2011 SURVEY OF THE ASSET MANAGEMENT INDUSTRY

Operations and Compensation Metrics and Best Practices

Selected Highlights

ADVENT®

INVESTMENT ADVISER ASSOCIATION

Advent Users Group

INTRODUCTION

Shaken out of complacency by the financial crisis, those in the asset management industry are still in recovery mode. Assets remain below peak levels in some cases, and volatile markets have everyone thinking about how best to serve clients and insulate their businesses from further shocks in the future. Some are rethinking asset allocation models and reconfiguring product lineups accordingly. Others are focusing on operational improvements or risk controls. Responding to nervous clients demanding greater transparency, many are focused on better client reporting. Staying abreast of changes and being prepared in an evolving regulatory climate is keeping everyone busy.

Fueled by market growth and recovering fund flows, asset and revenue growth have returned to the industry. Profitability is also improving, thanks to recent streamlining efforts. Hiring has picked up slowly and compensation has started to rise once again, albeit at a very modest pace.

Despite the improved outlook, wariness remains the norm. The European debt crisis, Japan's travails, political deadlock in the United States, and the looming threat of a double-dip recession has everyone maneuvering with extreme caution. Jumpy clients are contributing to an increasingly competitive climate where one firm's win is more likely than ever to be another's loss.

Challenges are abundant, but so are opportunities. Firms that differentiate themselves offer the most value, and those that respond most effectively to their clients' needs are likely to raise new assets more successfully. Operational superiority can play a key role in developing new business, but it can also be invaluable in protecting the business through enhanced risk controls and improved economics driven by more efficient processes.

This periodic survey is conducted by the Advent Users Group (AUG), an independent organization of Advent product users, to provide leaders in the asset management business with the data and insights necessary to make informed decisions. Last carried out in 2010, the survey once again delves into an array of topics ranging from technology budgeting and operational practices to personnel policies and employee compensation.

Advent Software and the Investment Adviser Association co-sponsored the 2011 survey, in which 121 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.

Note to Readers

This document contains selected highlights only. Survey participants receive an in-depth 40 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

SELECTED FINDINGS

PRODUCT AND CLIENT TYPES

Shifts in the types of products managed continue to reflect widespread changes in asset allocation models and approaches to portfolio construction. Managers remain enthusiastic about hedge funds and private equity, and the percentage managing these products rose for a second straight year. Firms managing just long-only products, who now comprise 58% of firms in the survey, are on their way to becoming a minority. New product development remains on the back burner for now, as many firms continue to focus on improving their economics.

FINANCIALS

Thanks largely to a buoyant market environment, most firms saw their fortunes improve in 2010. A median 16% year-over-year increase in revenue stands in stark contrast to the prior year, when survey respondents reported a median decline of 5%. Only four firms of the 121 surveyed reported a decline in revenue. Fee realizations held relatively steady, as revenue climbed in tandem with assets. Profit margins only ticked up slightly from the previous year, since many firms had already cut costs aggressively in the immediate wake of the financial crisis.

PERSONNEL

Economies of scale are clearly visible in employee metrics (Figure 1). The largest firms reported an average $329 million of assets under management (AUM) per employee, compared to only $32 million among the smallest firms. Scale efficiencies are also reflected in the bottom line. The largest firms participating in the survey reported an average EBITDA per employee of $230 thousand, compared to the less than $45 thousand posted by the smallest firms.

Figure 1. Employee ratios

Average	ALL	XL	L	M	S	XS
AUM per employee ($ millions)	110.7	329.2	131.3	61.0	54.5	31.7
Revenue per employee ($000s)	323.6	561.0	495.3	283.7	284.2	163.7
EBITDA per employee ($000s)	104.9	229.7	91.0	84.9	49.5	44.5

BUDGET

Spending on investment operations continues to climb at a steady pace. After climbing an average of 16.7% between 2009 and 2010, operational investments are projected to grow another 16% during 2011 (Figure 2). Spending on investment operations this year ranges from an average of $126 thousand among the smallest firms to more than $2.4 million among the largest firms.

Figure 2. Current and projected IT and operations expenses

Average $000s	ALL	XL	L	M	S	XS
2010	529.2	1,939.2	557.3	412.9	291.6	127.3
2011 (est.)	617.6	2,438.6	608.0	459.9	328.1	126.3
% change	16.0	16.8	7.8	20.8	41.8	0.1

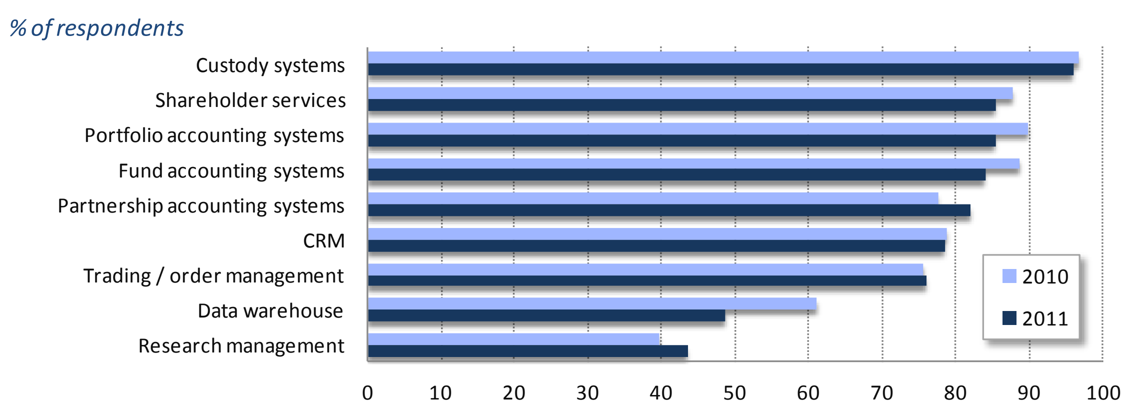
Figure 3. Top three IT initiatives over the coming year

OUTSOURCING

Most money managers realized long ago that they would prefer to focus on investing while delegating support functions to third party providers. Reasons for choosing outsourced solutions vary but cost, resource availability, expertise, scalability, and compliance are commonly cited. The universe of service providers continues to expand and now offers solutions for almost every imaginable facet of the asset management business.

Outside vendors are sometimes employed to develop systems even in cases where the function itself is performed internally. This is true in the case of research management, where more than 43% of firms utilize technology vendors, even though the number using outsourcing firms is exceedingly small (Figure 4). In the case of data warehousing, it appears that there may be a shift underway from technology vendors to outsourced solutions. Many of the most often outsourced solutions such as custody, shareholder services, and accounting necessarily also rely on systems developed externally.

Figure 4. Systems developed by outside providers



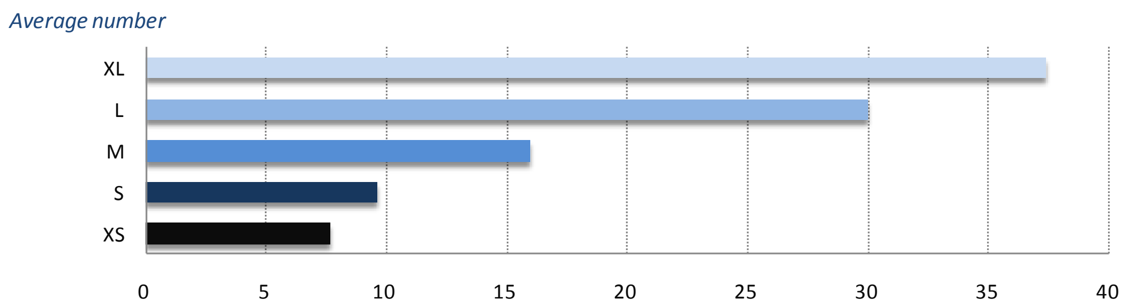
TRADING AND SETTLEMENT

There was a clear increase in trading volume between 2009 and 2010 as managers attempted to make the most out of recovering markets. Across all survey participants, the average number of trades per month was reported to be almost 2500, up from 1700 a year earlier.

The trading environment continues to splinter, with seven out of ten firms choosing to trade on more than one network. Although some small firms trade on multiple networks, the practice is particularly prevalent among larger firms, where some trade on as many as eight different networks.

Scale and complexity play a large part in determining how many brokers an asset manager deals with on a regular basis. The average firm deals regularly with almost 20 different brokers, up from 19 the prior year (Figure 5). The largest firms report dealing with an average of 37 brokers, up from 35 in 2010 and 29 back in 2008. Even the smallest firms participating in the survey report dealing with almost eight different brokers on a regular basis.

Figure 5. Number of brokerage houses used regularly



ACTIVITY METRICS

Periodic operational tasks like reporting, reconciliation, and billing consume substantial work hours at most asset management firms. A median 40 hours is required to reconcile accounts every month, but rises to 160 hours among the largest firms (Figure 6). Reporting often requires substantially more time, with survey participants reporting a median of 80 hours was necessary on a monthly basis. Despite access to greater resources, larger firms often take longer to complete client reporting and invoicing at quarter end. The largest firms surveyed reported that it took an average of more than 19 business days to complete all reporting each quarter. The smallest firms in the survey accomplish all of their reporting in an average of less than 11 business days.

Figure 6. Investment operations activity metrics

Median	ALL	XL	L	M	S	XS
Hours per month spent reconciling	40.0	160.0	60.0	60.0	25.0	20.0
Hours per quarter spent on reporting	80.0	172.0	120.0	72.5	40.0	30.0
Hours per quarter generating bills and tracking receivables	20.0	40.0	37.5	31.0	12.5	10.0
Business days after quarter end to complete all reporting	12.0	12.0	15.0	12.0	10.0	10.0
Business days after quarter end to invoice all accounts	14.5	18.0	15.0	10.0	15.0	10.0

WEBSITES & SOCIAL MEDIA

The asset management business does nothing to dispel its slow-moving and conservative image when it comes to social media. Almost three out of four survey participants say their firm uses no social media for business purposes. Among those that do, LinkedIn is the most popular platform (Figure 7). A skeptical view of social media is widespread but not universal. The highly regulated nature of the asset management business is at least partly to blame for asset managers and RIAs lagging the broader business community in leveraging social media. More than two thirds of all survey participants say that compliance issues comprise their biggest concern with using social media for business purposes.

Despite a lack of conviction concerning the current importance of social media, survey participants are more likely to view it as valuable when looking forward. Over the long term, social media is seen as being most important as a means to raising brand awareness. In a world where thought leadership is highly valued, social media is also viewed as a potentially valuable channel for distributing expert commentary and sharing news with clients. Perhaps surprisingly, developing sales pipelines and servicing clients ranked last among the various ways in which social media could add value.

Figure 7. Types of social media used by firm

% of respondents	ALL	XL	L	M	S	XS
LinkedIn	26.2	21.1	42.9	35.0	16.7	16.0
Facebook	5.8	10.5	4.8	0.0	5.6	8.0
Twitter	4.9	10.5	0.0	5.0	0.0	8.0
A blog	4.9	10.5	0.0	5.0	0.0	8.0
YouTube	1.9	0.0	4.8	5.0	0.0	0.0
None	71.8	78.9	57.1	55.0	83.3	84.0

EMPLOYEE BENEFITS

Health insurance continues to be offered to employees at the vast majority of firms (Figure 8). Dental insurance is somewhat less common, but still offered by almost three quarters of all firms. Employee vision insurance is offered by less than half of all firms surveyed. Both dental and vision insurance are relatively rare at the smallest firms.

Most firms that offer employee insurance also extend that benefit to the families of employees. It is not unusual, however, for companies to pay more toward employee insurance premiums than they pay toward the premiums of family members. At firms offering insurance, 84% of employee health insurance costs are covered by the company on average. Many firms pay 100%, while others contribute as little as 33%. When it comes to insuring family members, the average contribution falls to 62%. Dental and vision insurance plans are treated similarly.

Figure 8. Types of insurance offered

% of respondents	ALL	XL	L	M	S	XS
Health insurance - employee	96.6	100.0	94.1	100.0	93.3	95.7
Dental insurance - employee	72.4	92.3	88.2	80.0	78.6	39.1
Vision insurance - employee	47.1	53.8	41.2	55.0	78.6	21.7
Health insurance - employee family	92.0	100.0	88.2	95.0	86.7	91.3
Dental insurance - employee family	70.1	92.3	88.2	80.0	71.4	34.8
Vision insurance - employee family	46.0	53.8	41.2	55.0	71.4	21.7

COMPENSATION STRUCTURE

Compensation plans remained relatively static during 2010, after widespread changes in the wake of the financial crisis. Cash bonuses remain the primary vehicle for rewarding employees, with 91% of firms using them (Figure 9). They are typically paid annually (usually in December or January), but one in five firms chooses to distribute bonuses twice a year or quarterly. The percentage of firms with profit sharing plans in place remains unchanged from the previous year's 56%.

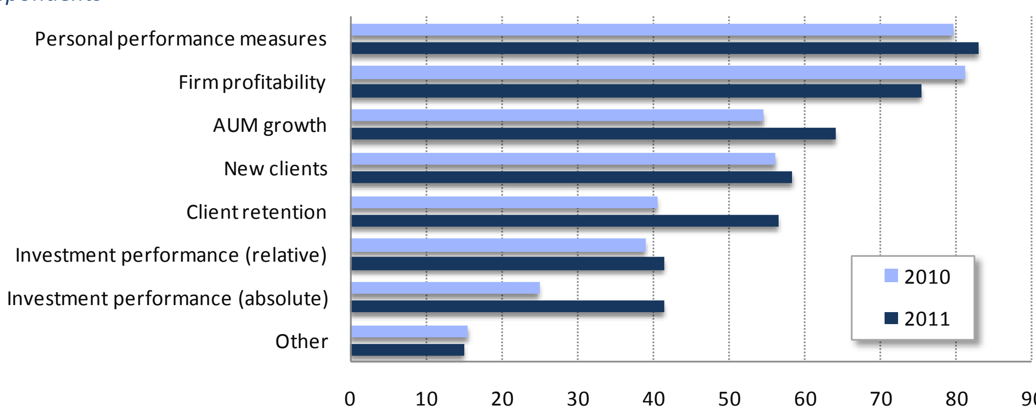
As their economic situation stabilizes, fewer firms are relying on firm profitability as a key determinant of bonuses (Figure 10). Not content to let bonuses rise on the back of rising markets, more firms are choosing to employ AUM growth and client retention rates as objective measures when awarding incentive pay. One of the more interesting shifts was the growing use of absolute investment performance. Having long lagged behind relative performance as a factor used to award bonuses, absolute and relative performance are now both used by more than 40% of firms, perhaps reflecting a broader shift in the industry away from benchmarked approaches toward absolute return investing.

Figure 9. Types of incentive compensation offered

% of respondents	ALL	XL	L	M	S	XS
Variable annual cash bonuses	90.8	100.0	94.1	95.0	92.9	78.3
Profit sharing plan	56.3	53.8	41.2	85.0	42.9	52.2
Equity or options grants	32.6	58.3	41.2	40.0	28.6	8.7
Stock purchase plan	24.4	50.0	23.5	35.0	14.3	8.7

Figure 10. Objective (non-discretionary) measures used to award incentive pay

% of respondents



COMPENSATION TRENDS

Compensation data was gathered for 1,400 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. Summary charts are included in this report.

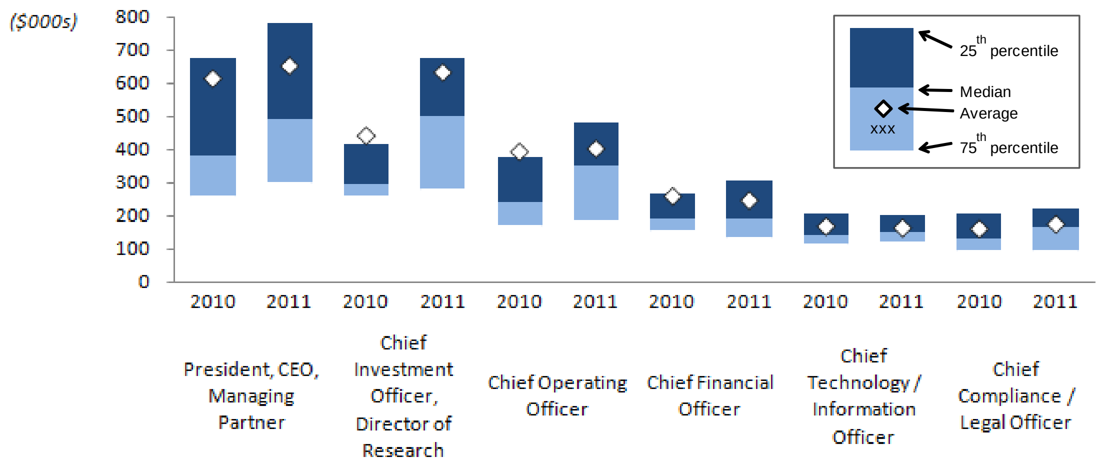
Some highlights:

- The vast majority of senior executives saw compensation rise in 2010, in stark contrast to a year earlier when more than half of all CEOs and Presidents reported lower earnings. Median total compensation for this group, with an average 25 years of experience in the business, rose to $490,000 from $383,000 a year earlier. As some of the biggest losers when bonuses tumbled during the financial crisis, Chief Investment Officers are now seeing some of the biggest increases, bringing the size of their compensation packages in line with CEOs.
- Investment professionals also enjoyed higher pay, with 80%+ earning more in 2010. Increases tended to be far more modest than the ones seen by senior executives. Senior analysts posted the biggest gain in median compensation, with a 17% increase to $183,000. Despite the fact that most investment professionals earned higher bonuses, the range of compensation paid contracted in most cases. As a result of lower top quartile numbers, average compensation actually contracted for most investment-related positions.
- Client service employees of all levels saw their bonuses grow bigger from the previous year. Many marketing and sales professionals also saw compensation rise, but the increase was not universal. Gains were generally modest and top earners often earned less, bringing averages down from previous years. Department heads had some of the biggest increases, with Heads of Sales reporting 10% growth in median total compensation to $302,000. Median compensation paid to Heads of Marketing rose 17% to $237,000, while pay for Heads of Client Service jumped 28% to $153,000.
- Most investment operations personnel had higher earnings than the previous year. Operations Managers and Senior Portfolio Administrators in particular saw substantial increases. Compensation paid to those in administration and support roles were reported in many cases to have risen, but a comparison to survey results from the prior year shows little change.
- Compliance professionals were the least likely of all 40 positions surveyed to see their compensation rise in 2010. Only 50% of compliance support employees saw their pay go up from the previous year. The hiring binge appears to have slowed, and compensation may be stabilizing. Senior Compliance Professionals saw median income stay flat from a year earlier, but average pay fall from $142,000 to $121,000.

Figure 11. Senior Executives – Compensation by AUM

Median total compensation ($000s)	ALL	XL	L	M	S	XS
President, CEO, Managing Partner	490.0	750.0	535.0	495.0	412.5	344.0
Chief Operating Officer	350.0	417.0	376.0	368.0	125.0	158.0
Chief Investment Officer, Director of Research	500.0	649.0	561.8	367.0	300.0	191.5
Chief Financial Officer	190.0	157.5	231.5	186.5	384.0	111.0
Chief Technology / Information Officer	153.0	153.0	187.0	185.0	N/A	N/A
General Counsel / Chief Legal Officer	163.5	240.5	192.0	105.0	178.0	108.0

Figure 12. Senior Executives – Summary compensation statistics



	President, CEO, Managing Partner 2010	President, CEO, Managing Partner 2011	Chief Investment Officer, Director of Research 2010	Chief Investment Officer, Director of Research 2011	Chief Operating Officer 2010	Chief Operating Officer 2011	Chief Financial Officer 2010	Chief Financial Officer 2011	Chief Technology / Information Officer 2010	Chief Technology / Information Officer 2011	Chief Compliance / Legal Officer 2010	Chief Compliance / Legal Officer 2011
25th percentile	675	779	417	675	375	480	268	308	208	200	204	219
Median	383	490	297	500	239	350	193	190	141	153	130	164
75th Percentile	260	300	260	280	168	185	151	134	113	118	93	95
Average	614	652	442	633	393	403	259	246	168	163	160	175

Figure 13. Senior Executives – Change in compensation

Change to compensation during past year, % of respondents

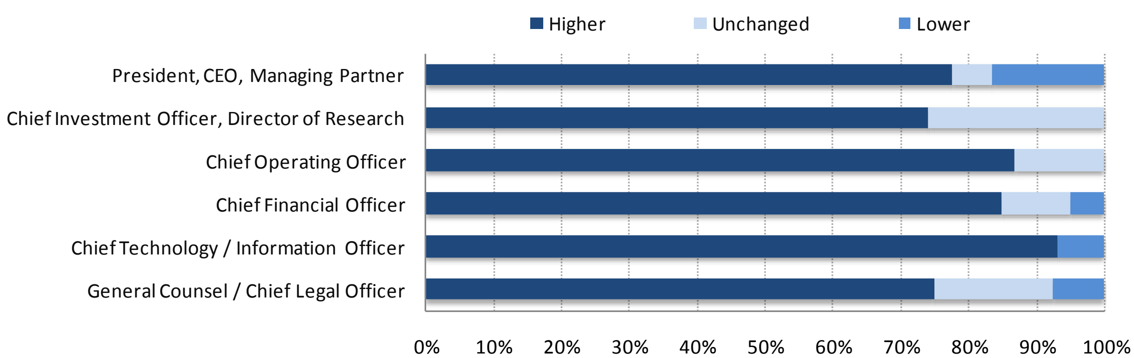


TABLE OF FIGURES IN FULL REPORT

CONTACTS

Contact any of the following to learn more about the survey:

Erin E. Kestner
Director of Development
Advent Users Group
ekestner@adventusersgroup.com
888.241.6881

For media inquiries:
Smita Topolski
Advent Software, Inc.
stopolsk@advent.com
415.645.1668

Garrett Honea
Member Services Manager
Investment Adviser Association
garrett.honea@investmentadviser.org
202.293.4222

Steven Unzicker (Author)
Founder and Principal
ANZU Research & Consulting
sunzicker@anzuresearch.com
415.259.8071