2010 Survey of Asset Management Industry Operations and Compensation Practices

Selected Highlights

INTRODUCTION

Asset management firms have been on a roller coaster ride in recent years. A business long regarded as one of the most stable corners of the financial services industry has been whipsawed by volatile markets, shaken loose of its philosophical foundations, and profoundly reshaped by competitive forces.

At the start of 2009, most asset managers found themselves with sharply lower assets and revenues than a few months earlier. The drop in revenues was often more severe than the fall in assets under management (AUM), with lower-fee asset classes accounting for a larger proportion of the remaining assets. Some firms rebounded with the markets, but many have struggled. A variety of tactics have been employed in attempts to shore up profitability, including product rationalization, reduced compensation, and lower levels of spending on systems or initiatives not seen as mission critical. A variety of factors are complicating the process of recovery. Some current challenges include:

- A regulatory environment that continues to evolve
- A widespread view that catastrophic risks may be more common than previously thought
- Demands for unprecedented levels of transparency and greater insight into risks
- A rethinking of what performance means and how it should be represented
- An ongoing evolution in the packaging and distribution of investment expertise

These developments are sending ripples of change through many organizations, leading to changes in the systems, processes, and resources needed to manage client and intermediary relationships effectively. Operational excellence is becoming a critical differentiator in an increasingly complex world.

Successfully navigating a shifting competitive landscape hinges on the ability to make informed decisions. This periodic survey is conducted by the Advent Users Group

Note to Readers

This document contains selected highlights only. Survey participants receive an in-depth 36 page report along with a full set of data tables tabulated by asset size and geography (see below).

Please refer to the end of this document for more information on the contents of the full report as well as information on how to participate in the next survey.

AUM Peer Groups

XL	$5B+ AUM
L	$2B - $5B AUM
M	$1B - $2B AUM
S	$500m - $1B AUM
XS	<$500m AUM

Geographic Peer Groups

MA	Mid-Atlantic
MW	Midwest
NY	New York
NE	Northeast
NW	Northwest
SC	South-Central
SE	Southeast
SW	Southwest/California

(AUG), an independent organization of Advent product users, to provide those in the asset management business with the data and insights necessary to make those decisions. Last carried out in 2008, the survey once again delves into an array of topics ranging from technology budgeting and operational practices to personnel policies and employee compensation (See Figure 1).

Advent Software and the Investment Adviser Association co-sponsored the 2010 survey, in which 136 firms participated. The results represent one of the most comprehensive sets of industry metrics available. We are grateful to all those who took the time to participate. Your contribution is greatly appreciated, and we hope you find the results informative and useful as you plan for your firm's future.

Figure 1. Survey topics

Firm Attributes

- Products
- Packaging
- Personnel
- Financials

Technology & Operations

- Budget
- Systems
- Investment operations
- Website
- Business continuity

Human Capital

- Employee benefits
- Compensation structure
- Compensation by position

SELECTED FINDINGS

PRODUCT AND CLIENT TYPES

The product mix reported by survey participants reflects broader shifts across the industry. The number of firms managing domestic equity products continues to shrink, while a growing number report managing fixed income products and "alternative" asset classes such as commodities, hedge funds, and private equity.

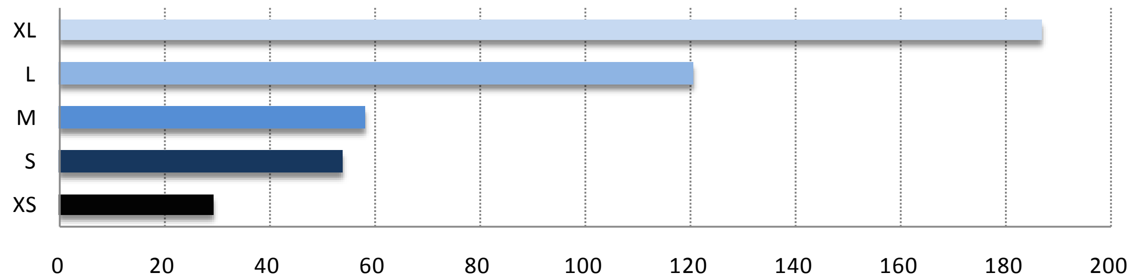
In the wake of the financial crisis, most firms remain reluctant to introduce new products. In 2008, 72% indicated that they did not plan to launch any new products. This climbed to 85% of participants in the 2010 survey. Among those bucking the trend, most are planning to launch alternative products.

PERSONNEL

Investment professionals (portfolio management, research, and trading) account for 36% of total headcount at the average firm. The distribution of employees often varies with size. Larger firms enjoy some economies of scale, notably in the client service, senior management, and several support functions. They are likely, however, to devote substantially more resources to operations, reflecting the additional complexity that almost inevitably accompanies growth in assets. Economies of scale are clearly visible when assets per employee are compared across AUM cohorts (Figure 2).

Figure 2. AUM per employee

($ millions)



FINANCIALS

Turbulent market conditions are readily apparent in the changes to financial performance between 2008 and 2009 year end. An average 1.7% rise in revenue obscures the turmoil experienced by many firms, with a quarter reporting 15% or greater declines during that time. Overall fee realizations also slid from an average of 70 basis points in 2008 to 53 basis points a year later (Figure 3). Many firms attempted to quickly rein in costs in 2009, resulting in profit margins that stayed relatively stable from one year to the next (Figure 4). EBITDA margins average 23.7% across all firms, unchanged from a year earlier. The median fell slightly from 19.8% to 19.4%.

Figure 3. Fee realization

Average basis points		ALL	XL	L	M	S	XS
	2008	69.9	21.7	50.5	69.1	73.0	91.3
	2009	53.1	18.9	37.1	51.8	54.1	70.1

Median basis points		ALL	XL	L	M	S	XS
	2008	64.7	21.3	46.0	68.6	71.1	76.1
	2009	48.7	16.6	32.9	52.7	49.2	56.8

Figure 4. Profit margin

Average %		ALL	XL	L	M	S	XS
	2008	23.7	37.1	26.4	8.7	25.3	30.3
	2009	23.7	33.9	28.1	14.4	24.5	25.2

Median %		ALL	XL	L	M	S	XS
	2008	19.8	24.6	19.8	18.5	19.9	19.8
	2009	19.4	27.3	22.1	17.9	18.4	13.6

TECHNOLOGY AND OPERATIONS BUDGET

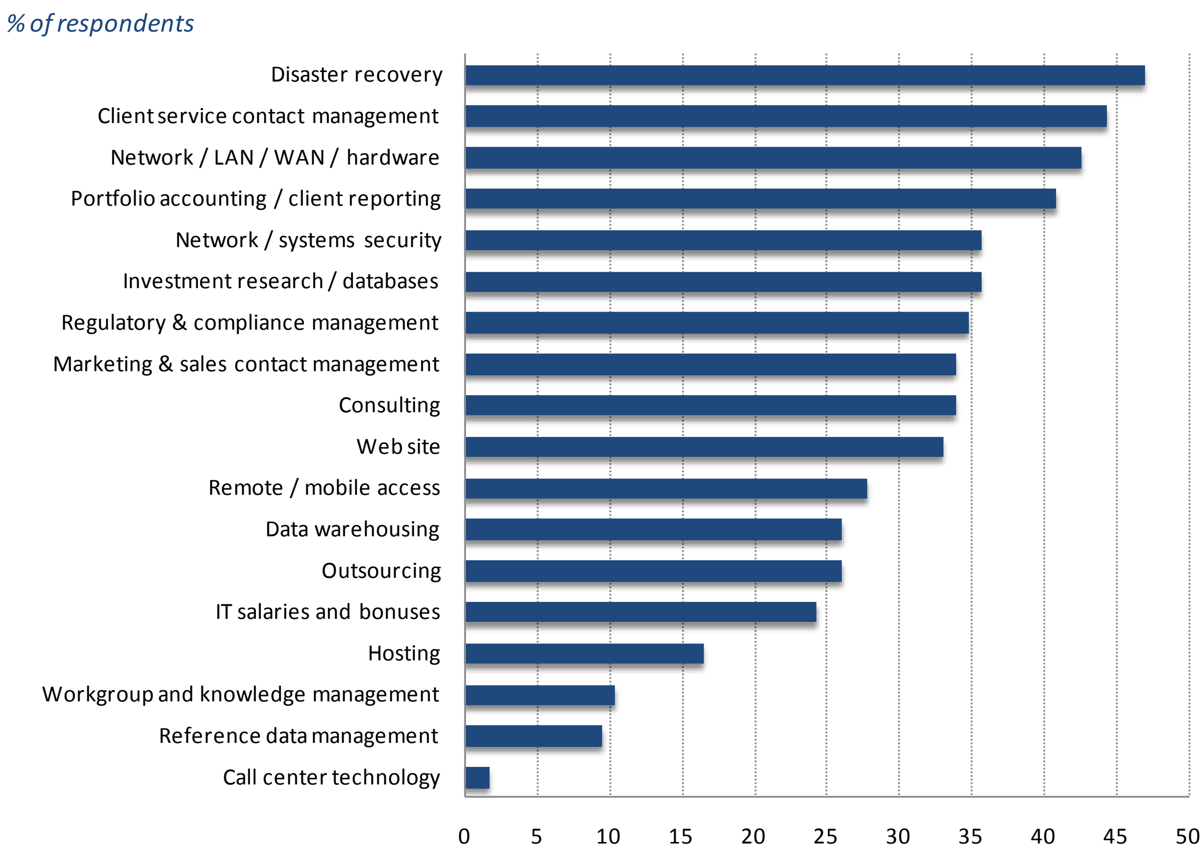
While some firms continue to curtail spending, almost 63% of survey participants report that their investment operations budgets grew in 2010. Slightly fewer say they anticipate further increases to their investment operations budgets (Figure 5).

Figure 5. Anticipated change to investment operations spending in coming year

% of respondents	ALL	XL	L	M	S	XS
Increase	57.4	36.4	75.0	60.9	62.5	48.8
Decrease	8.7	18.2	12.5	8.7	6.3	4.9
No change	33.9	45.5	12.5	30.4	31.3	46.3

Budget priorities always vary from firm to firm, but there are some discernible shifts industry-wide. Network security, for example, is less often seen as a cost driver, while data warehousing is increasingly viewed as contributing to higher costs. Disaster recovery is now perceived by 47% of respondents as a factor causing IT costs to rise, making it the most popular choice overall (Figure 6). This comes as no surprise, given that almost half of all respondents to the 2008 survey indicated that disaster recovery was one of their highest near-term priorities. Looking forward, disaster recovery is viewed as a top priority by 40% of firms, placing it near the top of the list once again.

Figure 6. Factors causing IT costs to rise

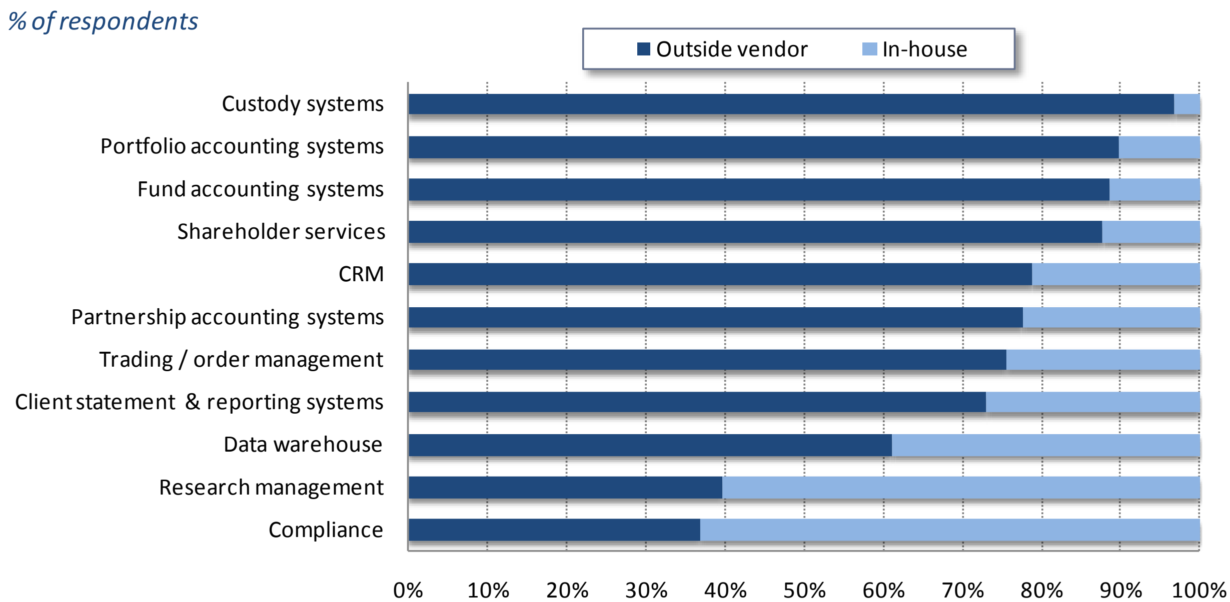


OUTSOURCING

The modern money management organization operates within a network of service providers. Reasons for choosing outsourced solutions vary, but include cost, resource availability, expertise, scalability, compliance and others. Third-party solutions are almost ubiquitous in the case of functions like custody and transfer agency. Less common in some other areas, outsourcing nevertheless continues to gain steam. Fund accounting and partnership accounting, for example, saw double digit increases in the percentage of respondents saying they used outsourced solutions since the 2008 survey. Outsourcing of document storage, email retention, and trust accounting also grew notably during that time.

External resources are relied on even more heavily when it comes to developing key systems (Figure 7). Research management and compliance systems are the only cases where the majority continues to be developed internally, but they are likely to follow the others in due course. Usage of external developers has become particularly more pronounced since the 2008 survey in certain areas, including portfolio accounting, partnership accounting, data warehouse, and CRM systems.

Figure 7. Systems developed in-house or by outside providers

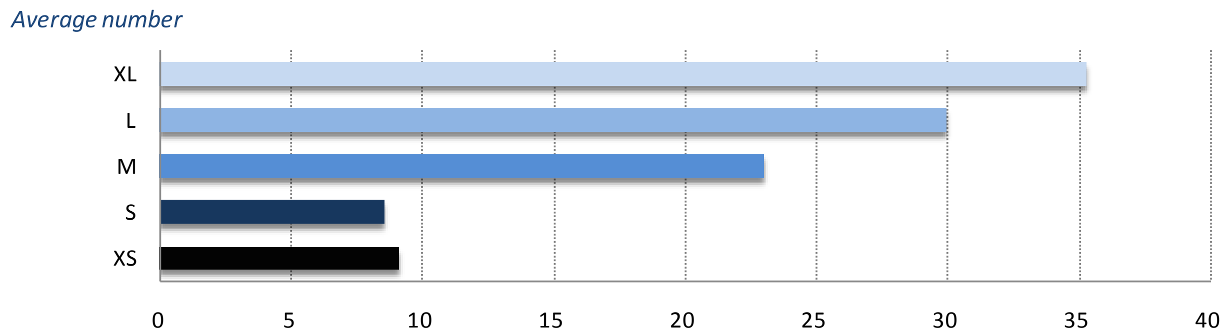


TRADING AND SETTLEMENT

Asset managers have access to a wide variety of trading environments, and this area remains relatively fragmented. SunGard's SGN accounts for an average 26% of trades, making it the most widely used trade network. DTCC is used for almost 19% of all trades, making it the second most commonly used network. Large firms are much more likely to use two or three trading networks, while small organizations typically rely on a single network.

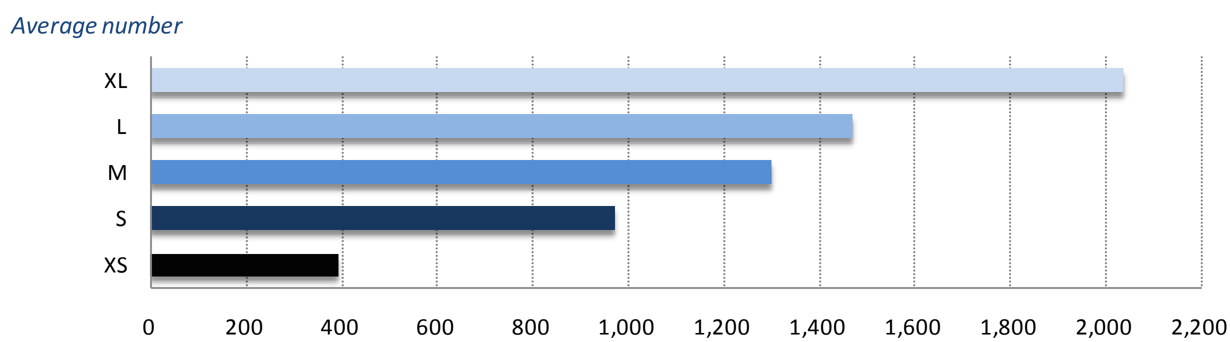
The average asset management firm deals regularly with almost 19 different brokers. The largest ones deal with an average of 35, even more than the 29 reported by respondents to the 2008 survey (Figure 8). Even the smallest firms experienced an increase, with the average number of brokers with whom they regularly deal climbing to nine from six just two years earlier.

Figure 8. Number of brokerage houses used regularly



Another operational metric closely tied to size is the number of portfolios handled. The average firm reconciles and maintains just over 1,000 portfolios on their system. Among the largest firms, the average climbs to more than 2,000, while among the smallest it is fewer than 400 (Figure 9).

Figure 9. Number of portfolios reconciled and maintained on firm's system



ACTIVITY METRICS

The amount of time spent on operational tasks like reconciliation and reporting is largely dependent on the number of clients and accounts. The average firm requires 86 man hours to reconcile all accounts each month, but this varies from an average of 23 hours at the smallest firms to an average 386 hours at the largest organizations (Figure 10). Despite their greater resources, this means that larger firms can still take longer to complete tasks like quarter-end reporting. On average, the largest firms complete all reporting about 14 business days after quarter end. The average small firm beats them there by three days. Small firms also exhibit more alacrity when billing their clients, getting all invoices out the door within an average 6.5 days after quarter-end, compared to an average 23 days among the largest firms.

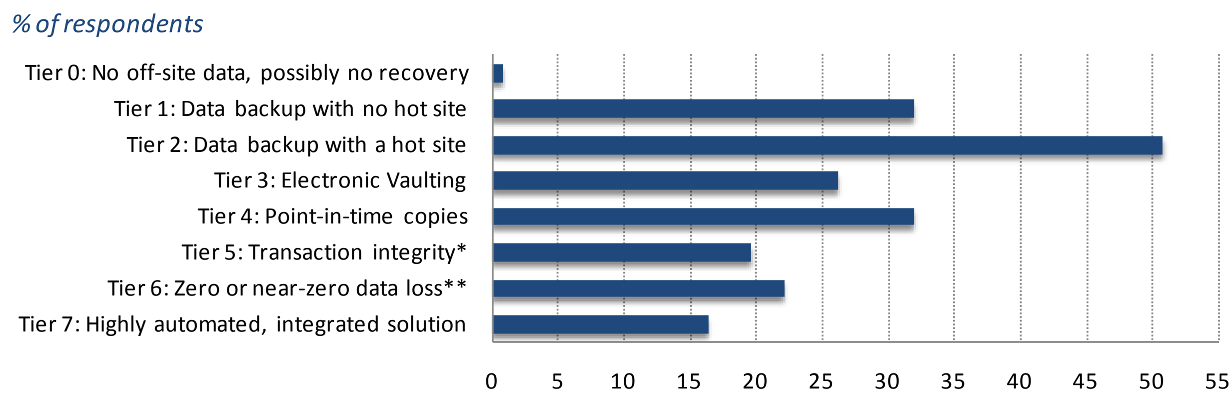
Figure 10. Investment operations activity metrics

Average	ALL	XL	L	M	S	XS
Hours per month spent reconciling	86.4	385.9	116.5	67.3	39.1	22.8
Hours per quarter spent on reporting	117.9	238.7	190.0	121.0	98.7	47.9
Hours per quarter generating bills and tracking receivables	63.6	60.1	164.4	65.3	26.0	15.9
Business days after quarter end to complete all reporting	12.7	14.2	14.1	12.6	13.2	11.1
Business days after quarter end to invoice all accounts	12.6	23.8	13.0	13.0	12.9	9.0

DISASTER RECOVERY

Business continuity and disaster recovery have been high priorities for many asset management firms for several years. This has manifested itself in a wider range of advanced solutions being deployed. In the past two years a growing number of firms have adopted Tier 4 through Tier 7 solutions. More than 16%, for example, say they employ the most advanced Tier 7 recovery solution, double the number two years ago (Figure 11).

Figure 11. Disaster recovery solutions currently employed



* Host-based replication

** SAN-based replication

EMPLOYEE BENEFITS

Employee benefits immediately became more important in the wake of the financial crisis as many firms struggled financially. Looking for ways to soften the impact of smaller bonuses, some firms looked for creative ways to keep employees satisfied and motivated. This often meant enhancing benefits packages.

Almost all firms provide health insurance to their employees. The only exceptions are a few extremely small companies. Dental insurance is becoming more common. Almost 78% offer it to employees, compared to 68% of respondents to the 2008 survey. Vision insurance is still relatively rare, offered by less than half of all firms. Larger firms are more likely to offer both dental and vision insurance.

Whenever insurance is offered to employees, it is also usually offered to their families. The percentage of the premium paid by the company, however, is often lower when it comes to family members. A company that pays for 80% of an employee's health insurance premiums might, for example, only cover 60% of the cost of insuring his or her family. Companies pay for an average 85% of employee health insurance and 64% of family health insurance (Figure 12).

Figure 12. Percentage of insurance paid by company

Average %	ALL	XL	L	M	S	XS
Health insurance - employee	84.6	85.2	80.4	85.9	81.1	88.1
Dental insurance - employee	68.7	63.0	67.8	70.4	75.4	66.5
Vision insurance - employee	58.1	41.5	57.0	70.9	45.8	53.4
Health insurance - employee family	63.9	66.1	65.4	63.8	57.9	65.2
Dental insurance - employee family	52.2	40.0	54.5	56.6	58.5	47.2
Vision insurance - employee family	49.7	16.5	52.8	54.6	45.8	53.4

TYPES OF VARIABLE COMPENSATION

Challenging market conditions have compelled many managers to reexamine their compensation plans. Some have made tweaks while others have adopted wholesale changes. The general trend has been toward more discretionary elements and greater emphasis on long-term incentives. Compared to two years ago, a greater number of firms report having profit sharing plans, offering stock purchase plans, and making equity grants (Figure 13). In the latter case, vesting typically takes place over three to five years.

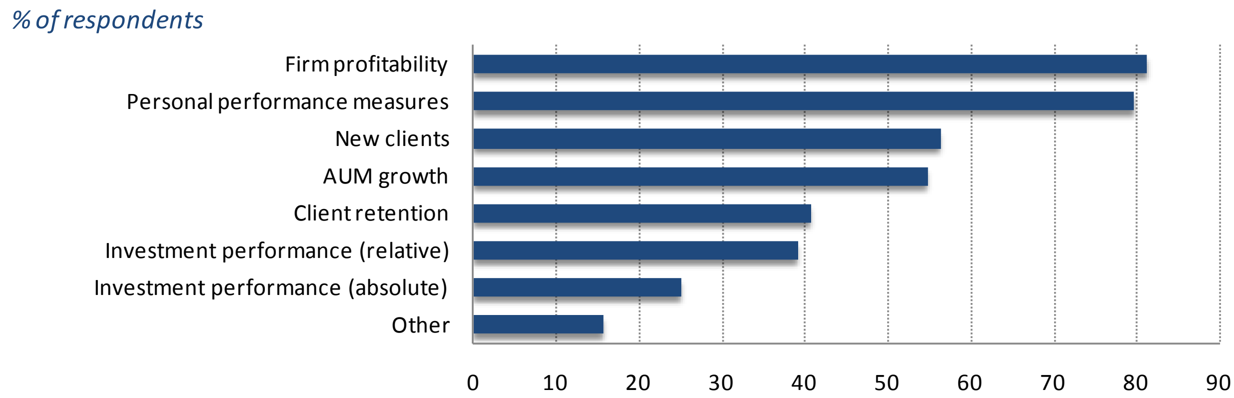
Figure 13. Types of incentive compensation offered

% of respondents	ALL	XL	L	M	S	XS
Variable annual cash bonuses	90.7	100.0	90.9	90.9	94.1	86.8
Profit sharing plan	56.5	55.6	59.1	72.7	52.9	47.4
Equity or options grants	36.1	33.3	45.5	50.0	35.3	23.7
Stock purchase plan	24.1	33.3	18.2	45.5	5.9	21.1

AWARDING VARIABLE COMPENSATION

At firms using objective measures, firm-wide profitability and personal performance measures are the metrics most likely to be taken into consideration (Figure 56). Client acquisition and retention are both more prominently featured than in years past, while absolute returns are less often considered when awarding bonuses.

Figure 14. Objective (non-discretionary) measures used to award incentive pay



COMPENSATION DATA

Compensation data was gathered for more than 1000 individuals. All data has been tabulated by AUM and geographic peer groups for purposes of statistical analysis. Results are aggregated into print-ready tables and provided to survey participants in Excel format.

Some highlights:

- Compensation levels for many positions were down from those reported in 2008. Senior executives and investment professionals were particularly hard hit.
- Median CEO pay fell 15% from 2008 levels to $383,000. Average compensation for CEOs is a substantially higher $614,000.
- Chief investment officers are typically the second most highly paid member of senior management, earning an average $442,000. Four out of ten saw their compensation fall during the past year.
- Median compensation paid to other investment professionals fell by double-digit percentages since 2008, but more than half reported rising compensation over the past one year.
- Senior operations staff saw median compensation rise slightly from two years earlier, but junior operations personnel saw a modest retreat in compensation levels. Heads of portfolio accounting are now paid an average of $124,000.
- Administrative and support staff have experienced relatively little volatility, with median compensation levels up across all positions since 2008.
- Many positions experienced a compression in the range of values paid to individuals. Outliers became less common and average values tended to fall within (or just above) the second quartile.

INVESTMENTS

Figure 15. Investments – Compensation by AUM

Median total compensation ($000s)	ALL	XL	L	M	S	XS
Senior Portfolio Manager	249.0	400.0	237.0	250.0	249.0	160.0
Senior Research Analyst	157.0	163.0	120.0	130.0	141.0	325.0
Senior Trader	128.0	400.0	140.5	128.0	N/A	75.0
Portfolio Manager	150.0	181.5	212.5	139.0	205.5	100.0
Research Analyst	87.0	185.0	65.0	93.5	87.0	67.0
Trader	68.0	N/A	65.5	51.0	82.0	61.0
Other Investment Specialist	58.0	63.0	68.0	50.5	N/A	58.0

Figure 16. Investments – Summary compensation statistics

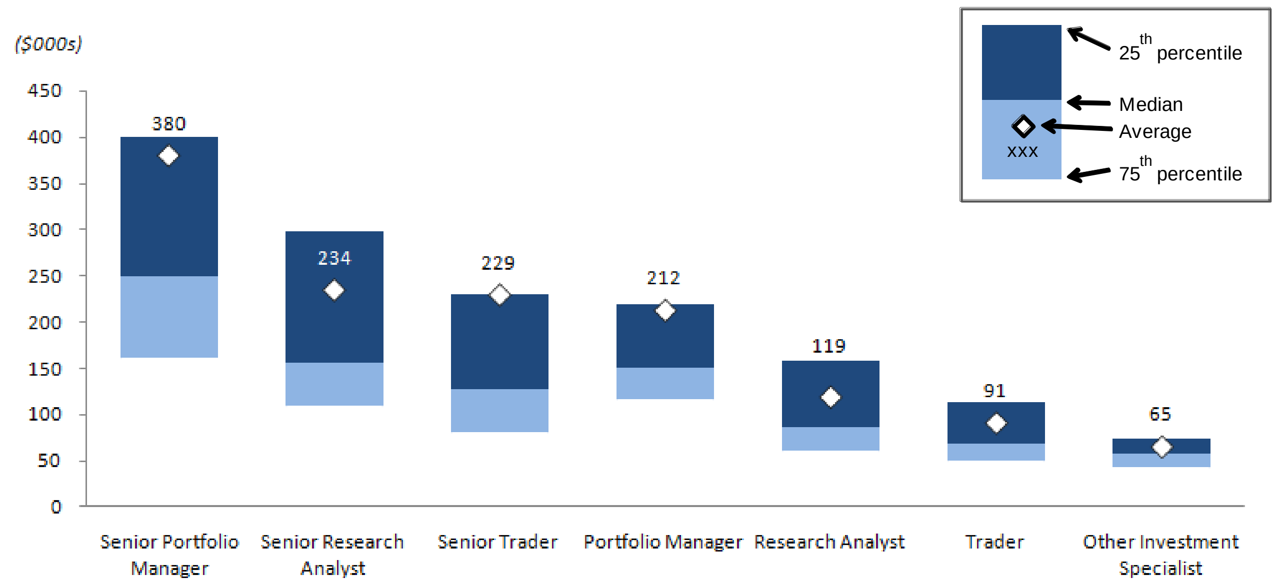
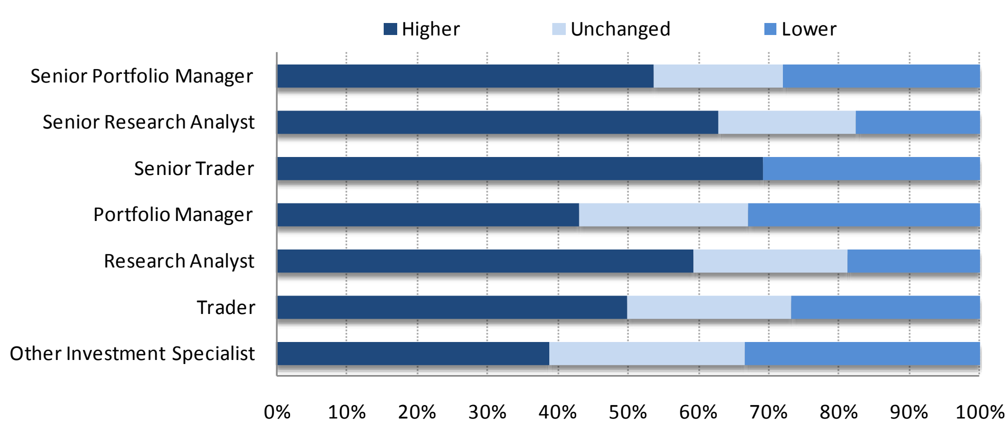


Figure 17. Investments – Change in compensation

Change to compensation during past year, % of respondents



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