

# The Fanciest Snouts in the Trough

*Stephen Mayne looks at the smartest game in town – at least this time around*



If you fancy making a fast buck, investment banking is the career for you. The two biggest Australian-based industry players, Macquarie Bank and Babcock & Brown, have this year demonstrated the extraordinary rewards that flow from smart asset shuffling.

Babcock & Brown, dubbed Macquarie's Mini Me, only listed on the Australian market last year. But their first annual report showed its top five executives shared \$37.27 million in 2004, which was unprecedented for an Australian company.

Bragging rights are important in investment banking, and given that Macquarie Bank is five times as valuable as B&B, it came as no surprise that its result for the 12 months to March 30 showed a startling increase in executive pay as the top five executives shared in \$47.5 million, or an average \$9.5 million. This wasn't surprising given that Macquarie's bonus pool amounts to 40% of gross profit and the latest result showed a staggering 67% increase in profit to a record \$823 million.

These rewards obviously come from somewhere, and in the case of Macquarie the source has been huge fees from managing and packaging assets all over the world. Macquarie chairman and co-founder David Clarke heads the board's remuneration committee, so much of the bank's success can be sheeted home to his extraordinarily successful leadership since the early 1970s.

Clarke's policy has been to hire the best and brightest from university – only honours graduates will do – and then lock them in through staff incentives and long term bonus plans. When challenged about executive pay, Clarke talks about having to compete in a global environment and

that Macquarie's most important assets get in the lift each evening and go home.

This is no longer entirely true, as Macquarie Bank has lifted its funds under management by 42% to a \$89 billion over the past year. If mass resignations poured in, an extraordinary spread of assets would remain – assets that include regional radio stations in Australia, broadcast transmission towers in Australia and the UK, toll roads all over the world, Brussels and Rome airports, retirement villages in Canada, telephone directories in Europe, and the list goes on.

While the staff don't appear on the Macquarie Bank balance sheet, they do soak up a majority of revenue each year, thanks to the generous bonus system. Total revenue reached almost \$3.5 billion 2004-05 and about 55% of this went to the 6,556 staff, meaning that the average Macquarie Bank worker costs shareholders \$275,000 a year. No other major company can get close to this figure and it doesn't include profits on equity holdings. In fact, it's estimated that about \$1-\$2 billion of Macquarie's \$11 billion market capitalisation is held by current and former staff. The board holds more than

\$200 million worth of shares and options between them, so they certainly have plenty of skin in the game.

With a share price that has soared from \$6 to almost \$50 over the past decade, the big question is whether the Macquarie juggernaut is sustainable. Extracting about \$700 million in management fees a year from various offshoots is a huge whack, which raises the prospect of investors deciding this is excessive. But as long as share prices continue to surge, the chances of an investor revolt remain slim.



## TOP FIVE PAY PACKETS

### MACQUARIE BANK

<b>Allan Moss, CEO:</b>	\$18.55m
<b>Nick Moore, head of investment banking:</b>	\$18.22m
<b>Bill Moss, head of banking and property:</b>	\$15.40m
<b>Ottmar Weiss, head of equity markets:</b>	\$11.50m
<b>Andrew Downe, treasury boss:</b>	\$10.40m

<b>TOTAL:</b>	<b>\$74.07m</b>
<b>Average:</b>	\$14.80m

### BABCOCK & BROWN

<b>Phillip Green, CEO:</b>	\$10.30m
<b>Steven Zissus, leasing boss:</b>	\$10.26m
<b>Eric Lucas, CEO Japanese property trust:</b>	\$7.07m
<b>James Babcock, executive chairman:</b>	\$4.97m
<b>Robert Topfer, head of investments:</b>	\$4.67m

<b>TOTAL:</b>	<b>\$37.27m</b>
<b>Average:</b>	\$7.45m