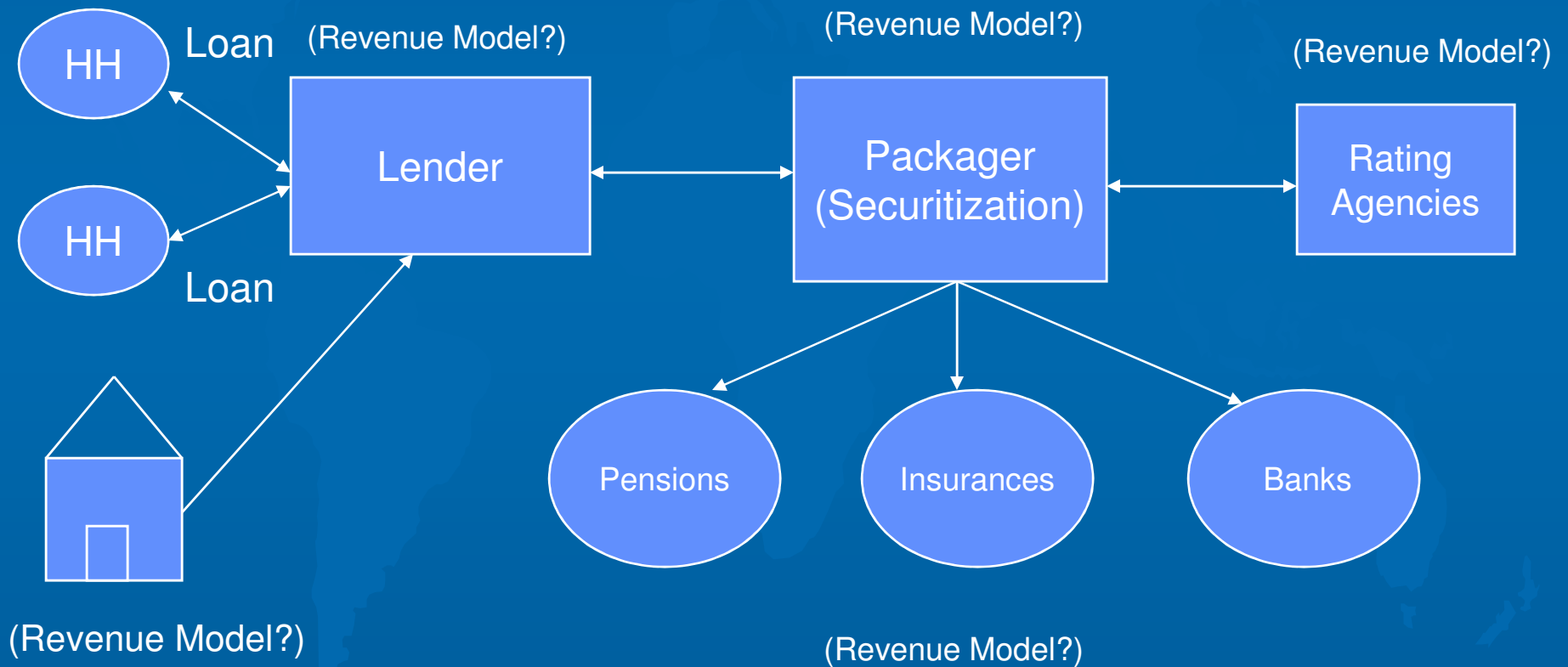
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The US Mortgage Market (A)



The US Mortgage Market (B)



What is appropriate compensation?

- ◆ A unit is responsible for 30% of the firm's entire quarterly revenues. How do you compensate them?
- ◆ What are your considerations in setting compensation for this group?
 - Should the private sector be sole decision maker? Why?
 - Should societal mores come into play? Why?
 - Should Government set the rules? Why?

Some Compensation Models

- ◆ Performance-based: Pros/Cons?
 - Quarterly vs. Annual?
- ◆ Fixed salaried: Pros/Cons?
- ◆ Department vs. Firm-wide basis?
- ◆ Rolling average (3yrs)?

- ◆ Which is best? Why?

What about Competitive Pressure?

- ◆ Quarterly Earnings Report (Public Cos.)
- ◆ Firm's most valuable assets leave the building every night – how do you make them come back?
- ◆ Source of Competitive Advantage?
(Phibro/Andrew Hall)
- ◆ Industry based? (Finance vs. Manufacturing)

The Incentive Question

- ◆ What incentives are imbedded in compensation arrangement? (examples)
 - How does it affect behavior?
 - How does it affect ethics?
 - How does it affect Company?
 - ☞ More risk? Less Risk?
 - ☞ More transparency? Less transparency?
 - How does it affect the System as a whole??

“...The Federal Reserve is about to issue guidance... on executive compensation, which will apply...way down into the organization...[to] anybody whose activities can affect the risk-profile of the company...

We view this as a “safety and soundness” issue.”

Ben Bernanke – US Central Bank Chairman (10/09)

<http://www.youtube.com/watch?v=cfscN17ayxQ>

Compensation as a “Safety & Soundness Issue”?

- ◆ Is the Government over-stepping its authority?
Why? Why not?
 - Systemic risk issue?
 - Ex-post costs of “Too Big To Fail”?
 - ☞ Political
 - ☞ Economic
- ◆ Can this be addressed alternatively? How?
- ◆ Is the Government eliminating Compensation as a Competitive Advantage?

Takeaways

- ◆ Structure of compensation affects behavior
 - Know imbedded incentives
- ◆ Compensation schemes can change a company's risk profile
 - US financial houses
- ◆ Cumulative effect of high risk profile companies can create systemic risk
 - Government intervention
- ◆ Compensation as a competitive advantage in the financial industry may be challenged by regulators.